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TECHNICAL COOPERATION ACTIVITIES: CONSIDERATION OF OTHER RELEVANT REPORTS

Report on UNCTAD's assistance to the Palestinian people

EXECUTIVE SUMMARY

This report reviews the work of the UNCTAD secretariat in assistance to the Palestinian people since 1995, in accordance with its mandate and work programme in this respect. Part I of the report reviews the policy environment affecting the Palestinian economy, including the positive developments of the peace process amidst continued political and security uncertainty, regulatory and institutional developments as well as regional and international dimensions. This is followed by an examination of major aggregate economic developments, with particular focus on the Palestinian external trade sector. Part II provides a comprehensive account of recent orientations in UNCTAD secretariat activities on assistance to the Palestinian people. This Part focuses on operational activities, in the context of UNCTAD's Programme of Technical Cooperation Activities in Support of Palestinian Trade, Finance and Related Services, undertaken during the period 1995-1997 in the interrelated areas of Palestinian private-sector development and institution building.

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Notes

## Preface

1. In accordance with UNCTAD's mandate for work on the economy of the occupied Palestinian territory, 1/ as envisaged in the secretariat's 1996-1997 work programme and as requested by the Trade and Development Board at its fourteenth executive session, this report has been prepared covering UNCTAD's assistance to the Palestinian people during the period July 1995 - June 1997. The content and orientation of the secretariat's work programme on this subject has developed since its inception in 1985, in tune with the changing situation and needs of the Palestinian people. The achievements of the Middle East peace process since 1993 promised new opportunities for the revival and development of the Palestinian economy. This coincided with the completion of the UNCTAD secretariat's intersectoral research project, initiated in 1990, on prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip. The findings of the project have been published in reports and studies since 1993, providing policy recommendations and proposals for action by the Palestinian Authority and others concerned. The project laid the basis for the elaboration of a programme of technical cooperation activities in support of Palestinian trade, finance and related services.

2. The growing focus of UNCTAD's assistance to the Palestinian people through technical cooperation activities is both a natural outcome of its analytical work since 1985 and its response to the urgent requests of the Palestinian Authority (PA). While the relevance and impact of the secretariat's technical cooperation activities are enhanced by its analytical capacities, the actual progress of technical assistance activities is subject to the influence of different factors. These include political and security uncertainty, the pace of Palestinian efforts at reconstruction, development and institution-building, as well as resource availabilities affecting the extent of such activities. In order to place UNCTAD's assistance in an appropriate context, this report briefly examines recent developments in the Palestinian economy, including the Palestinian external trade sector. This provides the basis for a detailed account of progress in the work under way on technical cooperation activities carried out by the secretariat since 1995 at the request of the PA and drawing upon UNCTAD's specific areas of expertise.

## Part I

### RECENT DEVELOPMENTS IN THE PALESTINIAN ECONOMY, 1995-1997

#### A. The policy environment affecting the Palestinian economy

3. Two powerful, yet opposing, factors have influenced the overall policy environment underlying the recent performance and immediate prospects for the revival of the Palestinian economy in the West Bank and Gaza Strip. On the one hand, Israel-Palestine economic accords since 1993, in particular the Protocol on Economic Relations, set the scene for a significant transformation in relations between the two parties and in the policy environment affecting Palestinian economic activity in several key spheres. 2/ On the other hand, the parties have yet to resolve a range of outstanding issues, falling mainly outside the economic domain, against a backdrop since 1996 of violence and strict security measures. The Palestinian economy, weakened by prolonged

negligence and isolation, is thus increasingly dependent on the changing fortunes of the peace process, exhibiting accelerating entrepreneurial activity and growing investor confidence in times of progress, and suffering from contraction in business activity and income loss in periods of stalemate.

4. The vulnerability of the Palestinian economy to the interaction of such factors has been compounded by a range of inherent weaknesses coupled with the absence of an adequate regulatory and institutional framework at the public and private sector levels. Some progress has been made by the Palestinian Authority (PA) since 1995 with regard to drafting essential legal instruments governing economic activity in areas such as private investment, enterprise activity, banking, public finance, industrial zones, standards and safety, civil service and intellectual property. However, most are not yet formally adopted and procedures and institutions to ensure their application are yet to be established. The pace and orientation of institution-building in the public sector alone has been subject to the influence of a variety of factors which reflect the difficulties of isolating the development of effective PA institutions from the realities imposed by political exigencies, economic pressures and human resource limitations. The emerging private sector has on the other hand exhibited resilience and capacity to adapt to a still-uncertain policy environment. This has involved intensified cooperation with PA institutions to establish the basis for a liberal, modern and efficient Palestinian economy, capable of meeting the challenges ahead.

5. Notwithstanding the efforts made, repeated closures of the Palestinian territory since 1996 signify the interplay of forces promoting or inhibiting economic activities. A prominent example is the sensitive investment climate, which had begun to stabilize in 1995 following the adoption of a Law for the Promotion of Investment, the consolidation of the local banking system and related regulatory and institutional developments. <sup>3/</sup> Events on the ground since 1996 have prompted caution on the part of investors and financial institutions, that remain in need of sustained political, legal and institutional stability. Nevertheless, moves such as the opening of the Palestinian Securities Exchange in early 1997 continue to indicate the commitment of the private sector to develop in cooperation with the PA the full range of institutions and instruments required for vibrant and efficient financial intermediation and enterprise development.

6. Despite the opportunities offered by post-1993 trade accords with Egypt, Israel, Jordan and other partners, prolonged obstacles and complex procedures affecting the movement of goods have highlighted the weaknesses in the orientation of the external trade regime, calling for the strict application or re-negotiation of accords with trading partners. <sup>4/</sup> In particular, aspects of the Israel-Palestine accords covering movement of labour, trade and customs and other duties are considered to require serious scrutiny by both sides as they move to reinvigorate economic relations in the coming period. While current preoccupations embrace the interrelated issues of trade policy and practices, options facing the PA with regard to the former continue to be dominated by the day-to-day realities imposed by the latter. In the immediate, it appears that more progress can be made in improving the application of existing accords governing the economy than in revising the terms of the accord for the interim period due to end in 1999. Meanwhile,

in the context of preparations for final status negotiations with Israel, the future of Palestinian economic strategies, policies and relations is a subject of growing interest to decision makers in the public and private sectors. 5/

7. The reconvening of the Israeli-Palestinian Joint Economic Committee since late 1996 reflects a clear recognition by the parties of the need to deal with outstanding issues that hamper progress in the interim period. A number of measures have been since instituted, including enhanced border facilities for movement of merchandise trade with/through Israel and with Jordan and Egypt, addition of new items to and quantities of Palestinian imports from abroad, 6/ and improved arrangements for travel of Palestinian businessmen to Israel. Meanwhile, the economic and trade accords of 1994 between Palestine, Egypt and Jordan have helped to lay the basis for improved financial and trade flows and enhanced economic cooperation with these partners. Recent initiatives in the context of a plan by the League of Arab States to facilitate and invigorate inter-Arab trade and to establish an Arab Free Trade Area carry a particular importance for the future of Palestinian economy, including trade expansion.

8. The gradual emergence of a distinct Palestinian economy is further strengthened by the signing of an Interim Agreement on Trade and Cooperation between the European Union and the Palestinian Authority in early 1997, and bilateral economic and trade negotiations with a number of emerging trading partners. These include Canada, European Free Trade Association, the Russian Federation, and the United States of America. The international dimension of the Palestinian development effort is also exhibited in the high profile multilateral aid programme administered by the World Bank, in coordination with the United Nations, and in close consultation with the Palestinian Authority. Of a total of \$3,439 million pledged by the international community for 1994-1998 to assist the Palestinian reconstruction and development effort, \$2,799 million had been committed and \$1,514 million disbursed by 1997: a disbursement rate equal to 44 per cent of pledges. 7/

#### B. Aggregate economic performance

9. Since 1993, several sources have issued statistical series on the Palestinian economy based on different methodologies and assumptions. 8/ Owing to divergences in methodologies and estimates by different sources, it appears useful to draw upon the range of available estimates in attempting to identify common elements of an assessment of the Palestinian economy. 9/ In the period 1995-1997, aggregate economic indicators exhibited trends consistent with those prevailing in previous years, with an overall adverse impact on standards of living. The high exposure and vulnerability of the economy to external shocks continue to reveal major structural weaknesses. These include weak domestic employment capacity, uneven sectoral growth, weak intersectoral articulation, severe marketing bottlenecks, poorly coordinated and fragmented new investments in both public and private ventures and structural imbalances among macroeconomic aggregates. These features become more critical when viewed against stagnation in income and growing poverty among marginalized segments of the population. Human resource development and growing unemployment since 1992 have posed critical challenges for the performance of the economy, with important political, social and economic ramifications. Quarterly unemployment rates in 1996 ranged from 29 per cent

in periods of strict closure to 19 per cent during periods when Palestinian workers were able to reach jobs in Israel. 10/ Only since late 1996 has a gradual reduction of critical rates of unemployment been possible, through short-term employment generation alternatives including relief-work programmes, and further relaxation of closure measures in 1997.

10. Palestinian gross domestic product (GDP) in 1996 is estimated at \$3.4-\$3.9 billion, by different sources. The sectoral structure of the economy has remained essentially the same since 1992, with transport, trade and private services accounting for the largest share of GDP. Notwithstanding new investments since 1993 and improvements in the institutional and regulatory framework, no clear positive impact is noted on such structural aspects as the size and share of the industrial sector, agricultural diversification or emergence of new producer services. While positive growth rates of real GDP of over 7 per cent annually are noted in most years since 1992 (generated in construction, agriculture and public services), Gross National Product (GNP), has stagnated owing to a contraction in labour income from Israel since 1992. GNP is estimated at \$4.1-\$4.4 billion in 1996. The decline in the scale and significance of such income has not been matched by adequate external transfers and their deployment into employment and output generating investments. While restructuring and reinvigorating domestic output are essential to sustained growth and long-term development, external income and investment are needed to ensure rapid recovery and lay the foundation for sustained growth. The need for promoting domestic and foreign private investment and improving its allocation thus remains a top priority for domestic policy makers and for international assistance in this regard.

11. The low export ratio, of 10 to 15 per cent of GDP, is well below pre-1988 levels of 25 to 35 per cent. A large deficit in trade of around 45 per cent of GDP in 1996 reflects a precarious external payments position which exerts a considerable burden on the meager resources of the economy. The decline in factor income from abroad, coupled with high and growing private and public consumption in recent years, has thus restrained domestic savings. Investment levels since 1993 have yet to surpass those of preceding years: investment in 1996 is estimated at \$600-\$1,000 million (equivalent to 15-30 per cent of GDP). Intensive investment in private residential construction still accounts for the bulk of investment despite a growing share of public investment in infrastructures, financed largely through official transfers since 1994.

12. According to some calculations, losses sustained in income in 1996 as a result of the closure and related measures are estimated at around \$600 million, a magnitude which is lower than estimates by other sources. 11/ This is equivalent to some 20 per cent of GDP and 15 per cent of GNP in 1995, and to over 70 per cent of private investment in 1996. However, by most accounts, the real decline in GNP in 1996 was between 3 and 6 per cent (and even higher on a per capita basis), rates which imply that factors such as GDP recovery in late 1996 helped to mitigate income losses. 12/ Greater stability in the policy environment in 1997 could allow the recouping of 1996 losses from both domestic and external sources. Thus the need for vigorous attention to developing the regulatory and institutional framework governing the economy and the mobilization of financial resources. Prolonged economic hardship and

uncertainty would at best reduce public confidence in the "peace dividend", and at worst produce economic stagnation and deprivation that could undermine the peace process.

C. Palestinian merchandise trade: recent performance and immediate prospects

13. As noted above, measures aimed at influencing the performance of the Palestinian economy since 1993 have not reversed a long-term decline in the export sector, nor counterbalanced a sustained growth in imports. Underlying these trends are a range of infrastructural, institutional and procedural impediments to free access to export markets, as against an open and largely uncontrolled exposure to imports from one predominant trading partner. This process, which began to unfold in the early 1980s, has created a growing trade deficit which highlights the challenges of developing export capacities.

14. This may be most graphically illustrated by comparison of estimated data for 1996 with figures for 1981, the year in which Palestinian export performance was at its strongest amidst steady economic growth (see table 1). <sup>13/</sup> Total merchandise exports in 1996 are estimated at \$265 million, down from \$400 million in 1981. Out of a total value of trade in 1996 of almost \$2,000 million, exports represented only 13 per cent, down from 36 per cent in 1981. Since 1981, imports more than doubled, from \$748 to \$1,725 million while the merchandise trade deficit grew almost five-fold, from \$350 million to almost \$1,500 million. This translates into a merchandise trade deficit whose proportions grew from 35 per cent of GDP in 1981, to around 45 per cent by 1996. When trade in non-factor services is examined, the position of the Palestinian economy appears even more precarious, owing to the greater proportion of imports of non-factor services as compared to exports.

Table 1: West Bank and Gaza Strip merchandise trade, 1992-1996  
(in current million US dollars)

	1992	1993	1994	1995	1996
<b>Merchandise exports total</b>	<b>292</b>	<b>234</b>	<b>243</b>	<b>326</b>	<b>266</b>
- to Israel	249	178	205	306	235
- to rest of world	43	56	38	20	31
<b>Merchandise imports total</b>	<b>1 260</b>	<b>1 173</b>	<b>1 075</b>	<b>1 690</b>	<b>1 725</b>
- from Israel	1 106	1 015	920	1 520	1 550
- from rest of world	154	158	155	170	175
<b>Merchandise balance total</b>	<b>-968</b>	<b>-938</b>	<b>-832</b>	<b>-1 364</b>	<b>-1 459</b>
- with Israel	-857	-837	-715	-1 214	-1 315
- with rest of world	-111	-101	-117	-150	-144

Source: UNCTAD secretariat estimates (see note 13).

15. Another feature of the deteriorated Palestinian external trade sector is the almost total concentration of trade with one partner. Whereas trade with Israel in 1981 accounted for 85 per cent of total Palestinian imports and exports, that proportion now stands at around 90 per cent. While in 1981 a total of \$111 million, or 28 per cent, of exports were destined for Jordanian, other Arab and international markets, by 1996 these markets absorbed \$31 million, or only 12 per cent, of Palestinian exports. Thus, from a position of a small trade surplus (\$33 million) with markets other than Israel in 1981, the Palestinian economy today has a \$144 million trade deficit with the rest of the world, and a \$1,315 million deficit with Israel.

16. Success in redressing the chronic Palestinian trade imbalance, and gearing the economy towards a viable external payments position, is a crucial task of the reconstruction effort now under way. Sustainable growth and development of the economy cannot be achieved unless it undergoes a transformation in which the export of goods is increasingly substituted for the export of labour as a source of foreign exchange. The merchandise trade sector has to play a pivotal role of freeing the economy from unreliable sources of income. Owing to the interplay between changes in trade patterns and those in domestic output, the revival and reorientation of Palestinian external trade is contingent upon improvement in three areas: capacity, competitiveness, and accessibility. Revitalizing the trade sector involves policies to increase the capacity for production, remove distortions in the cost-price structure, re-establish entry into neighbouring markets and gain access to new ones. These formidable tasks cannot be completed during the remaining years of the interim period which are insufficient to effect such a comprehensive transformation of production and trade. Of course, the current policy framework does have positive elements which allow Palestinian trade to become more vibrant and gradually assume the role of a growth generating sector. For the moment at least, conditions must be created to exploit these to the full.

17. Rebuilding the physical infrastructure is crucial to creating the supportive system, without which trade activities are destined to be limited. Of high priority is the transportation and communication systems and general marketing facilities. Specialized export institutions for agricultural and industrial products are urgently needed to provide information, technical expertise and guidance to producers, especially small businesses. Technical problems related to quality control and standards, grading, storage, packing, etc. need attention so as to upgrade Palestinian products to international standards. Customs and related trade procedures require streamlining and simplification to enhance trade efficiency and to reap the potential benefits of trade accords. These are all priority areas for domestic reform and international assistance, especially technical cooperation.

18. The other major task during the interim period is to re-establish trade with the markets of neighbouring countries. Here also, the PA and the trading community need assistance in policy development and implementation, increased exposure to new international trading modalities and business practices, and systematic development of human resources for enhanced trade operations. By granting the PA the right to set its own tariffs on a list of goods imported from Egypt and Jordan, the Protocol has set the scene for the acquisition of reciprocal preferential treatment for some Palestinian exports to those

markets. The Protocol also removed direct quotas and most non-tariff barriers to the Israeli market, with the exception of certain important agricultural exports until 1998. This opening of neighbouring markets ought to be diligently exploited, as the first step towards the reintegration of the Palestinian economy into the region, coupled with equally vigorous efforts to exploit new markets that have accorded preferential treatment to Palestinian exports. In light of these considerations, the Palestinian economy needs to adopt an increasingly outward export-oriented strategy and to diversify the composition and direction of trade. Hence, there is a special interest in improving its opportunities for integration within the regional and global economy, while carefully considering the costs that would ensue from increased economic policy liberalization and harmonization with the emergent international trade system. 14/

## Part II

### RECENT ORIENTATIONS IN UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

#### A. UNCTAD's programme of technical cooperation activities

19. Parallel with developments in the Palestinian territory since 1993 and the establishment of the Palestinian Authority (PA) in 1994, the work of the secretariat on the Palestinian economy has evolved, with an increasing emphasis on operational activities. The aim of this reorientation has been to assist the nascent PA and the private sector through a range of technical cooperation activities in key problem areas affecting trade, finance and related services, as outlined in Part I. Thorough consultations were held with the PA aimed at identifying priority areas where UNCTAD could provide assistance. Accordingly, a comprehensive Programme of Technical Cooperation Activities of a modular nature was developed, guided by the findings of UNCTAD's intersectoral research project on prospects for sustained development of the Palestinian economy. 15/ Following its endorsement of the Programme, the PA requested UNCTAD in 1995 to extend technical assistance in specific priority areas.

20. In response, the secretariat immediately prepared for the fielding of advisory missions to assess the nature and extent of assistance required. Parallel with this, and in a move to coordinate efforts with other organizations, the secretariat established contacts with the United Nations Special Coordinator in the Occupied Territories (UNSCO), bringing to his attention the Programme and areas in which the secretariat had commenced work. At the same time, action was also taken towards the mobilization of resources for the implementation of the Programme. Accordingly, the Programme along with its cost estimates was presented by UNCTAD in 1995 to over 50 multilateral and bilateral potential sources of funding, including most members of the Consultative Group (CG) of Donors formed following the signing of the Declaration of Principles in 1993.

21. Based on the findings of the missions undertaken by UNCTAD in response to the requests of the PA (see below), the secretariat prepared summary project proposals, including their tentative costing, which were submitted to the concerned PA Ministries/Departments and to UNSCO at its request. These

proposals have been endorsed by the concerned Ministries of the PA, and submitted in July 1997 to UNSCO and the PA for inclusion in the "Palestinian Development Plan, 1998-2000 (PDP)" to be presented by the PA to the forthcoming meeting of the CG, for which the World Bank serves as a secretariat and at which the United Nations is represented by UNSCO. It is hoped that enhanced coordination arrangements in 1997 will result in an improved representation of the United Nations organizations in projects approved for funding by the CG.

22. As the experience of UNCTAD shows, the process of matching priority projects with donor commitments and preferences has been slow to develop and individual organizations of the United Nations have not been able to maintain as direct a dialogue with the donor community on this subject as on other issues. The CG mechanism appears to have its merit as far as the donors and the PA are concerned, that of ensuring a broadly harmonized approach to the allocation of resources from the pledges made. Meanwhile, since 1993 the agencies of the United Nations system have been called upon by the General Assembly to intensify their assistance to the Palestinian people in their respective areas of competence. <sup>16/</sup> Since the assistance required cannot be fully met through the regular budgets of these organizations, an increasingly participatory approach to technical cooperation in close partnership with the PA and the donor community is needed to enable the organizations of the United Nations to respond positively to General Assembly resolutions and the requests of the PA in priority areas.

B. Technical cooperation activities undertaken during the period 1995-1997

23. At the request of the PA and within the limits of available resources, the secretariat has fielded a number of advisory missions to the Palestinian territory since 1995. The main aim of these missions was to assess and advise on immediate needs, discuss the extent of further assistance required and elaborate follow-up action in each area. Ten priority areas identified by the Palestinian Authority and falling under two of the six priority sectors of the United Nations were covered:

1. Private sector development

(a) Export processing zones/industrial estates

24. Upon the request of the PA, a mission was fielded in 1995 to investigate the possibilities of establishing export processing zones/industrial estates along with their legal framework, institutional infrastructures and operational procedures. Based on the findings of the mission, detailed proposals were made, covering industrial estates, private investment laws and regulations and related institutional aspects. Subsequently, an inter-agency mission to the Palestinian territory, undertaken in 1996 regarding an industrial estates programme, entrusted UNCTAD with the task of:

(i) developing a project proposal for the establishment of an industrial estate in Nablus, the West Bank; and, (ii) examining the requirements of an "enabling framework" for establishing industrial estates, including the

finalization of the Law for the Encouragement of Private Investment. As a first step, a project proposal for the feasibility study of an industrial estate in Nablus was prepared by UNCTAD. The project is aimed at developing expertise and consensus on policy and regulatory options, as well as creating the infrastructural, institutional and managerial capacities needed for the establishment and operation of the industrial estate. As such, it is designed to serve as a model for the development of further industrial/export processing zones in other parts of the West Bank and Gaza Strip. The first phase of the project is currently under implementation through UNDP financing, in close consultation with the PA Ministry of Industry.

(b) International procurement of strategic food commodities

25. In response to a PA request, UNCTAD fielded a mission to the Palestinian territory in 1995 to assist the PA in designing a mechanism for international procurement of strategic food commodities. Following thorough consultations with relevant organizations of the PA and representatives of the private sector, the mission was able to: identify commodities to be covered under the procurement scheme and assess the magnitude of their current and future supply and demand situation; ascertain the extent of procuring such commodities through imports, including their quantities price structures, transport, tariffs and other charges applicable; design an appropriate mechanism; and, identify sources of financing such procurements. The mission also outlined a number of measures for immediate action within the frame of a technical assistance project, including a seminar on commodity trading and commodity supply management. Following endorsement of the project by the PA Ministry of Supply, consultations are under way with regard to the possible holding of the seminar and other project activities.

(c) Strengthening trade efficiency (Trade Points)

26. At the request of the PA, UNCTAD fielded a mission to the Palestinian territory in 1995 aimed at exploring the possibilities of introducing trade efficiency measures, including trade facilitation procedures and information systems. The following aspects of the subject were discussed with public and private sectors concerned: the functioning and advantages of the Trade Point concept and its relevance to the Palestinian trading environment; technical issues related to trade efficiency and the establishment of Trade Points; the advantages of linking Palestinian Trade Point(s) to other Trade Points in the region and to the Global Trade Point Network; and, a strategy for the implementation of trade efficiency measures in the Palestinian territory. Accordingly, a number of recommendations and corresponding measures have been outlined for immediate action by PA and UNCTAD. Two private sector-driven Palestinian Trade Points are thus envisaged, one in the West Bank and the other in Gaza Strip anchored with two trading institutions and a PA focal point for coordination. The close involvement of the private sector, possibly as active partners in the ownership and operation of the Trade Points, is an important element in their success. This would be followed by the development of related institutional and operational guidelines and a detailed training programme. The PA Ministry of Economy and Trade is currently seeking funding for this project, in consultation with the UNCTAD secretariat.

## (d) Strengthening capacities of the domestic insurance sector

27. At the urgent request of the PA, a mission was fielded to the Palestinian territory in 1996, to discuss with the relevant PA and private sector organizations concerned with the domestic insurance sector. As motor vehicles accounted for approximately 90 per cent of all written insurance business, the mission investigated a wide range of related technical, institutional, legal and operational issues. Accordingly, a set of legal, institutional, managerial and operational measures for follow-up by the PA and UNCTAD have been outlined. These included the activation of the Road Accident Victim's Compensation Fund, establishment of a control mechanism to ensure compliance as regards premiums and compensations, adherence to standard and periodicity of reporting by insurers, strict application of licensing requirements including tests of competence and training needs, consolidation of insurance laws and regulations, and developing the technical capabilities of officials involved in the formulation of insurance policy and determination of premiums and their allocation. Consultations are under way with the PA Controller of Insurance on the implementation of the measures outlined.

## 2. Institution building

## (a) Developing managerial and institutional capacities for operation of the Gaza Commercial Sea Port

28. Following the signing of the Israeli-Palestinian economic accords, in 1994, improvement of the infrastructure in general and of the transport system in particular was accorded priority in the rehabilitation and reconstruction programme of the PA. Based on a number of technical studies undertaken and as agreed in the accords, the PA began to plan for the development of a commercial seaport in the Gaza Strip. UNCTAD's assistance was solicited by the PA in the building-up of the institutional, technical, managerial and operational capacities as related to port and shipping activities within the PA as well as the establishment of Gaza Seaport Authority. A mission fielded by UNCTAD to the Palestinian territory in 1995 identified areas for technical assistance in two phases, i.e. (i) the development phase of the seaport, and (ii) the initiation phase to enable the seaport to become operational. This included development of organizational structures, of preparation of a comprehensive Maritime Code, including a Port Act; development of human resources through programme training (TRAINMAR), and, advice on technical matters, including international maritime and multimodal transport. The details of these issues provided elements for the preparation of a proposal for technical assistance, which remains under consultation with the PA.

## (b) Compilation of comprehensive and up-to-date statistical series on Palestinian international trade

29. With the establishment of the Palestinian Central Bureau of Statistics (PCBS), the PA provided the necessary institutional framework for the compilation and dissemination of statistics in vital economic and social sectors. The development of a system for international trade statistics

constituted one of the prime objectives. At the request of the PA, the secretariat launched a multidisciplinary mission to the West Bank and Gaza Strip in 1996 aimed at elaborating a framework for future technical assistance in the related areas of foreign trade statistics, customs administration, and trade policy. As for trade statistics, the mission focused attention on: (i) ascertaining the technical capabilities and work plan of the PCBS with regard to the compilation, processing, analysis, and dissemination of Palestinian foreign trade statistics; (ii) identifying the nature and extent of needs of the PCBS for technical assistance in the area of international trade statistics; and, (iii) developing relevant proposals for manpower training. Follow-up activities were accordingly designed to be carried out over three different phases (immediate, medium and long terms) for the development of a comprehensive and up-to-date statistical series on Palestinian external trade. Work under each phase is envisaged to be coordinated with the efforts of other organizations concerned, namely, the International Monetary Fund, United Nations Statistical Department, EUROSTAT, World Trade Organization and others. These and other points emerging from the mission have provided the elements for the formulation of a project proposal for technical assistance which has received the endorsement of the PCBS and is awaiting funding.

- (c) Strengthening technical and operational capacities in customs administration

30. Subsequent to the trade accords signed by the PA with Israel and other trading partners, customs administration was accorded priority within the Palestinian fiscal system. Both revenue and allocation considerations in the economy prompted the PA to solicit assistance from different sources, including UNCTAD, in designing and developing an appropriate and effective system of customs administration. UNCTAD's mission, fielded in 1996, was particularly focused on an investigation of: (i) the system and procedures currently adopted for the generation of customs and trade data; (ii) technical, financial and logistical requirements for introducing systems aimed at improving customs administration, collection of customs revenues and compilation of comprehensive trade data; and, (iii) other related aspects of customs administration, including the feasibility of computerization in customs administration and eventual installation of the Automated System for Customs Data (ASYCUDA). A range of measures were identified for follow-up by the PA and UNCTAD secretariat in two distinct areas: on the one hand, these include the (a) revision of the draft customs law, drafting of a customs tariff law, revision of the organization plan, formulating a training programme covering such areas as classification of goods, valuation, enforcement, physical examination and others as well as a well-defined recruitment policy, and procedures; and, (b) close examination of import/export procedures, including licensing and standardization of trade documents with the view to simplifying and streamlining the whole gamut of operations involved in export/import business. Accordingly, a project proposal for technical assistance in customs administration was prepared which has been further elaborated during a follow-up mission in 1997, leading to its endorsement by the PA Ministry of Finance and presentation for funding.

- (d) The emerging international trading system and its implications for the Palestinian economy (UNDP/UNCTAD workshops in the Palestinian territory)

31. As part of the effort to establish and develop technical and managerial capacities for the formulation and implementation of trade policies, the PA had focused attention on the post-Uruguay Round developments and their implications for the Palestinian economy. UNCTAD's assistance was solicited by the PA Ministry of Economy and Trade in organizing workshops on the subject in the Palestinian territory along the lines of the national workshops organized by UNCTAD in Arab countries. The multidisciplinary mission launched in 1996, which dealt with issues relating to trade policy, held consultations with the PA on the substantive orientation of such a workshop and the scope of its work programme. Seven experts from UNCTAD, WTO and ESCWA participated in two workshops which were held in early 1997, one in the West Bank and another in the Gaza Strip, with different orientations necessitated by the economic realities prevailing in each of the two regions. The workshops were addressed to the officials of the PA Ministries concerned, as well as the Palestinian trading community and academic and research institutions. The workshops were organized within the context of the UNDP/UNCTAD regional programme for the Arab States Economic Integration and Trade.

- (e) Guidelines for human resource development for trade - TRAINFORTRADE

32. As a direct follow-up to the UNCTAD/UNDP workshops held in the West Bank and Gaza Strip, the TRAINFORTRADE programme at UNCTAD was called upon to provide technical assistance in the priority area of human resource development for trade. The preliminary outline of a project proposed by the secretariat in this respect covers training needs analysis and assessment, advisory services on a human resource development strategy for trade, preparation of training materials, organizing TRAINFORTRADE workshops on a number of key topics, and, advisory services on strengthening local training capacities and enhancing regional training links. The PA Ministry of Economy and Trade is currently seeking funding for this project, in consultation with the UNCTAD secretariat.

- (f) Expansion of trade in goods and services between the Palestinian territory, Jordan, Egypt and other trading partners: an initiative for subregional cooperation

33. In a move to enable the PA to benefit from the regional programme of UNDP for the Arab States, and at the request of UNDP, UNCTAD presented a proposal to the UNDP meeting held in Geneva on 17-18 March 1997 to discuss with national focal points the RBAS/UNDP regional project RAB/96/001 - "Support to the Arab States and the Palestinian Authority in their Pursuit of Economic and Social Reform and Multilateral Economic Cooperation". The proposal, entitled "Expansion of trade in goods and services between the Palestinian territory, Jordan and Egypt and other partners: an initiative for subregional cooperation", was endorsed by the parties concerned. It is intended to build upon the achievements of the peace process since 1993 by consolidating and concretizing the accords reached among the three partners regarding trade procedures, involvement of private and public sectors,

promoting complementarities, and streamlining trade-related services and operations. In particular, a range of services and infrastructural facilities support at both national and subregional levels, need to be developed and supported with the view to expanding trade and promoting economic cooperation. The PA Ministry of Economy and Trade is currently seeking funding for this project, in consultation with the UNCTAD secretariat.

C. Recent analytical activities and future work programme of the secretariat on assistance to the Palestinian people

34. Parallel with operational activities, the secretariat has continued its analytical work on some important issues confronting the Palestinian economy. The aim has been two-pronged - to assist policy makers in the choice of policy measures required to deal with pressing issues and, to provide the necessary substantive basis for the orientation, development and implementation of the secretariat's operational activities. Four analytical studies undertaken during the 1996-1997 biennium comprise:

- "Prospects for sustained development of the Palestinian economy: strategies and policies for reconstruction and development" (UNCTAD/ECDC/SEU/12). Bearing in mind the emergence of the new environment, the study commences with an examination of the tasks of independent development, followed by an analysis of the macroeconomics of sustainable growth as well as issues related to structural transformation. The study concludes by drawing an agenda for action.
- "Private investment in the Palestinian territory: recent trends and immediate prospects (UNCTAD/ECDC/SEU/13). The study deals with: a review of major recent developments affecting private investment, including the regulatory framework, policy environment, trade and financial regimes and their recent performance; an examination of the main supportive capacities and services important for private investment; analysis of the scale, composition and impact of private investment in the economy; and, prospects and policy options relevant to the future direction and magnitude of private investment in the Palestinian territory.
- "Challenges and opportunities for Palestinian external trade" (forthcoming, 1997). This study begins by examining the role of the trade sector in the Palestinian economy and its potentials for the domestic, regional and global markets, followed by an analysis of the sector's performance since 1993, including identification of problem areas and needs covering a wide range of issues that call for domestic and international action, including policy measures and technical assistance.
- "The Palestinian economy in the context of regional economic cooperation" (forthcoming 1997). This study commences with an analysis of developments since 1993 and achievements of the peace process and their implications for closer economic cooperation with emphasis on reintegrating the Palestinian economy into the region. Following a brief examination of some conceptual aspects

of regional economic cooperation and integration, prospects for Palestinian economic cooperation with countries in the Arab hinterland are investigated within the context of Arab economic cooperation agreements. This is followed by an examination of prospects for economic cooperation between the Palestinian territory and Israel. The study also examines opportunities and challenges for the Palestinian economy in the emerging global setting, and concludes with a plan of action outlining strategies and policies for consideration by the PA in cooperation with its trading partners.

35. As for the substantive orientation and direction of UNCTAD's future assistance to the Palestinian people, the secretariat will be guided by the provisions of UNCTAD's subprogramme 9.1, as outlined in the United Nations Medium-Term Plan for the period 1998-2001. As such, it will "continue the work of UNCTAD, in accordance with its mandate, in assisting the Palestinian people to develop capacities for effective policy-making and management pertaining to international trade, investment and related services". <sup>17/</sup> Accordingly, while investigating and analysing main issues confronting the Palestinian economy, emphasis in the 1998-1999 Programme Budget has been largely focused on the rendering of technical assistance to the Palestinian people in priority areas within the framework of UNCTAD's Programme of Technical Cooperation Activities. Particular attention will be given to meeting the outstanding priority requests of the PA in areas outlined above. In meeting these demands and intensifying efforts in other priority areas, the secretariat seeks the active support of multilateral and bilateral sources of funding to mobilize the required extrabudgetary resources.

#### Notes

<sup>1/</sup> This mandate originates in Conference resolution 146 (VI), the Cartagena decision and General Assembly decision 47/445. In accordance with the relevant General Assembly resolutions, references in this report to the "occupied territory" or the "Palestinian territory" or "the territory" pertain to the occupied Palestinian territory (i.e., the Gaza Strip and the West Bank, including east Jerusalem).

<sup>2/</sup> These include the Declaration of Principles on Interim Self-Government Arrangements (of 13 September 1993), the Agreement on the Gaza Strip and the Jericho Area (of 4 May 1994) and the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip (of 28 September 1995), including the Protocol on Economic Relations annexed to the latter two accords.

<sup>3/</sup> See "Developments in the economy of the occupied Palestinian territory" (TD/B/42(1)/8) and "Private investment in the Palestinian territory: recent trends and immediate prospects" (UNCTAD/ECDC/SEU/13).

<sup>4/</sup> See statement by Mr. Yasser Arafat, Chairman of the Executive Committee of the PLO, President of the Palestinian National Authority to the meeting of the Consultative Group of Donors, November 1996 and Economist Intelligence Unit "The occupied territories", Country report, 4th Quarter

1996.

5/ The report by the Palestinian National Authority, Ministry of Economy and Trade regarding the UNCTAD/UNDP workshop on "The emerging international trading system and its implications for the Palestinian economy" (2-6 March 1997) states that "a differentiation should be made between the short-term conditions imposed by the Paris Protocol and the long-term need to formulate strategies and policies in the context of final status negotiations".

6/ This refers to Lists "A" and "B" of imports from Jordan, Egypt and other countries for which the Palestinian Authority can pursue an independent tariff regime from that agreed in the Protocol with Israel which stipulates that Israeli customs policy and tariffs apply to the bulk of Palestinian imports.

7/ Financial Times, 5 June 1997, quoting figures provided by the Palestinian Authority, Ministry of Planning and International Cooperation.

8/ Some estimates of economic performance for the period 1993-1996 draw on official Palestinian, Israeli and other primary sources using various methodologies. Such estimates, based on data provided by different PA sources, have been published or otherwise compiled since 1995 by four sources, namely: International Monetary Fund, World Bank, Office of the United Nations Special Coordinator in the Occupied Territories and United Nations Economic and Social Commission for West Asia. Recently, the Palestinian Central Bureau of Statistics (PCBS) published the first Palestinian national accounts series, for the year 1994, based on field surveys and in accordance with the standard System of National Accounts (SNA 1993), in National Accounts - 1994: preliminary estimates, (PCBS, Ramallah, 1997). PCBS data provide estimates for economic aggregates which diverge from other available estimates for the same year. While the latter estimates differ as to the levels, rates of change and inter relation between major economic aggregates, they provide generally higher, and structurally different, indicators than implied by the PCBS data. Projections for 1991-1996, prepared by the UNCTAD secretariat on the basis of historic trends and underlying structural features of the economy, provide another set of estimates. For 1994, these are close in absolute terms to, and share some features with, PCBS data. As such they are equally indicative as available estimates.

9/ Figures quoted in subsequent paragraphs refer to the Palestinian economy in the Gaza Strip and West Bank, excluding east Jerusalem, for which data is not available.

10/ PCBS, Labour Force Survey: Main Findings, Nos. 1-3 (PCBS, Ramallah, 1996).

11/ The lower figure is based on extrapolation of data published in "Evaluation of the losses of the Palestinian economy as a result of the closure, 2/25-4/4/1996", PCBS, Ramallah, 9/4/96 (in Arabic). Higher figures, of over \$1 billion, have been quoted by some Palestinian officials.

12/ UNESCO, "Economic and social conditions in the West Bank and Gaza Strip, Quarterly report, Winter-Spring 1997", Gaza, April 1997.

13/ Data for 1981 is from "Selected statistical series on the balance of payments, foreign trade, population, labour force and employment of the occupied Palestinian territory (West Bank and Gaza Strip), 1968-1987" (UNCTAD/DSD/SEU/1). Estimates in Table 1 for merchandise trade with Israel and estimates for 1992-1994 on trade with the rest of the world are calculated from Israel Central Bureau of Statistics, Israel's balance of payments, (Jerusalem, ICBS, January 1997) and Israel Statistical Abstract 1996 (Jerusalem, ICBS, 1997). Estimates for 1995-1996 on trade with the rest of the world are based on data provided by the PA Ministry of Economy and Trade as well as tables provided by Egypt Ministry of Foreign Affairs, Palestine Affairs Department (on trade with Egypt) and information provided by Jordan Ministry of Foreign Affairs, Palestinian Affairs Department, including a report prepared by Amman Chamber of Commerce, published in Al-Ouds, 27/11/96 (in Arabic) (on trade with Jordan, excluding transit trade).

14/ The recent policy debate on issues affecting Palestinian external trade has been addressed in recent UNCTAD studies (see Part II, Section C. below) and in a number of studies published by the Palestine Economic Policy Research Institute (MAS): The Palestinian-Israeli Trade Arrangements: searching for fair revenue sharing (MAS, Ramallah, 1995); Trade relations between Palestine and Israel: free trade area or customs union (MAS, Ramallah, 1996); and, Trade policy options for the West Bank and Gaza Strip, (MAS, Ramallah, 1997).

15/ For further information on the objectives, substantive scope, and specific priority areas and corresponding activities, reference may be made to "A programme of technical cooperation activities in support of Palestinian trade, finance, and related services" (UNCTAD/ECDC/SEU/11) 1995.

16/ Most recently in General Assembly resolution 51/150 of 13 December 1996.

17/ "Medium-term plan for the period 1998-2001 as revised by the General Assembly at its fifty-first session" (A/51/6/Rev.1, para. 9.13 (e)).

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