UNCTAD’S ASSISTANCE TO THE PALESTINIAN PEOPLE

Developments in the economy of the occupied Palestinian territory, with special reference to external trade

Report by the UNCTAD secretariat
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Preface

1. In accordance with the provisions of Conference resolution 146 (VI), the Cartagena decision (Proceedings of UNCTAD VIII, Part Two, section IV.B) and General Assembly decision 47/445, this report presents the findings emerging from monitoring and investigating policies and practices affecting the economy of the occupied Palestinian territory, especially during the period July 1993–June 1994. This report follows a similar format to that of previous ones prepared annually since 1985 by the UNCTAD secretariat on assistance to the Palestinian people. It thus concentrates on an examination of major developments in the policy environment affecting the Palestinian economy and analysis of the salient aspects of aggregate and sectoral performance in the period under review.

2. The mutual recognition between Israel and Palestine, followed by the signing on 13 September 1993 of the Declaration of Principles (DOP) on Palestinian Interim Self-Government Arrangements (PISGA), constitute milestones in the conflict between two peoples whose sufferings have preoccupied the United Nations since its inception. These developments and the subsequent Agreement on the Gaza Strip and the Jericho Area, signed by Israel and Palestine on 4 May 1994, including its Protocol on Economic Relations, are considered to be crucial initial steps in the process of reconciliation and in achieving a comprehensive, just and lasting peace in the region. Collectively, they have begun to set the stage for a major transformation in the circumstances affecting the performance and potentials of the Palestinian economy in the territory. The interdependence between the conditions so created and prospects for sustained economic and social development is generally self-evident, and has long been considered especially relevant in the case of the Palestinian economy. While it may be too early to discern an immediate impact on Palestinian economic performance, it is nevertheless important to identify and examine the key aspects of recent policy developments affecting economic activity and the new perspectives that have begun to unfold.

3. Within this new setting, and in the spirit of reconstruction and cooperation that has consequently emerged, Part I of this report examines the main aspects of the new policy and regulatory environment that will affect the Palestinian economy following the conclusion of Israeli-Palestinian accords. This is followed by a review of the emerging Palestinian institutional and policy network for the initiation and effective management of reconstruction efforts, supported by accords on economic cooperation between Palestine and its main Arab partners and the recently announced international emergency assistance programme. Part I also reflects on recent main developments in the Palestinian economy.

4. As part of the secretariat’s ongoing investigation of developments in the Palestinian external trade sector, Part II of the report focuses on key issues facing that sector, especially trends in merchandise trade, medium-term prospects and emerging technical assistance needs for its development. This Part also presents the main elements of an integrated programme of technical cooperation activities to be undertaken by the secretariat in support of Palestinian trade and related sectors. Part III of the report offers a brief review of progress in the work of the UNCTAD secretariat on assistance to the Palestinian people.
Part I

MAJOR DEVELOPMENTS IN THE PALESTINIAN ECONOMY, JULY 1993–JUNE 1994

A. The policy environment influencing Palestinian economy

1. Economic implications of the Israel–Palestine agreements

5. The signing of the Declaration of Principles (DOP) and subsequent agreements marks the beginning of a radical transformation in the political and psychological underpinnings of Palestinian development goals and aspirations. In addition to the main political and security issues covered by the Israel–Palestine accords, many provisions of these agreements concern economic and related development issues. An important aspect in the design of the five-year interim period, as stipulated in the DOP, is its division into two distinct phases. The first phase, commencing with the Israeli withdrawal from Gaza Strip and Jericho, is one of early empowerment, to be administered by an interim Palestinian authority. The Palestine leadership established on 12 October 1993 the Palestinian National Authority (PNA), whose members were designated in May 1994. According to the DOP, this first phase was intended to last until July 1994, by which stage Israeli–Palestinian negotiations would lead to Israeli redeployment in the rest of the West Bank, transfer of civil authority to Palestinians in all remaining areas of the West Bank and elections for the Council of the Palestinian Interim Self-Government Authority (PISGA). This Council would then become the effective Palestinian authority in all of Gaza Strip and the West Bank (excluding Israeli settlements and east Jerusalem) for the second phase covering the remainder of the five-year interim period. Commencing in the third year of the interim period, negotiations will begin on "final status" issues (including the ultimate disposition of the territory, Israeli settlements, Jerusalem and refugees).

6. A key concept that is implicit throughout the DOP is that of "limited empowerment" of the Palestinian people now living in the occupied territory plus an – as yet – unknown number of those Palestinians displaced from the territory since 1967 who may be allowed to return in accordance with the Israeli–Palestinian agreements. In order to promote immediate economic revival, the DOP stipulates that in the first phase a transfer of authority to Palestinian administration would cover six spheres in the Gaza Strip and Jericho. By the time the Gaza-Jericho Agreement was signed in May 1994, the implementation of this provision was extended to cover over 30 government functions previously exercised by the Israeli Civil Administration in the two areas. As such, the PNA has assumed responsibilities in the Gaza Strip and Jericho specified for the first phase of the interim period. It will negotiate subsequent agreements with Israel, prepare for the elections and establish the institutional infrastructures that will usher in the second phase. The provisions of the DOP also stipulate the initiation of a programme for economic development and stability, including the creation of an emergency fund to encourage foreign investment and provide economic and financial support, as a precursor to more ambitious schemes once the PNA is fully operational.
7. According to the DOP, by the time the second phase commences, PISGA should have established an administrative system with organs/departments covering all areas except external security, Israeli settlements and diplomatic relations. It is intended that several Palestinian institutions with a development-related mandate be established. For the "mutual benefit of cooperation promoting the development of the West Bank, the Gaza Strip and Israel", the DOP calls for bilateral cooperation in infrastructural and economic spheres. An Israeli-Palestinian Joint Economic Committee (JEC) met in Paris as of November 1993 to negotiate economic relations in several fields between Israel and the Palestinian authority. The JEC is also intended to consider cooperative programmes in a diverse group of infrastructural economic and social sectors. Palestinian development concerns not in the domain of PISGA or the JEC are to be addressed at the ongoing multilateral negotiations on Middle East regional economic cooperation. On that level, the DOP proposes a programme for economic development in the West Bank and Gaza Strip, including housing, small business development, physical infrastructure and human resource development. Therefore, it is evident that the DOP attaches a high premium to economic and social development. The primacy of economic and social "recovery", "development" and "cooperation" is becoming a reality that should increasingly manifest itself in the coming period. As PISGA is constituted on the ground, the capacity of the Palestinian people to assume responsibilities for these areas will be another crucial test for the nascent Palestinian national authority.

8. The Protocol on Economic Relations, signed on 4 May 1994 as part of the Gaza-Jericho Agreement between Israel and Palestine, stipulates a comprehensive implementation plan for the provisions of DOP relating to economic and development issues. It "establishes the contractual agreement that will govern the economic relations between the two sides and will cover the West Bank and the Gaza Strip during the interim period", commencing in Gaza-Jericho and extending at a later stage to the rest of the West Bank:

"The two parties view the economic domain as one of the cornerstones in their mutual relations ... which will be governed in various economic spheres by the principles of mutual respect for each other’s economic interests, reciprocity, equity and fairness. (The) protocol lays the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision-making in accordance with its own development plan and priorities."

9. The 28-page Protocol covers cooperation in the nine areas of Israeli-Palestinian economic relations, namely: import duties and policy; monetary and financial issues; direct taxation; indirect taxes on local production; labour; agriculture; industry; tourism; and, insurance. In all these areas, the Protocol represents a major departure from the restrictive regulatory environment that characterized the past 27 years, and sets the new Palestinian authority on the path of autonomous economic decision-making and management. Within a context of cooperation with Israel, the Protocol provides for a range of immediate tasks for the Palestinian authority including the formulation and implementation of policies and procedures towards achievement of a number of interim period goals:
Palestinian economic institution building including the establishment of customs and tax administrations, monetary authority, health and social security institutions, and tourism authority;

- Mutual respect of, and safeguards for, vital economic and financial interests affecting money and banking, labour services, agriculture and industry;

- Protection of the rights and benefits of Palestinians working in Israel;

- Separate tariff schemes and import/export procedures for different markets (Arab, Islamic, international, Israeli), each comprising different goods (over 500 products in total) and rates;

- Free movement of industrial and agricultural produce between the two sides according to agreed arrangements, with exemptions for six commodities to be phased out over four years;

- Separate, but transparent, industrial promotion policies, including grants, loans, research and development assistance and direct tax benefits but excluding indirect tax rebates or relief;

- Development of Palestinian tourism activities and reciprocal free access to tourist sites; and,

- Arrangements for compulsory road accident insurance coverage and assumption by the Palestinian authority of statutory responsibilities regarding compensation and settlement of claims.

10. Undoubtedly, the areas briefly highlighted above reflect foresight and the determination of both parties to recognize each other's independent rights and needs and to join forces on an equal basis in order to promote the development of their two societies in harmony and peace. The implementation of the DOP and Gaza-Jericho Agreement is likely to have an important impact on the orientation, contents and form of Palestinian development thought, discourse, and action. Important reassessments have become necessary on the domestic, bilateral and regional levels. The social cost-benefit criteria for evaluating development projects, programmes and institutions are now destined to reflect different considerations. The premium attached in past years to "grassroots work", "steadfastness", "civil disobedience" and "institution-building" as developmental goals could give way to different priorities, related mainly to the task of nation building and economic recovery and growth.

11. Equally bold and innovative changes are taking place in Palestinian attitudes to, and in relations with, Israel. The DOP and the Gaza-Jericho Agreement stipulate a range of areas for future cooperation, as compared to a history of confrontation. However, it is not evident that all the cooperation issues cited will be rapidly or profoundly tackled, especially as long as other obstructing issues, whether relating to the interim phase or the final status of the territory, remain unresolved. Meanwhile, Palestinian attention
is expected to be largely focused on reconstruction and rehabilitation prior to intensive involvement in regional cooperation efforts in active partnership with Israel and other neighbours. Thus, while the DOP has established a frame of reference and mechanism for Palestinian-Israeli development cooperation, this may unfold at a cautious pace. Furthermore, the destiny of the Palestinian identity and role in the new Middle East will not hinge only on the extent to which Palestinian-Israeli cooperation has created new common interests. Equally important will be the pace and scope of reintegration of Palestine within the Arab world in the wake of years of isolation.

2. The Palestinian National Authority and the Palestine Development Programme

12. By June 1994, the nucleus of Palestinian interim self-government authority (declared as the Palestinian National Authority - PNA) had begun to emerge, after the transfer of authority by Israel in the Gaza Strip and Jericho. The institutional and administrative framework envisaged for the PNA was still unfolding at the time this report was prepared. Thus, the form and functions of a fully functioning Palestinian public administration system with responsibility for, inter alia, economic and social affairs in the territory will have to await elections of the PISGA Council. However, one important Palestinian public agency with paramount immediate role in development activities had begun functioning in the first half of 1994. In order to expedite and coordinate international emergency assistance and to manage development activities in the immediate recovery period, the PNA constituted, on 31 October 1993, the Palestinian Economic Council for Development and Reconstruction (PECDAR). Its status was formalized in May 1994, with the adoption of PECDAR’s Bylaws and the signing of agreements with multilateral donors for emergency assistance during 1994-1996 (see section B. below). Its main responsibilities include the formulation of development programmes, coordination of the flow of external assistance, the management and monitoring of projects thus financed.

13. In 1990, the Department of Economic Affairs and Planning of Palestine began to prepare the "Programme for the development of the Palestinian national economy, 1994-2000" - for short the Palestine Development Programme (PDP). As with any programming exercise, the PDP has its particular goals, priorities, strategies policies, programmes and mechanisms upon which political or technical opinions may differ. Nevertheless, the PDP constitutes a comprehensive frame of reference that should fortify the Palestinian position and guide the course of action in the coming years. The PDP, which was finalized well before the DOP, is based on several political, legal and demographic assumptions, not all of which were realized in the subsequent Israeli-Palestinian accords. In addition to standard growth and developmental goals, the PDP has several objectives specific to the Palestinian situation. Overall, the PDP has envisaged cautious, liberal and socially conscious development strategies. The role envisaged for government is restricted to those functions that can most effectively be undertaken by the public sector. The PDP envisages a market-oriented economy working through institutions rooted in civil society. The phasing of PDP covers seven years, the first two of which are considered a period of rehabilitation for
the economy, including the necessary legislative overhaul. This initial period is intended to witness the implementation of the most urgent programmes and projects, intended to enhance the economy's capacity to absorb large investments with a minimum of waste and inflationary effect.

14. The total fixed investment requirements estimated by the PDP, as an indicative programming figure, are $11.6 billion, most of which would be required from the third to the sixth years of the Programme. Over $2 billion is intended to be provided through domestic savings, with the balance coming from external sources (investment and aid). The sectoral allocations of the PDP, covering investments in fixed capital, excluding working capital requirements, are as follows: Public housing programmes are the most significant element of the reconstruction effort (32 per cent) followed by industrial and commercial building and construction equipment (17 per cent). Only transport and communications call for an equally significant amount of investment (13 per cent). When allocation to energy resources are combined with those to other infrastructures, together they account for over two-thirds of total PDP allocations, i.e., some $7.9 billion. The balance of investment allocations are earmarked for agriculture (8.6 per cent), followed by education, health and welfare/cultural services (5, 4 and 2 per cent, respectively), industrial and private services (3.5 and 4 per cent, respectively) and water and public utilities (4.5 per cent).

15. There appear to be both common and distinct areas of emphasis between the PDP and the infrastructural or economic spheres covered in Palestinian-Israeli agreements. The PDP specifies limited forms of Palestinian-Israeli cooperation, albeit within the context of a self-reliant, nation-building orientation. While the PDP assumes coexistence and normal economic relations and areas of joint concern and cooperation with Israel, the external thrust of the Programme is on the Arab hinterland and newly emerging partners. In addition, the Israel-Palestine economic accords, though detailed, do not place the different economic sectors solely within the domain of bilateral cooperation with Israel. This emphasis will be reinforced to the extent that PISGA asserts itself and diversifies its options on the domestic, regional and international levels as envisaged in PDP. Consequently, many issues will remain fully within the Palestinian domestic domain. Also, the indicative nature of the PDP and the scope of economic relations agreed with Israel reveal realistic possibilities for Palestinian non-governmental influence upon developments at the levels of policy and planning, investment diversification and project design and implementation. There is a fertile ground for private initiative guided by a sense of civic responsibility, economic purpose and innovation.

3. **Palestinian accords on economic cooperation with Arab countries**

16. Parallel to the economic accords concluded between Israel and Palestine, equally significant developments are noted in the policy environment affecting Palestinian economic relations with its historic Arab partners. Midway between the signing of the DOP and the Gaza-Jericho Agreement, Jordan and Palestine concluded an agreement on economic cooperation that constitutes a milestone in the "special relationship between the brethren Jordanian and Palestinian peoples". The 16-point agreement cites the main principles that will guide future Jordanian-Palestinian economic relations. The two
sides agreed that "the building of a common future requires the highest degrees of economic, social, scientific, technological and organizational cooperation on the official and popular levels". The agreement is considered as a first step in establishing the "rules and effective bases for facilitating the free movement of capital, labour, goods and services". Following resumed negotiations in May 1994, the two sides had drafted a joint working plan intended to implement the January accord. 12/

17. The agreement approves the re-opening of Jordanian banks in the territory closed in 1967, under the supervision of the Central Bank of Jordan and according to prevailing Jordanian laws and regulations, in cooperation with the competent Palestinian body, pending the establishment of the Palestinian Monetary Authority (PMA). Pending the issuance of a Palestinian currency, the Jordanian dinar will continue to circulate in the territory (alongside Arab and international currencies), and will be the main currency used by the PNA for purposes of valuation and transactions. Joint efforts in establishing specialized financial institutions are also proposed. Of special importance are the provisions relating to trade between the two sides, including: removal of all tariff and non-tariff barriers to free trade between the two sides; boosting the volume and value of merchandise trade; establishing a joint free-zone for industrial production and transit trade in the Jordan River valley; facilitating the movement of Palestinian exports and imports through Jordan; and, rebuilding a disused bridge over the Jordan River for trade purposes and expanding other crossing points over the river. The two sides also agreed on joint touristic projects, investments and promotion; organizing the exchange of labour; establishing a policy framework for encouraging joint investments; encouraging private sector initiative and participation; and, exchanging agricultural technology and pooling resources in infrastructural sectors.

18. A similar accord was announced between Egypt and Palestine soon afterwards, expanding yet further the scope for Palestinian-Arab economic cooperation in the coming years. 13/ The agreement, valid for the five-year interim period, calls for re-activation of Egyptian-Palestinian relations in a number of sectors (including infrastructures, investment, banking, trade and tourism) "to achieve common interests and mutual benefits". The provisions of the agreement lay down a suitable and promising basis for the reintegration of the Palestinian economy in its traditional markets.

B. International assistance to the occupied territory

19. Of equal significance to the course of Palestinian development over the coming years will be the interplay of interested international parties in the process of Palestinian recovery and reconstruction. Initiated in the context of the work of the multilateral Middle East Peace Talks (Regional Economic Development Working Group), an international effort was launched in late 1993 to cement the peace process through relief and development aid. This involves donors at bilateral and multilateral levels, international finance and a constellation of parties which focus efforts on the realization of Palestinian-Israeli peace and cooperation prospects as the key to transforming the Middle Eastern political and economic landscape. 14/
20. Until recently, the issue of Palestinian economic development had not been tackled by a development-oriented multilateral institution apart from a number of United Nations organizations carrying programmes/activities in their areas of competence in support of the Palestinian people. At the initiative of the sponsors of the Middle East Peace Talks, the International Bank for Reconstruction and Development (IBRD-World Bank) was requested to undertake the preparation of a study assessing the development needs and prospects of the West Bank and Gaza Strip within the overall context of efforts to promote cooperation among the countries concerned. In particular, the purpose was "to assess prospects for sustainable development in the occupied territories as well as outline a priority agenda of policy reforms, institutional development and investments needed to promote such growth". The study examines elements of a strategy for Palestinian economic development. In particular, it investigates an indicative scenario for Palestinian economic recovery over a five-year transition period. Assuming a "good economic policy", an annual growth rate in excess of 3 per cent in per capita incomes is sustainable, provided there is a smooth phase out from the Israeli labour market and adequate external public and private capital inflows - about $2,500 million over the five-year period. To the extent that there is any return of Palestinians, the need for external inflows would be higher.

21. Public sector external financing requirements were estimated by the IBRD at $1,500 million over five years in addition to expected external private capital inflows of $200-$250 million per annum. These pre-DOP estimates of required ODA were subsequently revised upwards to reflect the establishment of government institutions and housing requirements of returnees, estimated at $500-$550 million per year over the period. Excluding private investment flows, the IBRD’s revised financial resource assessment specifies investments by the public sector of $1,350 million for the medium-term (1994-1998) and $1,600 million for the long-term (1999-2003). This would amount to a total of about $3,000 million of ODA over the period, 1994-2004.

22. In a scenario analysis exercise finalized by the UNCTAD secretariat prior to the 1993 developments, a larger estimate of overall external resource requirements is suggested in order to place the Palestinian economy on the path of sustained growth and development. Under this scenario, explicit policy options and changes in the behaviour of key variables are introduced with the view to addressing the problem of structural transformation of the economy. These are primarily intended to reduce the labour-employment and export-import gap, increase production, and restructure demand away from consumption in favour of investment. Under this scenario, the relatively constrained historical level of external transfers is relaxed in order to allow for increased public and private investments and narrow the gaps more rapidly than would otherwise be the case. The availability of extra external finance gives the economy a substantial and immediate boost to its employment generation capacity, which subsequently becomes self-supporting.

23. The secretariat study suggests that, over a 15-year period (1994-2008), increased levels of private and public investment (of some $1 billion more than would have otherwise been available during the period), combined with the injection of a total of $9 billion of external transfers (i.e., some $5.5 billion more than would have otherwise been expected) would lead to significant and lasting gains in employment, narrowing of both
saving-investment and export-import gaps, improvement in the current account deficit and the emergence of a stronger productive base. The additional external transfers would enable the economy to generate $4.6 billion more of GDP during the 15-year period, thus allowing a much more rapid take-off with full mobilization of domestic human and material resources. These extra transfers would be required in the first 10 years of reconstruction, after which the economy will emerge with a vigorous structure that should not require extra external financial support.

24. Right after the signing of the DOP, the United States of America announced its intention to convene a Conference in Support of the Middle East Peace, "to lead a wide-ranging effort not simply to give peace a chance, but to ensure that it will not fail ... the agreement must be translated into results quickly and vividly." The threefold purpose of the Conference was to: ensure adequate pledges of assistance to meet estimated needs; identify the most pressing needs in the near term and work out a plan to address them; and, agree on a structure for coordinating international assistance and economic development. For the interim period (1994-1998), there were formal indications of planned support approaching $2,000 million, with additional pledges subsequently bringing the multilateral resource pledge to $2,400 million, excluding bilateral aid and private investment. To help distribute the aid, the Conference established an Ad Hoc Liaison Committee (AHLC), which meets periodically, chaired on a rotating basis by the United States, Japan, Canada and the European Union. Other members are Norway and Saudi Arabia, with associate status for Palestine, Israel, Egypt, Jordan and the United Nations. The IBRD acts as the AHLC secretariat.

25. At the Conference, the donors agreed to support urgent relief efforts including infrastructure rehabilitation, and recognized that an appropriate legal framework should be established on the recipient side in order to ensure a smooth implementation of external assistance. An immediate priority was the building of Palestinians' capacity to organize and manage their own political, economic and social affairs and the development of effective revenue sharing and collection arrangements. This calls for an extensive programme of technical assistance to build institutions and to train personnel. Meanwhile, another multilateral institution, the International Monetary Fund (IMF) fielded a mission to the territory early in 1994 and prepared a preliminary report including policy recommendations and modalities for providing assistance to help establish a Palestinian tax and data collection system and to build the organizational infrastructure for domestic economic management.

26. Following on the Washington Conference, and in the context of IBRD assessments of medium-term ODA requirements, the AHLC considered proposals for an emergency assistance programme for the first three years of the interim period (1994-1996). The programme, which was finalized in April 1994 after extensive consultations with donors and recipients, calls for resources totalling $1.2 billion. Over 85 per cent of this is in the form of grants or highly concessional loans. It is hoped that "the programme can jump start the Palestinian economy over the next three years, bringing social and economic benefits to a large part of the Palestinian population". Programme implementation would be entrusted to PECDAR, United Nations agencies and NGOs operating in the territory. A total of $300 million in aid is
intended to support private sector investments in telecommunications, housing, agriculture and industry, while public sector investments of $600 million will concentrate on transportation, water and sewage, power, municipal services, education and health. Some $75 million will be needed for technical assistance and $225 million to help establish a central Palestinian administration and to support NGOs. Eight months after the pledges were initially made, international aid had yet to begin flowing to the territory, owing to technical, legal and policy-related factors.

The question of Palestine in all its dimensions has preoccupied the United Nations and its agencies since 1948. On the social and humanitarian levels, United Nations responsibility towards the Palestinian people has been recognized since 1948 and entrusted to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) which has provided shelter, food, clothing, education and health and other basic needs to millions of Palestinian refugees since 1949 and still figures prominently in the life of Palestinians. Since the signing of the DOP additional tasks are assumed by UNRWA in all areas of its involvement (see below). Its field experience and presence throughout the occupied territory, accumulated material and other assets and its relatively well-formed, almost wholly Palestinian staff are important elements in the management of the sectors and areas entrusted to Palestinian self-government. In the late 1970s, the United Nations Development Programme (UNDP) began to implement infrastructural and services projects, initially with a modest budget which grew above $5 million per annum after 1988. Other agencies have also prepared studies and reports, sponsored projects, training or seminars concerning different Palestinian social and economic issues since the 1980s (e.g., FAO, ILO, UNCHS (HABITAT), UNEP, UNESCWA, UNICEF, UNIDO, UNESCO and WHO). Undoubtedly, the collective relevance of these efforts need to be coordinated for the benefit of the Palestinian people and their nascent institutions.

In response to the new situation since the DOP, the Secretary-General of the United Nations formed a high-level task force to establish a unified and coherent approach in the provision of immediate humanitarian assistance by the United Nations in the occupied territory. An initial report was prepared in time for the Washington Conference, outlining expansion of UNRWA, UNDP and UNICEF activities in 1994, to help maintain and improve services in areas over which Palestinians will assume responsibility. The report proposed that in 1994 these activities be increased by over 50 per cent, to $388 million. Most of the activities suggested amplify ongoing programmes based on specific priority needs.

The report of the task force also proposed a system-wide programme for the rest of the transition period, under the broad supervision of a high-level coordinator. On 29 March 1994, the Secretary-General of the United Nations proposed the appointment of a Special Coordinator to serve as focal point for all United Nations economic, social and other assistance to the Palestinian people in the occupied territory. The mandate, experience and active presence in the field of the United Nations system could provide useful guidance for Palestinian economic, social and community development, and constitute an important link in Palestinian relations with
the international community. Already, Palestine has agreed on technical cooperation programmes with the UNDP, UNESCO and ILO, while other agencies are preparing similar programmes. 27/

30. Since 1990, Arab official multilateral and bilateral aid and private (charitable) transfers to the occupied territory have practically ceased. Only with the commitments made at the Washington Conference by several Arab donors, coupled with expressions of interest by some Arab investors, could hopes for Palestinian reintegration in the Arab hinterland again become realistic. Already, in 1993 some Arab multilateral institutions had resumed funding of programmes in the territory. Equally important as the financial dimension of this renewed Arab involvement is the opportunity it offers for partnership, cooperation and the identification of common Palestinian-Arab economic interests. Meanwhile, the success of the forthcoming international aid effort and its contribution to the economic and social development of the widest possible spectrum of the Palestinian people will depend on the ability of Palestinians themselves to capitalize on the support, expertise and dedication of many international NGOs, and the latter's role in implementing the technical and project assistance offered by bilateral donors both within and outside the multilateral framework.

C. Main developments in the Palestinian economy and immediate challenges

31. Whereas detailed information on recent policy developments, outlined above, have been the subject of much recent attention and commentary, both official statistical data and reliable non-official estimates of Palestinian aggregate economic performance have become especially limited since 1992. Ever since 1988, serious gaps and shortcomings, caused by difficulties in data collection, began to appear in official statistical series. The last set of Palestinian national accounts published by the Israel Central Bureau of Statistics (CBS) covers the situation until 1991, 28/ while preliminary estimates for 1992 have been announced 29/ these have not yet been published. Palestinian field sources likewise have proven to be a less useful basis for information on developments in the economy than in the past. Evidently, preoccupation with the peace process, implementation of the new economic agreements and preparation of the international assistance programme has taken precedence over monitoring current developments in the economy at the aggregate and sectoral levels. Furthermore, the transfer of responsibility for statistical compilation, analysis and dissemination from the Israel CBS to the newly established Palestinian Bureau of Statistics along the lines of the political agreements, has interrupted the routine activities of those involved on both sides. 30/

32. Since 1993, international sources have published estimates or projections of Palestinian economic performance, but these have often provided divergent figures, owing to different data sources, definitions, scope, reference years, currencies, deflators and other methodological discrepancies. 31/ Data available for the period until 1991 and secretariat estimates for 1992/1993 were reflected in the previous secretariat report on this subject. 32/ As such, in the absence of fresh comprehensive data, it is difficult to identify with greater precision the levels or rates of change in aggregate economic indicators for the period under review. Nevertheless, the limited available information highlights some features of economic performance which continue to
figure prominently and which pose major challenges to the Palestinian authority and others concerned with recovery and reconstruction in the period ahead.

33. The Palestinian economy remains characterized by a distorted structure of output which has favoured services, residential construction and traditional agriculture as against the relatively weak industrial sector, and infrastructures including utilities, and some private services. This structure, reflecting a weak domestic resource base and the impact of prolonged occupation, will no longer be sustainable under the new policy environment emerging in the territory. Intensified expansion in infrastructures, including increased residential buildings, and utilities will constitute one of the pressing preoccupations of the nascent Palestinian authority. Recent trends in agricultural diversification and adoption of new, more lucrative varieties and improved application of farming technologies also need to be enhanced in order to rationalize the contribution and impact of this sector in the economy. Similarly, special policies and measures will be required to ensure that the development of industry and of certain sectors in private services, such as tourism, are accorded greater priority and resources than in the past.

34. An increasingly critical situation has developed since 1991 in the occupied territory as regards growing unemployment, underemployment and the emergence of poverty, especially in the Gaza Strip. While this mainly reflects the fall in employment opportunities for Palestinian workers in Israel and in the oil producing countries of the region, and the frequent closure of Israel for security reasons, domestic factors are also at play. In particular, sectors of Palestinian domestic economy (except agriculture) have proven incapable of adequately absorbing Palestinian workers no longer employed in Israel (at least 40,000 since 1987), new entrants to the labour force (some 13,000 annually), returnees from Kuwait and the Gulf countries since 1990 (estimated at the time at around 15,000), in addition to those made redundant owing to the decline in production levels of several domestic sectors since 1987 (especially industry, construction and public and private services). Unemployment, cited at around 25 per cent (out of a labour force of some 350,000) in early 1994 by some international sources, and up to 40 per cent by Palestinian sources, surely places a special burden and challenge before policy makers and entrepreneurs alike. Notwithstanding different interpretations of the nature and dimensions of the employment problem in the occupied territory (i.e., the extent to which it is a question of unemployment or underemployment), the issue remains one of special urgency. Job creation, through private and public investment programme, will remain a top priority in the coming years, along with other key economic and social considerations.

35. A continuing feature of the Palestinian economy which reflects both the weakness of the domestic economic base and chronic dependence on external sources of income is the relatively low share of gross domestic product (GDP) in gross national product (GNP). Employment opportunities outside the occupied territory have increasingly attracted a growing number of underemployed or surplus Palestinian labour (especially from rural and refugee camp communities) to jobs in Israel and elsewhere in the region. Since the mid-1970s, between 32 and 35 per cent of the Palestinian labour force was
working mainly in Israel, generating between 26 to 27 per cent of GNP. In recent years, since the uprising and post-1990 Israeli security measures, the number and proportion of Palestinians working in Israel has fallen noticeably (to as low as 27 per cent of all employed in 1993), leading to a decline in the level of GNP. However, domestic output itself also continued in 1993 and early 1994 to suffer the impact of disruptions (viz., strikes, curfews and closures), the cyclical nature of the sizeable olive crop, overall poor inter-sectoral articulation, marketing bottlenecks, and the absence of policy-making, regulatory and management authorities.

36. Thus, GDP growth rate has continued to fluctuate widely depicting sharp increase in one year (e.g. 1990 and 1992) and considerable decrease in the next (e.g. 1991 and 1993). A strong growth rate of 11 to 25 per cent is projected by different sources for 1994. Given current restrictions on the entry of Palestinian workers into Israel, and the positive impact on the domestic economy of the forthcoming emergency assistance programme, it is likely that the share of GDP in GNP will for the moment remain above historical levels (i.e., around 80 per cent), while the share of the Palestinian labour force in Israel will remain low (i.e., no more than 25 per cent). As job opportunities in Israel become less promising, intensified efforts will be required on creating more job opportunities in the territory and boosting domestic output to make up for lost employment and income in Israel, thus helping to achieve the projected rate of growth in 1994.

37. The ability of the Palestinian economy to re-orient over the coming few years will depend on both the content and direction of external trade as undoubtedly one of the key elements of its future growth prospects (see Part II below). The importance of this factor is recognized both in the PDP and in recent economic agreements, which accord trade with traditional Arab partners a prominent position. This is notwithstanding the trend of developments in the past decades which depict a growing concentration of trade with Israel. The need for trade re-orientation is now widely recognized, though opinions differ on the extent to which market diversification is feasible given past trends, current structure of Palestinian output and prevailing cost-price structures between the territory and Arab and international markets. However, the new policy environment should permit Palestinian producers to explore export lines for which Palestinians could not previously exploit comparative advantages in neighbouring or more distant markets. Relatively free interaction with the three neighbouring markets and newly emerging markets, each exhibiting varied production and consumption patterns, should help Palestinian exporters to regularly identify changing opportunities and act accordingly. A more diversified access to lower cost imports should encourage more rational import patterns and discourage non-viable domestic investments in "import substitution" projects which do not enjoy comparative advantage and are not competitive internationally. The challenge of optimizing the terms of recent agreements on trade relations with Israel, Jordan and Egypt and of exploiting preferential treatment accorded elsewhere, points to yet another important area for concerted and well conceived action.
38. Potentials for increased international private investment in the Palestinian territory have been greatly enhanced by the pledges of official development assistance (ODA). In addition to the contracts associated with the projects to be paid for by the ODA, the longer-term reconstruction effort will open up lucrative growth areas for direct private investment and technological advance through "bankable" projects in infrastructures, production and export-oriented sectors, and in the range of business, construction, financial, commercial and communications services that will rapidly emerge. From the vantage point of potential international corporate investors, regional economies of scale in infrastructural or trade-related projects will be an important criteria, and indeed the wider regional market is of greater commercial interest than the small and still undeveloped Palestinian market.

39. On both levels of external private sector involvement in the occupied territory - international NGOs and private investment (expatriate, Arab and international) - the resources that can be brought to bear in the first stages of the Palestinian development effort will be relatively small compared to the sums invested by official sources. But the qualitative impact and potential influence on the course of development can be significant in addressing neglected areas and issues, in setting high standards for Palestinian public service, and, in encouraging greater efficiency and productivity in allocation of resources. In this task, elements of the United Nations efforts noted above could usefully dovetail with international and Palestinian NGO activities. In the meantime, Palestinian expatriate private sector involvement could attract Arab investors in activities or sectors in which their experience, technical capacities and interests place them at an advantage as compared to investors from elsewhere.

40. The re-establishment and reform of the Palestinian financial sector is an urgent prerequisite for the success of most other activities. While much in this area may depend on private sector initiative, a secure policy environment along with clear and safe guidelines, especially in banking and investment activities, is indispensable for the smooth and efficient operation of the sector. Elements of sound monetary, banking and fiscal policy are being laid down in the territory and business confidence has begun to show slow but steady signs of growth since 1993. However, much work remains to be done, especially on the legal and regulatory framework and on public institution building in this vital sector. Most of the Arab banks in the territory which were closed by Israel in 1967 are in the process of reopening their branches, while new financial and credit institutions, including joint ventures with international partners, are also being planned. These steps will certainly help to further encourage growing interest of Palestinian expatriate entrepreneurs, with Arab or international partners, in investment opportunities in different sectors. One promising initiative taken in March 1994 in Amman, was the establishment of a $200 million investment company for projects in the territory, composed of a diverse and influential group of prominent Palestinian and Arab businessmen, bankers and contractors. 37/

41. Until mid-1994, it appeared that most interested private entrepreneurs were still awaiting the active commencement of international official aid programmes and the full assumption of authority by the PNA prior to committing
themselves to significant investments in the territory. It is not expected that foreign private investment will begin to show an impact on output before 1995. Nevertheless, the large divergence between PDP and other estimates of total investment requirements until the year 2000 and the ODA pledged towards Palestinian reconstruction places a major financial burden in the coming years on domestic savings (both public and private), expatriate Palestinian private capital and international finance. Mobilizing and efficiently allocating these resources will remain a crucial responsibility facing the Palestinian authorities. This highlights the need for well designed and effective investment encouragement laws and streamlined procedures.

42. Public sector finances, both on the revenue and expenditure sides, constitute an area where Palestinians will now be managing institutions and functions which until recently rested wholly within the domain of the occupation authorities. Over and above public sector development expenditures (including those of local authorities, as well as those of UNRWA and NGOs), it is estimated that operating expenditures of the Palestinian central administration will be $425 million in 1994. Some 37 per cent of this sum covers start-up expenditures (relief payments, equipment and local authority support) and 63 per cent covers current expenditures (central administration and police salaries, supplies and others). This would rise to $508 million in 1995, with start-up expenditures then accounting for under 20 per cent of the total. Given weak initial revenue collection capacity in 1994 (income tax, VAT, customs and excise, and revenue clearance from Israel), a deficit in central government finance of $158 million is envisaged for this year. By 1995 the Palestinian central administration is expected to be able to cover all operating expenditures, except for a $40 million deficit of NGOs which depend in part on central government financing. In subsequent revised estimates, presented by Palestine at the AHLC consultative group meeting in June 1994, the actual central administration budget was estimated at $381 million for 1994 (June-December). It was expected that $204 million of the budget could be covered by revenue from taxation, customs duties and other regular income sources. Accordingly, a deficit of $177 million is expected for the remainder of this year. While $95 million had been pledged earlier by donors towards covering this deficit, an additional $82 million remains to be secured in order to maintain basic government services in the Gaza-Jericho area and subsequently in the rest of the West Bank. As the new administration has yet to receive any revenues, this deficit has been felt from the very outset of the period for interim self-government.

43. Unlike other areas of the economy in which entrepreneurs and institutions have acquired greater experience in the past, the management of central government current and development expenditures and the collection of government revenues are functions for which the PNA can draw upon relatively fewer human resources, especially qualified administrators and well-trained staff. While striving to maintain financial stability, serious efforts at a comprehensive tax reform will have to commence soon. The recommendations of the IMF mission could be useful in this regard, as are the findings and recommendations of the UNCTAD secretariat’s work on the subject in previous years. The task of maintaining a low government deficit under the pressure of a multitude of forces to expand current and development budgets,
calls for skilled and disciplined public sector expenditure policy design and management. An equally challenging issue is the need to devise equitable, flexible and effective taxation and revenue-maximizing policies which will ensure fiscal coherence and leave adequate resources with the general public to generate private sector investment and growth. Balanced, transparent and vigorous application of revenue collection will be called for, coupled with the need to provide for social safety nets.

44. The imperative of achieving a rapid improvement in the living conditions of the Palestinian people cuts across all levels of society and sectors of economic activity. In this context, three inter-related sectors appear to be especially important and relevant to the task of Palestinian social and economic revival. First, the need to begin to provide decent housing along with efficient utilities to all social groups, at affordable prices. Second, hand in hand with shelter goes the provision of adequate health care, sanitation and environmental protection services, consistent with accepted norms and capable of supporting a growing population and a vibrant economy. Third, an essential ingredient to the long-term success of the Palestinian economic development effort will be the creation of a well-educated, technically competent and diverse labour force, with vigorous participation by women, former detainees and the disabled. The urgency of providing for appropriate technical and scientific training, re-training and re-engagement of a generation of intifada-period youth in the educational process and in reconstruction cannot be overemphasized. Optimizing on Palestinian society’s primary asset, namely its human resources, could well be the sine qua non of a successful passage from the legacy of strife and occupation to an era of peace and prosperity. The detailed programmes of assistance prepared recently by ILO and UNESCO in this domain constitute timely contributions towards enabling the Palestinian people to face the challenges of economic and social development that lay ahead.

45. By mid-1994, with the international emergency assistance programme yet to commence, the occupied Palestinian territory was still facing critical conditions in many economic and social sectors. While the preceding paragraphs highlighted some of the diverse new opportunities and difficult challenges facing the new Palestinian authority, the impact of the deterioration of Palestinian productive sectors, infrastructures and social services over the past 27 years cannot be summarized in the space permitted here. Thus, while it is hoped that the growing political empowerment of the Palestinian people will enable them to increasingly confront and overcome these challenges, they surely cannot bear this burden alone. If the international community, including multilateral and other international organizations, is to achieve the ambitious goals of the October 1993 Conference to Support Middle East Peace, it is imperative that international support be felt rapidly and visibly on the ground. Pledges to fund the emergency assistance programme, comprising development, start-up and current expenditures of the Palestinian authority, must be translated into concrete project funding and temporary budget support for the Palestinian central administration. While issues such as Palestinian institution building, transparency, sound financial management and accountability require continuous vigilance, the humanitarian and development needs on the ground are so pressing, and the task of securing the peace so daunting, that vigorous international aid can be delayed no longer.
Part II

KEY ISSUES FACING PALESTINIAN EXTERNAL TRADE AND RELATED SERVICES

46. Some brief observations were made in Part II regarding immediate prerequisites for reviving Palestinian external trade and related services. The purpose of this part is to examine in greater depth some of the key aspects of, and issues facing, Palestinian external trade, as well as related services, especially finance and transport. This includes trends in external trade, interim prospects, and an identification of major problem areas and emerging technical assistance needs. The analysis of the issues concerned has provided the basis for an integrated approach by the UNCTAD secretariat to develop a programme of technical cooperation activities in support of Palestinian trade and related sectors, which are outlined in the concluding section of this part.

A. Major trends in Palestinian external trade performance

47. Recent trends in Palestinian exports highlight the nature of constraints that now characterize the export sector, and provide indications of future potentials for market and commodity diversification. Overall trends in Palestinian merchandise export trade depict a steady decline in exports from a peak of $345 million in 1981 to an annual average of $200 million in the period 1988-1991. 41/ The beginning of a slow recovery was noted in 1992, when exports rose to $291 million. Export earnings in 1993 were estimated between $270 and $305 million. 42/ This reflects a long-term trend of deterioration in the ratio of merchandise exports to GDP, declining from a high of 41 per cent in 1981 to around 13 per cent of GDP by 1993.

48. As noted earlier, the market structure and direction of Palestinian external trade in both goods and services continue to reflect the predominant share of Palestinian merchandise trade with Israel and a declining share in traditional markets (Jordan, other Arab countries and Eastern Europe). The share of merchandise trade with new markets, including those which offer preferential treatment to Palestinian products has remained insignificant. Consequently, the share of merchandise exports to Israel, which constituted 65 per cent of the value of Palestinian merchandise exports in 1980, had increased to 85 per cent by 1992. Merchandise exports to Jordan and other Arab markets have consequently fallen from 31 per cent of total exports in 1970 to 13 per cent by 1992, while exports to other countries account for under 2 per cent of total Palestinian merchandise exports.

49. The commodity composition of Palestinian exports reflects a gradual marginalization of agricultural exports, which accounted for only $58 million, or under 30 per cent of the total value of exports in 1990 (the last year for which commodity data are available). This compares with around 40 per cent in the years before 1980 when the value of agricultural exports was highest (i.e., over $100 million). This transformation in the structure of merchandise exports, coupled with the overall decline in export value, is attributed to a variety of factors relating to: restructuring of domestic production patterns both within and between sectors; a range of policy, institutional and physical constraints to marketing which have over time reduced agricultural export competitiveness; and, major shifts in demand for
Palestinian agricultural exports in different markets amidst changing domestic economic or political conditions, especially in Israel, Jordan and Arab countries.

50. In 1990, 45 per cent of agricultural exports were destined to Jordan, as compared to close to 60 per cent in the first half of the 1980s, with much of the balance going to Israel. Since then, the trend in agricultural exports has shifted further in favour of the Israeli market. Data on the volume of agricultural exports to and through Jordan confirm a declining trend in recent years, from 79,400 tons in 1988 (34,800 from the West Bank mainly for the Jordanian market and 44,600 from Gaza Strip, mainly in transit to other Arab markets) to 59,800 tons in 1993 (12,900 tons from the West Bank and 46,900 tons from Gaza Strip). The increasing overall share of industrial goods in the export mix reflects two trends: a rapid decline in industrial exports to Jordan since a peak of $60 million in 1981, reaching a low level of $27 million by 1990 not witnessed since 1971; and, the steady growth of industrial exports to Israel (mainly within the context of sub-contracting arrangements) reaching a peak of $265 million in 1987, followed by a sharp fall to $141 million in 1990.

51. The increasing weakness of Palestinian merchandise exports is rendered all the more critical in the light of the mounting import bill of the occupied territory and, again, the concentration of imports from one dominant market. In line with growth in income from domestic and external sources, the Palestinian import bill grew steadily reaching just over $1,000 million by 1987. It declined to under $700 million by 1990, reflecting austerity conditions and "import substitution" measures practised by Palestinians in the context of the intifada. Since then, growth in imports has again followed an upward trend, reaching an estimated level of $1,050 million by 1993. The ratio of imports to GDP has continued to remain high, though depicting a declining trend from over 60 per cent in 1987 to 55 per cent since, a decline that reflects what appears as a continuing impact of the import compression as well as a steady decline in income especially from external sources during the period 1988-1990. Israel remains the largest supplier of much of the Palestinian imports (around 90 per cent). Understandably, its share also declined during the period 1988-1990 (as against the share of imports from international sources through Israel), only to regain previous levels by 1992.

52. The commodity composition of imports reflects the predominance of industrial products. In 1990, industrial goods constituting 86 per cent of all Palestinian imports, came mainly from and through Israel. Agricultural imports, however, were almost entirely from Israel. The lower levels and share of agricultural imports (as compared to industrial goods) reflect two major factors: the smaller share of food in the consumption basket, and the greater share of domestic agricultural products in the overall consumption of agricultural output. Thus, out of total domestic consumption expenditure of over $2,000 million in 1990 on agricultural and industrial goods, 35 per cent constituted expenditure on agricultural goods. In that year, imported agricultural and industrial goods constituted, respectively, 16 per cent and 51 per cent of total consumption of agricultural and industrial goods. Available information on industrial imports indicates that the flow of imported raw materials, intermediate inputs and capital goods constituted the major component of industrial imports at the expense of imported consumer or
final goods, especially since 1988. Growth in the entry of agricultural goods from Gaza Strip to the West Bank, and of consumer goods moving in the opposite direction, have helped to substitute for imports from Israel, and signify increased economic relationships between the two areas since 1988.

53. The above trends have maintained the substantial level of merchandise trade deficit of the territory, amounting to $940 million in 1992 and estimated at around $800 million in 1993. In terms of market share, the deficit continues to be mainly with Israel at $850 million in 1992, approximately double its level in 1985, as well as with non-Arab markets (over $100 million since 1990). Only with Jordan has Palestinian merchandise trade been able to maintain a surplus, albeit a shrinking one at under $30 million since 1990 (as compared to $100 million in 1980). The merchandise trade deficit, which has become a permanent feature of the Palestinian external sector, has been sustained through a regular and significant surplus in the services account with Israel, mainly reflecting remittances of factor income from work in Israel. Thus, while the Palestinian economy imports a range of non-factor services (especially transport and travel related) from Israel, these have generally been one third the level of labour services exports to Israel. Factor and non-factor service exports from the territory have risen since 1988 to over $900 million by 1992, even though other trade flows with Israel were disrupted. This has allowed for a significant surplus in the services account, estimated at around $600 million by 1992. However, a sharp decline in factor income in 1993 (to around $550 million) and stagnant non-factor services exports (at around $80 million), coupled with over $400 million in imports of non-factor services, implies a decline in the services surplus, to around $200 million in 1993.

B. Prospects for Palestinian trade in the interim period

54. In light of the trends examined above, projections under different assumptions reveal that Palestinian exports and imports are expected to grow in 1994-1995 at over 10 per cent per annum. The merchandise trade deficit would grow by around 11 per cent annually, though estimates vary widely as to the absolute level of the deficit by 1995. Export performance is not expected to improve noticeably in the short-term, averaging at around 17 per cent of GDP.

55. These projections, prepared before Palestine concluded economic agreements with Egypt, Israel and Jordan, do not reflect all of the potential gains in trade that could accrue to the Palestinian economy as a result of the transformed policy environment. Even though the impact of the latter may not be immediately felt and institutional and physical infrastructures for expanded trade are not yet in place, the outlook for trade in the interim period looks promising, though difficult to precisely quantify at present. Nevertheless, one scenario for medium-term prospects (see Part I) assumes a concerted Palestinian investment programme in export-oriented branches and rationalization of imports including selective import substitution activities, coupled with strong domestic economic growth brought about by changes in priorities and accompanied by requisite policy and institutional reforms.
56. Accordingly, the merchandise export sector under these circumstances shows a strong and consistent growth amounting to an annual average of 7 per cent, as against import growth of around 12 per cent, during the period 1996-2000. This would generate a sizeable merchandise deficit of at least $1,300 million by the year 2000. However, this development would not necessarily translate into a current account deficit. A continued surplus in services would be generated through steady, but limited export of labour and other services and substantial unrequited private and public transfers from abroad. These flows would also allow for increased levels of investment, eventually narrowing more rapidly than would otherwise be possible the export/import, labour/employment and savings/investment gaps which have characterized the structure and performance of the Palestinian economy over the last two decades. While merchandise imports would remain important in the consumer basket, their significance to aggregate demand would diminish.

57. In attempting to discern the outlines of future Palestinian external trade relations and the corresponding policies and measures, it is useful to consider the immediate and interim prerequisites for Palestinian economic recovery and sustained growth (including those outlined in Part I above). In the light of these, the range of appropriate and mutually beneficial trade relations and arrangements with different partners may more clearly emerge. In the first years of the interim period, in particular, decisions regarding the scope and terms of external trade relations may need to be taken in the light of pressing considerations such as: economic and trade efficiency and comparative advantage (including in labour skills), the need to generate employment, the desirability of building a diversified and self-reliant productive base through appropriate policies, maintenance of the minimum conditions for "economic security" (including food security) and the adequacy of basic infrastructures and utilities.

58. Thus, for example, while it might be considered that a free trade area with one or more neighbours presents an attractive option for the Palestinian economy in terms of factors such as geographic proximity, degree of market integration, economies of scale and prevailing regulations and tariff schemes, the immediate prerequisites of domestic economic growth may not necessarily lead to the same conclusion. On the other hand, considerations such as production complementarities, the need for export and import market diversification, consumer preferences and market trends or political imperatives might argue in favour of making a free trade regime with one or more partners an early goal. Notwithstanding the global trend towards regional trade groupings and free-trade arrangements between different partners, other trade liberalization measures (preferential treatment, general tariff reduction and removal of non-tariff barriers) reflecting both domestic objectives and considerations of interdependence are widely adopted according to countries’ circumstances.

59. Therefore, while the medium- and long-term goal of free trade between the Palestinian economy and its neighbours might constitute a desirable and necessary strategic choice, the nature, scope and phasing of such arrangements require careful study. Premature entry into binding global free-trade arrangements might jeopardize certain elements of the Palestinian reconstruction effort and legitimize the status quo of limited product
diversification, high market concentration and distorted commodity specialization, thus subjecting the Palestinian economy indefinitely to trends of external economic imperatives. In the same vein, overly protective or inward directed trade policies would equally be unviable and disadvantageous.

C. Major problem areas and emerging needs

60. The current situation of the Palestinian external trade and related sectors reflects problems and constraints similar to those affecting other areas of the Palestinian economy. As noted, the Palestinian economy continues to feature a weak, fragmented and poorly articulated productive base, composed mainly of small-scale production and marketing units. Where attempts have been made recently to revive the productive sectors, the absence of indigenous policy-making, regulatory bodies, and financial and manpower capacities has prevented coordination in the formulation and implementation of required policies and measures. For example, Palestinian import substitution initiatives since 1988 have not been accompanied by corresponding efforts of producers to meet the technical and financial requirements for the viable and successful pursuit of such initiatives. While small-scale Palestinian industries have exhibited a good potential for competitive entry into export markets, their overall role in strengthening Palestinian trade and contributing to the growth of the economy has been negligible. Similarly, the potential role of Palestinian service exports (e.g. tourism, business/producer services, transport and labour services) in diversifying the external sector equally has remained unexploited owing to shortcomings in policy and institutional framework as well as in financial and human resource availabilities.

61. One of the indirect consequences of the reliance of Palestinian external trade on a single market has been a growing commodity concentration in productive sectors (agricultural and industrial goods), corresponding to the structure of trade with that major partner. Shifts in Israeli production trends (generally upwards in terms of science and technology content) have increasingly entailed corresponding moves by Palestinian producers. These have been either to complement Israeli production (e.g. sub-contracting of textiles and other branches) or to fill gaps in the range of production for domestic (Israeli and Palestinian) markets caused by Israeli production shifts. While this could have some beneficial aspects if adequately and jointly planned and coordinated, much of the Palestinian manufacturing and mining industry, as well as some agricultural branches and a number of services (e.g. tourism and transport) continues to operate well below capacity. In addition to the general disincentives which have characterized the situation since 1967, it appears that considerations of market size as well as technical, financial and material requirements (e.g. obsolete or unrepaired machinery, inadequate or inappropriate skills, financial and material resource availabilities) have all contributed to the under-utilization of capacity. These developments have led to an increasingly distorted cost/price structure affecting Palestinian production and exports, as compared to regional and world norms. While Palestinian unit labour costs are relatively low and internationally competitive, other aspects of the cost structure continue to disadvantage Palestinian exports in most markets.
62. In this respect, a range of constraints continue to hamper Palestinian efforts to regain lost ground in traditional markets, exploit free trade arrangements at the regional and international levels, and benefit from preferential treatment accorded to Palestinian exports in new markets, especially the European Union, the Global System of Trade Preferences and other schemes. At the regional level, these constraints have particularly prevented Palestinians from exploiting complementarities with neighbouring countries and developing the potentials of their economy in areas where it enjoys comparative advantages. The constraints at work include: the virtual absence of marketing facilities, relevant institutions and expertise, in both the private and public domains; insufficient exposure to modern trade promotion techniques; lack of rules and regulations to uphold international norms in marketing (concerning grading, quality/health control, packaging, labelling, cold-storage, etc.); inadequate transport and communications infrastructures and facilities; cumbersome export regulations and procedures; lack of export financing arrangements; and, unfamiliarity with international market price mechanisms and tariff systems.

63. Vigorous policy measures are called for to deal effectively with these and other constraints and to establish the required regulatory framework along with suitable mechanisms and relevant manpower and other resources to help diversify trade linkages and exploit complementarities. In this context, there is also a pressing need for developing Palestinian facilities involved in the compilation, processing, analysis and dissemination of data on various aspects of the economy, in particular external trade, and for coordinating work on relevant strategies and methodologies to be adopted at different levels.

64. On a related level, the Palestinian financial sector, and the process of financial intermediation in particular, has encountered a similar range of constraints since 1967. As Palestinian and other financial institutions in the territory recommence and expand operations in the West Bank and Gaza Strip in the coming period, the tasks of meeting their institutional requirements, upgrading their managerial and technical capabilities and improving the quality of financial services to be extended to different economic and social sectors will all acquire greater urgency. As the Palestinian economy begins to assert itself regionally and internationally, and as the financial requirements of reconstruction grow, the role of foreign private investment, including remittances and financial transfers by Palestinian expatriates in the Arab world and elsewhere, will acquire increasing significance. Similarly, resort to international financial instruments and markets in order to mobilize necessary resources will also become an important preoccupation. As such, the financial system, along with its regulatory framework, is in need of wide-reaching structural reform, technical enhancement and human resource development aimed at ensuring operational efficiency throughout the system.

65. The inadequate state of most infrastructures and public utilities has become a serious bottleneck for the expansion of trade and investment. This is particularly true of the transport system. The upgrading of neglected physical infrastructures is a key priority for stimulating the economy; this would provide external benefits and increase absorptive capacity for future productive investment. While local institutions, public and private, can contribute to the improvement of such infrastructures, considerable external
assistance, including foreign private investment, will be required to meet the sizeable financial requirements in these areas. In order to ensure a healthy environment for investment and trade, the present legal system requires thorough reform in line with socio-economic objectives and priorities supported by appropriate mechanisms and procedures to ensure enforcement. This encompasses such diverse areas as direct and indirect taxation, tariffs and other levies, economic management, business licensing, trading (wholesale and retail operations), promotion of domestic and foreign private investment, contract negotiations and others.

66. The Palestinian Interim Self-Government Authority is expected to address itself to these and other priority areas of the economy as a whole during the interim phase. As such, a comprehensive reform encompassing the policy framework, structure, performance and manpower needs of these sectors is called for if they are to play their crucial role in the revival and development of the economy.

D. UNCTAD secretariat proposals for technical cooperation activities

67. Within the context of recent policy developments, the findings of the UNCTAD secretariat project on prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip, and its 1994-1995 work programme, the UNCTAD secretariat envisages initiating an integrated programme of technical assistance activities in favour of the Palestinian people. Whereas the findings and recommendations of the intersectoral project cover most economic and social sectors, only those of direct relevance to UNCTAD’s mandate are considered here. More specifically, the proposed technical assistance activities concentrate on those areas where the secretariat has established operational capacities within its fields of competence, namely international trade, transport, finance, investment and related policy issues. The strategy orientation, objectives and scope of the proposed programme are briefly outlined in the following paragraphs.

1. Strategy, beneficiaries and coordination

68. In accordance with the overall developmental goals and policy guidelines outlined in the PDP and related Palestinian policy statements, the revival of Palestinian economy and realization of growth and development objective is largely based on an outward oriented economic strategy in which the private sector is expected to play a dominant role, with the public sector providing the needed support. In conformity with this broad strategy orientation, a comprehensive international programme of technical cooperation activities is called for to support the efforts of the Palestinian Authority in achieving the specific objectives envisaged in various socio-economic fields. The proposed set/programme of technical cooperation activities envisaged by UNCTAD is intended to serve as a contribution to such an international programme. It is particularly directed to such specific issues as export diversification and development, customs and trade facilitation, trade statistics, management of debt, external financial flows, domestic financial markets (including insurance), and transport as well as the regulatory framework affecting these areas and business environment in general, especially in so far as domestic and foreign private investment (including technology transfer) is concerned. It is believed that such a programme, dovetailed with domestic and
international efforts, will provide the needed complementary element to efforts under way for the revival of the Palestinian economy and the establishment of a sound basis for its sustained growth and development.

69. Accordingly, a set of interrelated and mutually reinforcing technical cooperation activities are envisaged in each of the areas outlined above. The proposed activities are intended to contribute to efforts aimed at reviving the Palestinian economy in the West Bank and Gaza Strip and at laying the bases for a sustained process of growth and development. Bearing in mind the immediate needs of the Palestinian economy, attention is focused more specifically on the categories of actors involved in the above-mentioned areas at this crucial juncture. Furthermore, while this programme would eventually cover all areas under Palestinian authority in the West Bank and Gaza Strip, activities could commence in Gaza Strip and the Jericho area pending the extension of Palestinian authority to the rest of the West Bank.

70. The overall aim of the programme is to contribute to institution-building in the above areas and to enhance capabilities of the public sector in the formulation, implementation and management of policies and measures with the view to, inter alia, creating a supportive business environment in which the private sector can effectively play its crucial role. At the private sector level, however, a range of institutions (including business community and cooperative-based organizations) will be equally important partners in the implementation of the programme.

71. The proposed programme would extend over the period 1994-1996 and would be executed by the UNCTAD secretariat in cooperation with the UNDP. To the extent possible, those elements of the programme dealing with the marketing of Palestinian agricultural and industrial products would be coordinated with the complementary activities of the competent United Nations agencies, as well as with related on-going projects in the territory. Coordination and consultations with other relevant international and/or regional organizations, bilateral donors and trade partners, would also be essential to ensure the optimal phasing and modalities of delivering the required assistance.

2. Specific objectives

72. The proposed programme of technical cooperation has the following main specific objectives:

(a) Formulate policy/strategy options to enable the Palestinian manufacturing, commodity-producing and services sectors to exploit most effectively emerging market opportunities at the local, subregional, regional and international levels, including free trade zones with present and future trading partners; assist in the establishment of a Palestinian tariff regime and customs administration, aimed at enhancing production and liberalizing trade; and, design the requisite institutional facilities to elaborate trade policies and procedures aimed at promoting the exports of goods and services and rationalizing imports;
(b) Strengthen the technical, managerial and trade information capacities and performance of Palestinian public and private-sector institutions responsible for the design, formulation and implementation of domestic and international trade policies, and of those components of the trading community involved in the day-to-day operations of international trade and related services sectors;

(c) Assist in the establishment of the necessary legal, institutional, technical and human resource network for the creation of an adequate and efficient physical infrastructure including a transport system for trade, especially the establishment of a Palestinian shipping service, the development of a Gaza Strip commercial sea port and an efficient multimodal transport system;

(d) Contribute to the reform of the overall legal and regulatory framework which (i) deals with different aspects of the Palestinian financial sector, in particular those that promote domestic and foreign private investment, and facilitate domestic and international banking operations; and, (ii) assists in creating a frame of reference to promote the business environment, support private sector initiative and enhance the efficiency of public utilities; and,

(e) Strengthen Palestinian technical and institutional capacities in financial resource mobilization and intermediation, monitoring, analysis and management of international financial flows; develop appropriate external borrowing strategies, and debt management capacities; and, maximize insurance retention capacity including the optimal allocation of its resources to the areas of the economy in need.

3. Main outputs and corresponding activities

73. A set of outputs have been elaborated for the realization of the objectives envisaged. These are in turn supported by a range of interrelated activities comprising advisory services, training programmes and workshops, assigning of expertise in critical areas and extension of other related technical assistance as required. The main outputs outlined under each objective are as follows:

(a) Strengthening trade policy-making mechanisms

Output 1. Selected trade policy options, and their regulatory framework;

Output 2. Maximizing benefits from concessionary trade regimes;

Output 3. Policy guidelines on trade in services;

Output 4. Guidelines on international trade in food commodities;

Output 5. Design of export promotion facilities and processing zones.
(b) Improvement of trade procedures and trade information

Output 1. Operational guidelines on streamlined and modernized customs administration and management;

Output 2. Trade efficiency measures, including trade facilitation procedures and information systems;

Output 3. Comprehensive and up-to-date statistical series on foreign trade;


(c) Establishment of maritime and related transport infrastructure for trade

Output 1. Guidelines for the establishment of a Palestinian shipping service;

Output 2. Development of the Gaza commercial sea port;

Output 3. Development of a multimodal transport system.

(d) Reform of the legal and regulatory framework, and institutional capacities for mobilizing domestic and international financial resources

Output 1. Private investment laws and regulations;

Output 2. Guidelines on liberalizing the enterprise climate;

Output 3. The reform of the income tax system and its administration;

Output 4. Efficiency in the performance of utilities.

(e) Strengthened capacities in management of financial flows

Output 1. Domestic focal point for the monitoring and management of debt and external financial flows;

Output 2. Strengthened domestic insurance capacities.
Part III

REVIEW OF PROGRESS IN THE WORK OF THE UNCTAD SECRETARIAT ON ASSISTANCE TO THE PALESTINIAN PEOPLE, 1993/1994

74. Within the frame of its mandate, and in accordance with its work programmes for the biennia 1992-1993 and 1994-1995, the UNCTAD secretariat (Special Economic Unit - Palestinian people) intensified its work on assistance to the Palestinian people during the period under review. Efforts were increasingly focused on promoting the revival of the Palestinian economy and contributing to the building-up of Palestinian institutional and technical capabilities in policy-making and effective economic management. Accordingly, activities undertaken have covered: (a) monitoring of developments in the Palestinian economy in the West Bank and Gaza Strip; (b) policy-oriented research on priority areas of the economy; and (c) formulation of proposals for technical assistance to the Palestinian people in areas of competence of the UNCTAD secretariat. All three substantive areas of work entailed examining constraints on the revival of the Palestinian economy and identifying its potentials for sustained and self-reliant growth and development under changing circumstances, along with recommendations for policy action and related technical assistance needs. In carrying out work in all these areas, close contacts were maintained with Palestine, in addition to holding consultations with other parties concerned. In order to optimize the impact of its work and to harmonize efforts with other organizations concerned, the secretariat intensified coordination with the relevant activities of the organizations of the United Nations system on assistance to the Palestinian people.

75. The momentous developments since the signing, on 13 September 1993, of the Israel-Palestine Declaration of Principles, have generated a considerable amount of literature on the economy of the occupied territory (in the form of official documents, periodicals, books, reports, statistical documents, project and programme proposals and other publications) that have been received and reviewed by the secretariat. This has contributed to enriching the secretariat’s database and reference collection on the subject.

76. The secretariat continued work on finalizing all substantive parts of the intersectoral project on prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip, including the publication of selected sectoral studies. The first documents emanating from Part One of the project (covering the current situation, needs and immediate prospects) were published in 1993, beginning with "Prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip - report of a meeting of experts convened by the UNCTAD secretariat on 19-22 May 1992" (UNCTAD/DSD/SEU/2). In order to provide more detailed substantive background to the findings and recommendations of the expert group meeting, and to enable donors to develop further their programmes of assistance to the Palestinian people, the secretariat began publishing the first parts of a selected number of field studies commissioned under the project. The first two such studies prepared by UNCTAD consultants were published in 1993, namely "Palestinian women and economic and social development in the West Bank and Gaza Strip" (UNCTAD/DSD/SEU/Misc.4) and "The agricultural sector of the West Bank and Gaza Strip" (UNCTAD/DSD/SEU/Misc.5).
77. By June 1994, seven additional studies were in the pipeline, at different stages of processing. These included the study prepared by the UNCTAD secretariat on "Prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip - a quantitative framework" and its "Technical Supplement" (UNCTAD/DSD/SEU/3 and Add.1) and the first parts of five sectoral studies prepared by experts. These comprise: "Review of major economic and social indicators in the occupied Palestinian territory, 1967-1990" (UNCTAD/DSD/SEU/Misc.6), "Population and demographic developments in the West Bank and Gaza Strip until 1990" (UNCTAD/ECDC/SEU/1), "Public utilities in the West Bank and Gaza Strip" (UNCTAD/ECDC/SEU/2) "Public health conditions and services in the West Bank and Gaza Strip" (UNCTAD/ECDC/SEU/3) and "Construction and housing in the West Bank and Gaza Strip" (UNCTAD/ECDC/SEU/4). It is hoped that an additional number of selected studies undertaken within the frame of the intersectoral project will also be finalized before the end of 1994. These will include studies on merchandise trade, services, public finance, environment, manufacturing and mining, labour and employment, and socio-economic statistics. Meanwhile, in order to bring the intersectoral project to a conclusion during the biennium, the secretariat began in 1994 to consolidate the field work already completed on the remaining two parts of the project (i.e., Parts II and III covering future prospects, strategies and policies for the long-term development of the Palestinian economy).

78. As discussed in detail in Part II of this report, the secretariat initiated early in 1994 work on preparation of a programme of technical cooperation in support of Palestinian efforts in trade and related sectors. Upon the completion of consultations on the scope, prioritization of activities, and modalities of their implementation, which commenced in June 1994, the programme will be finalized and prepared for funding purposes.

79. In line with work programme requirements and the provisions of relevant General Assembly resolutions, the UNCTAD secretariat has stepped up its efforts to coordinate and cooperate with the relevant organizations of the United Nations system. Coordination has also been intensified with regional and non-governmental organizations involved in work on the economic and social situation of the Palestinian people in the occupied territory. The secretariat distributed regularly its documents on the economy of the West Bank and Gaza Strip to a select mailing list of over 500 institutions and individuals concerned. The secretariat has also participated in relevant seminars and meetings, including the Tenth United Nations North American NGO Symposium on the Question of Palestine (New York, 30 June-2 July 1993), the meeting of the Regional Economic Development Working Group (REDWG), formed as part of the Middle East multilateral peace negotiations (Copenhagen, 8-9 November 1993) and the United Nations Seminar on Palestinian Trade and Investment Needs (Paris, 20-22 June 1994). As in previous years, the secretariat fielded missions in 1993 and 1994 for consultations and data collection to Amman, Brussels, Cairo, Tunis and Vienna. In carrying out its work programme, the secretariat has not to date had access to the occupied territory. It is hoped, however, that in the light of the recent developments and the pressing needs of the interim Palestinian Authority, the secretariat would soon be able to undertake a mission to the territory, especially in connection with its proposed programme of technical cooperation activities in support of the Palestinian people.
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/ The DOP also refers to the establishment of a Palestinian Interim Self-Government Authority, which is the PISGA referred to in this report.

3/ See General Assembly resolution 48/58 of 14 December 1993, entitled "Middle East peace process".

4/ General Assembly resolutions on issues related to Palestinian economic development have long stressed the incompatibility between Palestinian economic development and occupation. This was most recently reiterated in resolution 48/213 of 21 December 1993, entitled "Assistance to the Palestinian People", which noted that development is difficult under occupation and best promoted in circumstances of peace and stability.

5/ "Protocol on economic relations between the Government of the State of Israel and the P.L.O. representing the Palestinian people", Cairo, 4 May 1994 (original in English).

6/ Article II of the Protocol.

7/ Preamble to the Protocol.

8/ According to Al-Quds, 17 May 94 (in Arabic).

9/ The PDP was published by Palestine in an executive summary version in July 1993 under this title. The detailed sectoral plans were published in late 1993.

10/ These include assumptions such as full Israeli withdrawal from Gaza Strip and the West Bank (including east Jerusalem), the return to the territory of up to 500,000 displaced Palestinians between the years 1994 and 2000 and phased restitution to the Palestinian people of control over land and water resources of the territory. While these assumptions are not excluded by the DOP from negotiations on the final settlement, they are not specified for the interim period.


12/ The draft was agreed upon on 15 May 1994 (Al Quds, 30 May 94, in Arabic), to be submitted for formal approval by the Jordanian Government and the Palestine leadership.

14/ One interesting example of the new-found international interest in the issues of Palestinian economic development and regional cooperation is the project/study completed in mid-1993 by the Institute for Social and Economic Policy in the Middle East of Harvard University, entitled "Securing peace in the Middle East: project on economic transition" (Cambridge, Mass., Harvard University, 1993).


16/ See Ibid., pp. 12-16.

17/ Ibid. Vol. 2.

18/ "Prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip - a quantitative framework" (forthcoming, 1994), Chapter IV.


20/ This was the total pledged by the end of 1993 - see World Bank, Emergency assistance to the occupied territories, Washington D.C., March 1994, vol. 1, pp. 1-15.

21/ See Jerusalem Post, 4 February 1994.

22/ World Bank, "Emergency assistance ..." loc. cit.


25/ General Assembly resolution 48/213 of 21 December 1993, inter alia, requested the Secretary-General to ensure the coordinated work of the United Nations system for an adequate response to the needs of the Palestinian people.

26/ See "United Nations Special Coordinator in the Occupied Territories - report of the Secretary-General" (A/C.5/48/71), 29 March 1994. At the end of May 1994, the Secretary-General designated Mr. T.R. Larsen of Norway as the Special Coordinator.
27/ The ILO programme, published in May 1994, is entitled "Capacity building for social development: a programme of action for transition in the occupied Palestinian territories". The UNESCO programme and an agreement between UNDP and Palestine were announced around the same time.


30/ A Palestinian Bureau of Statistics (PBS) was established late in 1993 in the occupied territory as an autonomous agency of the PNA.

31/ This can be noted, for example in the different estimates of aggregate performance in 1992 and 1993 published by the Israel CBS (in "Judea, Samaria ..." op. cit.); by the UNCTAD secretariat (in "Developments in the economy of the occupied Palestinian territory" (TD/B/40(1)/8), paras. 45-46); by the World Bank (in "Emergency assistance ..." vol. 1, op. cit. pp. 31-34 and by the Economist Intelligence Unit (EIU) (in its newly issued 1993/94 country profile and its quarterly country reports on Israel and the occupied territory).

32/ "Developments ...", op. cit., (TD/B/40(1)/8).

33/ Recent estimates indicate that some 20 per cent of the population of the West Bank and 30 per cent of people in Gaza Strip now live in poverty "World Bank, Emergency assistance ..." op. cit., p. 32.

34/ The lower estimate is reported in ibid.; the higher estimate is regularly quoted by different Palestinian economists and observers.


36/ The higher estimate is from ibid., the lower estimate is calculated by the secretariat on the basis of 1967-1987 trend analysis and Palestinian estimates of economic performance between 1988-1990.


40/ Especially "The Palestinian financial sector under Israeli occupation" (UNCTAD/ST/SEU/3/Rev.1) and recent secretariat reports to the Trade and Development Board.

World Bank staff estimates (in "Emergency assistance ..." op. cit., p. 37) and UNCTAD secretariat estimates, respectively.

Data provided by Jordan, Agricultural Marketing Institute, Amman, 1994.

Israel CBS data.

UNCTAD secretariat estimates and World Bank staff estimates (in "Emergency assistance ..." op. cit.), respectively.


According to World Bank staff estimates (in Ibid.) UNCTAD secretariat estimates place the deficit at a lower level.

Trade in services with other countries, including Jordan, is relatively insignificant.

This level is corroborated by both World Bank staff estimates (in "Emergency assistance ..." op. cit.) and by UNCTAD secretariat estimates.

The UNCTAD secretariat, "Prospects for sustained development ..." op. cit.

Owing to reliance on different bases for estimating income and aggregate demand levels, the deficit is estimated at over $600 million according to UNCTAD secretariat projections (in ibid.) and much higher according to World Bank staff estimates (in "Emergency assistance ..." op. cit.). The latter source projects import growth in 1994 and 1995 at up to 20 per cent per annum.

UNCTAD, "Prospects for sustained ..." op. cit., Chap. IV.

Ibid.

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