UNCTAD/GDS/SEU/3

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Cooperation between the Palestinian Authority, Egypt and Jordan to enhance subregional trade-related services

UNITED NATIONS

Distr.
GENERAL

UNCTAD/GDS/SEU/3
14 February 2000

ENGLISH AND ARABIC ONLY

Cooperation between the Palestinian Authority, Egypt and Jordan to enhance subregional trade-related services*

Report prepared by the UNCTAD secretariat, with the assistance of a team of national project experts*, in the context of an UNCTAD/UNDP technical assistance project (RAB/96/001; IALA 98-051)

EXECUTIVE SUMMARY

A range of physical, procedural and institutional problems, many due to security considerations, continue to undermine prospects for realizing the full potential of trade between the Palestinian Authority (PA) and its neighbours. Although trade accords signed between the PA, Egypt and Jordan aim to rationalize and facilitate trade flows and promote exports of Palestinian goods, they have not been adequately implemented. This study was prepared by UNCTAD as part of a UNDP-funded project, to assist the PA, in cooperation with its partners, in developing public and private sector capacities to provide trade-related services that would enhance subregional trade.

The study examines the policy environment affecting regional trade, the current process of economic reform in the region and the problems and potential for regional trade promotion. It further analyses Palestinian trade flows, including the various trade routes and procedures at border crossings with Egypt, Israel and Jordan and identifies major constraints. These include cumbersome customs procedures, problems with overland transport and inadequate telecommunications and business information for trade (BIT). Recommendations, identified at a subregional expert workshop, are proposed in the areas of policy reforms, technical and procedural reforms, institutional and human resources development as well as in strategic trade-related services with a view to promoting subregional trade.

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GE.00-50594 (E)

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PROJECT BACKGROUND

Since 1993, the Middle East peace process has created new opportunities for the reconstruction and development of the Palestinian economy. In particular, the Israel-Palestine Protocol on Economic Relations signed in 1994, established a new basis both for trade relations between the parties and for cooperative efforts to enhance the performance of Palestinian external trade. This has entailed the elaboration by the Palestinian Authority (PA) of policies to remove distortions affecting external trade so as to enhance its contribution to economic development and regional cooperation.

In addition to the possibilities of correcting imbalances in Palestinian-Israeli trade relations by allowing the Palestinian economy to pursue its own trade policy options, the opportunities for its reintegration into the regional economy were enhanced. This was initially expected to permit the PA to regain lost ground in trade with traditional regional partners, including its immediate neighbours, Egypt and Jordan. Trade accords concluded since 1994 between the PA and regional and other partners share a common goal: to diversify, rationalize and facilitate trade flows between these markets, while expanding the capacity of the Palestinian export sector and improving its performance.

This goal is pertinent to Palestinian trade with all existing and potential partners in the region and beyond. However, Jordan and Egypt constitute the closest and most natural partners with which the PA can realistically expect to improve trade relations in the immediate future. Jordan, in particular, can re-establish its historical role as a gateway for Palestinian trade with other traditional markets in the Gulf, while Egypt is an attractive source of imports to the Palestinian market. The post-1993 trade regime provided a framework for initiating new trade and financial relations among entrepreneurs and institutions active in trade and economic cooperation in the region. Recent research by the UNCTAD secretariat has examined in depth the challenges and opportunities facing Palestinian external trade, as well as the regional dimensions of the Palestinian economy.[1]

However, a range of physical, procedural and institutional weaknesses, underscored by security considerations, have affected the movement of goods to/from Egypt and Jordan, as well as with and through Israel. This has undermined the prospects for realizing the full potential of regional trade. While these weaknesses are mainly structural, they also reflect security concerns that have been transitory in nature, depending on the changing political climate, especially between 1996 and 1998.

In order to consolidate trade-policy accords reached between the PA and its two closest Arab partners, private and public sector actors in the three economies need to streamline and coordinate trade procedures and operations, as much as possible. In particular, services and infrastructure facilities in the Palestinian territory and at the subregional level need to be developed and supported to ensure the smooth and efficient flow of trade. Certainly, the key issues of trade policy and optimal trade regimes between the parties will continue to receive the attention of policy makers in the coming period. Whatever the ultimate form of Palestinian-Arab trade accords, efforts need to be focused on ensuring the provision of a range of trade-related services, without which no mutually beneficial transformation in trade relations can occur.

A high priority is the improvement of institutional cooperation, procedural coordination and managerial and technical capacities to provide the needed services for expanding trade among the partners.

The overall objective of this project, funded by UNDP and implemented by the UNCTAD secretariat, has been to assist the PA, in cooperation with its partners, in developing regulatory, procedural and institutional modalities and the related human resources required for enhanced trade flows with and through Egypt and Jordan. The project specifically aims to strengthen Palestinian public- and private-sector capacities to provide trade-related services affecting trade with these partners.

These objectives are consistent with the PA's policy of diversifying and expanding external trade and restructuring the external trade sector in line with its trade accords with Israel, Jordan, Egypt and other regional and international partners. While it may not be possible, or even desirable, that trade with these, and other, Arab partners significantly replace trade with Israel, some degree of trade diversion towards traditional markets may provide tangible benefits, including creation of new trade and greater trade autonomy.

In particular, through cooperation with counterparts in Jordan and Egypt, this project has focused on capacity building, using a process of technical investigation, expert review and consensus building, in three priority areas of trade facilitation:

(i) coordination of customs procedures and formalities;

(ii) road/overland transport (multimodal and transit); and,

(iii) trade efficiency: telecommunications and business information.

I. POLICY ENVIRONMENT AFFECTING TRADE

This section draws largely on previous studies by the UNCTAD secretariat that are of continuing relevance in the present context.

A. Trade with Israel

Palestinian external trade is regulated by the terms of the Protocol on Economic Relations signed in Paris between Israel and the PA on 29 April 1994. The Protocol constitutes the contractual agreement governing economic relations between the two sides during the interim period (1994-1999). The following points summarize the most important elements of the Protocol affecting Palestinian external trade relations:

- The movement of agricultural and industrial goods between Israel and the West Bank and Gaza Strip is free of any restrictions, including border taxes, with the exception of six Palestinian agricultural exports to Israel (poultry, eggs, potatoes, cucumber, tomatoes and melons) for which quotas were established. The quotas were expanded annually until they were phased out by 1998 (Article VII-10-11 and Article IX-1).

- The PA has the power and responsibility to determine independently the rates of customs duties, purchase tax, levies, excise and other charges on: imports of limited quantities of commodities from specified sources in Lists A1 and A2 (Article III-2, a and b); and imports with no restrictions on quantities of goods in List B (Article III-4).

- When first negotiated, List A-1 contained some 24 goods whose origin, or at least 30 per cent of their value added originated from, an Arab State. Of these, 11 items had to come exclusively from either Egypt or Jordan. List A-2 contains mostly food-related items, which the PA has the right to import from anywhere in the world. Eleven items on list A-2 also appear on list A-1. The PA has full freedom to choose tariffs and other border taxes up to a specified quota for each item on these lists. For imports beyond the quotas, the Israeli customs system and other charges apply (Article III-5, a). It was agreed that the quantities the PA may import from lists A-1 and A-2 are to be determined according to “Palestinian market needs”, to be determined by the Palestinian-Israeli Joint Economic Committee (JEC) (Article III-2).

- List B contains a large number of items needed for investment and development. There are no quotas on items on this list and the PA is free to choose its own tariff rates on them (Article III-4).

- The PA may determine its own rate of customs and purchase taxes on motor vehicles imported to, and registered with, the PA. It is also allowed to import used passenger cars up to three-years-old, subject to approval by a joint Palestinian-Israel committee (Article III-11, a). The Palestinian side is also free to determine the price of petrol derivatives, except gasoline. However their price must not exceed 15 per cent of the consumer price in Israel (Article III-12, a-b).

- Apart from exceptions applying to trade with or through Jordan and Egypt referred to above, all Palestinian imports are subject, as a minimum, to the same levels of customs duties, taxes and fees and other applicable charges as the Israeli rates. The PA can, in principle, impose higher customs duties and charges, but cannot set tariffs at lower levels - a restriction intended to preserve the basic elements of the PA customs union with Israel (Article III-5, a).

- Israeli import classification, evaluation, procedures, licensing and standards policy applies to all Palestinian imports, except for the quantities agreed to under lists A-1 and A-2 (Article III-10).

- Clearance of all customs revenues and fees levied on imports will be conducted between Israel and the PA based on the principle of place of final destination (Article III-15).

One of the major opportunities presented by the Protocol was the possibility of levying lower tariffs on limited quantities of a variety of goods produced in Jordan, Egypt and other Arab and Islamic countries. In 1998, after long negotiations, expanded quotas and a wider range of goods were agreed with Israel. This offered the PA an opportunity to begin implementing free trade agreements covering a range of goods negotiated with Egypt and Jordan.

B. Implementation of the Protocol

The Protocol envisaged a path of development for the Palestinian economy during the interim period (1994-1999), which depended critically on developing closer economic relations with Israel, greater openness to mutual trade flows, and cooperation and coordination in growth-enhancing projects. The Protocol's framework for development was based on linking the Palestinian economy to the Israeli economy on more equitable terms than in the past.

As noted earlier, within the context of the one-sided customs union, trade between the two economies before 1994 constituted an exchange of Palestinian labour services for Israeli goods. It was expected that the interim period would bring about an orderly change in that relationship by allowing the Palestinian economy to gradually substitute the export of goods for the export of labour services. It was widely hoped that the new environment created in the interim period would allow the PA to adopt an economic policy, which would emphasize growth in agricultural and industrial production, be geared towards domestic employment-creation, and the expansion of exports and restructuring of imports.[2]

Overall, the interim period was envisaged as a period of expansion and growth generated by: (i) increases in production; (ii) a boost to trade arising from new market openings; and (iii) the continued generation of income from work in Israel. Accordingly, a key assumption underlying the new environment was relatively open borders for the movement of goods and labour.[3] The framers of the Protocol counted on about a quarter of the Palestinian labour force working in Israel during the interim period. Any interruptions were envisaged to be temporary and brought on by exceptional circumstances.[4]

Unfortunately, the underlying promises of the Protocol have remained largely unfulfilled and its implementation has not been entirely successful. Since 1996 in particular, the two economies have drifted towards separation rather than integration, largely due to overriding political and security concerns. Thus, the difficulties facing the Palestinian economy today result in part from a framework for integration that is deficient, especially insofar as it has inhibited openness to the rest of the world promised by the accords.

Based on the experience of the past five years, it is clear that both the spirit and much of the substance of the Protocol have been lost, especially as a result of the harsh policy environment that has prevailed since 1996. The flow of Palestinian goods and labour to Israel has been severely restricted for security reasons. Unrealistic quality and standards criteria, and frequent closures and long delays at crossing points between the PA and Israel have regularly interrupted the flow of PA exports to/through Israel.[5] Similarly, Palestinian trade with Jordan and Egypt has been affected by Israeli control of borders and security in the interim period.

The integrity of the Palestinian economy in the West Bank and Gaza Strip, explicitly upheld in the text of the Protocol, has remained elusive. Indeed, physical separation between the two regions, as well as between areas within the West Bank, has remained a formidable obstacle to comprehensive development of the Palestinian economy. Clearly, the concept of relatively open borders that underlies the economic framework created by the Protocol has not worked as intended, thus undermining the premises and promises of the framework in general, and at best, postponing them for years.

A closely related issue that could not be fully addressed within the framework of the Protocol, is the problem of fiscal leakage, which has affected PA revenues and contributed to its budget deficit**.** This leakage is caused by the absence of an equitable and enforceable revenue-sharing arrangement for collection of tariffs, custom duties and purchase taxes. In the absence of an agreed mechanism to capture this leakage the PA has issued licences to Palestinian traders allowing them to import from abroad and has introduced other measures aimed at "capturing" the lost revenues, such as encouraging importers to declare imports destined for the PA**.** Local agents must be designated for all imports through Israel in an attempt to circumvent the role of Israeli commercial agents.

C. Trade with Arab regional partners: realities and potentials

Within the context of the still unresolved, and potentially contentious, policy issues that separate the PA from its most lucrative and predominant trading partner, the prospects for enhancing trade cooperation with Arab and other regional partners acquire a special significance. Market diversification in the direction of traditional regional markets provides opportunities for strengthening "bargaining power" in Palestinian trade with other partners, while increasing competition and efficiency in trade. At the same time, selective coordination of trade and financial policies and programmes with Arab partners offers possibilities for real gains for both sides through Palestinian-Arab joint ventures and cooperative efforts.

In this regard, and especially as regards the movement of goods and people, Jordan is a gateway for the Palestinian economy to the Arab Mashreq and the Gulf States, and Egypt may be viewed as its gateway to the Arab Maghreb and Europe. The normalization of Palestinian economic and trade relations with Arab countries is based on the strong existing bonds of history, culture and religion, resting on a common language and shared values. Moreover, half of all Palestinians are still refugees living in neighbouring Arab countries.

Yet, determining the appropriate shape and pace of normalization, even with the immediate neighbours, Jordan and Egypt, is not an easy task. The difficulties arise from the fact that the Palestinian economy had been set on quite a different path of development over the last three decades. In addition, the two neighbouring economies, like others in the Arab world, are not well integrated with each other. Arab countries, however, are in the process of moving towards more open economies aimed at achieving greater regional cooperation and eventually integrating into the global economy. In this process of regional cooperation the Palestinian economy could play a pivotal role.

Recent agreements have provided a new framework for Palestinian trade in the region, particularly with Jordan and Egypt, with which the PA signed preferential trade agreements in 1995 and 1998, respectively. But even if the trade policy framework were completely open, it should be recognized that the immediate trade potential would remain weak. Jordan, which has probably one of the most integrated economies in the region, obtains about three quarters of its imports from outside the region. On average, intra-regional trade constitutes only about 8 per cent of the external trade of Arab countries.

As trade becomes increasingly global, many of the advantages associated with more traditional markets are reduced, especially given the fact that no regional trading blocs exist and many of the countries in the region look to outside markets for trading partners. Issues of price and quality tend to be of greater importance given the increase in the range of products now available in most regional markets. The potential market for Palestinian products in the Gulf States may well be the expatriate (often non-Arab) community, which tends to have lower income levels and demands lower quality products.

Although Jordan has been successful in developing market outlets in Saudi Arabia, the Gulf States and Iraq, Palestinian exports would encounter more difficulty, at least in the short run. A major reason for this lies in production costs, which are greatly influenced by Israeli cost structures. Continued import restrictions make it difficult for the Palestinians to obtain the least costly materials. The absence of well-administered duty drawbacks on temporary imports makes this all the more difficult.

Furthermore, many of the products produced in the Palestinian territory are already imported into regional markets from other countries. In addition, less expensive substitutes from outside the region further complicate the case for Palestinian competitiveness in regional trade. Much agricultural produce comes from Greece and Turkey at lower cost than locally produced commodities, while manufactured products from Asia, Europe and North America are available in regional markets at significantly lower cost and better quality than locally produced goods.

D. Trade, economic reform and development in the subregion

Expansion of intra-Arab trade, whether through existing or acquired comparative advantage, will go hand in hand with reform efforts in the Arab economies. To a large extent, intra-Arab trade was inhibited in the past by the role of the public sector in most Arab countries in large-scale production and external trade. An increased role of the private sector in the different economies would establish business links with other countries inside and outside the region, provided an enabling environment is created to facilitate regional trade and joint economic activities.

Some important similarities are to be found between the economies of Egypt and Jordan, as well as the nearby Syrian Arab Republic with regard to priority issues for development. Parallel to the PA’s efforts at restructuring its domestic and external trade relations, these other three economies have been undertaking reforms aimed at providing a new impetus to sustained growth and development. Although their reform process is proceeding at varying speeds, they are moving towards enhancing the role of the private sector in production and trade, and shifting the role of the public sector to that of creating a supportive environment.

These neighbouring economies have intensified measures to liberalize trade, reducing the over-valuation of exchange rates and encouraging foreign investment.[6] As with the PA, they too are facing the problem of declining capital inflow, as remittances from expatriate workers and official Arab aid have declined in recent years. It is, therefore, necessary for them to introduce adjustments that would enable them to attract foreign capital, including the accumulated savings of their citizens abroad.[7]

It seems reasonable to infer from these similarities that these economies would benefit greatly from coordinating their policies and opening up to each other. It is obvious that the cost of economic reform in each would be greatly reduced if policy cooperation were to succeed in sharing risk and minimizing dislocations by providing adequate time for adjustments. The political feasibility of this, however, may not be assured. It is also evident that the ability of each economy to absorb a substantial inflow of citizens savings from abroad in addition to foreign investment could be enhanced by a larger market with an improved infrastructure.

The lopsided pattern of Palestinian trade with Israel, as compared to other partners, is the outcome of restrictions and arrangements introduced under occupation. Many studies have demonstrated that the removal of these restrictions would result in trade being redirected towards Arab countries and the rest of the world.[8] Such a redirection would benefit the Palestinian economy by increasing exports and changing the terms of trade in its favour, as well as diversifying trade and reducing dependency on one trading partner.[9]

In one such study, trade flows between the Palestinian territory, its Arab neighbours, Israel and the rest of the world were estimated based on the assumption of a removal of current restrictions on trade. The results present a very different picture from actual flows.[10] For instance, it is argued that if non-trade barriers had been removed, 70 per cent of Palestinian exports (in 1992) would have been directed towards neighbouring and nearby Arab and Islamic countries, while 74 per cent of Palestinian imports would have come from neighbouring Arab countries, the United States, Japan, the Republic of Korea, the EU and Turkey. An important conclusion of this study is that removing trade restrictions and opening up to neighbouring countries and the rest of the world would correct the Palestinian trade imbalance with Israel, but it would not eliminate the trade deficit. In fact, the overall deficit for 1992 under these assumptions would be reduced by only 13 per cent, and the trade imbalance simply redirected towards Arab countries, the United States, Japan and the EU.[11]

E. Coordinating regional efforts to benefit from regional economies of scale

These findings imply that organizing regional integration among developing countries with trade liberalization as the main aim would not address the primary problems of these countries. The fact that Egypt, the Syrian Arab Republic, Lebanon and Jordan all suffer from recurrent, rather than cyclical, merchandise trade deficits points to the need for coordinating regional efforts to address the problem. This would include exploiting the advantages of regional integration by aiming to rationalize production among the countries so as to enhance trade among them, and expand their capacity to export to the rest of the world.

By and large, a country intent on expanding its exports needs to acquire new comparative advantages in the production of some commodities. This can be achieved by exploiting economies of scale within a regional context. The opening up of trade between the Palestinian economy and its Arab neighbours could be expected to achieve such a goal. The larger market would induce firms operating in sectors with increasing returns to expand and to specialize in some differentiated goods, producing on a larger scale and at lower unit costs. This would increase intra-regional trade as well as benefit consumers through lower prices.

While the preceding arguments pertain to economies of scale at the firm level - *internal economies* - a country can also realize an acquired comparative advantage by exploiting economies of scale at the industry level - *external economies.* In accordance with tenets of international trade, some countries are large exporters of certain goods not because of any advantage related to factor endowments, natural resources or technology. They produce at lower cost because, for a variety of historical reasons, they concentrated on the production of that industry in one location. A strong external economy is self-reinforcing in the sense that it attracts new firms, which in turn expand the size of the industry and its external economies.[12]

Regional cooperation among the countries of the Middle East would also have to address the question of industrial concentration between them. The choice or selection of some countries as centres for certain industries because they have had a head start should be balanced by helping others become centres for new industries.

F. Economic potential and performance

The Palestinian economy in recent years, has continued to operate substantially below its potential. The economy’s immediate prospects remain heavily dependent upon its legacy of an inhospitable environment and asymmetric economic and trade relations with one partner, heavy dependence on exporting labour services and vulnerability to external shocks and political instability. These limitations and a realistic assessment of short-term growth potentials should be kept in mind when attempting to influence economic performance by reforming policies, procedures and measures.

Bearing in mind that donor aid will decline, and that access to work in Israel remains dependent on the political/security situation, there is a need to adopt policies and measures that place the economy on a path leading to the following broad development goals:

- Optimal use of natural resources through policies that expand supply and rationalize demand.

- Continued overhaul of the legal and institutional settings to create an enabling environment for private-sector activities.

- Expansion and diversification of production and trade requiring a reorientation of production and appropriate public policies to support this effort.

- Policies and measures that foster macroeconomic stability and microeconomic efficiency would help expand the economy. Part of the resulting increase in income would be saved to finance investment and part of the increased output would be exported to finance imports.

Achieving these goals, and increasing the policy and market options available to the Palestinian economy, depends largely on moving towards greater integration with regional and global markets. A greater balance in external trade relations through wider cooperation could result in benefits for PA public- and private-sector actors alike. The Palestinian market presents opportunities, yet largely unexplored, for trade partners in the region and further afield.

Despite the serious distortions in the structure of the Palestinian economy and the disequilibria, which inhibit sustained growth and development, most studies have revealed that it is reasonable to expect sustainable growth once regional peace is achieved.[13] A combination of its geopolitical position of strategic importance, relatively high quality human resources and sound economic management could be decisive in overcoming the fragility and structural deformity of the economy. At the same time, a peaceful future for the region could position the Palestinian economy as a destination and a transit site for trade and investment. Its advantages in this respect include the following:

- A relatively well-educated labour force;

- An aggressive and diversified entrepreneurial class that has strong extensions into wealthy expatriate communities and corporate structures in the Arab countries as well as in Europe and North America;

- Experience in trading with both the Arab countries and Israel, with a versatility acquired through operating in non-optimal circumstances;

- Readiness to open trade with other countries in the region, given that does not have a large industrial base to protect; and

- Free trade arrangements with the EU and a number of OECD economies.

By exploiting these important leverages within the framework of a well-defined development strategy the Palestinian economy could become an attractive pole for regional investment. It is well positioned for producing both labour-intensive products targeting the Israeli, European and United States markets, and skill-intensive products designed to meet the specific demands of Arab markets. In addition, its distinctive religious and cultural heritage could easily enable it to become a centre of international and regional tourism, catering to both religious and recreational tourists.

II. PERFORMANCE OF PALESTINIAN EXTERNAL TRADE SECTOR

A. Exports and imports

New Palestinian foreign trade statistical series published by the Palestinian Central Bureau of Statistics (PCBS) for 1996-1997 provide the first detailed picture of Palestinian trade available since 1987, as compared to aggregate estimates by different sources for the period 1988-1995. The broad outlines of trade performance since 1990 confirm the acceleration of a deteriorating trend that began in the 1980s. Data on performance since 1996 indicate that those chronic problems are reaching critical proportions (see table 1).

(i) *Import growth outstrips exports*

Total merchandise imports in 1998 are estimated at $2,723 million, against $444 million in exports. The value of imports increased more rapidly than exports during the period 1990-1998. The average annual imports are estimated to be $1,646 million, with an average annual increase equal to $210 million, against average annual exports of $352 million and with annual average increase of $46 million. The ratio of exports to GDP which, in 1980, was above 40 per cent, had, by 1987, declined to under 25 per cent, and continued to fall rapidly to stagnate at a historically low level of about 10 per cent since 1990. This constitutes a structural shift in the economy, though one which may be addressed with the right combination of export growth driven by domestic investment and production.

(ii) *A growing trade deficit*

An enduring feature of Palestinian external trade is the continuing large deficit in trade. The magnitude of the trade deficit provides a rough indication of the amount an economy has borrowed in order to purchase its imports. A large deficit constitutes a considerable burden on a small economy such as the Palestinian economy. The trade deficit has grown over 300 per cent in eight years, from $612 million in 1990 to $1,763 million in 1997, and an estimated $2,279 million in 1998. Exports have been equal to less than 23 per cent of imports since 1992, reaching historically low proportions of an average 17 per cent in 1996-1998. The ratio of the trade deficit to GDP has increased from 30 per cent in 1990 to over 50 per cent since 1995, with imports at almost 60 per cent of GDP.

(iii) *Services surplus finances merchandise deficit*

The Palestinian balance of trade in goods and non-factor services resulted in a large trade deficit estimated at $1,976 million in 1997. To a certain extent, this was reduced by a positive income balance mainly through employee compensation paid to Palestinians working in Israel, which amounted to $588 million in 1997. Other remittances and current transfers, estimated at $683 million in 1997, helped to finance the trade deficit. These factors reduced the current account deficit to a “sustainable” $680 million in 1997, as compared to historically low deficits of under $100 million (even exhibiting a surplus in the early 1970s and in the 1988-1990 period). Given the immediate poor prospects for merchandise exports, a central challenge for Palestinians in the future is to export labour indirectly by embodying it in goods and services rather than directly through migration.

B. Direction and composition of trade

The market concentration of Palestinian trade with its one predominant partner, Israel, has increased in most respects since 1990. While this trend is consistent with the long-term shift in the market composition of Palestinian external trade in line with the enforced customs union until 1993, it has further intensified since the adoption of the negotiated customs union with Israel beginning in 1994. Indeed, the volume of trade with partners other than Israel fell until 1997 in absolute terms, while its proportion has also declined since 1990. However, data estimates for 1998 point to an important shift in the market composition of Palestinian imports.

(i) *Imports mainly from Israel: but for how much longer?*

As shown in table 2, imports from Israel accounted for 85-90 per cent of total Palestinian imports during the period 1990-1998 (and for much of the preceding decade as well). Only since 1997 does the trend seem to have been reversed, for the first time in many years. However, the imposition of Israeli tariff rates on most goods imported into the PA from Jordan and Egypt or via Israel, has led directly to an increase in the prices of these goods relative to identical goods, produced in Israel. This has reduced the potential positive impact of the Protocol, effectively limiting demand for imports from Arab countries.

The major development noted in 1997 and 1998 was the growing proportion of imports from the rest of the world, which reached 14 per cent in 1997 for the first time since 1990, then doubling in 1998 to 29 per cent of imports, representing, in absolute terms, an estimated $780 million.

This certainly reflects new market opportunities available to Palestinian importers, as well as increasing direct importation to the PA. But of equal significance is that the PA has been able to establish formally the Palestinian territory as a destination for a growing number of imports, which always used to flow through Israeli channels to the Palestinian territory and were statistically accounted for as imports from Israel. This has important revenue and trade policy implications which deserve serious consideration.

The PA constitutes a major market for Israeli exports and the most recent import trends could eventually lead to a lower share of Israel in Palestinian imports, as well as a decline in the absolute level of imports from Israel. Palestinian imports from Israel grew to $1,890 million in 1998 as compared to $1,500 million in 1995 and $715 million in 1990.

(ii) *Exports to Israel: from "major" to "sole" trade partner?*

Certainly the most disappointing feature of Palestinian external trade since 1994 is that Palestinian export growth remained sluggish, with a growing diversion of trade to Israel. Whereas 85 per cent of Palestinian exports went to Israel in 1990, this increased to 95 per cent in 1998 mainly at the expense of exports to/through Jordan. However, exports to the rest of the world also have declined sharply, at levels of between $1-4 million annually since 1993, equivalent to under 0.5 per cent of total exports by 1998, as compared to some $18 million in 1990.

A significant proportion of Palestinian exports to Israel have been products manufactured under subcontracting arrangements with Israeli firms, whereby the real gains have been passed on to the Israeli firms, which sell these goods to both the Israeli market and export markets. According to the PCBS, 71 and 69 per cent of total exports in 1996 and 1997 respectively were "national exports", with the balance mainly classified as "re [14]

(iii) *Trade with Jordan and Egypt: can traditional markets be revived?*

Exports to Jordan have witnessed a sharp drop in recent years - down to almost $20 million in 1997 and 1998, as compared to $32 million in 1990 and $125 million 1982. Until the early 1980s, exports to Jordan and other Arab markets constituted well over 30 per cent of total Palestinian exports. On the other hand, since 1967 there had been no possibility of trade with Egypt until the opening of borders in 1994. This channel has, however, remained marginal, with exports reaching $1 million in 1996 and decreasing to insignificant levels since. In terms of export opportunities, the past years have not yielded satisfactory results for the Palestinian economy.

Imports from Jordan were estimated at $30 million in 1997, increasing to $38 million by 1998. This compares with levels that historically exceeded $10 million only once, in 1986-1987. Meanwhile, imports from Egypt reached an unprecedented $25 million in 1997 and 1998. Unrecorded imports, considered to be widely prevalent in Palestinian trade with Egypt, are indicative of the potential for more significant import flows from Egypt.

The existence of over $50 million of imports from new Arab sources, where none existed two years ago, is perhaps one of the clearest positive results of the trade policy framework put in place by the Paris Protocol. It is also indicative of the potential for trade in a direction that had not existed since the early 1980s, while prospects for reviving Palestinian exports to Arab markets have remained largely unexplored since 1990/91.

(iv) *Commodity composition of trade flows*

Recently available PCBS data for 1996-1997 provides the first detailed picture of the composition of Palestinian external trade since 1987. Without undertaking an in-depth examination here, the following broad outlines may be noted:

- The top five imports (by SITC Divisions) were non-metallic mineral manufactures ($221 million), petroleum and related products ($217 million), cereals and cereal preparations ($118 million) iron and steel ($103 million) and electric current ($92 million). In 1997, these five major commodities represented 35 per cent of the Palestinian import bill amounting to a total of $750 million, a lucrative business for those involved in their import.

- Manufactured goods constitute the largest category of imports (27 per cent) and of exports (43 per cent).

- Food and live animals is the second largest category of imports (22 per cent) as well as exports (15 per cent).

- The other major import items are mineral fuels, lubricants, etc. (15 per cent), machinery and transport equipment (13 per cent) and chemical and related products (8 per cent).

- The major export items are miscellaneous manufactures (15 per cent), chemicals and related products (6 per cent) and beverages and tobacco (5 per cent).

- At a greater level of disaggregation of data (by SITC Division), the single most significant Palestinian export remains stone and marble, worth over $100 million in 1997. Exports of vegetables and fruit reached $33 million, followed by iron and steel, furniture, and footwear, each accounting for about $20 million worth of exports.

It can be seen from the preceding points that while the Palestinian export sector has declined in scale, complexity and performance, imports have become increasingly varied and significant. This unrestrained import expansion reflects a range of consumption and investment requirements, as well as lucrative business opportunities for a variety of actors from the Palestinian and neighbouring economies. However, the long-term implications of prolonged export decline and the prevailing market and commodity composition of Palestinian external trade, point to serious imbalances that require equally serious policy and technical attention.

Table 1. DEVELOPMENT OF PALESTINIAN EXTERNAL TRADE (WEST BANK AND GAZA)

Item	1990	1991	1992	1993	1994*	1995	1996	1997	1998
Exports million $	231	247	292	234	243	326	340	381	444
Imports million $	843	1 139	1 260	1 173	1 075	1 690	2 017	2 164	2 723
Exports as a % of imports	27	22	23	20	22	19	17	18	16
Trade balance in million $	-612	-892	-968	-939	-832	-1 364	-1 677	-1 763	-2 279
Exports as a % of GDP	10.3	11.4	10.7	9.0	9.2	10.4	10.0	10.5	n.a.
Imports as a % of GDP	37.5	52.7	46.1	45.2	41.0	54.3	59.1	58.0	n.a.
Trade deficit as a % of GDP	27.2	41.3	35.5	36.2	31.7	43.8	49.0	48.0	n.a.

Sources: For 1990-1991, Axel J. Halbach, "New potentials …" op. cit.; for 1992-1995, UNCTAD secretariat estimates (see UNCTAD/GDS/SEU/2); for 1996-1997, PCBS - foreign trade statistics; for 1998, preliminary current account data series from PCBS and PA, Ministry of Finance, General Directorate of Customs, Excise and Clearance Department.

* Data estimates for 1994 are the least reliable for the period prior to availability of PCBS data. Data estimates for 1998 remain to be confirmed by PCBS.

Table 2: REGIONAL STRUCTURE OF EXTERNAL TRADE (WEST BANK AND GAZA)

Subject	1990	1991	1992	1993	1994	1995	1996	1997	1998
Imports: (million $)	843	1 139	1 260	1 173	1 075	1 690	2 017	2 164	2 723
- from Israel (%)	84.7	85.7	87.7	86.5	85.6	90.0	86.4	83.3	69.0
- from Jordan (%)	1.1	0.8	0.8	0.8	0.6	0.5	0.4	1.4	1.4
- from Egypt (%)	-	-	0.1	0.1	0.1	0.3	0.9	1.2	0.9
- from ROW (%)	14.3	13.5	11.4	12.6	13.7	9.2	12.3	14.1	28.7
Exports: (million $)	231	247	292	234	243	326	340	381	444
- to Israel %	78.4	76.9	85.2	76.0	84.3	93.9	93.8	93.9	94.8
- to Jordan %	13.9	15.6	10.0	22.4	12.8	4.5	5.3	4.9	4.9
- to Egypt %	-	-	-	0.1	-	0.2	0.3	-	-
- from ROW	7.7	7.5	4.8	1.5	2.9	1.4	0.6	1.2	0.3

Sources: For 1990-1991, Axel J. Halbach, “New potentials ...” op. cit.; for 1992-1995, UNCTAD secretariat estimates (see UNCTAD/GDS/SEU/2); for 1996-1997, PCBS - foreign trade statistics; for 1998, current account data series from PCBS and PA, Ministry of Finance, General Directorate of Customs, Excise and Clearance Department.

C. Profiles of major export and import routes

1. Exports from Gaza to/through Egypt via the Rafah border crossing point

In most cases, only products originating from Gaza are allowed through this route. West Bank products intended for export are not allowed passage to Gaza via Israel if transported by West Bank-licensed vehicles. The use of Israeli vehicles to transport West Bank goods to Gaza for export is rare due to the significantly higher costs involved. West Bank-produced goods destined for Egypt face much higher transaction costs, as they must be exported through Jordan, thereby increasing the costs, time, logistical difficulties and risks involved in reaching their destination.

On the Gaza-Rafah route, goods are transported on Gazan trucks through Gaza to the Rafah crossing point. Palestinian customs officials then inspect them and, if any customs duties are due, payment is made at the branch office of the Bank of Palestine located there. The trucks then enter the Israeli-controlled zone at the Rafah border crossing point, where an Israeli clearing agent/trucking company prepares the goods and unloads them for inspection by the Israeli customs and security. The trucking company then loads the goods onto Egyptian trucks, which proceed to the Egyptian border for clearance before delivering the goods to the importer or to the re-export destination.

2. Re-export points in Egypt

Re-export points in Egypt for Gaza products include:

- Cairo, for air transport

- Suez, for sea transport
- Nueba, for sea or land transport from the West Bank to or through Jordan

3. Exports from Gaza to/through Jordan through the Israeli Erez checkpoint via the Damya border crossing point

Gaza products destined for export to or through Jordan go through the Israeli Erez checkpoint. A fleet of ageing, bare-backed and stripped trucks, known as “green trucks” with Israeli security clearance to cross into Jordan, are the only commercial vehicles allowed to carry goods from the PA to Jordan. After inspection and clearance by Palestinian customs officials and Israeli security, trucks are escorted in convoys of 5 to 15 by Israeli security patrols through Israel. The convoys usually take one of the following routes:

Route 1: Erez - Beer Sheva road - Hebron - Bethlehem - Wadi Al-Nar - Jericho

Route 2: Erez - Ashqelon - Latrun - Jerusalem (Giv'at Ze'ev Junction) - Jericho

At Jericho, there are two options:

For goods transported by so-called “green trucks”: These trucks proceed directly (escorted all the way through the Palestinian and Israeli sides, since the merchandise has already been checked and cleared at Erez) to the Jordanian side at Damya. After being checked and cleared for customs by the Jordanian customs authority, the trucks drive to their final destination at the Al-Shouna point in Jordan, where they unload onto Jordanian trucks. The Jordanian trucks then proceed to deliver the goods to the importers or across the Jordanian borders to other Arab countries. The green trucks are not allowed beyond this point.

For goods transported by other vehicles: The trucks enter the Israeli-Palestinian Liaison Office area on the outskirts of Jericho, where the goods are transferred, by what is commonly referred to as the “back-to-back” method, onto to West Bank trucks. West Bank trucks then proceed to the Damya border crossing point, where another back-to-back transfer takes place with Jordanian trucks, and these proceed to deliver the goods to the importers or across Jordanian borders to other Arab countries.

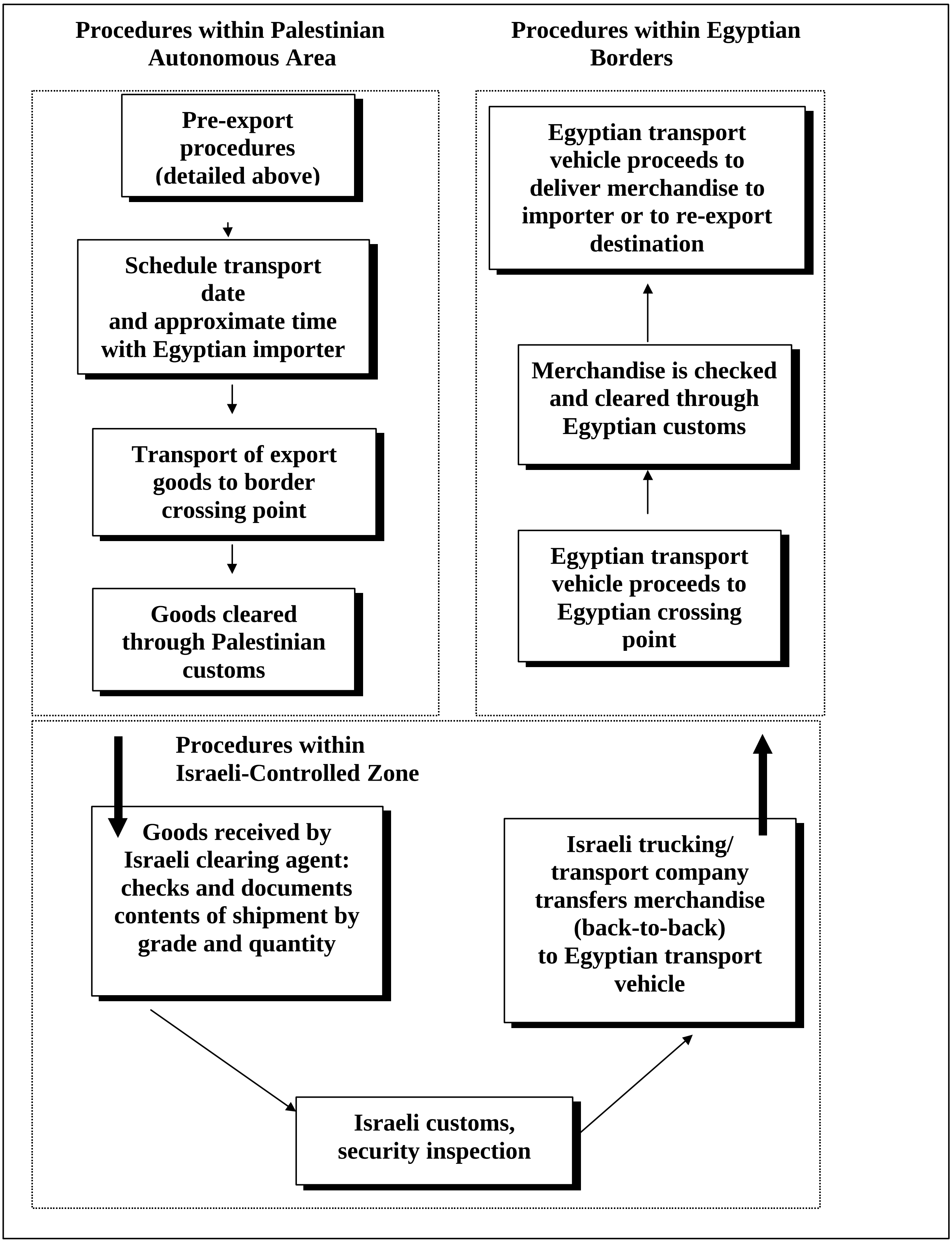
Recently, and due to continuous Palestinian pressure to solve the problems of green trucks, the PA, Jordan and Israel have agreed to keep 40 Palestinian trucks in the security zone at the Allenby crossing point. The 40 trucks are used to transport mainly citrus products coming from Gaza to Jordan. The trucks need not pass through security procedures every time they cross the borders since they return and stay at the security zone on the Allenby crossing point. This procedure does not eliminate the back-to-back process, but it speeds up the overall transportation process.

4. West Bank to/through Jordan via the Damya and Allenby border crossing points

These are the only practical routes for land transport of West Bank-produced goods destined for export to or through Jordan. Goods are loaded onto either green trucks or other West Bank-licensed vehicles at the producer's factory for transport to Damya or Allenby. At Damya, for example, all vehicles must pass through Palestinian and Israeli crossing points for security inspection and customs and document checks before proceeding to the Jordanian side for further inspection by Jordanian customs officials.

Non-green vehicles must then transfer the goods back-to-back to Jordanian trucks that then deliver the goods to the importer or carry them across the Jordanian borders to other Arab countries. The green trucks proceed in the same way as those from Gaza.

Figure 1. EXPORT PROCEDURES THROUGH RAFAH CROSSING POINT



5. Re-export centres in Jordan

Al-Shouna in the Jordan Valley has the only re-export centre in Jordan for Palestinian goods. This centre is only for goods transported via green trucks. Those transported via regular trucks are transferred back-to-back to Jordanian trucks, which, in turn, deliver the goods directly to the importers or cross the Jordanian borders to other Arab countries.

For practical purposes, another crossing point at Damya might be considered a re-export point since, as mentioned above, goods transported via non-green vehicles are transferred back-to-back to Jordanian trucks which directly proceed to cross Jordanian borders to other Arab countries.

In reality, the level of import transactions is much higher than the level of export transactions for Palestinian traders. In 1998, a monthly average of 2,822 truckloads was exported through all the monitored crossing points, compared to 14,476 imported. As for the three mentioned crossing points alone, the same report indicated that an average of 1,189 truckloads were imported monthly, compared to 599 exported.

Many traders indicated that import procedures are more complicated than export procedures owing to the fact that imported products are subject to lengthy and costly inspection and “security” procedures. Besides the security inspection, many imported items are subject to laboratory inspection to ensure that they meet standards set by the Israeli Standards Institute (ISI).

6. Importing from Jordan via the Allenby border crossing

Palestinian traders need to make prior arrangements with Jordanian and Israeli customs clearing agents, since no Palestinian clearing agency is permitted at any of the crossing points. They must provide the clearing agents with an identical copy of all original documents (the L/C, packing list, pro/forma invoice, certificate of origin, import licence, and the standard certificate). The traders need to inform the agents at least 48 hours before the arrival of their shipments to avoid unpleasant and costly surprises.

Cargo loaded onto a Jordanian truck must pass all inspection and customs procedures on the Jordanian side and the Jordanian forwarder informs the Israeli forwarder about the cargo. After inspection Jordanian truck is asked to enter what is known as area “X” for inspection purposes on the Israeli side. No Palestinian is allowed in area “X”. A private Israeli company is responsible for unloading and reloading in return for fees charged to the Palestinian importer, calculated according to the number of crates (pallets), usually at the rate of $5 per crate.

To facilitate the inspection process, all imported products are required to be put on crates. For reasons of security and visibility, the height of the crate should not exceed 1.2 m, and approximately 20 cm of space should be provided between the crates. All the cargo is unloaded for inspection. On some occasions, inspectors use a long thin metal instrument for inspection, which can sometimes damage items if it penetrates the boxes. Having been inspected by the customs and security officers, the cargo is reloaded onto a Palestinian truck which is given a gate pass. It then proceeds to the Palestinian side for customs and tax checking and then to its final destination. The back-to-back process, mentioned earlier, is also applicable to imported products.

For those imported items that are required (according to the tariff book) to obtain a standard certificate from the Israeli Standards Institute there are two options available. Under the first option, an inspector from the ISI takes a sample of the imported items at the crossing point for examination and the importer has to wait for the laboratory results before being able to do anything with the imported items. Since there are no bonded warehouses at the crossing points, this procedure can turn out to be very costly if any delay occurs in the laboratory. Therefore the use of this procedure is very limited.

Under the second option, the trader provides the ISI laboratory with a sample item for examination, before receiving the cargo. This procedure can save time and money.

7. Importing cement from Jordan via the Allenby border crossing

Procedures for importing cement from Jordan are usually different, with many advantages. Although similar arrangements could be envisaged for other types of goods, they are justified in this case due to the bulk nature of this item. The main advantages of the cement importing procedures are:

- Coordination for importing the whole amount is done only once a year. Therefore, coordination fees totalling 40 Jordanian dinars (JD) per shipment are paid only once.

- The "back-to-back" process is not required and the same trucks are used to reach the final destination in Jericho.

- The unloading and reloading fees of $5 per crate are reduced to $1 since the unloading takes place at the importer's warehouses in Jericho.

- Damage and delay costs are reduced substantially due to the extra care given by the exporter and the importer to the loading and unloading processes.

- These special arrangements normally reduce the delay caused by the Israeli security and inspection procedures at the crossing point, allowing an average of 70 cement trucks to cross Allenby daily.

8. Import procedures at the Rafah border crossing point

The general import procedures at Allenby are also applicable at the Rafah crossing point though with some variations. The cargo, loaded on Egyptian trucks, should pass all the inspection procedures at the Egyptian side of the crossing point. It is then unloaded in area "X" at the Israeli side for security and inspection procedures. A Palestinian truck should be ready for the reloading process. After the cargo is checked and reloaded on the truck, the driver is given a pass to exit the crossing point. PA customs and security, present near the crossing point, then check the pass and allow the vehicle to enter.

If the destination of imported goods is Gaza, the goods are transported directly to their destination there. If the final destination is the West Bank, all the checking and the "back-to-back" procedures take place at the Erez checkpoint if an Israeli truck is to transport the cargo. This increases the costs of importing. Special arrangements can be made for Gazan trucks to transport the cargo into the West Bank through the Karni crossing point. In this case the security inspections and the convoy system are implemented. An average of 30 Palestinian trucks cross Karni to the West Bank daily. At the same time, about 200 shipments from Israel cross Karni into Gaza. In this case, the "back-to-back" process involves loading the goods onto Palestinian trucks for transport to Gaza.

9. Vehicle routes

According to the different agreements that the PA has signed with Israel, Jordan and Egypt, Palestinian-licensed vehicles do not enjoy freedom of movement. Green trucks are the only vehicles that are allowed under Israeli security measures to cross the borders into Jordan, but they too are forbidden from entering Israel. Table 3 shows the routes that freight transport vehicles are permitted to use.

Table 3. TRANSPORT VEHICLES AND ROUTES

Trucks	Routes
Regular trucks registered in Gaza – need special arrangements	Gaza to Rafah Gaza to liaison office in Jericho
Green trucks registered in Gaza	Gaza to Al-Shouna (Jordan)
Trucks registered in Egypt	Rafah to destination point in Egypt
Trucks registered in the West Bank	West Bank to Damya Liaison office in Jericho to Damya for goods delivered by regular Gaza trucks
Green trucks registered in the West Bank	West Bank to Al-Shouna
Trucks registered in Jordan	Damya or Al-Shouna to destination point in Jordan/Arab States
Trucks registered in Israel	West Bank to Gaza – used rarely when West Bank goods are destined for Egypt

Table 4. AVERAGE COSTS ASSOCIATED WITH A TRADE TRANSACTION: IMPORTS FROM JORDAN (PER SHIPMENT)

Item No.	Description	Amount charged incl. VAT (NIS)	Amount charged incl. VAT (NIS)
	Jordanian side		
01	Transportation to King Hussein Bridge (JD 70)	406	
02	Clearance formalities of KHB (JD 70)	406	
	Palestinian/Israeli side		
01	Coordinating fees (PNA)	120	
02	Allenby Bridge entry fees (ISR)	139	
03	Allenby Bridge entry fees (PNA)	125	
04	Allenby Bridge usage fees (PNA)	117	
05	Off landing/loading charges of Allenby Bridge	292	
06	Bank charges	29	
07	Clearance formalities		486
08	Inland transportation		700
09	Attendance charges		324
	TOTAL	1 634	1 510
	17% VAT		256
			1 766
	Grand total NIS (US$1 = NIS 4)		3 400

Table 5. ADDITIONAL POSSIBLE COSTS FOR GAZA TRADERS

Activity	Costs ($)
Import costs (from Egypt)	
Transport fees from Cairo to Rafah crossing point	250
Transport fees from Rafah to Gaza	100
Average unloading and reloading $5/crate	80
Clearance fees	120
Total	**$550**
Export costs (to Jordan)	
Transport fees from Gaza to Allenby	350
Clearing charges at Jordan side if the cargo is in transit	80
Transport fees from Jordan crossing point to airport	170
Total	**$600***

* The entrance fee of $30 at the gate in Jericho must be added to this total.

III. MAJOR CONSTRAINTS AFFECTING TRADE-RELATED SERVICES

Palestinian external trade has continued to face a range of constraints which prevent it from taking full advantage of the projected trade arrangements it enjoys at the regional and international levels. Special arrangements have been reached with Canada, the European

Free Trade Association (EFTA), Egypt, the EU, Jordan and the United States. However, certain constraints affect trade with all partners while others apply to trade with a specific market. Detailed examinations of customs procedures and formalities, road and related overland transport and business information for trade (BIT) with reference to Palestinian trade with Egypt and Jordan were prepared as part of this project. The following section highlights the areas that are most pertinent to facilitating trade with these two major Arab partners and that appear to be the most amenable to cooperative efforts to resolve problems.

To facilitate presentation, the broad range of problem areas requiring attention for each of the three sectors under examination, have been grouped into three types: policy-related, procedural/institutional and technical. Certainly, some apply to more than one of these three categories.

A. Customs procedures and formalities

1. Policy framework

- The PA has limited effective authority at its border crossing points. Palestinian importers/exporters are not allowed to enter the customs areas. Neither the Palestinian importer nor the Palestinian clearing agent can obtain the necessary information on a consignment due to lack of direct access to customs information. Such information can only be obtained through Israeli officials.

- There is no Palestinian customs law that can be implemented.

- Customs revenues collected directly by the PA constitute under 5 per cent of total PA revenues as compared with 48 per cent collected through clearance arrangements on the Israeli side.

- Israel does not recognize Palestinian clearing agencies. A Palestinian representative for the Israeli clearing agencies usually handles Palestinian traders.

- If Israel keeps Palestinian customs authorities and clearing agents out of the border crossing points, the Jordan-Israel border point (Sheikh Hussein Bridge) will become more attractive than the Jordan-PA border crossings on King Hussein (Allenby) and Prince Mohammed (Damya) bridges.

- PA traders have expressed concern at the impact of the Jordanian taxation system on Palestinian exports, especially with regard to the method of calculating the sales tax on goods that are exempted from customs duties.

- The agreement between the Jordanian and Palestinian customs departments has not been formalized or actively implemented.

- There is not much information available in Egypt on the PA’s economic legislation, trade rules and statistics.

2. Procedural/institutional issues

- Fiscal and revenue leakages result from collection procedures. The main problem is that most Palestinian imports are purchased indirectly from Israeli traders for various reasons including avoidance of administrative inconvenience. This leads to substantial fiscal leakage.

- Customs documentation is not centralized. Foreign trade transactions require an importer/exporter to go through a lengthy and sometimes costly process.

- Businessmen and Palestinian clearing agents have pointed out that the customs procedures are not transparent. They have also mentioned that clearing time, rules and fees paid on goods inside the PA customs territory are sometimes unclear.

- Delays at the crossing points between the PA and Jordan and Egypt respectively, are longer than those associated with importing or exporting via other commercial borders such as Ashdod sea port or Tel Aviv airport. Most shipment delays are caused by security measures or by inconsistent customs valuation.

- There is no clear and systematic procedure to exchange customs data between the Jordanian and/or the Egyptian side and the PA.

- There is no cooperation or coordination between Jordanian and Palestinian clearing agents. There are no transparent rules or protocols allowing for joint PA-Jordanian clearing services.

Procedures on the Israeli side

- Due to Israeli security requirements, identical control procedures apply to all transactions, irrespective of the parties or goods involved. The Israeli inspection process is lengthy, cumbersome and tedious.

- Jordanian exporters pay high customs duties over and above the 17 per cent VAT.

- Israel restricts hours for Jordanian goods to enter the border crossings, with no mechanism to allow for delays.

- The calculation of custom duties is not subject to a fixed or uniform formula.

- Jordanian goods entering the PA must obtain an import licence from Israel, a process that can take several months.

- For customs purposes, exports to Gaza are subject to more stringent rules than those from the West Bank and there are more stringent Israeli rules applied to Arab exports to Gaza.

Procedures on the Jordanian side

- Customs clearing facilities as well as private clearing services at the Jordanian crossing points with the PA are non-existent. The customs centres have the authority to clear goods, but lack customs facilities such as inspection zones, overnight parking areas and bonded warehouses.

- The absence of customs clearing agents licensed to undertake clearance at the Jordan-PA border crossings impedes institutionalization of clearing functions at the two bridges.

- Complex customs procedures exist on the Jordanian side which, even if made transparent, continue to be cumbersome. High customs fees and duties are levied on raw material inputs for industrial use.

- There are no clearance facilities at the King Hussein and Prince Mohammed bridges. All goods must be cleared at the Amman Customs Centre.

- Procedures governing the issuance of certificates of origin for different types of product are subject to different applications and rules.

- Working hours at the Jordanian customs clearing centres are limited, and procedures can vary from one centre to another.

Procedures on the Egyptian side

- A large number of agencies are involved in the approval of customs declarations.

- Samples inspected may be sent to laboratories outside the customs area.

- Procedures associated with drawback and refund systems are complex.

- A large number of documents and formalities are required to clear shipments.

- Standards are absent and price and value information is lacking.

- Customs officials usually assume that invoices presented by the traders are undervalued. As the procedure regarding the valuation of goods usually takes between 5 and 15 days, the trader tends to clear at a higher cost rather than wait for arbitration.

- The arbitration procedures are unfair as the customs department has the full power to constitute the revaluation committee the majority of which comprises customs officials.

- Professional skills regarding customs activities, risk management and valuation of goods are lacking.

3. Technical issues

- The Palestinian customs administration has sufficient staff to carry out its tasks. However, training programmes and upgrading of human resources in various areas are needed.

- The computer systems now in use by the PA tax authorities in the West Bank and Gaza Strip are inadequate to support effective administration of the tax system.

- Many Jordanian businessmen still consider the Northern Valley crossing (or Sheikh Hussein bridge), which is a Jordanian-Israeli border centre, effectively as a third bridge to use for Jordanian-Palestinian trade, owing to the delays and poor facilities at the two "designated" bridges for trade with the PA.

- Jordanian and Palestinian businessmen lack awareness of the agreements and understandings existing between Jordan and the PA, the PA and Israel, and Jordan and Israel, and, therefore, do not take advantage of the opportunities they provide.

B. Road and related overland transport

1. Policy/infrastructure

- From 1967 until 1998, road transport was the only means of transport available to passengers and traders in the Palestinian territory. Most of the road network has deteriorated and has only two lanes. Many of the main roads that interconnect major Palestinian cities with each other or with border crossings pass through populated areas.

- The geographic separation between the West Bank and Gaza Strip, and the division of the West Bank into areas A, B and C, together with the lack of financial resources, are factors which complicate the ability of the PA to develop its road network. Moreover, such factors hinder the PA from creating an integrated system between the PA areas and the neighbouring countries.

- Although the existing road network does connect the border crossing points with Egypt (Al-Rafah) and Jordan (Damya and Allenby), many transporters consider the routes to be costly, time consuming and dangerous.

- Israel has almost complete control over the borders and over the security measures enforced at border crossing points. Israeli security measures are another set of obstacles to transporters and trucking firms including:

    - The security inspection of goods and vehicles follows a detailed procedure and may result in damaging or destroying the goods.

- Trucks and trailers that need to enter the PA areas must obtain security clearance from the Israeli side, a difficult process.

- Security requirements are excessive and do not follow a methodical norm that can be understood and complied with.

The most critical factor contributing to weak Jordanian-Palestinian transport arrangements is the lack of cooperation and coordination between Jordanian and Palestinian transport companies, especially in overland transport. In addition, there are no trade-related support facilities between Jordan and the PA. As a result,

- no public or private warehouse *or storage area* is operated at the bridges or on the way to the bridges or between the Amman Customs centre and the bridges;

- *support services*, do not exist for travellers, transporters, truck/trailer drivers, clearing agents or traders on the way to or on the bridges; and

- *service stations* for cargo and passenger vehicles are rare between important hubs inside Jordan and the bridges.

2. Procedural/institutional issues

- Most observers perceive the border procedures and the administrative requirements to be lengthy, costly and unclear. The Israeli authorities impose several security regulations and procedures complicating and delaying the trade transactions. Permits for drivers and vehicles have to be approved by the Israeli authorities.

- In practice, restrictions on the movement of goods between the West Bank and Gaza, in particular, rule out exports to Egypt from the West Bank. In addition, exports from Gaza to Jordan are also subject to delays resulting from convoy scheduling. Security checks themselves often lead to damaged goods or packaging.

- Security measures can also hamper the internal transport of goods. As convoys are not regularly scheduled for security purposes, it is impossible to schedule connecting transport services.

- In the transfer of goods through back-to-back or unloading/reloading procedures, additional costs are incurred. The procedure also damages goods and packaging and may result in the rejection of the shipment by the importer.

- Jordanian forwarders are required to pay taxes on the entry of their vehicles, both at the Palestinian and Israeli sides. The tax amounts to about 118 shekels (JD 20) for each side. These fees on loading and unloading at the bridges are excessive compared to those charged by Jordan. If a delay occurs at the bridge as a direct result of Israeli security arrangements, Israelis still charge a penalty that is seven times higher than the prevailing rate on delays in Jordan.

- While shipping costs from Jordan to the PA are twice as high due to the back to-back system, transit cargo handlers only use the Prince Mohammed bridge where Palestinian customs officials are not present. Most forwarders agree that streamlining Israeli measures would cut transport costs by at least 40 per cent.

- All products exported to the PA must obtain a pre-import licence from Israel through the Civil Administration, and all goods shipped to the PA are given specific entry dates. This process costs the Jordanian exporter about JD 40 in “ each permit.

- Transporters and truck owners explain that problems facing overland transport lead to high transport costs which in turn push up the price of Jordanian exports to the PA.

  - Time constraints imposed on trucks and trailers for crossing bridges cause many problems.

  - Not all routes can be used to transport goods from the Amman Customs to the bridges.

  - Not many companies are ready to transport goods to the bridges.

  - Many Jordanian goods get damaged or destroyed as a result of the back-to-back system on King Hussein bridge.

  - Imposition of “strict specifications” on the types and packaging of goods that can enter into the PA, such as palletized goods packed according to certain lengths and packing methods, increase the cost of transporting them through the bridges.

  - Israeli inspection and testing equipment on the Palestinian side are not appropriate for testing all types of packing and packages.

  - The Israeli request that Jordanian overland transport modes adhere to certain specifications means that very few Jordanian trucks and trailers can comply with such rules.

In trade with Egypt:

- Security measures keep trucks inside the X-ray chamber for more than an hour.

- There are differences in the fees for goods imported from Egypt depending on the border used: 17 per cent at Nitzana and 22 per cent at Rafah (17 per cent + 5 per cent for Israel).

- The maximum permissible numbers of trucks inspected by the Israeli security is 25 per day.

- Transit services in the Egyptian customs area require the endorsed original invoice.

3. Technical issues

- The ageing and dilapidated fleet of “green trucks” is in urgent need of modernization.

- The PA side of the border crossing points lack appropriate facilities, such as warehouses, bonded houses and post offices.

- There are no storage facilities for Jordanian forwarders at the borders. The present loading and unloading facility at Prince Mohammed bridge is not a proper storage area. Forwarders find no alternative to using the facilities at the Sheikh Hussein bridge, which is not a Jordanian-Palestinian border crossing point.

In trade with Egypt:

- Israeli security procedures create difficulties for Egyptian exports to the PA and also control the kinds of goods to be cleared and entered.

- Israeli cargo inspection methods sometimes spoil the cargo, especially fresh fruits and vegetables, by passing an iron bar through the goods.

- Same procedures are applicable to both imports and exports.

- Lack of coordination, communication and procedural directives.

C. Telecommunications and business information for trade (BIT)

1. Telecommunications in the Palestinian Authority (PA): policy, technical and cooperation issues

Problems associated with advanced telecommunications systems could be due to: the user, the provider or the complexity of the system itself.

- Normally the costs associated with such services are perceived to be too high, particularly telephone bills. Until recently, telephone bills were mainly in Hebrew and not itemized.

- Most of the telephone rates in the PA are similar to those in Israel. However, the Israelis have several providers offering different options, particularly for long distance calls. At the same time, there is no clear definition of national calls in the PA areas. In Israel, the charges for a national call between cities with the same area code are the same.

- Internet users also complain about the charges; however, their major problems may be related to a lack of adequate knowledge or skill in using the system. Some enterprises complain about the lack of professional telecommunication service providers. Many users state that calls on mobile cellular phones are not consistently clear.

- Although the average waiting time for connection has been reduced significantly in major cities, many rural areas are still suffering from long delays. This is due to the delays in PALTEL's installation work.

2. Business information for trade (BIT) in the PA: technical issues

Business information is broadly defined as "all the information required by enterprises for the efficient planning, execution, and monitoring of international marketing". The availability of business information for trade (BIT) can help immediate operational, as well as strategic, decision-making.

- However, the market for BIT in the PA areas is not yet well established. The demand and supply of trade-related information does not match. Suppliers are not demand-oriented; rather, they provide information on an ad-hoc basis. End users including most small and medium-sized enterprises (SMEs) are either not aware of the importance of information for efficient trade or cannot afford to pay for it.

- Business information for trade is a relatively new concept in the PA and needs development as it is inadequate, inaccurate and incomplete. Trade-related information is provided by many different institutions and is not centralized. Some officials in the public sector tend to treat information with secrecy and hesitate to disseminate it. As coordination between ministries is unstructured, much of the information is either incomplete or inconsistent.

- Many PA traders have expressed their willingness to export if the right opportunity arises. However, their major concern with BIT is finding less expensive sources of raw materials. Ministries and the chambers of commerce are not perceived as reliable sources of BIT and traders' relationship with such institutions is mainly administrative.

- Traders are not fully utilizing the Internet as a source of BIT owing mainly to their lack of skills in using this technology. They prefer embassies, clearing agents and freight forwarders as sources of information.

- Information assessment:

    - Traders indicate that most of the information they obtain from the public sector is limited and unpublished.

    - Much of the trade-related information is disorganized and dispersed.

- There are no specialized trade publications.

- Statistical data on trade activities is often inconsistent between sources. For example, there are discrepancies between PCBS data on external trade and other PA data-sources.

- The existing databases are poorly organized.

- Information about trade fairs and exhibitions is not disseminated in a timely manner.

- The information about trade agreements between the PA and other countries has not been sufficiently disseminated. Many of the traders indicate that they have learned about such agreements through personal contacts.

3. PA cooperation with Jordan in BIT: policy and technical issues

- Trade and business information in Jordan is an important emerging sector that accounts for over 35 per cent of the growth in Jordan's service sectors. Suppliers of trade-related information in Jordan are basically the chambers of commerce and industry and Jordan Export Development and Commercial Centers Corporation (JEDCO). The National Information Center (NIC) is Jordan’s official agency for developing and managing the national information system (Intranet) of Jordan.

- The Jordanian Businessmen’s Association (JBA) acts as a sister institution for Palestinian business institutions in the PA. The JBA was the first Jordanian business organization to start building relations with businessmen in the PA. It organized the First Jordanian-Palestinian Conference in Amman during 5-6 June 1995. The JBA and its counterpart in the PA signed the Protocol of the Joint Jordanian-Palestinian Business Council on 29 July 1995.

- The 1995 Protocol acts as the general framework for cooperation between Palestinian businessmen and their Jordanian counterparts. Although the Protocol sent a clear message to businessmen on both sides of the intention to work towards market harmonization in trade, investments and services, so far, no measures have been initiated.

- Frameworks for cooperation between the Jordanian and Palestinian trading communities exist at the highest levels, but concrete arrangements are lagging.

- Since its establishment in 1989, the Jordan Trade Association (JTA), has promoted export-led growth. One of the most active trade promotion organizations in Jordan, it believes that the Palestinian market promises excellent opportunities for Jordanian exporters. JTA sets strategies and plans to assist the Jordanian exporters to penetrate new markets. The Association has 80 members representing 78 per cent of the total value of Jordanian exports.

- However, most SMEs do not get an opportunity to participate in BIT promoting events. Not much information is available to them which makes it difficult for these SMEs to learn about trade opportunities inside and outside Jordan. Trade-related information therefore needs to be disseminated more widely in the country with a view to keeping more enterprises abreast of developments.

- There are no examples of cooperation between Jordanian and Palestinian companies in trade-related information. End-users on both sides are thus ignorant of the benefits from building joint business ventures to expand their marketing networks. The need for information and database exchange is stipulated in agreements and protocols, but in practice there has been little progress.

- Some Jordanian companies argue that Jordanian exports of software and computer equipment and peripherals to the PA are examples of cooperation. In fact, exports of computer products do not add value if they are not utilized in trade-related services. Trade opportunity sharing and exchange between Jordan and the PA does not even have its informal channels. The absence of cooperation weakens trade prospects between both sides.

4. PA cooperation with Egypt in telecommunications and BIT: technical issues

- Egyptian traders are not accustomed to paying for business information. The information market is fractured and is not geared towards facilitating new sources for imports.

- In recent years, trade fairs have become a profitable business in Egypt. Companies specializing in trade fairs have gained extensive experience, both domestically and abroad, organizing, in most cases, specialized fairs. In practice, trade fairs are considered the only commercial suppliers of trade-related information in Egypt, as other sources are not sufficiently developed.

- Many business associations and entities deal with trade-related information in Egypt. However, most provide general information about trade statistics, news and regulations, and only a few disseminate useful information. Most of these associations serve as forums for their members rather than as suppliers of information on trade statistics and trends in trade policy.

- The role of the Government is crucial in providing trade-related information in Egypt. Public sector agencies dominate the supply of business information for trade and usually provide it free of charge.

- Trade Points in Egypt established with UNCTAD’s assistance offer a number of services to their members. The services can be broadly categorized into trade facilitation and electronic trade information. The Egyptian Trade Points are connected to a 36-member Network called the Trade Representative Network that utilizes AT&T for exchange of information. At the same time, they have on-line connection with the Inter-Arab Trade Information Network (IATIN).

- The Egyptian Trade Points face a number of problems that hinder them from carrying out their services efficiently. The main problem is a lack of funding to expand their services. The Government and international organizations provided the required finance to set them up, with a plan for their eventual self-sufficiency. This has proved to be difficult since most of their members are SMEs that are unable to pay fees.

- In practice, the PA has not taken any steps to connect its telecommunications network with the Egyptian one. Charges for calling from Egypt to the PA are very high, almost double those from Egypt to any other Arab country. It is more expensive to call Ramallah from Cairo than to call London or Paris.

- There are no indications of any actual cooperation between the PA and any of the suppliers of trade-related services, though the Egyptian Trade Points have proposed to establish a link with the Trade Point in Ramallah, Palestine.

IV. ENHANCED COOPERATION IN TRADE-RELATED SERVICES TOWARDS A SUBREGIONAL PLAN OF ACTION

The detailed sectoral investigations undertaken as part of this project have revealed a wide range of areas where action is required, by the Governments and private-sector policy makers of the three partners. Under each sector investigated, recommendations are presented, grouped according to the type of action required. At the Ramallah Workshop, convened to discuss this report and its annexes, the participants selected elements of the following in their “Agreed Conclusions” (Annex I).

A. Customs formalities and procedures

In this sector, project recommendations are presented according to:

- Action at the policy level

- Technical and procedural reform

- Institutional and human resources development

- Strategic trade-related services

1. Action at the policy level

(a) Enhance Palestinian supervision and control of trade with both Jordan and Egypt, as well as with Israel, in order to ensure the harmonization of customs formalities and revenue collection for the benefit of all parties concerned.

(b) Strengthen the Palestinian customs revenue collection process, especially the clearance of revenues from Israel.

(c) Calculation of the Jordanian sales tax on Palestinian exports should be revised for goods on Lists Al and A2.

(d) The PA should examine the Jordanian businessmen's complaints concerning the high cost of effective customs barriers that make it prohibitive for importers and exporters in Jordan and the PA to exchange goods.

(e) Establish a computerized common trade office with branches in Egypt, Jordan and the PA capable of gathering information and conducting special studies of interest to the three sides.

(f) Form a technical trilateral joint committee to work on the harmonization of specifications and measurements in trade-related areas including procedures, inspections, specifications, forms and certification.

(g) Jordan and the PA could consider a customs clearance and forwarding coordination agreement to engage in permissible cooperative arrangements and to promote joint services on both sides. The proposed coordination agreement could be expanded to include Egypt. The customs departments of the three participants could coordinate on-line to facilitate and streamline customs regulations and procedures in transit trade, direct exports and imports and clearing processes; address overland transportation issues; and reach agreement on customs and border centres.

2. Technical/procedural reform

(a) Establish a customs clearing centre at King Hussein and Prince Mohammed bridges, in addition to the only existing one at Amman Customs Centre.

(b) Streamline and centralize Palestinian import/export documentation.

(c) Establish free zone areas at the borders between Jordan, the PA and Egypt. Financial facilities should be provided to attract private sector investment.

(d) The PA Customs Department should be solely responsible for goods entering the PA from Jordan or Egypt, with Israel responsible only for its security.

(e) Goods entering the PA from Jordan and Egypt should comply with Palestinian measures and specifications. There does not seem to be any clear justification for requiring Israeli approval of specifications.

(f) Many Jordanian exporters view the following measures as essential for solving problems:

- Clearance of goods must be carried out at the bridges.

- Israel must accept Jordanian quality and testing certification.

- Procedures to issue certificates of origin must be streamlined.

- Measures relating to the issuing and validation of import permits must also be streamlined.

(g) A number of improvements are required in customs formalities between Egypt and the PA:

- Simplifying procedures to reduce transaction costs.

- Reviewing the existing procedures for processing customs declarations to eliminate unnecessary steps and transfers between offices.

- Creating more appropriate methods to calculate prices in line with developments in world markets.

- Avoiding excessive valuation of shipments in cases of errors and omissions.

- Expanding computer usage to cover other steps in the clearance process.

- Creating stronger cooperation between different agencies responsible for final release.

- A practical step would be to establish a “one stop shop” model for clearance of Palestinian exports and transit goods using streamlined computerized documents:

    - Accelerate the process of linking customs at the Rafah border with the Egyptian customs computer network and modify procedures at Rafah border.

    - Depending on software compatibility with PA customs systems, selective cross-border links could also be established.

3. Institutional and human resources development

(a) Continue with the training programmes for Palestinian customs officers and promote interaction with other customs officials through joint workshops.

(b) Organize training programmes on customs clearance, WTO procedures, customs valuations and the use of computer and electronic information. The exchange of customs personnel on a short-term basis would also be helpful.

(c) Computerize the Palestinian customs administration and management.

(d) Each party’s customs authority and/or related bodies could hold workshops in the other two countries/territories for clearing agents and interested businessmen.

(e) Establish an information department in the Palestinian customs department to respond to Jordanian and Egyptian inquires. Information concerning the relevant department/officer should be available to all. The same could be applied in Jordan and Egypt.

4. Strategic trade-related services

(a) The introduction or adoption of stopgap solutions instead of a comprehensive one will not be useful in the long run.

(b) A clear and transparent two-way trade "system" between the PA and Egypt and Jordan respectively must be designed and put into action. Any new system of trade between Egypt, Jordan and the PA must address all issues collectively. A two-way trade system between Jordan and the PA must be able to easily distinguish the trade of the two sides with Israel.

(c) The PA must aim to integrate all procedures, formalities, measures, instructions and regulations governing overland transportation, clearing of goods, customs administration and pre-trade documentation in one "binding legislation".

(d) Harmonization of economic and trade legislation between the three partners is imperative in such fields as regulations governing investment, corporate registration, customs procedures, transportation, standards, tourism and movement of persons and goods.

B. Road and overland transport

In this sector, the relevant categories of recommendations are:

- Transport infrastructure
- Administrative and border procedures
- Activating PA transport cooperation with Jordan
- Activating PA transport cooperation with Egypt
- Strategic issues in transport cooperation

1. Transport infrastructure

(a) With aid from international donors, the PA should exert more effort to improve the transport infrastructure, particularly its road networks.

(b) The development of a road marking and numbering system should be compatible with those in the ESCWA countries while complying with international standards.

(c) Road links and nodes need more attention with regard to road signs, directions and lighting.

(d) The PA should prepare for developments in the fields of multimodal transport and container systems particularly at the Gaza International Airport and seaport.

(e) The appropriate legal and regulatory framework for transportation should be established in line with regional and international principles and best practices in the field of transportation.

2. Administrative and border procedures

(a) Trucks - particularly green trucks - should be upgraded, and efforts made to convince Israel to comply with this urgent technical requirement.

(b) Israel should introduce more efficient and practical inspection procedures, using technologically advanced instruments.

(c) “Safe passage” between Gaza and the West Bank, once implemented, would increase trade with Jordan and Egypt, since inspection procedures at Erez, Rafah, Damya and Allenby would be eased.

(d) Facilities and services at or near the border crossing points should be improved. Warehouses, restaurants, banks, post offices, insurance companies, parking and rest houses should be created.

(e) Working hours at the border crossing points, particularly during the summer, should be extended to enable more vehicles to cross.

(f) The “back-to-back” procedures should be replaced by a more efficient method that would reduce time, effort and costs allowing more vehicles to unload cargo at a more convenient destination.

(g) The point-to-point method is one recommended formula. The PA, Egypt and Jordan may study the possibility of creating certain locations outside the border areas for customs and security inspections. However, this should not be a permanent substitute for “door-to-door” transportation arrangements.

(h) In addition to the point-to-point method, Palestinian-Jordanian and Palestinian-Egyptian warehouses could be established near border crossing points to speed up the trade process and reduce costs.

(i) Bonded warehouses should be established at the borders to facilitate procedures and reduce risks and costs.

(j) Palestinian standards laboratories should be permitted to open either at or near the border crossing points for use in testing products according to Palestinian quality control measures.

(k) Policy makers and managers at the PA Ministry of Transport should be trained in modern international transport operations and trade and transport principles and practices.

3. PA transport cooperation with Jordan

(a) During its meeting in Gaza between 6 and 8 March 1997, the Jordanian-Palestinian Transport Committee agreed to hold a series of meetings to affirm the Jordanian and Palestinian positions and to reject the back-to-back system. Many of the recommendations of this subcommittee were endorsed by the Higher Jordanian-Palestinian Committee when it met in Amman on 19 September 1998 to discuss pending issues in Jordanian-Palestinian trade. Both sides agreed to the following recommendations, which in large part remain unimplemented:

- The door-to-door system is to be enforced between Jordan and the PA.
- The back-to-back transport system should be replaced by the point-to-point system on a trial basis at the following loading stations in Jordan:

  * Amman Customs Centre

  * Zarka Free Zone Customs Centre

  * Al-Hassan Industrial Estate Customs Centre

  * Aqaba Customs Centre

- The following unloading stations should be designated in the Palestinian areas:

  * Jericho (for all goods)

  * Gaza/Karni Station (for special types of goods)

- Inspections and examinations should be carried out inside Jordan on goods and trucks for exports from Jordan to the PA and security inspection certificates should be granted by the concerned Jordanian authorities.
- Goods exported from Jordan to the PA should be cleared by the PA customs at specific border crossing points.
- Trucks should drive in convoys to or from the border crossing points to the unloading stations in the PA.

- No quotas should be imposed on the number of convoys/trucks and on the quantities/qualities of goods transported via border crossing points.

- No fees or duties should be collected on trucks or from drivers at border crossing points.

- Jordan agreed to enforce an agreement to permit Palestinian trucks to transport goods between both sides to enter and exit with national plates.

- It was also agreed that working hours on bridges should be from 800 hours to 2400 hours daily.

4. PA transport cooperation with Egypt

(a) Facilities should be established for warehousing inside the customs area, private storage outside the customs area and offices for forwarding agents; in addition a rest house and a modern telecommunications facility is needed at the border.

(b) PA-Israeli joint security control should be improved to avoid unnecessary delays and arbitrary security-related interference in trade flows.

(c) The working hours need to be extended till 1600 hours in winter and till 1800 hours in the summer.

(d) Private-sector companies should be allowed to lease handling equipment (e.g. fork lifts and cranes) in order to facilitate the back-to-back system for the time being.

(e) The Rafah border facilities should be developed by separating the cargo and passenger customs areas.

(f) Customs warehouses should be established to avoid demurrage.

(g) North Sinai businessmen are willing to establish an Egyptian-Palestinian joint-venture services company to assure door-to-door services, including stevedoring services and warehouse facilities on both sides, as well as customs clearance and land transportation in order to overcome existing problems.

5. Strategic issues in transport cooperation

(a) Administrative guidelines and instructions for interpreting policies and regulations need to be harmonized. All forms relating to licensing service providers, importers, exporters, transporters and other professions could be harmonized to suit the requirements of the other countries.

(b) The application of a number of international standards and rules would bring the partners closer to adopting international market mechanisms.

(c) The Jordanian-Palestinian Protocol on Overland Transport is only an expression of intent at simple coordination rather than cooperation. The official joint transport committee between Jordan and the PA has overlooked the necessity for companies on both sides to enter into agreements on private overland transport arrangements. However, both Jordan and the PA need to consider another protocol or agreement permitting private transporters to take a more proactive role in enhancing trade logistic services between Jordan and the PA.

(d) Egypt, Jordan and the PA should consider signing a trilateral agreement to cooperate in adopting harmonized regulations and procedures governing the organization of overland transportation. Such an agreement would widen the geographical area for transporters and forwarders to conduct more trilateral business activities for this sector.

(e) The proposed agreement should adopt measures enabling private transport operations to cooperate, establish joint companies, and conduct joint business and transport activities. It should also aim to encourage coordination among private bodies concerned with organizing and regulating overland transport activities.

C. Telecommunications and business information for trade

This final section of recommendations is most conveniently categorized as follows:

1. Recommendations for action at the policy level

2. Recommendations for technical improvements

3. Recommendations for institutional and human resources development

4. Strategic issues and cooperation: targeting SMEs

1. Action at the policy level

(a) The 1995 postal agreements between the PA and Jordan and Egypt respectively should be reactivated. Israel should not intervene in free direct postal communication between these partners. This will speed up the communication process and build bridges of confidence and trust for traders in the three countries/territories to use this method.

(b) Stronger telecommunication links between Egypt and the PA are necessary. Egypt Telecom officials should be receptive to a PA request to activate the Rafah cable to facilitate trade between Egypt and the PA. A joint committee could work to remove any remaining political or security obstacles.

(c) An agreement to reduce calling charges and increase traffic between Egypt and the PA is required. Special rates for suppliers of trade-related services should be provided to encourage more cooperation and facilitate trade between the PA and Egypt.

(d) The PA ministries should produce foreign trade statistics and data in a coherent way to facilitate consolidation by the Palestinian Central Bureau of Statistics. This requires greater coordination between ministries and the PCBS to avoid contradictory data and reduce duplication.

2. Technical improvements

(a) PALTEL, the Palestinian telecommunications company, should accelerate work to complete the development of the national telecommunications network. This should decrease dependency on Israeli networks and increase the value added.

(b) Work should begin on building a satellite station for telecommunication services to provide information services to all types of public and private users.

(c) PALTEL should consider reducing subscription charges to encourage more people to get linked to its network.

(d) Commercial Internet sites should be encouraged. Traders should consider developing Internet pages for their businesses to make themselves known and increase their chances of being contacted by interested bodies and traders.

(e) The development of up-to-date data on telecommunication indicators is of utmost importance to PALTEL, the Ministry of Telecommunications, as well as the PCBS, as it would help decision makers in their planning.

(f) International organizations could play a better role if they communicated with the local SMEs in their language. The translation of major international trade-related information into Arabic is recommended.

(g) Trade-related information should be provided to SMEs at a reasonable price. The chambers of commerce and the business associations could play a major role in this regard.

3. Institutional and human resources development

(a) PALTEL, in cooperation with the Ministry of Telecommunications, should continue to provide training courses to staff on administrative and technical issues.

(b) In coordination with the chambers of commerce, workshops should be conducted for SMEs in order to demonstrate the importance of the Internet and electronic commerce in developing efficient trade relations.

(c) Improvements in the quality of services and in the technical skills of operators are crucial.

(d) SMEs should be made aware of the benefits of information for trade through targeted seminars and workshops. Coordination between the private and public sectors is recommended and the chambers of commerce could play a crucial role.

(e) Workshops and exhibitions should be conducted between trade information providers in the three countries/territories to exchange relevant experiences.

(f) Information-providing institutions should conduct training sessions for traders on the utilization of information technology.

(g) Full support should be provided to the Trade Point Palestine-Ramallah (TPPR) project. Business information should be collected and centralized in collaboration with the countries of the region in order to create linkages.

(h) Chambers of commerce should improve their information services to create trust and confidence and to become an important source of help to SMEs. The chambers of commerce could act as incubators to SMEs providing them with a secure business environment.

(i) Technical assistance in information management should be provided by international organizations such as UNCTAD.

(j) The PA's Ministry of Economy and Trade should benefit from the Intra-Arab Trade Information Network (IATIN).

4. Strategic issues and cooperation: targeting SMEs

(a) The private sector should be encouraged to invest in the development of the telecommunications system. Policy makers must be responsible for providing investment incentives and a transparent regulatory environment.

(b) Telecommunication services should be accessible at reasonable rates to all users, particularly SMEs.

(c) Businessmen have called for the transfer of Jordanian industrial expertise and actual plants to the PA. This may cover a number of successful sectors, such as pharmaceuticals and steel. Industrial coordination and selective integration could unify the markets of Jordan, Egypt and the PA.

(d) The Palestinian commercial attachés in Amman and Cairo could facilitate trade cooperation. An official Palestinian trade representative could be appointed in each country. who would be familiar with all the official and private sector organizations in the PA. The representative would follow up on details related to cooperation and encourage linkages between local and Palestinian companies, private sector institutions and government agencies.

(e) Well-established Palestinian companies are capable of allocating resources to set up offices in Egypt or Jordan. Such companies or groupings of any type should be encouraged to open satellite offices or to establish Palestinian services companies in Egypt and Jordan to enhance Palestinian trade and investment relations with Arab and international partners. They could provide additional services to promote Palestinian cooperation in trade-related services, not only with Jordan and Egypt, but with other Arab countries as well. Those companies could also encourage Palestinian SMEs to conclude transactions with these and other markets.

(f) Palestinian SMEs involved in business, professional and technical services, trade brokerage, wholesale and distribution, imports, exports, investment and tourism. Promotion should be encouraged to seek out their counterparts in Jordan and Egypt and to explore ways and means of cooperation. They also need to be assisted in concluding mutual or reciprocal agency, affiliation or association agreements with their counterparts in order to increase the intensity of their relations between companies in the PA, Jordan and Egypt.

(g) The exchange of detailed and extensive sector-related directories is essential in this process. The chambers of commerce in the PA, Jordan and Egypt could agree to sharing company profiles. This practice is an effective instrument in enabling companies to establish contacts with counterparts in the region.

(h) It is recommended that the authorities in the PA, Jordan and Egypt hold a series of workshops for SMEs in the three countries/territories. The workshops may target 10 or 12 sectors where SMEs are active to deal with linkages and business matchmaking among them. It is most important that these chosen sectors include a number of services to enable SMEs to attract international business.

(i) The information technology, communication and computer sectors are important in both Jordan and Egypt. A strategy should be developed between the PA, Jordan and Egypt to encourage linkages between their companies through:

- Programmes aimed at encouraging Jordanian and Egyptian companies to seek counterparts in the PA. Their linkages would facilitate the transfer of expertise and administrative and managerial know-how to the Palestinian companies.

- Promoting computer literacy among SMEs in the PA to the same level as found in Jordan and Egypt. Promoting linkages between computer companies in the three neighbours and encouraging Jordanian and Egyptian computer and information technology companies to open offices in the PA, are vital to the advancement of the trade-related services sectors.

- Organize a well-publicized business matchmaking exhibition in information technology and through the Internet in the PA. The exhibition would attract interested companies from Jordan and Egypt and raise awareness on possibilities and future prospects of doing business together.

NOTES

[1] See UNCTAD Palestinian merchandise trade in the 1990s: opportunities and challenges (UNCTAD/GDS/SEU/1, 23 January 1998) and The Palestinian economy and prospects for regional cooperation (UNCTAD/GDS/SEU/2, 30 June 1998).

[2] For a detailed description of such growth-oriented plans see Prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip, 1990-2010: a quantitative framework (UNCTAD/ECDC/SEU/6, 11 November 1994); and Prospects for sustained development of the Palestinian economy: strategies and policies for reconstruction and development (UNCTAD/ECDC/SEU/12, 21 August 1996).

[3] Employment in Israel was 30 per cent of the labour force in 1992 and 25 per cent in 1991.

[4] The Protocol states that "if the normal movement is suspended temporarily by either side, it will give the other side immediate notification, and the other side may request that the matter be discussed in the Joint Economic Committee", Protocol on economic relations between the government of Israel and the PLO representing the Palestinian people (A/49/180, S/1994/727), Article VII.

[5] Karni/Al Muntar, the only commercial crossing point for the movement of goods between Gaza and Israel, the West Bank and the rest of the world, had again been closed by Israel from 22-26 March 1999, because Palestinians had refused the sharp and arbitrary increase in transportation service fees imposed by the Israeli authorities, from $50 to $150 on each truck crossing the border. It was closed again for the period 6-15 April 1998. Eventually the authorities suspended the measure.

[6] For a survey of economic reform in Arab countries see Niblock T and Murphy E, *Economic and Political Liberalization in the Middle East*, London, British Academic Press, 1993.

[7] See chapter I, section B (ii) and table 4.

[8] See World Bank *Developing the occupied territories: an investment in peace, 1993, volume 1*. (annex 3) and Luski I, and Weinblatt J, *The West Bank and Gaza Strip: a macroeconomics profile and simulation model*, Ben-Gurion University, Beer Sheva, Israel, the Phillipe Monaster for Economic Research, 1994.

[9] At present the Palestinian terms of trade are heavily influenced by the high prices of imports from Israel.

[10] See El-Jafari M, Non-tariff barriers: the case of the West Bank and Gaza Strip agriculture exports. *Journal of World Trade*, 25 (3), June 1991.

[11] Ibid.

[12] An example of this is the city of London. It became a global financial centre when the United Kingdom was the world's leading manufacturer and investor. It is still an important centre today even though the United Kingdom is no longer a world economic giant.

[13] See UNCTAD Prospects for sustained development: strategies and policies … op. cit. for a detailed presentation of the findings of UNCTAD's research on this issue.

[14] This statistical definition remains to be clarified.

ANNEX I

PROMOTING THE PALESTINIAN AUTHORITY COOPERATION WITH EGYPT AND JORDAN IN IMPROVING SUBREGIONAL TRADE-RELATED SERVICES

UNCTAD/UNDP Workshop, Ramallah, 19-21 June 1999

Held under project number RAB/96/001, IALA 98-051

Agreed conclusions

INTRODUCTION

The participants at the UNCTAD/UNDP Workshop on "Promoting the Palestinian cooperation with Egypt and Jordan in improving subregional, trade related services" held in Ramallah, 19-21 June 1999, (see list of participants in the annex of this document) welcomed the rich documentation prepared for the meeting by the project experts and UNCTAD staff, as well as the detailed sectoral recommendations contained therein.

The recommendations contained in the experts' report constitute important elements of a strategy for cooperation between Egypt, Jordan and Palestine in trade efficiency (especially in the sectors of customs, transport and business information) as part of comprehensive trade cooperation between them. The open and frank discussions at the workshop stressed the need for concrete action by the three parties at the policy, subregional and national levels, based on these recommendations, and highlighted the conclusions outlined below.

Policy environment

1. The discussions highlighted the extent of structural distortions in the Palestinian economy resulting from decades of Israeli occupation, and which continue to prevent the PA from establishing balanced trade relations. They affirmed the importance of supporting the efforts of the PA to restructure the Palestinian economy, diversify its external trade and strengthen trade exchanges with the Egypt, Jordan and the Arab region, as well as globally.

2. The findings of the experts' reports and the discussions held during the Workshop indicated that measures enacted by the Government of Israel continue to create barriers to Palestinian international trade transactions, affecting adversely Palestinian trade with immediate and other partners, including WTO members. These barriers, such as obstacles stemming from discriminatory security controls and administrative procedures as well as unpredictable border closures carried out by Israeli Police and Customs authorities at crossing points, should be urgently addressed by Israel, with a view to according the PA non-discriminatory treatment in border crossing procedures, similar to that accorded to Egypt and Jordan.

3. Without action on these recommendations and conclusions, the three partners will not be able to fully integrate in the regional and global economy. In that context, and in order to correct imbalances in subregional trade, cooperation between the three partners will be beneficial to them and to their partners in the region and beyond.

4. The participants affirmed the importance of the creation of a Greater Arab Free Trade Area, which would strengthen the opportunities for regional cooperation between three parties, as well as contribute towards facilitating and expanding merchandise trade between them as an initial step in their integration in the wider regional and global economy. The participants highlighted the benefits and opportunities such an initiative would provide to the private sector and its institutions as well as its responsibility in increasing those opportunities.

Technical issues to be addressed at the subregional level.

5. In the areas of transport, postal, telecommunications and customs-related issues, existing agreements and protocols concluded since 1994 between the PA, Egypt and Jordan, should be reviewed and updated as necessary, with the aim of securing their effective implementation.

6. The institutional capacities of professional organizations representing transport operators, trade promotion and business-information providers should be strengthened, and, where necessary new forms of association initiated as a prerequisite for subregional professional cooperation.

7. Egypt, Jordan and the PA should promote and facilitate the development of commercially-operated trade facilities for cargo at border crossing points, separate from passenger crossing points, including: bonded-warehouses, basic services and facilities for drivers (coffee shops, restrooms, telecommunications) and offices for banking and insurance facilities and clearing agents. Bilateral joint ventures could be instrumental in creating joint interests in this regard.

8. The inefficient back-to-back procedures currently in force should be replaced by a method that would reduce the time, effort, formalities and costs affecting trade and allow more vehicles to handle cargo at final destinations inside the territory of the three partners. In this respect, the PA, Egypt and Jordan could examine the possibility of establishing appropriate cargo handling facilities, along with the necessary customs clearance points regulations and arrangements, including transport routes.

9. In order to align their respective laws and regulations with international practices, Egypt, Jordan and the PA should jointly review existing international instruments related to trade and transport, including transit transport, with a view to adhering to such instruments or incorporating their basic principles into respective national legislation. Particular reference is made to the Transport International Routier (TIR) Convention regarding the road carriage of customs-bonded cargo, and to the Convention on the Contract for the International Carriage of Goods by Road (known as the CMR Convention) regarding the liability of road transport operators.

10. The participants affirmed the importance of building major roads and upgrading existing ones linking the PA to Jordan and Egypt, as well as re-routing freight traffic from congested urban areas and establishing direct road links between the West Bank and Gaza.

11. Trilateral technical consultations should be initiated by the concerned Governments to streamline operational arrangements at border crossing points, such as, working hours, physical inspection procedures and handling equipment. These consultations could also work towards harmonization of customs-related documents and procedures, in line with internationally applied models (e.g. UN Layout Key for Administrative, Customs and Transport Documents, the EU Single Administrative Document and WTO rules related to customs). Such technical consultations would pave the way for negotiating formal customs coordination agreements between the three parties.

12. The imposition of multiple handling or other non-customs fees levied at border crossings by any of the three partners should be re-examined with a view to their rationalization and to reducing their burden on the trading community.

13. Regular consultations between the Trade Points established by the three partners are urgently required. Arrangements for an early meeting towards that end should be worked out in coordination with the relevant government channels and UNCTAD. A major aim would be to facilitate access by SMEs and other businesses interests in Egypt, Jordan and the PA to comprehensive information on trade and investment opportunities within the subregion, and to promote match-making, computer literacy and use of the Internet, including E-commerce.

14. Specialized, sectoral and general trade fairs as well as business missions and product- and market-studies, which have proved useful in promoting trade and exchange of business information between the partners, should continue to be facilitated and encouraged. In this respect, adherence to the Agreement on Temporary Admission of Goods (ATA) Convention allowing the duty-free import of samples should be considered.

Technical issues to be addressed at the national level

15. The PA should prepare for the implementation of the basic legal framework to support international trade transactions, particularly in the areas of customs, transport (e.g. carrier's liability) and other trade issues (e.g. insurance, finance, corporate legislation, etc). This should be done in a way that reflects international practices where relevant.

16. The PA should initiate a review of present administrative and commercial documents and procedures, with a view to their simplification and harmonization with international standards. This could serve as an initial contribution to the trilateral technical consultations proposed above.

17. The PA should establish a forum to bring together public and private sector institutions concerned with trade facilitation. This mechanism could formalize or expand the mandate of any existing institution with similar functions. It could serve as a platform for the elaboration of a national consensus on basic trade facilitation issues, and as a link with Jordan and Egypt in discussions and negotiations on trade between these countries.

18. The PA should pay particular attention to human resources development in the fields of customs administration, transport and utilization of business information for trade. Awareness campaigns, training needs assessment and training programmes should be set up to prepare Palestinian civil servants from concerned public institutions, including customs, and the trading community in general, especially SMEs, to cope with the development of Palestinian international trade. Assistance from Egypt and Jordan, as well as from UNCTAD and UNDP-TCDC, should continue.

19. The participants welcomed the outstanding efforts of the PCBS and its close cooperation with the ministries of finance, economy and trade, along with the involvement of competent academic and research institutions, to produce foreign trade statistics in a timely, accurate and coherent manner. This cooperation should be intensified with the aim of eliminating contradictory figures and duplication among different PA sources. In this respect, indicators

other than value-based data could also be useful to better inform PA and Arab policy makers on actual trends in foreign trade. The need was also recognized to reach an acceptable methodology between these statistical sources and data on trade with the PA issued by Arab trade partners. Technical assistance from UNCTAD, the United Nations Statistical Office (UNSO) and other competent regional and international organizations could be useful in this regard.

Trilateral programme of action

20. The planned study tour of a group of experts to the West Bank and Gaza, Jordan and Egypt immediately following this Workshop should provide additional insights and indicators of a technical nature to further enrich the findings of the project.

21. The UNCTAD secretariat will present as soon as possible, the revised report of this Workshop to UNDP and to the national focal points designated by the respective Governments for transmission to the concerned authority and private-sector institutions.

22. The enterprise sectors of the three partners are encouraged to disseminate the findings of the Ramallah Workshop among their constituencies to foster greater awareness of the opportunities and potentials for trade between the PA and Egypt and Jordan. Substantive and technical support from UNCTAD might be sought, as necessary.

23. Under the auspices of this UNCTAD-UNDP project, a high-level tripartite governmental meeting should be organized to review the findings of this project, and to provide guidance for specific follow-up measures. At this meeting, the three partners would finalize their strategy to support and strengthen their cooperation in trade-related services, and identify possible mechanisms for regular consultations and monitoring of developments in the trade-related services sectors covered by this project.

24. In addition, this meeting should explore possibilities for funding of follow-up activities from available multilateral, regional and bilateral sources.

25. While it is incumbent upon Israel to honour its existing international obligations and its trade agreements with the three partners, the PA, Egypt and Jordan should explore at this meeting, ways and means to urge Israel to refrain from its continued discriminatory practices which adversely affect trade between the three partners. In this context, the PA, Egypt and Jordan should also urge Israel to assume its responsibilities in resolving outstanding issues and in removing constraints affecting trade-related services between the three parties.

Concluding remarks

26. The participants expressed their sincere appreciation to H.E. Maher Al-Masri, Minister of Economy and Trade of the PA for hosting this tripartite Workshop.

27. The participants congratulated the team of experts from the Palestinian Authority, Egypt and Jordan who worked together successfully to produce the technical documentation for the Workshop and who contributed substantively to its discussions.

28. The valuable contributions to the discussions at the Workshop by the representatives of the Economic and Social Commission for Western Asia (ESCWA) and the Swiss Trade Initiative for the Middle East and North Africa (STIMENA) were highly appreciated by all participants.

29. Special appreciation was extended to UNDP for funding and assisting in the implementation of this important project in its different stages.

30. In conclusion, the participants commended the UNCTAD secretariat for its continuing programme of assistance to the Palestinian people, and in particular, for the efforts made to ensure the success of this project through the constructive contribution of UNCTAD staff members. UNCTAD was called upon to continue its unique role in providing targeted technical assistance in areas of its competence to the Palestinian Authority, and in promoting trilateral cooperation between the partners.

Ramallah/Al-Bireh, 21 June 1999

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Abbreviations

ATA	Agreement on temporary admission of goods
CMR	Convention sur le transport des marchandises par route
ESCWA	(United Nations) Economic and Social Commission for Western Asia
PCBS	Palestinian Central Bureau for Statistics
PA	Palestinian Authority
STIMENA	Swiss Trade Initiative for the Middle East and North Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UN-ECE	United Nations Economic Commission for Europe
UNSO	United Nations Statistical Office
TCDC	Technical Cooperation among developing countries
TIR	Convention sur le transport international routier
WTO	World Trade Organisation
