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UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

Developments in the economy of the occupied Palestinian territory

Report by the UNCTAD secretariat

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Notes

## PART I

### RECENT DEVELOPMENTS IN THE PALESTINIAN ECONOMY

1. In line with the provisions of Conference resolution 146 (VI) and the Cartagena and General Assembly decisions, this part of the report alludes to the findings emerging from monitoring and investigating policies and practices that have affected the economy of the occupied Palestinian territory, 1/ especially during the period June 1992-May 1993. Developments in the economy of the occupied Palestinian territory during the period under review featured a deterioration in the economic and social situation, similar to that which characterized developments in recent years. 2/ Today, as much as before, the survival of the Palestinian economy is at stake as efforts are intensified for its revival amidst a host of longstanding constraints coupled with new pressures. 3/ Despite marginal signs of improvement in 1992, the situation reflects primarily the cumulative impact of the policies and practices of Israeli military occupation. The Palestinian economy continues to be geared to the imperatives of Israeli interests, with an adverse effect upon its links with the Arab hinterland.

2. A general trend of economic decline and widespread disruption of daily life in the occupied territory has continued since the Palestinian uprising (intifada), accompanied by restrictive Israeli measures, many of which have adversely affected Palestinian economic activities. The impact of the 1990/1991 crisis in the Middle East also continues to be felt at various levels of social and economic sectors in the territory. As a result, the economy of the territory has become increasingly isolated, thus constraining the efforts of the Palestinian people to create an independent economy along with its requisite institutional framework. Since 1991, existing and/or new restrictive measures have accompanied moves by the Israeli authorities to ameliorate some aspects of the legal and policy framework, including Israeli settlements, affecting the economy of the territory.

3. Meanwhile, the international community has become increasingly conscious of the need for urgent intervention to aid ailing Palestinian economic and social sectors, while the Middle-East peace process, since 1991, has encouraged expectations of a solution that may, inter alia, pave the way for Palestinian socio-economic revival. However, these developments appear to have had only a marginal impact to date on the overall environment affecting the economy of the occupied territory. This cycle of unfulfilled hopes and promises of reform and aid, against the backdrop of a frustrating economic policy environment and harsh conditions since 1987, continues to be reflected in the performance of the Palestinian economy during the period under review. 4/

#### A. Policy environment influencing the Palestinian economy

##### 1. The impact of Israeli occupation policies and measures

4. The policies and measures prevailing under occupation have continued to constrain the effective mobilization and use of resources in the Palestinian economy well into 1993, notwithstanding the fact that the authorities recognize, for a variety of reasons, the need for preventing further

deterioration in socio-economic conditions in the territory. The measures taken to that effect since 1991 include changes in the income-tax system and steps towards improving the overall financial climate. This new-found readiness on the part of the Israeli authorities to take the first steps in a process of economic policy liberalization contrasts with the continued application of a range of restrictive policy measures. This dichotomy has become increasingly evident since 1991 as Israeli measures towards the Palestinian economy have alternated between initiatives to provide economic incentives on the one hand, and the application of security and related measures which have limited the scope of Palestinian productive and income generation activities on the other. On the whole, this ambivalent approach has sent mixed and unfavourable signals to Palestinian producers, exporters, investors and consumers, thus further dampening economic activity in the territory and reducing local and international business confidence.

5. The first steps in the relaxation of constraints on the Palestinian economy were noted 5/ in mid-1991 with the publication of an Israeli military order providing for a three-year exemption from income and property taxes for approved industrial investments (new factories or expansion of existing ones) in the West Bank and Gaza Strip; by early 1993, 28 such investments were approved. 6/ This was followed in 1991 and 1992 by the announcement of the following steps which effectively rescind some of the constraints imposed over the years on the Palestinian economy: 7/

- (a) Reform of some provisions of Israeli military orders pertaining to the income-tax system, aimed at simplifying calculations and reducing the overall tax burden through cancellation of the highest tax rate and reducing the number of tax brackets;
- (b) Offering extended residence permits to investors who invest a minimum of \$100,000: until early 1993, 46 projects were approved in accordance with these procedures;
- (c) Rescinding restrictions on the import of funds to the territory;
- (d) Approval of the re-opening of Arab and Palestinian bank branches in five cities and of the establishment of a new commercial bank and two insurance companies in the occupied territory;
- (e) Reduction of fees for trucks carrying Palestinian goods to Jordan;
- (f) Streamlining procedures for approval of licenses for new factories: in 1991-1992, 165 new establishments were licensed in the West Bank and 255 in the Gaza Strip - this relaxation of the conditions and procedures for business start-up has helped to promote Palestinian entrepreneurial activity;
- (g) Approval of the establishment of industrial parks in six localities of the territory;
- (h) Abolishing the automobile surtax, facilitating procedures for purchasing exit passes from the occupied territory and cancelling the requirement of obtaining tax, security and other clearances before being granted an exit pass, as well as reducing exit fees for travel abroad from \$125 to \$35 per person. 8/

6. The lifting of these restrictions was officially referred to as improving "the welfare and standard of living of the Palestinian population ... expanding employment opportunities and developing the local economy ...", 9/ as well as contributing to confidence-building gestures during the Middle-East peace process and countering the radicalization of impoverished Palestinians in the wake of the financial losses in the territory since the Middle-East crisis of 1990/1991. 10/ Also in mid-1992, the Israeli Government announced a freeze on the initiation of new private or public settlement construction in many areas of the occupied territory while new construction

was allowed to continue in east Jerusalem and an unspecified number of "security settlements" in the Jordan Valley and along the West Bank's border with Israel. 11/ However, continued settlement activity, though reduced in scale, renders it difficult for Palestinians living in the occupied territory to discern the concrete impact of the "freeze" to date. 12/

7. An examination of the amendments introduced to date into the tax system do not indicate that the changes would lead to the simplification of tax calculation and/or the reduction of the overall tax burden - both envisaged as the goal of the amendments. On the contrary, the initial low level of taxable income brings many small income earners into the tax bracket at rates virtually incomparable to those prevailing for similar income earners either in Israel or in Jordan. It is also worth noting that the potential impact of these liberalization measures has been undermined by their ad hoc nature and the interplay of other factors. 13/ The steps taken since 1991 fall short of a comprehensive policy reform affecting all economic and social sectors, including infrastructures, and natural and human resources development. 14/ Israeli business leaders themselves have recently called for greater efforts on the part of the authorities to bolster the peace process through additional steps, including building a working economic infrastructure that can create "an independent economy (in the territory) that can coexist with the Israeli economy". 15/ As such, while the measures announced so far constitute elements of such an effort, an overall approach is needed to address the wider problems of the economy and its most urgent needs.

8. On the other hand, the above measures have been announced and implemented on a piecemeal basis over a two-year period. This has diffused their impact and reduced their potential for stimulating the economy. Meanwhile, new problems and pressing needs have arisen under the influence of other long-standing constraints. Thus, while the steps taken so far are among the necessary conditions for liberating the economy from the constraints of occupation, by themselves and in an uncoordinated manner they cannot achieve such an end and/or promote the revival of the economy. More importantly, the application of new restrictive measures and widespread socio-economic hardships have neutralized the impact of the positive measures taken since 1991, casting doubt on the overall thrust and credibility of a positive change in Israeli policies in the territory, especially in the perception of the vast majority of Palestinians affected by these restrictive measures. A number of incidents have been cited in support of this view. For example, in mid-1992, Israel reaffirmed and reinforced its long-standing policy of forbidding Palestinian agricultural products to be marketed in Israel, except for limited quantities of some crops, such as Gaza Strip oranges. 16/ For most of December 1992, the Gaza Strip economy suffered when the authorities sealed off the area and placed it under curfew, paralysing local economic activity and the movement of Palestinian workers to Israel and of agricultural goods to the West Bank, Jordan and Europe at a critical point in the season. 17/

9. Similarly, despite measures aimed at reforming the tax system, Israeli efforts to collect increasing tax revenue from the Palestinian population have continued unabated, accompanied by Palestinian protests against what they consider as unfair and illegitimate taxation procedures and levies. 18/ This was exhibited in the conflict between Palestinian merchants and the Israeli Municipality of Jerusalem which erupted in mid-1992 over the issue of

municipal property (arnona) taxes levied on Palestinian business establishments in east Jerusalem. 19/ Another example of measures imposed without regard to their economic impact on the Palestinian population was noted in early 1993, when the authorities introduced new regulations which require the renewal of all Palestinian public-transport vehicles after 10 years of service, effectively excluding from the market vehicle-owners who cannot afford later models or exerting further pressure on the deteriorating balance-of-payments situation. 20/ Meanwhile, the largest Palestinian factory in the Gaza Strip, a soft-drink bottling plant, was raided by Israeli forces to enforce a court order for repayment of an outstanding debt without allowing the owners recourse to legal procedures. 21/ In the process, assembly-line machines, vehicles, raw materials, office equipment and company files were confiscated, described by some as "part of a marketing war in the occupied territory between Palestinian and Israeli products". 22/

10. In the wake of recurrent and rising unrest, the Israeli authorities sealed the occupied territory on 23 March 1993, considered by some as collective punishment. 23/ This step effectively halted the movement of Palestinian workers, exports and imports to/through Israel and between those parts of the occupied territory which are linked only through east Jerusalem. Eleven checkpoints have been established on the borders with Israel and east Jerusalem to enforce the closure, with permits of one to two months issued on exceptional bases only. No restrictions are placed on the movement of Israeli goods and citizens to and from the occupied territory. Though similar measures have been adopted on several prior occasions, the present closure of the occupied territory has lasted longer than any previous time, leading towards a fundamental restructuring of economic relations between Israel and the occupied territory without the latter having been prepared to sustain the shocks of such a measure and its consequences. Officially, it has been argued that "the less of them (Palestinians) that will work in Israel, the better" 24/ and that "now is the time to bring about substantial change through separation ... We must see to it that Palestinians do not swarm us ..." 25/ On the other hand, in realizing the gravity of the situation, others have stated that "... it is in the interests of Israel to see the quality of life and standard of living in the territories rise as quickly as possible, so instead of having a powder-keg next to us, we have an economic partner next to us". 26/ In calling for "free trade" between the Israeli and Palestinian economies, another view has been advanced that "severance of the economies means immediate poverty for them, deep poverty, no hope for development. We are their only hope. With a GNP of \$60 billion, we are an enormous market for them." 27/

11. While the Israeli economy has itself experienced some adjustment problems in sectors dependent on Palestinian labour, 28/ it is asserted that the territory has faced "economic asphyxiation". 29/ Tens of thousands of workers who previously worked in Israel are idle with few immediate alternative employment opportunities (section B.1). Agricultural exports from the Gaza Strip through Israel face delays and spoilage. Agricultural prices in the occupied territory have plummeted to under half of production prices in some cases, owing to the interruption of domestic and export marketing, causing losses to farmers and merchants with no compensatory arrangement to make up for them. For other commodities, prices have risen sharply as shortages are experienced. Industrial exports to and imports through Israel

have ground to a halt as permits to move raw materials and manufactured goods are almost impossible to obtain. The economic interdependence of east Jerusalem and the rest of the West Bank and Gaza Strip has been jeopardized, and Palestinian health and social services based in east Jerusalem are not readily available to other Palestinian communities.

12. In the absence of a well-conceived overall policy for the revival of the Palestinian economy and the legal and administrative infrastructures and financial means to increase and diversify production, re-orient external trade links and productively employ the growing labour force, the closure of the territory has severely hampered Palestinian economic performance. 30/ The economy lacks the ability to benefit from the various ad hoc measures enacted to revive it. The effect is not dissimilar to that experienced by the Palestinian economy after the Middle-East crisis of 1990/91 when the sudden halt in remittances, trade and aid flows to the occupied territory had a crippling effect on its fragile economy, from which it has not yet recovered. In view of the magnitude of hardship endured by the Palestinian people as a result of the recent closure, the Israeli authorities approved, in May 1993, a total allocation of approximately \$125 million to the 1993 Civil Administration (CIVAD) development budget for job-creation schemes in the Gaza Strip (public works and infrastructure). 31/ This allocation is to be financed from indirect tax revenue collected from the occupied territory and from unused portions of the 1992 Civil Administration budget. 32/ While this will contribute towards meeting part of the immediate financial needs of the Gaza Strip, parallel efforts are needed to relax legal and administrative constraints imposed on the daily life of the individual and the smooth functioning of the economy throughout the occupied territory.

2. Palestinian development initiatives: the emerging institutional framework

13. Amidst increasing pressures exerted by external factors and turbulence in the local economy, Palestinian initiatives have continued to leave their mark on developments during the period. These have proceeded with varying degree of success in a number of directions. 33/ One initial package of interrelated measures aimed at employing an increasing number of Palestinian workers in domestic sectors, and simultaneously reorienting consumption patterns away from imports in favour of domestic products from diversified agricultural and industrial bases. Accordingly, local production has increased its share of the domestic market. 34/ A number of Palestinian manufactures (sports shoes, some textiles, furniture and food products) have made inroads into Israeli markets. Until 1992, domestic employment had risen, in connection with the utilization of some idle capacity.

14. However, the most recent Israeli closure of the occupied territory has served to highlight the tentative nature of these developments. The productive potential of Palestinian industry and agriculture remain largely unexplored, new businesses and factories are mostly small-scale employers, while tens of thousands of Palestinian households still depend on jobs in Israel for their livelihood. A variety of factors have acted to blunt the impact of the policy of "self-reliance": the inability of the domestic economy to direct adequate resources towards new productive investment; inadequate infrastructures to permit full utilization of idle manufacturing

capacities; the absence of comprehensive and integrated employment-generation programmes; higher wages from work in Israel; and increasing pressure on the domestic labour market from the addition of Palestinian returnees following the 1990/91 Middle-East crisis.

15. These broad areas of concern have prompted new efforts to strengthen and expand institutional infrastructures aimed at assuming greater responsibilities in economic management. Still, a combination of factors has equally diminished the impact of these initiatives, such as: the absence of a Palestinian authority in the territory capable of establishing priorities and guiding development decisions; inadequate and inappropriate local expertise in the area of institution-building; an unwarranted degree of politicization of otherwise professional institutional or business initiatives; failure to embark upon initiative in a coordinated and/or comprehensive manner; and selective intervention by Israeli authorities. <sup>35/</sup> The establishment of institutions involved in development activities in the occupied territory is not a new phenomenon. While the pace of institution-building has accelerated and its scope widened since 1987, the process of responding to development needs in an institutionalized manner is rooted in pre-1948 Palestinian social and economic structures. However, the successive economic, legal and political regimes which prevailed in the territory have favoured the emergence of a complex network of multi-functional, but disjointed, development institutions in the territory. Three major categories of institutions active in development affairs in the occupied territory may be discerned: the private-enterprise sector, the private voluntary organizations (PVOs, also often referred to as non-governmental organizations - NGOs) and the government, or public-administration sector. The latter, now mainly linked to the Israeli CIVAD in the territory, is concerned with the day-to-day administration of social services and some physical infrastructures with a negligible role in development activities as such. A brief examination of the other two elements of this network reveals strengths as well as weaknesses in their fabric.

16. The private-enterprise sector constitutes a crucial institutional element of much developmental activity in the occupied territory. Private-enterprise institutions (from small-scale family businesses to larger industrial or service establishments) are found in most areas of the economy and in a variety of social-service spheres. The experience of this sector has been mixed, as the overall politico-economic climate has discouraged substantial investment and significant risk-taking. The prevailing regulatory framework and isolation from international franchise and management and market trends have limited the emergence of modern corporate practices and arrangements (e.g. public shareholding companies, joint ventures, subsidiaries of transnationals and others). Thus, the development of this sector has been stunted and there have been only few serious efforts at establishing new institutions, mostly in the past two or three years.

17. The proliferation of Palestinian PVOs reflects primarily a response to the inadequacy of a range of vital services, especially for disadvantaged population groups, which are usually provided by the public sector (e.g. social and community services) and/or the private sector (e.g. agricultural credit, investment appraisal and programming, trade promotion, etc.). Among the most stable, broadly-based and effective

institutions active in the territory are those the establishment of which pre-date Israeli occupation, with experience that has helped them mature into viable and influential institutions. 36/ Since 1987, urgent needs at many levels have encouraged new participatory development efforts, spawning many organizations covering the spectrum of social and economic concerns. 37/

18. The emergence and operation of this multitude of institutions have become problematic, as specialization and professionalism have often fallen victim to factional rivalry, a reluctance to coordinate and unify efforts and a local perception that such institutional forms are appropriate for all areas of social and economic endeavour. 38/ This issue has recently become the subject of a heated debate in the occupied territory: it has been observed that "during the past 10 years, institution-building has taken a wrong turn, with institutions being formed at a delirious rate without any real justification for their existence ..." 39/ Most international donors work through this PVO network as the best available channel for direct assistance to the widest possible sectors. In the process, donors and recipients alike have become aware of the shortcomings of these PVOs: "Often their structures are weak, many times they are insufficient to cover whole fields of intervention. They are uncoordinated, understaffed and have little resources". 40/

19. Examples of recent Palestinian initiatives to develop the PVO institutional infrastructures may be noted. At the end of 1992, three Palestinian credit unions active in the territory since 1987 agreed to coordinate their work, leading to sectoral specialization, unified loan terms, elaboration of a national credit policy and joint distribution of recent grants from the European Community. 41/ Another initiative, the impact of which remains to be seen, was the establishment of a "Higher Council for the Arab Tourist Industry" which aims at improving the Palestinian tourism infrastructure, including coordination of international aid to help Palestinian tourism operators to upgrade services and facilities. 42/ In 1992 and 1993, the establishment of "Higher Councils" was announced for Housing, Industry and Health, though none had commenced operations by mid-1993; however, the expectation of disbursement of international aid has helped to accelerate action in some areas. Palestinian chambers of commerce were actively engaged along with private producers and exporters in another recent initiative. Early in 1993, a Palestinian trade fair was organized jointly in London by the Arab-British Chamber of Commerce and the European-Palestinian Chamber of Commerce of Jerusalem. 43/ Some 25 Palestinian companies exhibited a wide range of goods and met with potential United Kingdom importers at the fair, as a result of which it is hoped that up to \$15 million worth of Palestinian goods will be exported directly to the United Kingdom over the coming three years.

20. The recent period also witnessed the establishment of a Palestinian trade centre in the Netherlands, intended to facilitate the export of Palestinian citrus fruits, vegetables, textiles and leather products through Rotterdam to Dutch and European markets. 44/ Prior to approving a six-year financing programme for this centre, the Netherlands donor insisted that a local counterpart/umbrella institution be established in the territory. While support for this vital area of Palestinian external trade is most important, it is not evident that institution-building according to such criteria is an

optimal approach in light of concerns about duplication, lack of coordination and insufficient institutional skills. 45/ The findings of a comprehensive and integrated feasibility study for technical assistance and a well-designed project proposal for the establishment in the territory of an export marketing centre for Palestinian goods, both prepared in 1990 by the UNCTAD/GATT International Trade Centre, 46/ could be useful in this regard.

3. Regional and international developments affecting the Palestinian economy

(a) Regional relations

21. The three vital axes along which Palestinian-Arab economic relations have grown for years, namely the flows of trade, labour and finance, have yet to show signs of recovery from the low point reached during the 1990/1991 Middle-East crisis. Instances of positive developments in the regional-policy environment affecting the Palestinian economy have been ad hoc and inadequate to redress the imbalances that have prevailed since 1990. Palestinian exports have yet to regain a share in traditional markets, job opportunities for Palestinians in a number of Arab oil-producing States (and hence remittances to the occupied territory) remain drastically reduced and flows of official and non-governmental aid from the region to the territory continue to be negligible.

22. One contrasting development was the decision announced in late 1992 by Jordanian authorities to further facilitate the movement of Palestinian agricultural goods to/through Jordan. Since 1988, the entry of such goods into Jordan reflected mainly local market conditions and seasonal requirements, especially for crops produced both in Jordan and the occupied territory. More flexible arrangements had been instituted in late 1991 regarding the transit of Palestinian manufactured goods through Jordanian free-zones, but their re-export to other Arab markets has not met with success, even on the basis of Jordanian certificates of origin. 47/

23. The situation has been further improved with the issuing, on 22 November 1992, of directives for the entry of fresh fruits and vegetables from the West Bank and Gaza Strip into Jordanian markets and beyond. 48/ As in the past, local marketing and cooperative organizations in the West Bank and Gaza Strip will continue to issue certificates of origin on the basis of broad pre-seasonal production plans for all regions of the territory. In cooperation with Palestinian exporters, Jordanian authorities will establish entry quotas and periods for different crops, and then issue permits for the entry of goods into Jordanian markets (in the light of local production conditions) or for their transit through Jordan to other markets (e.g. Gaza-Strip citrus exports to Arab countries). The new arrangements have the potential to further simplify, regularize and facilitate the flow of goods into Jordan, while encouraging the export of new varieties within clear guidelines. As such, they constitute an example of effective ways to reorient Palestinian trade with traditional regional markets and to establish new markets, along the lines of relevant resolutions by the United Nations and League of Arab States regarding the granting of preferential treatment, including transit arrangements, to Palestinian exports. 49/

## (b) International support

24. As for multilateral development aid to the occupied territory, the contribution of the Islamic Development Bank (IDB) is noteworthy. Prior to 1990, the IDB allocated over \$41 million to a range of social-service and infrastructural projects in the occupied territory, mainly towards the purchase of equipment and construction of premises and other fixed assets. 50/ Since 1991, some \$50 million worth of new project proposals have been submitted, covering a wider socio-economic spectrum. Of these, some \$8 million worth are now under implementation, with the others at various stages of consideration. The continued activity of the IDB reflects the close cooperation between project initiators in the occupied territory, the Governor of Palestine at the IDB and the technical staff and Board of Governors of the Bank in ensuring that this channel of aid to the Palestinian people not be interrupted.

25. Meanwhile, assistance to the Palestinian people from other international bilateral and multilateral sources has been sustained during 1992-1993, with increasing mobilization of resources channelled to ailing Palestinian economic and social-service sectors. The initiative announced in 1991 and launched in 1992 by the European Community (EC) to direct emergency assistance through Palestinian industrial, agricultural, tourism, housing and health-care institutions has helped to set the tone for efforts by others. 51/ The EC has pursued "an overall strategy which aims at avoiding a potential pitfall of any development aid: the creation of dependence. In the case of the Palestinians, this has become mandatory in the light of a future self-government". 52/ Between 1991 and 1993, in addition to contributions to UNRWA, the EC has accorded a total of ECU 105 million in direct development aid to the territory. 53/ European NGOs also have maintained their active involvement in Palestinian development efforts, with a total of \$30 million of aid in 1991-1992 from 31 NGOs in 12 European countries directed to projects in most areas of social and economic development. 54/

26. A more diversified and increasingly active response to Palestinian development needs is also noted in the activities of other international multilateral and bilateral sources, including the United Nations and its specialized agencies. The United Nations Development Programme (UNDP) has estimated that a total of some \$166 million was disbursed in 1992 in the occupied territory by bilateral and multilateral sources (including UNRWA's operating budget and project funding of some \$104 million). 55/ Of the total, at least 68 per cent was directed to health and education, 12 per cent to humanitarian assistance, and the balance distributed between a variety of sectoral and multisectoral issues. Of the \$41 million disbursed directly in 1992 by 19 bilateral sources (i.e. excluding contributions to UNRWA), 96 per cent came from nine donors whose contributions ranged from \$1 million to \$19 million. 56/ The geographic spread of disbursed aid reflects attention directed to the larger number of refugees in the Gaza Strip as compared to the West Bank, as well as the Gaza Strip's especially urgent needs, notwithstanding its smaller population and area.

27. On a related level, the United Nations system has exerted greater efforts to improve the level and delivery of assistance to the Palestinian people. For example, at a recent United Nations Seminar on Assistance to the

Palestinian People, representatives of governments and international organizations examined a wide range of issues related to Palestinian socio-economic developments. 57/ Meanwhile, UNDP has completed an in-depth review of its Programme of Assistance to the Palestinian People which, inter alia, found that the UNDP is "changing its approach to its assistance programmes in the occupied territories, using opportunities arising from the changing conditions". 58/ A significant finding of the review was that "the Palestinian economy should, on the path towards greater self-reliance, become more competitive, expand and diversify exports and become less dependent on trade with Israel". 59/

(c) Middle-East peace process

28. As part of the Middle-East peace process, issues of immediate and longer-term relevance to the economy of the occupied Palestinian territory have been the subject of negotiations at two levels: bilateral (Israeli-Palestinian) and multilateral (working groups on water, environment and economic development and regional cooperation). 60/ Discussions by the multilateral working group on economic development and regional cooperation have led, inter alia, to an expanded contribution by the World Bank to "include an in-depth analysis of the development needs of selected economies in the region, including the West Bank and Gaza Strip", as well as "estimates of future financial needs to accelerate economic development ...". 61/ This is intended to provide an assessment of development prospects for the territory, and "outline the priority agenda for the coming few years for realizing its future potential", including identification of programmes for the interim period of self-governing arrangements and of technical assistance to initiate institutional development as well as recommendations for policy and regulatory reforms to promote development. 62/

29. During the most recent meeting of this working group, Palestine identified urgent needs of some \$200 million to meet the 1993 operating costs (over and above the accumulated deficit) of a network of social-service institutions in the territory whose existence was imperilled by prevailing economic conditions and the shortfall of external assistance. 63/ As an immediate measure announced during the meeting, some \$20 million of aid to the territory were pledged by several countries, including \$14 million by the United States of America "to begin to alleviate current economic problems and to create infrastructure on which the long-term economic future of the territories can be built". 64/

**B. Main developments and trends in the Palestinian economy**

1. Natural and human resources

30. Issues related to Palestinian natural resources, in particular land and water, continue to feature prominently in developments in the occupied territory, within the Middle East peace process and at other levels. 65/ The conditions affecting access to and control over both of these elements of the physical environment in the occupied territory are of special importance to prospects for Palestinian economic revival and development. The issues of control over land and natural resources, "water rights" and immediate water

needs in the occupied territory are at the centre of related discussions. Their disposition acquires even greater significance in the context of Palestinian demographic and labour-force trends.

31. While reduced in scale from previous years, expropriation of Palestinian land has continued. In 1992 as a whole, up to 53,000 dunums of Palestinian land were confiscated, including some 5,000 dunums in the third quarter of the year. 66/ In 1992, some 19,000 dunums of this total were devoted to the expansion of existing Israeli settlements and the establishment of five new settlements. 67/ It is estimated that by the end of 1992 Israel had confiscated 68 per cent of the land of the West Bank and 40 per cent of the Gaza Strip. 68/ As noted above, since the mid-1992 freeze on new settlement construction in many parts of the occupied territory and the reduction in government incentives to Israeli settlers there, the authorities have permitted the completion of some 11,000-13,000 homes as well as infrastructures, the construction of which had been initiated at the time of the freeze. 69/ New settlement construction encircling east Jerusalem has continued. 70/ Settlement activities elsewhere in the territory also have continued since mid-1992: 71/ at least one new settlement outpost has been initiated (an offshoot of Maale Adumim) and new construction was commenced in some others; large-scale roadworks have been completed and others initiated (bypasses, bridges, tunnels and highways such as Regional Roads Nos. 6 and 9) to serve Israeli settlements and link them to Israel; finally, some official incentives designed to attract Israeli settlers to the territory remain in place, including grants and low-interest loans for home buyers and for "young settlements" in the territory.

32. The trend of Palestinian population growth in the occupied territory has shifted upwards since 1990, with the return to the territory (in 1991) of many Palestinians who worked in the Arab oil-producing countries and maintained their residency permits in the West Bank and Gaza Strip. Only one census (in 1967) has been conducted in the territory since Israeli occupation and it forms the basis for Israeli (and most other) estimates. Whereas data from the Israel Central Bureau of Statistics (CBS) spans the period since 1967 and covers a range of demographic indicators, they are considered by Palestinian and other sources to underestimate the actual population. Alternative Palestinian data sources, while well-informed owing to proximity to developments on the ground, do not have as comprehensive coverage and generally suffer from constraints on field surveying and enumeration methods.

33. According to CBS, at the end of 1991 the Palestinian population in the territory numbered 1,831,000: 676,000 in the Gaza Strip and 1,155,000 in the West Bank (including 150,000 in east Jerusalem). 72/ In 1990 and 1991, the population grew by higher rates than in recent years, at an annual average of 4.7 per cent and 5.3 per cent in the West Bank and Gaza Strip, respectively. This reflects mainly a positive "migration balance" of some 10,000 persons returning annually to the territory. These figures contrast sharply with two recent Palestinian population estimates. One survey estimated Palestinian population in the territory at 2,255,000; 73/ another estimate at the end of 1992 put the total population at some 2,596,000, with 789,000 in the Gaza Strip and 1,807,000 in the West Bank (including 165,000 in east Jerusalem). 74/ Differences in magnitude of this order 75/ are

difficult to reconcile and pose serious problems both in analysing trends and in programming activities affecting Palestinian human resources.

34. Labour-force and employment trends are equally difficult to pinpoint in the light of the inconsistencies in demographic and other data. Three interrelated issues, however, predominate: domestic employment generation capacity, work opportunities outside the domestic economy, namely in Israel and abroad, and unemployment. At the root of employment predicament in the occupied territory is the deterioration in the capacity of the domestic productive base and in domestic service sectors to generate adequate employment opportunities to cater to a relatively high rate of labour-force growth. This reflects not so much structural transformation within the Palestinian economy as much as a change in the relations between the Palestinian economy and neighbouring economies, particularly that of Israel. Alongside modernizing, productivity-enhancing and labour-releasing changes in some sectors, growth in other domestic sectors has been subject to shocks and erosive economic forces. Unemployment and underemployment have emerged as part of the general trend in much of the Palestinian economy to operate below full productive capacity, owing to marketing constraints and other bottlenecks. Divergent trends in skill development and the nature of domestic demand for labour have further complicated matters.

35. The opportunity for employment in Israel, especially in construction and agriculture, had helped in the past to absorb much of the labour force rendered underemployed or redundant. 76/ Prior to 1988, employment in Israel had come to represent something akin to a separate sector of the Palestinian economy, in the sense that it accounted for 38 per cent of the total employed labour force and contributed almost 30 per cent of Palestinian gross national product (GNP). Consequently, the fall in Palestinian labour input to the Israeli economy initially permitted re-absorption of some workers in those domestic branches whose performance had been spurred by Palestinian initiatives aimed at "self-reliance" and import substitution.

36. After the two-month ban on entry of Palestinians to Israel in 1991, a labour permit/pass system for Palestinians working in Israel, already instituted in the Gaza Strip, was generally applied, with at least 80,000 permits valid by early 1993 (approximately 45,000 in the West Bank and 35,000 in the Gaza Strip). An additional unspecified number of Palestinians were able to obtain jobs in Israel on a seasonal or irregular basis, without passes. Israel CBS data indicate that as many as 98,000 Palestinians were classified as working (i.e. including those working part-time or "temporarily absent from work") in Israel in 1991: some 56,000 from the West Bank and 42,000 from the Gaza Strip. 77/ But average weekly work hours per employee in 1991 remained some 18 per cent below the pre-1987 highs. 78/ Taking CBS data on labour input into account, this translates into the full-time equivalent of approximately 46,000 workers in Israel from the West Bank and 34,000 from the Gaza Strip. Since 1991, the impact of further reductions in job opportunities in Israel has been unemployment on a scale never experienced in the occupied territory, with a sharp reduction in national income.

37. No comprehensive official figures have been published for 1992 and 1993; preliminary data for 1992 indicate a return to pre-1988 levels of employment in Israel, especially from the West Bank (up to 70,000). 79/ However, by

early 1993 relatively high unemployment in Israel and related Israeli government policies had gradually reduced reliance on Palestinian workers except for construction and some agricultural branches. 80/ With the total closure of the occupied territory as of April 1993, no Palestinian workers entered Israel for several weeks and some Israeli employers adjusted to the most recent cut-back. 81/ However, two months after the closure, tens of thousands of jobs previously performed by Palestinians in Israeli construction and agriculture had yet to be filled by Israelis; 40,000 work permits for Palestinians had been issued, with an officially proposed ceiling of 70,000; 82/ and, "import" of labour from elsewhere was being considered. 83/

38. The major consequence of these developments for the Palestinian economy has been the "runaway" unemployment (especially in the impoverished Gaza Strip), which had reached levels of some 40 and 25 per cent in the Gaza Strip and the West Bank, respectively, prior to the sealing off of the territory. 84/ Estimates are that by mid-1993, unemployment 85/ in the Gaza Strip had reached over 55 per cent (67,000 persons) and in the West Bank 35 per cent (71,000 persons). 86/ While such levels may be considered to reflect transitory (or cyclical) as opposed to structural levels of unemployment, in some areas (rural communities and refugee camps), unemployment topped 70 per cent in April 1993. 87/ Whatever the exact rates, unemployment and the need for job-creation have become perhaps the most overriding challenges now facing the Palestinian economy.

## 2. Aggregate economic indicators and main sectoral developments

39. The only consistent and credible source for data on aggregate economic performance in the occupied territory since 1967 has been the series published by the Israel CBS. National accounts and other aggregate indicators for the period 1988-1990, and preliminary data for 1991 have been published and most recently revised by CBS, though certain gaps and shortcomings remain, especially for West Bank estimates. 88/ Since 1988, regular monitoring and field reports on sectoral and aggregate indicators by sources in the occupied Palestinian territory (OPT) permit the generation of alternative estimates, which also appear credible in the light of actual developments as monitored and reported, 89/ and which have been corroborated since 1991 by international sources. 90/ On the basis of CBS data on pre-1987 economic trends and the OPT estimates of trends during 1988-1991, projected estimates (in constant 1990 prices) for the period 1992-1993 have been generated by the secretariat 91/ (table 1). All estimates should be regarded as broadly indicative of overall trends, thus helping to establish an order of magnitude of developments over several years. As such, they should not be considered as definitive data on developments since 1988.

40. Without analysing here the various divergences between the two sets of CBS and OPT data, generally where CBS data indicate growth, OPT data point to stagnation or decline; where CBS data affirm a decline in performance, OPT data imply a sharper deterioration. Whereas CBS data generally register the beginning of a recovery in 1990, for OPT data 1991 represents the low point in Palestinian economic performance. The projected growth depicted in secretariat estimates for 1992-1993 confirms the potential for recovery.

41. Israel CBS data for 1988-1991 for the occupied territory depict a gradual but steady improvement in GDP at an average of 2.7 per cent annually, mainly owing to agricultural growth of some 6 per cent annually which, together with growth in services, <sup>92/</sup> offset declines in industry and construction of around 2 per cent per annum. The CBS data indicate a fall in net factor payments, which were gradually recouped as of 1989 (in the West Bank) - this allows an overall average growth in GNP of some 2 per cent per annum during the period, mostly fuelled by growth in West Bank GNP, as opposed to GNP in the Gaza Strip which grew hardly at all. Meanwhile, the rising trend in net current transfers to the Gaza Strip was strong enough to offset a fall in transfers to the West Bank; accordingly, GNDI tracked GNP growth. CBS data depict a steady decline in the Palestinian external trade sector, in terms of both import and export performance. Despite a sharp fall in exports (at almost 10 per cent per annum), the decline in imports helped to narrow the Palestinian trade deficit from over \$1 billion in 1987 to around \$740 million in 1991 (in constant 1990 dollars). This implies a substantial fall in the trade gap (the ratio of the trade balance to GNP) from 39 per cent to 26 per cent, concomitant with reduced rates and levels of aggregate demand and economic growth.

42. While OPT data indicate even better agricultural performance than do CBS data, steep declines of over 10 per cent per annum in other sectors result in an overall fall in GDP by an average of about 10 per cent annually. A sharp fall in net factor payments corresponds to the actual number of full-time workers receiving such income mainly from work in Israel and elsewhere. Accordingly, GNP is reported by Palestinian sources to have declined by around 10 per cent on an annual average until 1991. Compared to CBS estimates, net current transfers appear more significant, and their growth more rapid, until 1990. The declining trend noted by CBS in most components of aggregate demand are mirrored in OPT data, though at much stronger rates of decline, especially as regards export performance. Similarly, where CBS data indicate positive or stagnant trends in government and private consumption expenditure, OPT data point to annual falls of over 10 per cent in private consumption, consistent with similar decreases in income.

43. Given the relatively high population growth rates in the occupied territory, per capita income indicators reveal a clear deterioration in living conditions in the occupied territory, at least until 1992. Both CBS and OPT data series confirm this trend, albeit at sharper rates of decline according to Palestinian sources. For the sake of brevity, the CBS data are highlighted, as indicative of the minimum estimates of the deterioration experienced in overall economic and living conditions in the occupied territory in recent years. According to CBS, per capita GDP fell at an annual average rate of about 1 per cent between 1987 and 1991. Per capita levels of GNP and GNDI fell by even more in the occupied territory until 1991: at annual average rates of 1.8 per cent and 1.7 per cent, respectively, with the strongest decline in the Gaza Strip, amounting to 4 and 3 per cent, respectively. While the per capita GDP indicator is often used for international comparisons of economic conditions/status, in the case of the occupied territory where external resources (factor income, remittances and aid) constitute a central component of income, the GNP or GNDI per capita indicators can provide a more relevant yardstick for purposes of comparison.

44. Another measure of development in the occupied territory, recently introduced by UNDP to measure human development around the world, is the human development index (HDI), which merges income indicators with life expectancy and literacy to give an overall figure and ranking. <sup>93/</sup> Using CBS data for 1988-1991 for the occupied Palestinian territory, <sup>94/</sup> one obtains an HDI of between 0.534 and 0.568, depending on which set of income data are used (per capita GDP or GNP). Using OPT income estimates produces an HDI of between 0.506 and 0.532. These estimates of the HDI for the territory reflect a relatively strong indicator for Palestinian educational achievement. Nevertheless, the estimates put the territory at the low end of UNDP's range of "medium human development" (HDI over 0.500), underlining the challenges that face the Palestinian people in economic and social development.

45. As for 1992-1993, no empirical data estimates for aggregate Palestinian economic performance have been published. However, on the basis of CBS data establishing trends for different aggregates over the period 1967-1987, and of the OPT data for 1988-1990, it was possible to generate projected estimates of economic performance for 1992-1993. These estimates essentially assume a continuation in 1992-1993 of the status quo in the occupied territory, and of established demographic, labour force and economic trends, with conditions permitting recovery in the economy as of 1992. Indeed, the high positive per annum growth rates exhibited by all estimated variables in 1992 and 1993 indicate the potential for the Palestinian economy to adapt to the changed circumstances of reduced external income opportunities in 1992 and 1993. Continued agricultural growth and a relatively rapid recovery in Palestinian industry and services allow GDP to lead economic growth, while exports expand, though not as much as imports, leaving the trade deficit above \$700 million. By 1993, the trade gap is estimated at about 34 per cent of GNP, still below the pre-1988 highs of almost 40 per cent. Investment rises back up to traditional levels of 31 per cent and 26 per cent of GDP and GNP, respectively, from a low of 23 per cent and 16 per cent of GDP and GNP (according to 1991 CBS data). Finally, the projected estimates for 1992-1993 indicate a steady improvement in per capita income indicators, bringing them to more credible levels than the all-time lows achieved between 1989-1991.

46. Notwithstanding the potential amelioration of aggregate economic performance indicated by the above 1992-1993 projected estimates, these should be seen in conjunction with the harsh conditions and deterioration of the preceding years, the impact of which cannot be alleviated overnight. Thus, after initial signs of improvement in economic performance in 1992, the closure of the occupied territory since the end of March 1993 has placed yet another obstacle to the revival of the economy. On the one hand, the loss of factor income from work in Israel has been calculated at anywhere between \$1.5-3 million daily during April (depending on which figure is adopted for full-time Palestinian workers in Israel and their average daily wages) and slightly less afterwards, as a number of work-permit holders were allowed to resume work in Israel. <sup>95/</sup> This amounts to around \$33-65 million in losses in GNP per month since April 1993. At the same time, most sectors, especially agriculture, industry, trade, transport and tourism, also have been adversely affected, with losses amounting to as much or more than the foregone income from work in Israel. <sup>96/</sup> Salient developments in key sectors are briefly highlighted below, with a focus on the private-enterprise sector until 1993.

47. Prior to the most recent closure of the occupied territory, some promising signs of sectoral recovery were noted. In one of the key industrial branches in the occupied territory, the pharmaceutical industry, two of the largest companies announced a merger forming a new enterprise with capital of \$1.6 million and a workforce of 180. 97/ The merger was intended to improve export opportunities and competitiveness, both in regional markets and in Israel, which to date has been off-limits to such Palestinian exports. Early 1993 also witnessed the establishment of two Palestinian insurance companies in the West Bank, a field which has been dominated since 1967 by Israeli companies and their agents in the territory. 98/ One of the new insurance companies was initiated by a group of Palestinian businessmen and insurance experts who recently had returned to the occupied territory from the Arab oil-producing countries. The company is intended to "play an important role in the rebuilding of the economic infrastructure in Palestine" through local reinvestment of resources. 99/ Demand in the local insurance market is estimated at some \$60 million annually and the company will have a capital of \$5 million, distributed in 4,000 shares. Direct reinsurance arrangements have been negotiated with international firms. This venture combines entrepreneurial initiative, private capital, expertise, market incentives and broad developmental goals in one institution.

48. The licensing in 1992 and 1993 of new factories in the occupied territory, and the recent initiation of public works and infrastructural projects in the territory following it being closed off from Israel, bode well for the construction industries (and workforce) in the occupied territory. Local market reorientation will be especially necessary (though difficult) for those Palestinian construction firms for which contracts in Israel and its settlements in the territory were a major source of revenue. The establishment of a cement company was recently announced in the West Bank, with 20 shareholders and a capital set at some \$30 million. 100/ While a similar project has not been approved in the past by the authorities, 101/ it has been reported that this enterprise will not initially produce cement but will instead repackage and distribute cement produced in Israel. Israeli steel producers reported increasing demand by Palestinians in the territory for use in new construction there in 1992; 102/ and, since April 1993, some Gaza Strip construction workers barred from jobs in Israel have been reported to be using the opportunity to repair, improve and rebuild dilapidated dwellings. 103/ However, Palestinian contractors face serious problems in obtaining imported raw materials and equipment from/through Israel owing to the difficulties in transport from Israel and in contacting their suppliers. 104/

49. If real possibilities for economic recovery in the West Bank and Gaza Strip emerge in the near future the need for expansion and reform of the financial intermediation system will correspondingly grow. This will call for, inter alia, the expansion of commercial banking services to focus on mobilization of private and household savings, the establishment of a Palestinian financial market to further strengthen and expand the capital base of the private enterprise sector, and concentration on strengthening development finance capacities to respond to the myriad socio-economic needs that are emerging. Indeed, this latter institutional requirement is considered a top financial priority by the Palestinian people, notwithstanding the importance of other elements of financial reform in

the territory. 105/ Though two West Bank branches of the Cairo-Amman Bank were reopened in 1993, the establishment of the first Palestinian bank in the territory since 1967 (approved in principle by the authorities) continues to be delayed by a variety of legal and procedural constraints. The Bank of Jordan (a commercial bank which has been closed in the territory since 1967) announced its intention to reopen three branches and establish four new ones. 106/ While the approval by the authorities of this latter step was a welcome sign, it was limited to branches outside east Jerusalem. Furthermore, the conditions placed on the operation and supervision of the Bank of Jordan apparently provided for even closer Israeli involvement than did the strict conditions of the agreement which, in 1986, permitted the reopening of the Cairo-Amman Bank. It was reported that Jordan "has no objection to the reopening of Jordanian banks on the West Bank, as long as they operate within the rules set forth by the Jordanian committee on economic security, which mandate that they remain under the supervision of the Jordanian Central Bank". 107/

50. Even before the recent closure of the occupied territory, the once-growing transport branch, which largely depended on foreign trade and commuting of workers to Israel as its mainstay, had begun to face serious pressures. One of the oldest Palestinian bus companies was reported close to bankruptcy in mid-1992, owing to a variety of problems, including taxation and fines, high insurance premiums, rising costs and inability to finance the replacement of an ageing stock of 38 buses. 108/ The total size of the Palestinian public bus fleet declined dramatically, from over 700 vehicles in 1987 to some 400 by the end of 1992; with the closure of the territory in early 1993, at least 200 more vehicles were rendered idle, effectively reducing this important branch to a third of its pre-1988 capacity. 109/

51. An indication of the scale of decline in transportation and other sectors dependent on external trade (especially agriculture and industry) is found in data for the entry of Palestinian agricultural and industrial goods into Jordan for marketing there and beyond. 110/ The average daily number of crossings to Jordan by trucks transporting industrial goods alone fell from 33/day in 1987 to 18/day in 1990 and only 12/day in 1991. 111/ In 1987, a total of 115,000 tons of vegetables and fruits, 2,400 tons of olive oil, 750,000 seedlings and 69,000 tons of industrial goods entered Jordan from the occupied territory (as compared to even higher levels in the early 1980s). By 1992, these had fallen to only 41,000 tons of vegetables and fruits, 1,000 tons of olive oil, 431,000 seedlings and 30,000 tons of industrial products (in 1991). This fall in the export of Palestinian goods to traditional regional markets reflects not only the deterioration in the performance of a number of key sectors, but also the reorientation of the territory's external trade links towards Israel.

### C. Concluding remarks

52. The preceding paragraphs have highlighted some of the major problem areas confronting the revival and development of the Palestinian economy, and the pressing need for domestic policy reform in various areas coupled with effective international assistance. Previous UNCTAD studies and reports drew attention to many of these issues and proposed numerous policy recommendations that required bold action by Israeli authorities, the international community,

including regional parties, and by the Palestinian people themselves and their representative institutions. A set of integrated, feasible and immediate measures for the revival of the Palestinian economy in the West Bank and Gaza Strip were briefly identified in UNCTAD's 1992 report, 112/ including common issues affecting economic activities and related infrastructures and natural resources. Those measures and related issues referred to elsewhere in UNCTAD reports and in the findings of other investigations remain pertinent today.

53. The urgency of concerted and well-targeted international action to stem further economic and social decline in the occupied territory and lay sound bases for the future cannot be overemphasized. There is no dearth of information about needs and priorities, nor a lack of relevant domestic capacity for managing the recovery process; the scale of international assistance to the Palestinian people has continued to grow, presenting a new range of funding opportunities and areas for effective and much-needed intervention. There is much more that could be done by those concerned, including Israeli occupation authorities, and the international community acting in concert with the Palestinian people. Developments since 1992 have provided new opportunities to be seized. Without prejudice to the eventual outcome of the peace process, urgent policy reform in the territory could include the following points:

- (a) The rapid and vigorous extension of policy-liberalization measures to other areas of the economy so as to ensure minimum government intervention and maximum room for entrepreneurial initiative as well as mobilization and optimum allocation of financial resources;
- (b) The entire income tax system applicable to fixed income earners (salaries and wages) and/or proprietorships as well as juridical entities (limited liability companies and corporations) needs a thorough reform in line with the established canons of taxation and bearing in mind the specific circumstances prevailing in the territory; 113/
- (c) Reconsideration of the negative impact on Palestinian economic and social conditions of Israeli collective punishments and avoiding their application when such impact may be discerned;
- (d) While limitation and controlled entry of Palestinian workers into Israel may be necessary on grounds of Israeli security, Palestinian agricultural and industrial goods pose no security or economic threat. Until equitable and mutually beneficial trade arrangements are negotiated between Israelis and Palestinians, it would be appropriate to end the ban on entry of Palestinian agricultural and (some) industrial goods to Israel as long as Israeli goods flow freely into the occupied territory. Free trade now could help establish a sound basis for Palestinian economic revival and commercial cooperation in the future;
- (e) The complex issues related to the programming of Palestinian human resource development highlight the urgent need for an impartial investigation into Palestinian demographic trends in the territory, including a population census;

(f) Serious efforts are called for on the part of Palestinian institutions to streamline, coordinate, merge duplicate programmes and better define areas of specialization, while protecting development institutions from unwarranted politicization.

54. The role of the international community, including the United Nations and its specialized agencies, has acquired a greater significance in the prospects for Palestinian economic and social revival, especially since the beginning of the Middle East peace process. The recently announced Palestine Development Programme, 114/ which comprises a range of activities over the medium term in the economic and social sphere, could guide international assistance to the Palestinian people. Better donor coordination, more sensitive prioritization of aid and streamlined inter-agency cooperation, in a context of increased funding and policy measures to respond to immediate and long-term needs, are warranted. Arab partners in the region have a special responsibility and role in this regard.

## PART II

### THE STATUS OF ENVIRONMENT IN THE OCCUPIED PALESTINIAN TERRITORY

55. Continued deterioration in the economic and social situation of the Palestinian people has been accompanied by degradation of environmental conditions in the West Bank and Gaza Strip. This mutually reinforcing trend in the degeneration of the economy and environment has recently increased concern for the decline in the overall quality of life in the occupied territory and its implications for the future. Principle 23 of the Rio Declaration on Environment and Development refers to the need to protect the environment and natural resources of people under oppression, domination and occupation. Based on these considerations and within the overall scope of its biennial work programme, the UNCTAD secretariat was requested, at the thirty-ninth session (first part) of the Trade and Development Board, to undertake a study on the status of the environment in the West Bank and Gaza Strip. This part highlights the main findings of this study. It comprises an examination of current environmental conditions in the occupied territory, environmental development prospects and a set of policy guidelines aimed at improving the environmental situation and enhancing its contribution to the sustained development of the Palestinian economy.

#### A. Main environmental determinants

56. The total land area of the occupied Palestinian territory comprises approximately 5,939,000 dunums, of which 5,572,000 dunums are in the West Bank, including east Jerusalem, and 367,000 dunums are in the Gaza Strip. By 1992, Israel had gradually brought over 68 per cent of the total area of the West Bank and Gaza Strip under its control, as noted in Part I above. The topography of the area puts the Gaza Strip at an elevation of 0-40 metres above sea level while the elevation in the West Bank ranges from 400 metres below to over 1,000 metres above sea level. On the average, temperatures range between 18-38° C in the summer and 5-10° C in winter. Stone and its crushed aggregates represent the major mineral resource of the territory, with an annual production of 31,000 cubic metres and 3.5 million tons, respectively. The western shoreline of the Dead Sea is being exploited for minerals such as salt and phosphates by Israel.

57. Annual rainfall is estimated at 3,030 million cubic metres (mcm), while losses from run-off and evaporation are estimated at 2,135 mcm, leaving an amount of 895 mcm for recharging the aquifers. Palestinian attempts to reduce surface run-off and allow rainwater to penetrate into the aquifers by planting trees and other measures have been met with Israeli restrictions. Added to the rainfall is the share of water from the Jordan and Yarmouk rivers, which annually totals 320 mcm plus about 100 mcm from springs. A number of constraints have prevented adequate utilization of water from the latter source. Underground water from coastal and inland aquifers which serve both the territory and Israel, remains the main source for domestic, agricultural and industrial use which has dramatically increased over the past 25 years.

**B. Factors affecting the environment**

58. Confiscation of Palestinian land has enabled Israel to proceed with the construction of settlements and related structures in various areas of the West Bank and Gaza Strip that were traditionally considered by the Palestinians as wilderness zones. Most important among these are the eastern slopes and the central part of the West Bank which once housed a variety of wildlife and provided a winter grazing ground for livestock and recreation spots for the local population, in addition to having unique archaeological, religious and touristic sites. Similarly, building agricultural settlements in the Jordan Valley has gradually deprived the Palestinian inhabitants of these areas of their richest soils and water wells. A similar situation has developed in the Gaza Strip where settlements have encroached upon fertile inland and coastal areas. The Israeli settlement programme was not accompanied by adequate and proper environmental considerations. None of the settlements have developed sewage treatment plants. Sewage is often allowed to run into valleys even if a neighbouring village is threatened. The sewage system of settlements on the eastern hills and slopes north of Jerusalem has contaminated fresh water supplies for drinking and irrigation of Palestinian areas up to Jericho.

59. The Israeli quarry next to the refugee camp of Al-Dheishe in Bethlehem causes noise and air pollution harassing the inhabitants of the surrounding areas and forcing them to seek remedy through the courts. Nevertheless, despite the ruling of the court to close the quarry nine years ago, it is still active. Another activity adversely affecting the neighbouring Palestinian population is a plant in the West Bank for the reclamation and reprocessing of used motor oil from Israel. It is reported that the plant releases toxic and carcinogenic fumes to the surrounding areas. A number of such plants have been located in the northern region of the West Bank along the border with Israel to escape closure following complaints by Israeli citizens' groups.

60. The occupied territory suffers from lack of legislation and appropriate institutions to protect its environment. Neither the Israeli military establishment nor its Civil Administration for the occupied territory has any facility with environmental responsibility. Palestinian authorities operating at city, town or village levels are weak since they lack resources and expertise in the area of environment, and ineffective owing to the lack of mechanisms to legislate and enforce environmental laws and regulations at these levels. Where attempts have succeeded in establishing the institutional nucleus for environmental protection, competition and duplication have drained their resources and confined them to research and experimental work carried out by universities and scientific institutions.

61. Lack of an indigenous central authority has discouraged the emergence of an overall programme to raise environmental awareness among the Palestinian people in the West Bank and Gaza Strip. Survival is accorded priority over environmental hazards except when daily life is directly threatened by such hazards. On the whole, the impact of the manufacturing industry on the environment is minimal and localized, owing to its small and undeveloped nature. It may be dealt with effectively if appropriate environmental-protection regulations are instituted and enforced. This

may be one of the most urgent issues to which Palestinians must devote their attention, not only to close the loopholes in municipal and health laws but also to minimize possible environmental damage from industrialization and increased urbanization and related construction activities projected for the coming years.

62. Around 47 per cent of the Palestinian population in the West Bank and Gaza Strip is under the age of 15, and only 3.2 per cent is over 65. From the point of view of environmental protection, this younger age distribution means a more receptive population, i.e. a population that would be easier to educate regarding environmental issues through programmes directed to youngsters at schools and homes.

63. On the regional dimension, prevailing climatic conditions in Africa, the Middle East and Europe tend to influence the environment of the West Bank and Gaza Strip with particular impact on agriculture. Awareness of these influences, coupled with indigenous capabilities for preventive and protective measures, would minimize their adverse effects.

#### C. Current environmental conditions

64. An assessment of current environmental conditions and their impact on the economy of the occupied territory is rendered difficult by the shortage of quantitative and qualitative information. Nevertheless, the following paragraphs reflect some of the pressing issues and draw attention to the magnitude of the problems confronting the Palestinian people in various areas and the immediate and future impact on their economy.

##### 1. Agricultural practices

65. Agriculture in the occupied territory has gradually given way to other sectors. Its contribution to domestic product has fallen from 34 per cent to less than 18 per cent and its share of employment from around 40 per cent to 24 per cent. The abandoning of land has created problems with soil erosion as terraces have collapsed and whole mountain sides have lost their topsoil. Any land reclamation and rehabilitation effort is estimated to cost farmers and/or landowners between \$100 to \$200 per dunum. The growing unemployment and the return to the land since 1988 have aggravated the pressures for agricultural finance facilities which have been lacking since Israeli occupation in 1967.

66. While intensive farming techniques have been resorted to in a bid to increase agricultural output, the approach has been less scientific than required. There has been excessive use of agrochemicals, especially pesticides and fertilizers. It is estimated that up to 11 kilograms of pesticides per dunum per year and between 80-160 kilograms of fertilizer per dunum per year have been used to boost output. Excessive use of pesticides has apparently increased pest resistance which has in turn required the use of more powerful and expensive chemicals. More importantly, the use of types of pesticides which are banned elsewhere has begun to affect wildlife and the atmosphere and contaminated shallow-water resources. As for fertilizers, their intensive use has resulted in nitrate concentrations far above the WHO recommended limit. Plastic is another commodity which is increasingly being used in agriculture. While the use of plastic has its benefits for

agriculture, a considerable amount of it finds its way into the soil and/or is burned rather than recycled. Out of a total of approximately 8,000 tons of plastic film used annually, 30 per cent is unrecoverable and remains in the soil. Part of the remaining 70 per cent litters the surrounding areas and the rest is burnt, which adds to pollution.

67. The share of water available for irrigation has been reduced to the minimum, rendering 50 per cent of cultivable land unused due to shortage of water or the use of salty water which has created salty soil that needs to be leached in order to render it cultivable. While drip irrigation is being resorted to, the choice of supporting and control equipment is still primitive. On the whole, excessive use of pesticides and fertilizers coupled with inefficient use of water is attributed to the virtual absence of extension services which have been drastically curtailed since 1967. At the same time, research and experimental farming projects have come to a halt. New ideas and technology have often been copied by Palestinian farmers who lack the ability to evaluate their suitability, thus resulting in undue financial losses and the adoption of inappropriate, or even detrimental, technologies.

## 2. Urbanization

68. The built-up areas in the occupied territory represent 3.2 per cent of total land area. Israeli policies since 1967 have restricted building within municipal boundaries which themselves have been reduced to the minimum. On the other hand, none of the municipalities has a well-developed plan for the treatment of liquid and solid waste. They are short of expertise and funds to design and implement such plans. In addition, there is a lack of experience in the management of waste-water treatment and the reuse of waste water for irrigation, including the benefits, drawbacks and possible health hazards associated with such reuse. Assuming a modest average consumption rate of 40 litres per person per day, total volume of sewage per day for the Palestinian population amounts to over 70,000 cubic metres.

69. Solid waste as an issue is largely ignored in the occupied territory, where the volume generated is severely underestimated. Solid waste collected from towns and villages within municipal boundaries is estimated at 1-1.5 kg per person per day. This ignores what accumulates outside these boundaries and in villages. Moreover, not all solid waste is placed in garbage containers; part of it ends up in nearby fields, abandoned plots and wadis. Similarly, there is no system for disposing of waste from construction sites, which is scattered along rural roads. Even municipal solid waste is dumped a few kilometres away, either in the vicinity of another town/village or in an agreed-upon open area where it is incinerated simply to reduce its volume. This is a slow process and releases smoke and toxic gas into the atmosphere covering wide residential areas. Here also, there are no recycling facilities to deal with solid waste. Stone debris and powder resulting from stone processing are scattered throughout the countryside. Dumping areas for stone powder, which is toxic to plants, have become barren.

3. Water resources

70. Although water resources in most areas of the occupied territory have been safe from pollution, the situation is rapidly changing owing to the threat of sewage penetration while the over-exploitation by Israel of underground water has increased. Tests have confirmed the presence of bacteria (faecal coliform) and high-level nitrates in certain areas of the West Bank and Gaza Strip. Increasing salinity is particularly preoccupying in parts of the West Bank such as Hebron, the Jordan Valley and Gaza Strip. As a result of over-pumping by Israel and its settlements in the territory, the water-table has fallen, leading to an imbalance between fresh and brackish water in some areas of the West Bank and the intrusion of sea water in the coastal areas of the Gaza Strip, making water unsafe for household use and unsuitable for agriculture.

4. Deforestation

71. Forests constitute no more than 0.5 per cent of the total land area of the occupied territory. Climatic conditions coupled with man-made factors are largely responsible for this small forest area. Israeli regulations prevent the planting of trees in many areas where the run-off from rainwater could be prevented. This allows the run-off water from rain to flow westward to replenish those aquifers which Israel draws upon for its use. It is also claimed that Israeli opposition to the planting of trees facilitates the removal of legal obstacles to its confiscation of Palestinian land. It is estimated that, since 1967, Israel has uprooted hundreds of thousands of trees as collective punishment. A total of some 150,000 trees have been uprooted since the beginning of the Palestinian uprising alone.

5. Marine and coastal environment

72. The coastal areas of the Gaza Strip are confronted with severe environmental degradation. Sewage pollution of land and marine resources, coupled with a decline in the nutrients being deposited by the Nile has threatened marine life, especially the fish catch, along the coast of the Strip. Added to this is the erosion of sand from these shores due to diversion in the direction of waves. Israel has built wave breakers in several areas along its shores to stem the loss of sand, but no such remedial measures have been taken in the Gaza Strip. In addition, increasing traffic in the Mediterranean sea, especially oil tankers which release heavy crude components when washing out their tanks, causes tar balls to be deposited along the shores.

6. Fuel consumption

73. The occupied territory has gradually come to rely almost entirely on Israel for its energy needs, whether for electricity and/or fuel (oil and gas). At present, energy production is not a major source of environmental degradation in the territory. Used motor oil is one type of fuel resorted to for heating ovens and furnaces in bakeries and workshops which are mostly located in or near residential areas. This oil is contaminated with small

metal particles, leaded fuel and high-level organic substances. Its burning releases heavy toxic fumes into the atmosphere of the inhabited areas, thus exposing the population to high risks of pollution.

D. Improving environmental situation in the Palestinian territory:  
measures for action

74. The continuation of present trends, as outlined above, does not augur well for the future of the environment in the occupied territory and the resultant impact on the economy. On the contrary, the rapid interaction of the dynamic forces at work in a society which lacks the necessary mechanisms for guidance and corrective action is likely to lead to further degradation of the environment. On the other hand, high expectations among the emerging young generation, which constitutes close to half of the present population, places heavy responsibility particularly on Palestinian individuals and institutions to devote serious attention to environmental issues when undertaking economic and social activities. The following priority areas are briefly outlined for immediate action.

1. Liquid waste

75. The liquid-waste problems of some urban areas, such as Bethlehem, Ramallah and al-Bireh, are being studied within the context of a comprehensive sewage network. However, the needs of other population centres and especially those of rural areas, where more than 35 per cent of the Palestinian population resides and where residential construction has been increasing, are largely ignored. Sewage-treatment plants and their location are yet to be considered. It is necessary to plan these and other related needs in an integrated fashion, thus avoiding a piecemeal approach which would be costly and in the long run unsuitable. A main treated-sewage carrier running through a number of cities, for example, north-south, is a feasible and environmentally sound idea. This could be included with a network of sewage-treatment plants feeding into the carrier, with the treated water used for irrigation and industrial purposes. Innovative pricing policies for the use of treated waste water could help to cover part of the operating costs of the treatment.

2. Solid waste

76. As noted earlier, the volume of solid waste is increasing at a rapid pace. This trend is likely to continue and even spread to unaffected areas as the society becomes more affluent. Here also, curative and preventive measures are called for within the context of an integrated programme of action. A combination of recycling and incineration plants could be established throughout the territory to deal with all organic and inorganic solid waste. With certain financial and tax incentives, the recycling plants could operate profitably, while municipal charges, especially in urban centre, could contribute to the running costs of incinerators.

3. Toxic waste

77. Prospects for the future development of the Palestinian economy will, to a large extent, depend on the role of the industrial sector. Parallel with

this role, the sector is also expected to meet the cost that industrialization imposes on any society. One of the areas where this cost should be met is in the treatment of toxic waste. It is therefore necessary that environmental factors be also included in the analysis and evaluation of all new economic activities, particularly industrial projects, and that toxic-waste treatment and related environmental needs should be part and parcel of industrial development programmes.

#### 4. Land reclamation and reforestation

78. Much of the land used prior to 1967 in hilly regions must be re-terraced and filled with soil as it has been washed away following the collapse of the soil-retaining stone walls. In addition to providing employment and income, such land reclamation projects can once again add to total agricultural output and increase its contribution to national income. It is also imperative to break the endless cycle of using varieties of pesticides as the only means of fighting pests. Integrated pest management (IPM) programmes, which have been successful in many developing countries, could be employed.

79. Reforestation also has to be seriously addressed in the near future. While a full-fledged programme for the reforestation of suitable areas is dependent on the exercise of control by the Palestinian people over their natural resources, efforts could be concentrated on specific experimental bases, aimed at creating the capacity to act quickly once the present restrictive conditions are removed. As the benefits of any reforestation programme are also likely to go beyond specified geographic boundaries of the Palestinian territory, it is expected that the relevance of the restrictions imposed on the Palestinian people on the use of their natural resources will be re-examined.

#### 5. Institutional infrastructure

80. As was noted, the enactment of environmental laws and regulations is an important measure for the protection of the environment. Coupled with this is the creation of a competent and effective institutional facility capable of enforcing these laws. It is therefore proposed that such a facility be established on a modest scale to monitor the environmental situation, assess needs in various areas and propose measures, including legislation, for safeguarding the environment. One of the tasks entrusted to it would be the establishment of an environmental information system for both the West Bank and Gaza Strip. The system would rely on a database developed from information compiled on various aspects of the environment in the territory.

#### 6. Human resource needs

81. For the time being, and until such a facility is created, municipalities may have to play a greater role in the protection of the environment and in enhancing its contribution to the economic and social development of the Palestinian people. One of the areas on which municipalities can concentrate their attention is the up-grading of manpower involved in environmental activities. For example, every municipality engages in solid-waste collection. While this task could be effectively carried out by the addition of more sanitation workers and disposal trucks, financial limitations render

such an approach impossible. The training of the existing staff in relevant areas could considerably add to the efficiency and effectiveness of the tasks performed.

82. It is important to introduce, at the earliest possible moment, environmental education as part of the curricula of schools and colleges in the West Bank and Gaza Strip. Such an educational and training campaign should also be carried out at the grass-roots level, aimed at instilling an awareness of environmental protection at all strata of society, together with relevant regulations and enforcement mechanisms. In this regard, one priority area is the need for training programmes involving both agricultural technicians and farmers in extension services, which are almost non-existent in the occupied territory.

7. Financial and technical assistance

83. The long period of occupation and the absence of institutional infrastructures have deprived the Palestinian people of effectively mobilizing their financial and human resources for building the bases of a sound economy, imposing a burden that cannot be dealt with single-handedly by the present generation. Increased efforts need to be made by the international community to enable these people to independently re-establish the foundation of a sound economy, improve the quality of life and safeguard their environment. The Palestinian people have shown themselves to be resourceful and enterprising in their contribution to the development of the many economies in which they have been involved. The time is ripe to pool Palestinian and international resources and skills in equally enterprising ventures to develop the economy of the Palestinian territory and safeguard its environment, to benefit the Palestinian people themselves today, without prejudice to future needs. Accordingly, the areas outlined above for action necessitate concerted international assistance, both financial and technical, to develop a practical environmental programme and effectively put it into action.

PART III

REVIEW OF PROGRESS IN THE WORK OF THE SPECIAL ECONOMIC UNIT  
(PALESTINIAN PEOPLE), UNCTAD SECRETARIAT, 1992/1993

84. During the period under review, the UNCTAD secretariat intensified its work on the economy of the occupied Palestinian territory under the four main areas of activity, namely: (a) monitoring and analysing policies and practices of Israeli occupation authorities that hamper economic development in the occupied Palestinian territory; (b) investigating the impact of such policies and practices on main economic sectors; (c) developing the database, including the compilation, processing and dissemination of information on the economy of the occupied Palestinian territory; and, (d) coordinating with and contributing to relevant activities of the organizations of the United Nations system in response to General Assembly resolutions on assistance to the Palestinian people and on economic conditions in the occupied Palestinian territory. In carrying out work in these areas, close contacts were maintained with Palestine, in addition to consultations with other parties concerned.

85. Within the context of the intersectoral project, investigating prospects for sustained economic and social development in the West Bank and Gaza Strip, the report of the meeting of a group of experts, held in May 1992 in Geneva, was finalized along with the study prepared by the UNCTAD secretariat on a quantitative framework and its technical supplement. Discussions regarding the substance of these documents were held with the officials of the Department of Economic Affairs and Planning of Palestine as well as with Egyptian and Jordanian government officials. Israeli authorities declined to discuss the documents and no reply has yet been forthcoming from other concerned parties.

86. The revised version of the documents was also brought to the attention of some of the bilateral and multilateral sources at both regional and international levels that maintain assistance programmes for the Palestinian people, with a view toward contributing to the substantive contents of their programmes. Discussions have been also held with the Directorate of Economic Affairs, League of Arab States, and contacts initiated with UNDP and IBRD in the context of their relevant activities. In order to coordinate the activities of relevant United Nations agencies in the territory, the Special Representative of the Administrator of UNDP (Programme of Assistance to the Palestinian people), invited the Special Economic Unit of the UNCTAD secretariat for consultations at the UNDP office in east Jerusalem. However, Israeli authorities refused to grant a visa and the mission could not be undertaken.

87. Work also commenced on the selection and finalization for publication of Part One of a number of the 25 sectoral studies dealing with economic and social issues in the occupied territory. These studies are intended to provide substantive background to the findings and recommendations of the expert group meeting, thus enabling donors to further develop their programmes of assistance in their respective fields of interest.

88. Within the frame of the intersectoral project and as part of the work programme of the Unit, work on developing the database on the economy of the West Bank and Gaza Strip continued during the period under review. Available data on balance of payments, international trade, population, labour and employment for the period 1968-1987, which had been standardized and classified according to the Economic Times Series (ETS) in use at the UNCTAD secretariat, were finalized and issued in UNCTAD/DSD/SEU/1 (in English only). The Unit further enriched its reference collection on Palestinian economic development and expanded its capacities for compilation and analysis of statistical data on the subject.

89. In line with work-programme requirements and the provisions of General Assembly resolutions, adopted during the period under review, the UNCTAD secretariat has continued to coordinate efforts and cooperation with the relevant organizations of the United Nations system as well as with regional and non-governmental organizations involved in work on the economic and social situation of the Palestinian people in the West Bank and Gaza Strip. This has included contributing to meetings and dispatching missions to Tunis, Cairo and Amman for consultations and data collection, as well as participating in meetings convened by United Nations agencies concerned with assisting the Palestinian people.

Table 1. Occupied Palestinian territory: major economic indicators 1987-1993 (in millions of constant 1990 US dollars)

|                         |                            |         |         |         |         |               |         |         |         |         |                  | Annual rate of growth |         |            |  |
|-------------------------|----------------------------|---------|---------|---------|---------|---------------|---------|---------|---------|---------|------------------|-----------------------|---------|------------|--|
|                         | CBS ESTIMATES              |         |         |         |         | OPT ESTIMATES |         |         |         |         | UNCTAD ESTIMATES |                       | CBS     | OPT UNCTAD |  |
|                         | 1987                       | 1988    | 1989    | 1990    | 1991    | 1988          | 1989    | 1990    | 1991    | 1992    | 1993             |                       | 1988-91 | 1992-93    |  |
| Population (thousands)  | 1 408.2                    | 1 437.1 | 1 505.5 | 1 563.1 | 1 641.3 | 1 437.1       | 1 505.5 | 1 563.1 | 1 605.0 | 1 666.0 | 1 728.0          | 4.1                   | 3.5     | 3.8        |  |
| Agriculture             | 334.6                      | 466.8   | 321.0   | 448.5   | 344.1   | 466.8         | 309.0   | 448.5   | 370.0   | 378.0   | 427.0            | 6.2                   | 8.3     | 7.6        |  |
| Industry                | 165.0                      | 132.3   | 128.4   | 165.2   | 151.7   | 132.3         | 105.4   | 104.2   | 96.0    | 138.0   | 173.0            | -2.0                  | -10.5   | 40.1       |  |
| Construction            | 327.4                      | 309.7   | 324.7   | 324.0   | 305.5   | 241.3         | 202.5   | 151.3   | 135.0   | 198.0   | 250.0            | -1.7                  | -14.7   | 42.6       |  |
| Services                | 977.1                      | 861.7   | 987.5   | 1 228.8 | 1 139.7 | 726.6         | 601.8   | 539.8   | 493.0   | 695.0   | 859.0            | 4.2                   | -12.4   | 37.1       |  |
| Gross domestic product  | 1 881.3                    | 1 770.5 | 1 684.9 | 2 163.0 | 2 083.4 | 1 567.0       | 1 218.7 | 1 243.7 | 1 148.0 | 1 477.0 | 1 790.0          | 2.7                   | -9.7    | 28.0       |  |
| Net factor payments     | 732.6                      | 669.3   | 690.0   | 793.3   | 743.7   | 659.8         | 610.7   | 548.2   | 401.0   | 406.0   | 414.0            | 0.4                   | -11.3   | 1.6        |  |
| Gross national product  | 2 613.9                    | 2 439.8 | 2 451.6 | 2 956.3 | 2 827.1 | 2 226.8       | 1 829.4 | 1 791.9 | 1 549.0 | 1 883.0 | 2 204.0          | 2.0                   | -10.2   | 21.1       |  |
| Net current transfers   | 137.9                      | 111.1   | 135.7   | 154.3   | 156.5   | 209.1         | 289.7   | 166.7   | 154.0   | 160.0   | 166.0            | 3.4                   | 2.9     | 3.9        |  |
| Gross disposable income | 2 751.8                    | 2 550.9 | 2 587.3 | 3 110.6 | 2 983.6 | 2 435.9       | 2 119.2 | 1 958.7 | 1 703.0 | 2 043.0 | 2 370.0          | 2.1                   | -9.5    | 19.6       |  |
| Imports                 | 1 482.2                    | 953.4   | 982.3   | 952.1   | 1 019.4 | 953.4         | 982.3   | 952.1   | 741.0   | 943.0   | 1 126.0          | -7.8                  | -12.5   | 26.0       |  |
| Exports                 | 457.5                      | 268.3   | 246.3   | 264.4   | 278.7   | 268.3         | 246.3   | 264.4   | 156.0   | 313.0   | 381.0            | -9.8                  | -16.5   | 72.1       |  |
| Government investment   | 100.7                      | 55.4    | 44.9    | 50.6    | 73.8    | 55.4          | 44.9    | 50.6    | 34.0    | 47.0    | 58.0             | -6.7                  | -16.6   | 35.3       |  |
| Private investment      | 491.4                      | 372.3   | 426.4   | 413.3   | 396.9   | 372.3         | 426.4   | 413.3   | 364.0   | 438.0   | 508.0            | -4.8                  | -6.5    | 19.8       |  |
| Government consumption  | 208.0                      | 192.4   | 206.7   | 253.5   | 260.7   | 192.4         | 206.7   | 253.5   | 200.0   | 266.0   | 325.0            | 6.3                   | -1.0    | 31.3       |  |
| Private consumption     | 2 105.9                    | 1 835.6 | 1 819.5 | 2 146.2 | 2 105.5 | 1 632.1       | 1 276.7 | 1 214.0 | 1 134.0 | 1 356.0 | 1 644.0          | 0.0                   | -11.5   | 22.5       |  |
|                         | (constant 1990 US dollars) |         |         |         |         |               |         |         |         |         |                  |                       |         |            |  |
| GDP per capita          | 1 336.0                    | 1 232.0 | 1 119.2 | 1 383.8 | 1 269.3 | 1 090.4       | 809.5   | 795.7   | 715.3   | 886.6   | 1 035.9          | -1.2                  | -11.6   | 22.4       |  |
| GNP per capita          | 1 856.2                    | 1 697.7 | 1 628.4 | 1 881.3 | 1 722.5 | 1 549.5       | 1 215.2 | 1 146.4 | 965.1   | 1 130.3 | 1 275.5          | -1.8                  | -12.0   | 16.1       |  |
| GDI per capita          | 1 954.1                    | 1 775.0 | 1 718.6 | 1 990.0 | 1 817.8 | 1 695.0       | 1 407.6 | 1 253.1 | 1 061.1 | 1 226.3 | 1 371.5          | -1.7                  | -11.4   | 14.6       |  |

Sources and Notes

1. All figures exclude east Jerusalem, for which separate comprehensive data are not available. All data were originally published or compiled in new Israeli shekels (NIS) and were subsequently subjected to two stages of treatment. Current price data were first calculated in constant NIS prices using a deflating procedure based on the consumer price index of the occupied territory and an appropriate GDP deflator. The constant NIS data were then transformed into constant 1990 US dollars according to the average annual exchange rate for 1990, in International Monetary Fund, International Financial Statistics (Wash. D.C., IMF 1991).
2. All CBS estimates are calculated from current NIS data published in Israel Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Vol. XXI, 1992 (CBS, Jerusalem, 1993), except where gaps in some indicators and published range estimates necessitated calculations based on previous years' figures or estimates from other sources.
3. All OPT estimates are calculated from information published in the occupied Palestinian territory. For details on the main sources consulted, see "Recent economic developments in the occupied Palestinian territory" (TD/B/1305) p. 20, Table 1.
4. UNCTAD secretariat estimates are based on trend analysis of 1967-1987 (CBS) data and 1988-1990 (OPT) estimates. For information on data sources and methodology, see "Prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip, 1990-2010 - a quantitative framework" (Part Two, Chapters 1-3) and its "Technical Supplement" (forthcoming, 1993).
5. Growth rates are calculated as the average of the annual rates of change in the constant values of the respective variable, except for agriculture which is calculated as a two-year moving average.

Notes

1/ Unless otherwise mentioned, references in this report to the "occupied territory" or "the territory" pertain to the occupied Palestinian territory (i.e., the Gaza Strip and the West Bank, including east Jerusalem).

2/ See, for example, the UNCTAD reports: "Recent economic developments in the occupied Palestinian territory" (TD/B/1142; TD/B/1183; TD/B/1221; TD/B/1266; TD/B/1305) and "Assistance to the Palestinian people" (TD/B/39(1)/4).

3/ See "Recent economic developments..." (TD/B/1305), paras. 3-13.

4/ Ibid., para. 3.

5/ See "Recent economic developments..." (TD/B/1305), paras. 41-42; "Assistance..." (TD/B/39(1)/4, paras. 6-8).

6/ Military Order No. 1342 of 15 June 1991 entitled "Order Regarding the Encouragement of Capital Investment" for the West Bank. A similar order was promulgated for the Gaza Strip. Also see Letter dated 11 March 1993 from the Permanent Representative of Israel to the United Nations addressed to the Secretary General, (A/48/112).

7/ See "Letter ..." op. cit.

8/ Jerusalem Post 15 February 1993.

9/ "Letter ..." op. cit., p. 1.

10/ According to the Israeli Deputy-Coordinator for economic affairs in the occupied territory, quoted in the Jerusalem Post, 9 February 1993. Also see Jerusalem Post, 28 December 1992.

11/ See "Assistance to the Palestinian people" (TD/B/39(1)/4), paras. 7 and 14-17.

12/ See New York Times, 4 April 1993.

13/ Some of the shortcomings have been examined previously, in particular as regards the over-dependence on Israel for raw-material imports and the potentially disruptive economic effect of establishing too many similar enterprises simultaneously in the absence of overall policy guidance, feasibility studies and the requisite infrastructure. See "Recent economic..." (TD/B/1305, para. 42) and "Assistance ..." (TD/B/39(1)/4, paras. 7-8).

14/ The most recent UNCTAD report indicated a range of areas which required such urgent attention (TD/B/39(1)/4), as have previous reports over the years. Similarly, reports by other United Nations bodies and specialized

agencies on the situation in the occupied territory focus on the need for urgent and comprehensive policy reform and increased technical assistance to the Palestinian people. Two such reports are: International Labour Conference, Report of the Director-General - Appendix II, 1993; "Report of the Secretary-General. The situation of Palestinian women in the occupied territories" (E/CN.6/1993/10).

15/ The President of the Israeli Manufacturers Association, quoted in the Jerusalem Post, 5 July 1992. This position was echoed by the President of the Federation of Israeli Chambers of Commerce, quoted in Jerusalem Post, 9 February 1993.

16/ Jerusalem Post, 22 July 1992.

17/ UNRWA Press Release HQ/2/93 of 12 February 1993. Also see Al-Fajr, 28 December 1992. Security measures recently introduced by the Israeli military include the use of anti-tank weapons to destroy houses suspected of harbouring fugitive Palestinian militants. In one such action, 18 houses in Khan Yunis (Gaza Strip) were destroyed or damaged at a total estimated repair cost of \$845,000 - see Jerusalem Post, 18 February 1993. Also see, A.F. Jayyusi (ed.), The occupied territory - facts and figures, (Amman), January-December 1992, (in Arabic).

18/ See, for example, "Recent economic..." (TD/B/1183, paras. 52-53; TD/B/1221, paras. 74-75); TD/B/1266, paras. 42-45).

19/ While municipal tax rates have continued to rise throughout Jerusalem, Palestinian merchants in east Jerusalem complain of the poor municipal services compared to west Jerusalem and the overall inability to pay such levels of tax in the light of deteriorating economic conditions in the occupied territory. By early 1993, the east-Jerusalem merchants' association took their case to the Israeli High Court where it is still pending. See Al-Fajr, 22 June 1992, 29 June 1992, 20 July 1992, 10 August 1992, 16 November 1992, 25 January 1993, 1 February 1993; Jerusalem Post, 27 July 1992, 8 January 1993.

20/ Filasteen al Thawra, 28 February 1993 (in Arabic).

21/ Al-Fajr, 5 April 1993.

22/ Ibid.

23/ The closure of the territory and its widening ramifications have been widely reported. See, e.g. Washington Post, 26 March 1993, 9 April 1993, New York Times, 9 April 1993, International Herald Tribune, 26 April 1993; Al Fajr, 5 April 1993, 12 April 1993, 19 April 1993, 26 April 1993, 10 May 1993; Filasteen al Thawra, 28 March 1993 (in Arabic); Al-Quds 22 April 1993 (in Arabic), Jerusalem Post, 17 May 1993; Palestine Human Rights Information Centre, "From the field - a monthly report on selected human rights issues", March/April 1993.

24/ The Israeli Prime Minister, quoted in Washington Post, 26 March 1993.

25/ The Israeli Prime Minister, quoted in Washington Post, 9 April 1993.

26/ The Chairman of the Israeli Chambers of Commerce, quoted in Washington Post, 26 March 1993.

27/ Prof. Ezra Sadan, advisor to the Ministry of Defence and the "architect" of recent Israeli policy liberalization measures, quoted in Jerusalem Post, 14 May 1993.

28/ A policy paper prepared for the Israeli Ministry of Finance found that the closure would contribute to higher inflation and slow down growth in Israel by as much as 1 per cent, in Jerusalem Post, 24 May 1993.

29/ The Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), quoted in UNRWA press release CLO/1/93 of 18 April 1993.

30/ It is argued that "the process of separation and cutting off this relationship of dependency on Israel is a process in itself. It needs years of work ... This is not just a policy slogan or policy decision". S. Huleileh quoted in Al-Fajr, 19 April 1993.

31/ Jerusalem Post, 20 May 1993, 1 June 1993.

32/ As reported in Jerusalem Post, 28 December 1992.

33/ See "Recent economic..." (TD/B/1305, paras. 35-40) for a detailed discussion of some of these issues. For example, one set of measures that was practised until 1992 and has since come to be seen widely as a self-defeating and ineffective economic policy were the frequent calls for commercial strikes in the occupied territory.

34/ These have been analysed in depth in secretariat reports since 1988.

35/ For example, one Palestinian credit institution based in east Jerusalem has not been permitted to open an office in areas of the West Bank or the Gaza Strip, Al-Fajr, 19 April 1993.

36/ For example, the Hebron University Graduates Union in the West Bank operates an impressive range of educational, social welfare and income generation projects and the Agricultural Cooperative Union coordinates agricultural marketing in the West Bank and helps to channel assistance to farmers (inputs, credit facilities, extension services). The ACU was only established in 1986, though its component local and regional cooperatives were mostly established in the 1950s and 1960s.

37/ For a comprehensive collection of views and information relevant to the past and future work of international and Palestinian NGOs in the occupied territory in a variety of fields, see: Network of European NGOs in the Occupied Territories (NENGOOT), Palestine - Development for Peace, Proceedings of the ECCP-NENGOOT Conference, Brussels, 28 September-1 October 1992.

38/ Also see the contribution by Ibrahim Dakkak in NENGOOT, "Palestine ..." op.cit, p. 198.

39/ Hisham Awartani, writing in Al-Fajr, 23 November 1993.

40/ Presentation by the representative of the Commission of the European Communities on the Role and Experience of Regional Organizations, at the United Nations Seminar on Assistance to the Palestinian People, UNESCO, Paris, 26-29 April 1993 (PAR.SAM/QP/15).

41/ Al-Fajr, 14 December 1992.

42/ Jerusalem Post, 17 July 1993. For an in-depth investigation of the problems and needs in this sector, see the secretariat study "Tourism and related services in the Palestinian territory under Israeli occupation" (UNCTAD/RDP/SEU/7).

43/ Al-Quds, 10 February 1993, 12 February 1993 (in Arabic); Filasteen al Thawra, 7 February 1993, (in Arabic), Al Fajr, 1 March 1993; "Export initiative aims to boost local economy", in Arab British Commerce, March 1993, pp. 2-4 and 25-26.

44/ See Jerusalem Post, 16 July 1992.

45/ One element of the usual institutional infrastructure for trade promotion, namely chambers of commerce, appears not to have been involved in this latest initiative.

46/ The detailed feasibility study for the establishment of an agricultural marketing centre was contained in "Technical Assistance in Export Promotion and the establishment of marketing facilities in the occupied Palestinian territories" (ITC/DTC/90/1229 - Project No. PAL/90/003). This project proposal was intended to be complemented by a similar study on the need for a marketing centre for industrial goods.

47/ Policy Research Incorporated, Development opportunities in the occupied territories - trade (Clarksville, PRI, 1992), p. 13.

48/ These were published in the quarterly review of the Jordan Agricultural Marketing Institute, Agricultural Marketing, No. 11, December 1992 (in Arabic).

49/ See, for example, General Assembly resolution 47/170 and relevant League of Arab States Economic and Social Council resolutions on the issue.

50/ Information provided by the Office of the Governor of Palestine to the IDB, Amman, 1993. Also see K. Nakhleh, "Politico-development aid and empowerment - the case of Palestine" (unpublished paper, 1993).

51/ The European Community programme has been widely welcomed in the occupied Palestinian territory. See e.g., Jerusalem Post, 8 July 1992, 9 July 1992; Al-Quds, 9 July 1992 (in Arabic); Al Fajr, 13 July 1992; Filasteen al Thawra, 19 July 1992 (in Arabic).

52/ "Presentation by the representative of the Commission ... (PAR.SAM/QP/15)", op. cit.

53/ Ibid.

54/ Network of European NGOs in the Occupied Territories (NENGOOT), Directory of European non-governmental support to the occupied Palestinian territories - 1992 (NENGOOT, Jerusalem, 1992), pp. 60-63.

55/ United Nations Development Programme (UNDP), "Report on external assistance to the occupied Palestinian territories" April 1993, pp. 69-73.

56/ Ibid.

57/ Held at UNESCO Headquarters in Paris, 26-29 April 1993.

58/ UNDP, Press Release No. 3/93, "Palestinian economy deteriorates - UN agency fostering self-reliance". 10 May 1993, p. 2. Earlier, UNDP was reported to be planning to increase the level of its funding programme in the occupied territory to \$20 million in 1993 and to \$35 million by 1994 - Jerusalem Post, 10 November 1992.

59/ Ibid., p. 4.

60/ The discussions of economic issues at successive rounds of these meetings have been widely reported. See Al Quds, 8 June 1992, 3 December 1992, 27 January 1993, 5 May 1993 (in Arabic); Al-Fajr, 29 June 1992, 17 August 1992, 14 September 1992, 21 September 1992, 28 September 1992, 23 November 1992, 7 December 1992, 1 February 1993; Jerusalem Post, 4 September 1992, 6 September 1992, 17 September 1992, 27 October 1992, 28 October 1992, 30 October 1992, 1 November 1992, 15 November 1992, 1 December 1992, 6 December 1992, 26 January 1993; Filasteen al Thawra, 15 November 1992, 25 November 1992, 1 December 1992 (in Arabic).

61/ Presentation by the representative of the World Bank on the "Role and Experience of Regional Organizations", at the United Nations Seminar on Assistance to the Palestinian People, UNESCO, Paris, 26-29 April 1993 (PAR.SAM/QP/34).

62/ Ibid.

63/ See Al-Quds, 4 May 1993. A similar call was made at the recent United Nations Seminar on Assistance to the Palestinian people. See opening statement by Mr. Ahmed Abu Ala, Director-General, Department of Economic

Affairs and Planning, Palestine, at the United Nations Seminar on Assistance to the Palestinian People, UNESCO, Paris, 26-29 April 1993 (PAR.SEM/QP/4).

64/ The text of a United States State Department announcement on 4 May 1993, in United States Mission (Geneva), Daily Bulletin, 6 May 1993, p. 2.

65/ See, e.g. Filasteen al Thawra, 27 September 1992 (in Arabic); Jerusalem Post, 11 December 1992, 16 December 1992, 27 December 1992; Al-Fajr, 19 April 1992. Also see the papers submitted at the First Israeli-Palestinian International Academic Conference on Water, December 1992, Zurich, Switzerland.

66/ 1 dunum =  $\frac{1}{4}$  acre. Palestine Human Rights Information Centre, Human Rights Update, Vol. 5, Nos. 5-8, June-September 1992, and Al-Fajr, 24 August 1992.

67/ A report published by the Arab Studies Society in Jerusalem, quoted in Al Fajr, 26 April 1993. This brought the area of Palestinian land confiscated since the beginning of the uprising to 277,000 dunums. Calculated from preceding figures for 1992 and figures for 1988-1991 in Arab Studies Society, Land Research Committee, Agricultural Violations and Land Confiscations in West Bank and Gaza Strip (Jerusalem, ASS, 1992).

68/ See figures and references in "Assistance ..." (TD/B/39(1)/4), paras. 14-15; "Recent economic ..." (TD/B/1305), para. 23; "Recent economic ..." (TD/B/1266), paras. 20-21.

69/ Jerusalem Post, 24 July 1992, 27 July 1992.

70/ Palestine Human Rights Information Centre, "The status of Jerusalem" in From the field - a monthly report on selected human rights issues, September/October 1992.

71/ Al-Fajr, 24 August 1992, 22 March 1993, 29 March 1993; Jerusalem Post, 24 November 1992, 28 December 1992, 31 December 1992, 6 January 1993, 25 January 1993. Also see "Note Verbale dated 4 February 1993 from the Permanent Mission of the League of Arab States to the United Nations Office at Geneva, addressed to the Under-Secretary-General for Human Rights" including a report on Israeli settlement operations and attacks on Arab citizens and their property in December 1992 (E/CN.4/1993/91), 10 February 1993.

72/ Israel CBS, Statistical Abstract of Israel 1992, No. 43, pp. 732 and 49.

73/ Report by the "Agricultural Data Bank" of east Jerusalem in Filasteen al Thawra, 11 October 1992 (in Arabic).

74/ Planning and Research Centre, Population Handbook (Jerusalem, 1993), quoted in Al-Fajr, 10 May 1993.

75/ Since they extrapolate from the 1967 Census, Palestinian estimates appear to be based on the de jure population (including those not actually resident in the territory) and are between 23 to 35 per cent greater than Israel CBS data which record de facto, or resident, population.

76/ Data on labour-force developments in the 1987-1991 period may be consulted in the secretariat reports issued in those years.

77/ Israel CBS, "Statistical Abstract ..." op. cit., p. 755.

78/ Ibid., p. 760.

79/ See International Labour Conference, "Report ..." op. cit., p. 20.

80/ By the end of 1992, it was reported that only 15,000 and 11,000 Palestinian workers from the West Bank were requested by Israeli employers in November and December, respectively, through the Israeli Employment Service (not including those irregularly employed without permits) - Jerusalem Post, 28 January 1993. Haaretz 5 March 1993 (in Hebrew) reports that no more than 40,000 workers from the Gaza Strip were working in Israel by 1993.

81/ Reports on the impact of the closure on the Palestinian workforce and on Israeli employers may be consulted in: Al-Fajr, 5 April 1993, 12 April 1993, 19 April 1993, 26 April 1993; Filasteen al Thawra, 18 April 1993 (in Arabic); Jerusalem Post, 4 May 1993, 17 May 1993; Washington Post, 9 April 1993; International Herald Tribune, 27 April 1993.

82/ These figures were announced by the Israeli Minister of Finance in Jerusalem Post, 24 May 1993.

83/ Jerusalem Post, 4 May 1993.

84/ According to UNRWA and most other sources - see UNRWA Press Release, CLO/1/93, 18 April 1993. These rates appear to cover categories of registered unemployed as well as the "underemployed" and other categories of once-active sectors of the labour force. This issue is analysed in depth in International Labour Conference "Report ..." op. cit.

85/ Considering as unemployed those who had stopped working in Israel.

86/ Needless to say, higher pre-1993 levels of full-time employment in Israel would imply even higher levels of unemployment, at least in the West Bank.

87/ "Palestine Human Rights ..." op. cit.

88/ The problems encountered by the CBS in data collection on economic activity in this period may be consulted in Israel CBS "Statistical Abstract ..." op. cit., pp. 105-111. The 1991 estimates and revised estimates for 1988-1990, to be published in the series Judea, Samaria and Gaza Area

Statistics, were reported in Jerusalem Post, 19 February 1993 and in International Labour Conference, "Report ...", pp. 10-13.

89/ These sources were originally detailed in "Recent economic ..." (TD/B/1305) op. cit., p. 20.

90/ Estimates close to the OPT series were referred to in the above-mentioned UNDP Programme Review, reported in UNDP, Press Release No. 3/93 "Palestinian economy deteriorates - UN agency fostering self-reliance", 10 May 1993, pp. 1-2. A series of sectoral investigations undertaken by Policy Research Incorporated (United States of America), Development opportunities in the occupied territories (Clarksville, PRI, 1992) have also made extensive reference to the Palestinian estimates, which were originally reported in "Recent economic ..." (TD/B/1305), op. cit.

91/ Details on data sources, assumptions, methods of calculation and the different data projections may be consulted in the secretariat study entitled "Prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip, 1990-2010 - a quantitative framework" (Part Two, Chapters 1-3) and its "Technical Supplement" (forthcoming 1993).

92/ This sector covers public and community services; trade, transport and tourism; personal services; and errors and omissions.

93/ See UNDP, Human Development Report 1991 (OUP, N.Y., 1991).

94/ See UNDP, "Human development ..." op. cit., pp. 88-91 for the methodological and technical details of calculating the HDI in general. For the occupied territory, all data on educational achievement was taken from CBS sources for 1990 (producing an indicator of 55). Life expectancy was also based on CBS data (66 years), while income data was adopted alternatively from CBS and OPT sources. While the UNDP calculations for the HDI use per capita GDP data, secretariat calculations for the occupied territory used both per capita GDP and GNP estimates, owing to the especially weak role of GDP in Palestinian development.

95/ See, for example: Al-Fajr, 5 April 1993, 19 April 1993, 26 April 1993; Filasteen al Thawra, 18 April 1993 (in Arabic); Washington Post, 9 April 1993; UNRWA, Press Release CLO/1/93, op. cit.

96/ PHRIC, March-April, 1993, op. cit., provides a wealth of field information for losses in all areas of the territory.

97/ Al Quds, 11 February 1993 (in Arabic). For recent in-depth information on industry in the territory, see: Development Affairs, "Industry in Palestine", Vol. 2, No. 4, Autumn 1992 (in Arabic); Abu-Shukr et al., Industrialisation in the West Bank (Nablus, Najah University, 1991) (in Arabic).

98/ Al Quds, 28 January 1993 (in Arabic); Al Fajr, 22 February 1993.

99/ Al-Fajr, 22 February 1993.

100/ Al-Fajr, 26 April 1993.

101/ Notwithstanding repeated General Assembly resolutions specifically calling for approval of a project to establish a cement factory in the West Bank.

102/ Jerusalem Post, 2 September 1992.

103/ Al-Fajr, 10 May 1993.

104/ Al Quds, 22 April 1993 (in Arabic).

105/ See, e.g. Al-Fajr, 14 September 1992. A key Palestinian proposal at the May 1993 round of the multilateral talks on economic development and regional cooperation was the establishment of a "Palestine Development Bank". See: Middle East Peace Multilateral Negotiations, Working Group on Economic Development, "The Palestine Delegation - Position Paper", Rome, 4-5 May 1993.

106/ Jerusalem Post, 6 September 1992.

107/ The governor of the Central Bank of Jordan quoted in Jerusalem Post, 9 September 1992.

108/ Al-Fajr, 3 August 92.

109/ Al-Quds, 12 May 93 (in Arabic); Al-Fajr, 17 May 93.

110/ Data supplied by the Ministry of Foreign Affairs, Palestinian Affairs Department and Agricultural Marketing Institute (Amman, Jordan, 1993).

111/ Calculated as total number of entries to Jordan divided by 250 working days per year.

112/ "Report ..." (TD/B/39(1)/4), op. cit.

113/ See, "The Palestinian financial sector under Israeli occupation" (UNCTAD/ST/SEU/3/Rev.1).

114/ See Y. Sayigh, "Programme for the development of the Palestinian national economy for the years 1994-2000" (paper presented to the United Nations Seminar on Assistance to the Palestinian People, UNESCO, Paris, 26-29 April 1993 (PAR.SEM/QP/5)).

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