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Recent economic developments in the occupied Palestinian territories,
with special reference to the external trade sector

Report by the UNCTAD secretariat

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PREFACE

Review of the work of the Special Economic Unit (Palestinian people), 1987-1988

(i) In accordance with the provisions of Conference resolutions 146 (VI) and 169 (VII), and the work programme of UNCTAD, the work of the Special Economic Unit (Palestinian people), from July 1987 to June 1988, continued to concentrate on : (1) review and analysis of developments in the economic conditions of the Palestinian people in the occupied West Bank and Gaza Strip; (2) proposals on strategies and measures aimed at improving the performance of the Palestinian economy; (3) the development of a data base on the Palestinian economy; and, (4) participation in relevant activities of the organizations of the United Nations in favour of the Palestinian people in the occupied territories. In carrying out these and other activities, the Unit has maintained regular consultations with the Palestine Liberation Organization (PLO) and others concerned. During the period under review substantial progress was achieved in these areas.

(ii) As part of the 1986 - 1987 work programme of the Unit, an in-depth study entitled "The Palestinian financial sector under Israeli occupation" (UNCTAD/ST/SEU/3 and Corr. 1 and 2) was completed in collaboration with ESCWA. It has been since distributed to a large number of concerned institutions and individuals and has been translated into the Arabic language by ESCWA. Other documents prepared by the UNCTAD secretariat in 1987 and widely distributed included: the UNCTAD secretariat's 1987 report on "Recent economic developments in the occupied Palestinian territories, with special reference to the financial sector" (TD/B/1142); "Selected statistical tables on the economy of the occupied Palestinian territories (West Bank and Gaza Strip)" (UNCTAD/ST/SEU/4); "Select bibliography on the economy of the occupied Palestinian territories (West Bank and Gaza Strip)" (UNCTAD/ST/SEU/5); "Select chronology on economic issues and related Israeli practices in the occupied Palestinian territories (West Bank and Gaza Strip) June 1986 - June 1987" (UNCTAD/ST/SEU/6). All of the above documents were made available at the first part of the Thirty-fourth session of the Trade and Development Board.

(iii) The Unit has continued to expand its data base on the Palestinian economy, including the regular revision and updating of statistical series. As in previous years, the work of the Unit has had to rely solely upon primary statistical sources published by the Israeli authorities. The deficiencies in these series, including the omission of data on occupied East Jerusalem, constitute a major handicap to accurate reporting on economic developments in the occupied territories. Where possible, alternative statistical sources have been used to corroborate and elaborate on Israeli sources. This involved keeping abreast of new publications and references on the Palestinian economy and regular monitoring of economic issues in the occupied Palestinian territories.

(iv) As part of the 1988-1989 work programme of UNCTAD, the Unit has commenced the preparation of a number of studies and reports, as well as the formulation of operational projects aimed at enhancing UNCTAD's contribution to the United Nations Programme of Economic and Social Assistance to the Palestinian People. Current activities include the following:

(a) Preparation of a comprehensive study entitled "The external trade of the occupied West Bank and Gaza Strip" (UNCTAD/ST/SEU/7). The study, due for completion in the third quarter of 1988, will, inter alia, address the concerns expressed in the relevant paragraphs of Conference resolution 169 (VII). It examines the role of trade and services in promoting Palestinian economic development, the performance of the external trade sector, major factors affecting the external trade of the territories including policies, practices and structural limitations, the potentials for expansion and diversification of external trade in the territories, and the requisite policies and measures for the long-term development of the Palestinian external trade sector.

(b) Preparation of the 1988 report of the UNCTAD secretariat on Assistance to the Palestinian people, for presentation to the Trade and Development Board at the first part of its thirty-fourth session, entitled "Recent economic developments in the occupied Palestinian territories, with special reference to the external trade sector" (TD/B/1183). The report comprises, in part I, an update of recent economic developments in the occupied territories, in terms of basic indicators and relevant aspects of Israeli economic policy. Special attention is paid to economic aspects of the recent Palestinian uprising in the territories. Part II of the report summarises the main findings and recommendations of the study on the external trade sector of the occupied territories (UNCTAD/ST/SEU/7).

(c) Preparation of documents providing extracts and updates from the Unit's data base on the Palestinian economy, including statistical series, research references and bibliography. These are due for publication in the fourth quarter of 1988 and the first quarter of 1989.

(d) In line with proposals made by the UNCTAD secretariat in its contribution to the United Nations Programme of Economic and Social Assistance to the Palestinian people, which was adopted in 1987, the Unit commenced the preparation of project proposals for technical assistance in institution-building for the economic development of the occupied Palestinian territories. The first of these projects, completed in June 1988, is entitled "Investment project evaluation centre for the occupied Palestinian territories (West Bank and Gaza Strip)". The project document has been submitted for the consideration of the United Nations Development Programme (UNDP) and other possible sources of funding. The activities envisaged are intended to strengthen and develop indigenous Palestinian capabilities in macro and micro-economic analyses and particularly in the identification, formulation, appraisal and implementation of investment projects. The international assistance sought for the duration of the project is expected, inter alia, to develop a qualified permanent local cadre which will continue to serve the Centre in these and other related areas. The achievement of these goals will enable various population groups to participate effectively in the process of economic management and development in the territories.

(v) Also as part of its 1988-1989 work programme, the Unit is completing preparations for embarking on a study entitled "The occupied Palestinian territories (West Bank and Gaza Strip): prospects for sustained economic development". The main objective of the study is to examine feasible strategies for the sustained development of the Palestinian economy in the occupied territories. To this end, the study will:

(a) Conduct a comprehensive survey of the economy of these territories, evaluating its performance under 21 years of Israeli occupation, highlighting major problem areas and examining their immediate outlook;

(b) Identify and analyse the potentials for the development of the Palestinian economy and prospects for the future under varying circumstances; and,

(c) Formulate a framework for alternative strategies for the development of the Palestinian economy in the 1990s along with relevant guidelines for policy action.

This study will require inputs and contributions, including extra-budgetary resources, from other branches of the UNCTAD secretariat, from relevant entities of the United Nations system and from the regional bodies concerned.

(vi) As part of the data collection and consultation process related to the preparation of UNCTAD/ST/SEU/7, the staff of the Unit undertook field missions to Egypt, Jordan, the Syrian Arab Republic and Tunisia to meet officials of the Governments of Jordan and Egypt, as well as the relevant departments of the Palestine Liberation Organization and a number of intergovernmental and regional organizations. Meanwhile, the Unit maintained and strengthened relations with other United Nations bodies, as well as with Palestinian research and academic institutions in the territories, on substantive matters relating to the work programme of the Unit.

(vii) Conference resolution 169 (VII), concerning the "economic situation in the occupied Palestinian territories", requests, inter alia, the Secretary-General of UNCTAD to report periodically to the Trade and Development Board on the progress made in implementation of the resolution.^{1/} Until June 1988, the UNCTAD secretariat had initiated action on the aforesaid resolution in the following areas:

(a) Requesting information from States members of UNCTAD, in a note (TD/410 (PAL)) of 6 April 1988, on progress made in implementing paragraphs 7 and 8 of Conference resolution 169 (VII). The content of responses received to this note will be reflected in the secretariat's study on the Palestinian external trade sector (UNCTAD/ST/SEU/7).^{2/}

(b) Consultations with the secretariat of the UNCTAD/GATT International Trade Centre UNCTAD/GATT (ITC) on the possible modalities for providing advice on the establishment of a centre for marketing Palestinian products (paragraphs 5 and 6 of resolution 169 (VII)). It was agreed, inter alia, that the findings of the afore-mentioned study (UNCTAD/ST/SEU/7) could provide useful information on the need and framework for such a centre.

(c) Contacting the Permanent Mission of Israel to the United Nations Office at Geneva, inter alia to propose a mission to the West Bank and Gaza Strip by secretariat officials for consultations on UNCTAD's study on Palestinian external trade and on the secretariat's proposals for technical assistance projects. In reply to this request, the Permanent Mission of Israel suggested that the secretariat might wish to direct its efforts to assisting the inhabitants of the territories through UNDP.

Part I

MAJOR DEVELOPMENTS IN THE ECONOMY OF THE
OCCUPIED PALESTINIAN TERRITORIES - AN UPDATE UNTIL 1988

1. The economy of the occupied Palestinian territories of the West Bank and Gaza Strip has witnessed significant developments from 1985 to 1988.^{3/} This part of the report investigates the performance of the Palestinian economy in recent years, including the impact of Israeli policy measures and the economic ramifications of the Palestinian popular uprising which has unfolded in the territories since December 1987.^{4/}

A. Israeli policies and measures affecting the Palestinian economy

1. The impact of Israeli occupation on the scope for Palestinian economic development

2. The potentials for sustained development of the Palestinian economy have been constrained by a process of transformation in the traditional sector which has been unaccompanied by the requisite policies and measures to absorb and regulate the pressures of re-adjustment.^{5/} Though transformations pre-date 1967, the path of change has been qualitatively and quantitatively different since then. Israeli occupation brought to bear upon the Palestinian economy a host of pressures which aggravated its development performance, resulting in a steady decline in traditional branches without parallel encouragement to growth in modern sectors. The effects of the occupation and of consequent measures^{6/} were to reduce agricultural employment opportunities; encourage the flight of labour from the traditional sector into labour-intensive sectors of the Israeli economy; neglect the needs of Palestinian productive sectors or re-orient them to serving Israeli production and consumption interests; and control trade channels in a manner that ensured Israeli domination of Palestinian trade. These effects were profoundly felt by the small and unsophisticated Palestinian economy, confronted with the challenge of competing on unequal and unprotected terms with the articulated, highly capitalized and technologically advanced Israeli economy.

3. The mechanisms whereby the Palestinian economy could be better planned and supported have been eroded through 21 years of occupation. While power over economic management has been assumed by the Israeli authorities, they have not fulfilled the concomitant responsibilities.^{7/} Moreover, the concentration of this power within the jurisdiction of the Israeli military authorities continues to inhibit economic performance and potentials in the occupied Palestinian territories.^{8/}

4. The economy that has thus emerged in the occupied territories faces a range of pressures and weaknesses and lacks the sense of purpose and direction that can be imparted by an active indigenous central authority. In these circumstances, a stable and rational development path and concomitant policies and measures cannot emerge spontaneously. Consolidating any emerging growth trends, and translating them into pillars for Palestinian development is not easily achieved. Today, the problem runs deeper than delineating the complex web of Israeli policies and measures which inhibit or simply ignore Palestinian economic development. The adverse effects of these policies, the impact of 21 years of unequal competition with the Israeli economy and the continuing significance of the territories' historical relationship with the

Arab hinterland, have combined to shape a new Palestinian economy. This is an economy which is fragmented, lacking internal consistency, and forcibly prevented from taking its destiny into its own hands and forging the most appropriate development path from the human and natural resources at its disposal.

2. Responding to the development needs of the Palestinian economy

5. The need for urgent action to alleviate the problems faced by the Palestinian economy was reiterated and emphasized in previous reports by the UNCTAD secretariat, which called for a strategy aimed at developing the economy of the occupied Palestinian territories, guided by objectives that reflect the aspirations and resource endowments of the Palestinian people and take account of the present distorted structure of the economy.^{9/}

6. The relevance of such a strategy has been highlighted more recently at other levels within the international community. In January 1988, the Secretary-General of the United Nations, in his report to the Security Council on the situation in the occupied territories, recognized the hope expressed by Palestinians that "a concerted international effort could be undertaken to revive the territories' economy..."^{10/} This was also echoed by the Director-General of the International Labour Office who called for "a genuine development effort for the benefit of these territories" which goes beyond the limited efforts embodied in public and/or private technical assistance.^{11/} Meanwhile, the Administrator of the United Nations Development Programme has noted that, in addition to development of Palestinian infrastructure and technical training in the territories, "economic development must be stressed in order to encourage job creation, enhancement of small-scale industry, expansion of agro-business activities and the like."^{12/}

3. The Palestinian uprising and the economy of the occupied territories

7. The problems that have plagued the Palestinian economy under Israeli occupation have acquired fresh urgency and significance since the beginning of the uprising (*intifada*) in the occupied territories in December 1987. Without considering here the manifold legal, political and human rights aspects of this conflict, it is possible to discern clear economic features and implications of the recent unrest, with many repercussions on the Palestinian economy itself. The uprising has posed new development challenges for both the Palestinian people and the Israeli occupation authorities.

(a) The economic costs of the Palestinian uprising

8. By July 1988, there were few indications that the Israeli authorities intended to rescind restrictions affecting Palestinian development, including those instituted since the beginning of the year. The main concern of Israeli official sources and other commentators regarding the economic effects of the uprising was the damage to the Israeli economy (mainly in agriculture, construction, services and industry) as a result of Palestinian labour absenteeism and the reduced market for certain Israeli exports which feature prominently in Palestinian markets (especially textiles, foodstuffs and other consumer goods).^{13/} This concern was prompted by indications that the economic costs to Israel during the first five months of unrest reached \$800 million.^{14/} These were attributed to increased security costs, and declines of 15 - 20 per cent in Israeli tourism revenues, 20 per cent in construction

activities, over 3 per cent in output of agriculture and industry, as well as indirect costs caused by manpower shortages arising from extra duty in the Israeli armed forces.^{15/}

9. No comparable figures were made available to evaluate the costs to the Palestinian economy of the losses incurred, though it is probable that these have been significant, and even proportionately higher.^{16/} Few areas of the economy have been spared:^{17/} factor income from labour in Israel has fallen; there has been a freeze in Israeli demand for Palestinian tourist and other services; agricultural and industrial production has been disrupted; savings have been diverted to cover consumption; income levels and purchasing power have fallen; local and export trade has been reduced; and the weak informal domestic financial system is facing renewed pressures. These disruptions to the Palestinian economy arose through the interplay of various Palestinian initiatives directed against Israeli occupation, and the Israeli authorities' efforts to control the situation by instituting emergency and/or provisional measures. The net result to-date has been a further tightening of long-standing restrictions on Palestinian economic development and a marked deterioration in living conditions and economic activity.

(b) Palestinian initiatives for self-reliant economic development

10. In addition to Israeli responses aimed at containing the damage to the Israeli economy, other economic dimensions have become central to the conflict. One of these is related to the economic measures taken by the Palestinians in the occupied territories within the context of the uprising. In addition to acts of refusal to recognise the legitimacy of Israeli authority, these actions include espousal of specific policy measures designed to disengage the Palestinian economy from Israel and from institutions controlled by the occupation authorities. These steps were intended to increase the population's means of "steadfastness" (sumoud) and their 'economic resistance' to the occupation. The significance of these advocated policy measures goes beyond their potential for promoting short-term self-reliance throughout the uprising. Of equal interest is the fact that the Palestinian economic measures promoted since December 1987 can be seen as the beginnings of a conscious Palestinian policy for the revival of the national economy.

11. Throughout the various stages of the uprising, new planks of this policy were introduced and elaborated according to the changing conditions of the conflict with the authorities.^{18/} They include: early proposals for a boycott of Israeli products and promotion of Palestinian self-sufficiency; subsequent calls for supporting indigenous Palestinian production facilities; a "return to the land" and agriculture; and creation of alternative employment opportunities for Palestinians who ceased to work as migrant labourers in Israel or resigned their posts in the Israeli civil administration. A number of these proposals crystallised recently within the context of programmes and related projects under the general theme of strengthening the Palestinian "household economy" in rural areas, refugee camps and some urban communities by producing meat, vegetables and fruit and increasing local employment.^{19/}

12. Given the intensification of Israeli occupation practices, the Palestinian "economic uprising" has gone further than elaborating policy goals and programmes. Measures reported since December 1987 include:^{20/} the "tax revolt"; suspension of rent collection by Palestinian landlords; increasing

reliance on alternative structures and authorities; distribution of food and relief needs by popular committees to disadvantaged sections of the community; provision of agricultural inputs and seedlings offered at cost to households and small farmers; solidarity by the commercial sector with the uprising; and absenteeism by migrant labourers from work in Israel at rates ranging from 20 to 100 per cent during different phases of the uprising.

13. These developments embody significant departures from the trends which characterized the Palestinian-Israeli economic relationship since 1967. For the first time on a widespread basis, an agenda for Palestinian economic revival is being elaborated and implemented in the occupied territories. This constitutes a unique initiative by the Palestinian people to enhance the options for development, mobilize local and international resources and build the institutions needed to fashion a national economy based on their interests and experiences. These aspirations deserve recognition and commensurate support so that they may be elaborated, rationalized and co-ordinated within the context of international development assistance in support of the Palestinian people's efforts.

(c) New Israeli policy measures

14. When Israeli economic policies^{21/} were challenged by the uprising, and after a month of employing security measures to maintain order and stem the unrest, the authorities began to introduce various economic measures. These included:^{22/} preventing food convoys from entering areas under curfew; a two-week ban on fuel oil and petrol deliveries to the territories (except to vital institutions); interruption of electricity and water supplies to some Palestinian towns and villages; restrictions on movement of people and goods between the West Bank and Gaza Strip, and on exports from areas of unrest; the arrest of Palestinian merchants for violation of a military order to remain closed at hours specified by the military; withholding identity cards, import/export licenses and travel permits until proof was provided of payment of taxes, utility bills and fines.

15. As concern in Israel mounted over "broader acts of civil disobedience aimed at severing ties with the Israeli authorities and establishing alternative services,"^{23/} the Israeli Minister of Defence decided to follow a dual policy of security measures combined with administrative and economic measures to bring "the level of violence in the areas down to a minimum in a matter of weeks".^{24/} It was observed in the press at the time that extended curfews imposed by the authorities in the territories and the "semi-economic war of attrition" were intended "not only to contain the riots but also to exert economic pressure on the inhabitants."^{25/}

16. By mid-1988, most Israeli measures were still in effect and pre 1988 economic relations had yet to be restored.^{26/} Meanwhile, Palestinians continue to elaborate new elements of their alternative strategies for economic survival and development. As a senior Israeli official noted in June 1988, "the intifada, as a condition, persists."^{27/} Instead of directing income and savings to conspicuous consumption or residential construction, the Palestinian population has accepted reduced living standards and shifted away from consumption of Israeli imports. Initiatives to encourage self-sufficiency and economic activities at the household level were taking hold and a wide network of self-help local popular committees were activated throughout the territories, participating in the provision of health, education, welfare and

economic services to the local population.^{28/} Voluntary aid was being made available to disadvantaged or targeted areas and sectors of the population. This groundswell of participatory development activity can be perceived as a new resource generated by the Palestinian uprising which can compensate for some of the short term losses of disengagement from the Israeli economy and provide a basis for the endogenous development of the Palestinian economy.

B. Performance of main economic aggregates

1. Domestic product and structural change

17. The direction and rate of growth experienced by the Palestinian economy since 1967 are characterized by uncertainty, sluggishness and perennial fluctuations. Growth has been fuelled from a number of sources over and above domestic production, including factor income payments to labour employed outside and unilateral transfers. These are subject to regular changes in scale due to factors largely beyond the control of the Palestinian economy itself. One of the clearest trends to have emerged since 1967 is the falling contribution of gross domestic product (GDP). Whereas GDP constituted 98 per cent of gross national product (GNP) in 1968, this share fell to 66 per cent in 1983, and recovered to 75 per cent by 1986, its highest point since the early 1970s.^{29/}

18. The absolute level of GDP has been subjected to large divergences with fluctuations in its per annum rate of growth especially during the period 1980-1985, ranging from a low of - 9.7 per cent to a high of 5.6 per cent, and giving an average annual growth rate of - 1.8 per cent between 1980 and 1985. The high degree of instability exhibited by these and other figures reflects, inter alia, the impact of prolonged and successive waves of inflation experienced in the Israeli economy until 1985. This phenomenon, directly transferred to the occupied territories through a number of factors (especially wages and imports from Israel), has acted to distort Palestinian domestic price levels and consequently to undermine the real value of earnings and output.^{30/} The unpredictability of the growth path was highlighted in 1986, the latest year for which data are available, when a record olive crop in the territories and recovery in the Israeli economy and related sectors of the Palestinian economy encouraged an estimated 58 per cent growth in GDP, at current prices, from under \$1 billion in 1985 to \$1.5 billion in 1986. Disturbances in the domestic economy related to the Palestinian uprising since December 1987 may be expected to have reduced domestic output. It is too early to tell how strong the impact might be, but the effects are likely to be strong in sectors linked to Israel (e.g. industry, tourism and services) and those dependent on private savings (e.g. construction), but less so in relatively isolated sectors (especially agriculture).

19. While a process of structural change in the Palestinian economy can be discerned, it has taken place under turbulent conditions and in a distorted manner. The volatility of annual changes noted in different variables constitutes a major impediment to consolidating short term positive growth and translating it into sustained economic development. This feature in the Palestinian economy has, since the 1970s, undermined the potential benefits of increases in indicators such as output, income and investment in the territories.

20. The position of the traditional backbone of the Palestinian economy, agriculture, has declined. From 34 per cent in 1968, agriculture's annual average share in GDP from 1980 to 1986 stood at 26 per cent. Agricultural output showed signs of deepening stagnation, falling at an average annual rate of 6 per cent between 1980 and 1985. The sector has lost the prominence it once enjoyed for a large part of Palestinian society as the prime source of employment opportunities, income and "tradeable goods".

21. A major re-orientation in the economy was to be the growth and consolidation of the industrial sector. However, this has not materialized in the 21 years of occupation. The share of this sector in GDP has remained low, fluctuating between 7 and 9 per cent since 1967, while growth in output was negative from 1980 to 1985. The annual growth rate of industrial production has fluctuated between 16 and - 14 per cent over the 1980-1985 period, giving an average annual growth rate of - 0.6 per cent in industrial output. In 1986, which was - as already noted - a year of exceptional economic growth, industrial production picked up and grew by 70 per cent. Uncertain conditions since then, including the effects of the uprising, make it impossible to judge whether that performance heralds the emergence of a growth path stimulated by a successful sectoral re-adjustment after a long period of stagnation.

22. The relative stagnation of agricultural and industrial output in the occupied territories in the 1980s has been only partly compensated for by activity in other sectors. The major change since the onset of occupation has been in construction, whose share of GDP rose from 3 per cent in 1968 to an average annual share of 17 per cent in the 1980-1986 period. The average annual growth rate in construction in the 1980-1986 period was around 7 per cent. This high level of activity has been motivated by a range of factors, including the need to acquire shelter, weaknesses in local financial intermediation, obstacles and/or uncertainties surrounding investment in productive "growth-inducing" sectors, and the need to protect earnings from the vagaries of Israeli inflationary pressures transferred to the territories.^{31/}

23. Other sectors have also changed in relative prominence. The share of public services in GDP fell from 19 per cent in 1968 to an average annual figure of some 16 per cent between 1980 and 1986. Growth in this sector has been positive in most years since 1980, at an average annual rate of 5 per cent, reflecting the relatively predictable level of social services provided in the territories. Trade, transport and private services (grouped statistically as one sector) have also recorded relatively steady growth, at an annual average rate of some 8 per cent from 1980 to 1986. Their combined share in GDP fell from 36 per cent in 1968 to an annual average of 33 per cent during 1980-1986.

24. The instabilities in the Palestinian economy are further illustrated in the relation of external income sources to GNP and gross national disposable income (GNDI).^{32/} The growth in net factor income, generated by Palestinian migrant labourers working in Israel and elsewhere, has been steady and significant throughout most of the occupation period, especially since the mid-1970s. A similar dependence on unilateral transfers from abroad, in the form of migrants' remittances and international aid, shows the inability of the domestic economy to sustain itself. With the fall in demand for manpower in the Arab States and the recent recovery of Palestinian GDP, the share of transfers in GNDI has fallen to under 5 per cent since 1985. Nevertheless, the

role of external financial resources in Palestinian economic development remains predominant. Until 1986, transfers and factor income combined ranged between annual proportions of 27 and 37 per cent of GNDI, underscoring the vulnerability of the Palestinian economy and its incapacity to generate adequate financial resources for development and rational structural transformation.

25. The impact of absenteeism connected with the uprising on the level of factor income in 1988 cannot be gauged yet, though a significant fall may be expected. Similarly, the restrictions imposed on movement of funds into the territories^{33/} will be felt in the level of transfers reaching the economy. This might be partially offset by the growth in international aid to the territories. Of special interest is the extent to which the balance between domestic and external income sources might change as a result of the structural re-orientations of 1988, thus providing indicators of the potential of the Palestinian economy to transform the patterns and direction of its development.

2. Personal income and consumption

26. Notwithstanding the turbulence in Palestinian economic development, the past two decades have witnessed relatively favourable rates of growth in levels of individual prosperity, though this prosperity reflects the availability of external sources of income and is not rooted in the Palestinian economy itself. Per capita GNP grew by some nine-fold at current prices between 1968 and 1980, from \$143 to \$1,230.^{34/} Including the extraordinary spurt of growth in 1986, per capita GNP grew by an average annual rate of 4.7 per cent from 1980 to 1986; the exclusion of 1986 figures reverses the trend since 1980 to a negative average annual rate of - 3.6 per cent. This provides a striking example of the vulnerability of the economy and its dependence on developments in exceptional agricultural years, such as 1986, which do not constitute a firm basis for the economy to withstand shocks in other years, nor for entrepreneurs to invest with any certainty.

27. Private consumption expenditure in the Palestinian economy increased through the 1970s, reflecting the growth in disposable income. From a level of \$657 million in 1975, aggregate private consumption expenditure reached \$1.125 billion by 1980.^{35/} This level showed little change over the 1980-1985 period as a whole. Recovery in 1986 national income was accompanied by a large increase in private consumption, from \$1,195 million (in 1985) to \$1,691 million. The composition of domestic private consumption expenditure shows that the share of expenditure on manufactured goods has dropped from 45 per cent in 1975 to 35 per cent in 1986 in favour of increased expenditure on services. Expenditure on agricultural products (mostly food) has kept a stable share of domestic private consumption expenditure, at around 34 per cent.

28. Though the share of private consumption expenditure in gross disposable private income grew between 1980 and 1985,^{36/} this reflected the sluggish performance of the latter rather than any significant increases in absolute levels of the former. By 1980, Palestinian private consumption expenditure attained a level which was not subsequently improved upon, despite small increases in disposable income. The behaviour of per capita consumption levels illustrates similar tendencies. Whereas per capita consumption expenditure grew from \$571 in 1975 to \$980 in 1980, this did not continue afterwards. During 1980-1985, Palestinian per capita consumption fell on average. This

confirms the impression that the gains registered in some indicators of standards of living under Israeli occupation (e.g., as in the 1970s) were fragile and easily reversible. This is particularly the case since such increases do not reflect fundamental structural re-orientations. The exceptional gains of 1986 must be interpreted with caution and do not invalidate these observations. Moreover, the unrest since December 1987 may be expected to accentuate the tendencies observed, as expected falls in Palestinian national income are felt in overall consumption levels.

29. Domestic consumption patterns have demonstrated noticeable changes since the Palestinian uprising. In the absence of comprehensive data, these changes can be best gauged through reference to exports of Israeli merchandise to the territories. The first indications came in a survey of Israeli food producers who reported that sales had shown "modest" declines, though certain food imports with readily available domestic substitutes registered greater reduction.^{37/} including Palestinian consumption of Israeli meat products.^{38/} Consumption of Israeli building materials also fell, indicating a slow-down in Palestinian construction activity.^{39/} One of the most significant decreases in consumption of Israeli imports was registered in textiles.^{40/} Israeli textile firms that sell all or part of their output in the territories and which traditionally rely on Palestinian sub-contractors in Hebron and Gaza were especially hard hit. Within five months of the uprising, exports of Israeli goods to the territories had fallen by 30 per cent.^{41/} There were clear indications that overall consumption of durables had fallen sharply, while consumption of most staples showed less decline and was accompanied by shifts in its composition.^{42/}

3. Savings and investment

30. An important indicator of the evolution of the Palestinian economy is found in the performance of savings and investment rates, which reflect the interplay of domestic and external income sources. Palestinian private savings, though bolstered by the impact of factor income and transfers from abroad, have declined at an annual average rate of -15 per cent during the period 1980-1985.^{43/}

31. The average annual level of private savings in the 1980-83 period was \$345 million, but in 1984-1986 this average fell to \$225 million. Recent trends in the savings rate are not encouraging. Whereas private savings averaged some 23 per cent of gross private disposable income during the 1980-1983 period, this average fell sharply to 14 per cent for the period 1984-1986. Similarly, 1980-1983 witnessed a relatively strong performance in the share of private savings in GDP, at an average rate of 33 per cent. However, between 1984 and 1986, clear signs of dis-savings emerged, with an average annual rate of 18 per cent.

32. Investment rates, covering private and public fixed capital formation and changes in stock, weakened less in recent years, though similar trends are observable. As has been the case for most of the period since 1967, private investment, concentrated in residential construction, continued to account for the bulk of domestic investment. This share fell from an annual average of 85 per cent between 1980 and 1983 to 82 per cent in the 1984-1986 period. As the gross domestic capital formation (GDCF) fell from \$350 million in 1980 to \$281 million in 1985, its average annual share in GDP fell from 31.5 per cent between 1980-83 to 29 per cent in 1984-86. The 1986 recovery in GDCF brought

investment to a high of almost \$500 million, representing the accumulation of olive and oil stocks in 1986. This pushed the investment rate up to 31 per cent of GDP in 1986. Though this constitutes a relatively strong ratio, its composition, coupled with the fact that savings have been largely fuelled from non domestic income sources, reduces the contribution of this factor to the real growth of the domestic economy.

C. Major sectoral developments

1. Agriculture^{44/}

33. Agricultural output began a steady decline in the 1980s. This followed a decade of growth which had come about largely as a result of increases in production efficiency, a shift away from traditional subsistence crops and concentration on a range of cash crops with good export potential in Arab and other traditional markets. From a peak value of \$356 million in 1980, the total market value of output fell to \$216 million in 1984. Output subsequently regained, and then surpassed earlier levels, reaching over \$600 million in 1986. This was due mainly to the record olive harvest in that year, valued at \$158 million, compared to an annual average of \$35 million for the previous five years.

34. The major transformation within agriculture since the 1970s has been the shift away from field crops to the more remunerative vegetables and melons demanded in Israeli and international markets. Field crop output fell from 46,000 tons in 1980 (worth some \$16.5 million) to 32,000 tons in 1986 (valued at under \$10 million). This was accompanied by a rise in vegetables from 232,000 tons (\$50 million) in 1980 to 287,000 tons (\$85 million) in 1986. At the same time, melon production rose from 49,000 tons (\$7 million) in 1980 to 74,000 (\$15 million) in 1986. These parallel developments reveal differential rates in (value/ton) productivity in the major branches over the period. Another significant factor has been the rising cost of inputs other than wages, whose total value grew by 82 per cent in the 1980-1986 period, compared to a 69 per cent rise in the value of output. This differential led to a smaller rate of growth in income originating in agriculture to farmers (including wages) of 66 per cent.^{45/}

35. A number of bottlenecks and restrictions have deprived the territories of the potential benefits offered by re-structuring Palestinian agriculture. Considerable pressure has been exerted on most agricultural branches through Israeli policies and practices.^{46/} Prominent among these are: restricted access to water resources and irrigation supplies; the squeeze posed by land confiscation policies on land suitable for large-scale field crop farming as well as better quality agricultural land; regulation of cropping patterns; restrictions on planting new fruit trees; allowing unfettered entry into the territories of lower-priced subsidized Israeli agricultural goods; and strict control and regulation of agricultural marketing and export.

36. Agriculture offers other sectors an important impetus to growth, but it has been impossible to realise sustained development because of the limited, tentative and undirected nature of shifts in production. This is largely because changes in the composition of output reflect the impact of external and natural factors. These have had negative ramifications, in terms of agriculture's ability to mobilize and allocate resources efficiently and to rationalize production in line with market considerations. Other sectors have

also been restricted in terms of linkages to agriculture and the ability to share the burden of readjustment through absorption of labour, new investment, enhanced efficiency and increased output. The fragmentation and low articulation within the economy, coupled with the absence of policies aimed at overcoming these and other handicaps, has rendered agricultural decline the single most identifiable and significant recent trend in Palestinian economic development.

37. In addition to the new directions in "household" cultivation during the uprising, other changes have been noted. Price levels of vegetables have recently fallen due to weakened demand of the territories' inhabitants, new marketing constraints, and continued unrestricted entry of Israeli agricultural produce. Sales and prices of locally produced seedlings, seeds and other inputs have also fallen, while local slaughterhouses have suffered as a result of difficulties in marketing fresh meat. Problems have been encountered throughout the sector in moving the output to local and export markets owing to security restrictions, curfews, and specific cases of "collective punishment" of areas of unrest.^{47/}

38. Despite immediate shortfalls in production and marketing opportunities for vegetables and fruits, there are some indications of positive shifts in cultivators' and consumers' attitudes to agriculture.^{48/} Local agricultural committees have attempted to reduce the negative impact of recent developments. Measures have included preventing marketing of Israeli produce through local markets and promoting co-operative efforts to transport Palestinian produce from farms directly to consumers. Farmers are being encouraged to benefit from the low prices of seedlings and the surplus of available agricultural labour to plant new areas. Inputs have been distributed at cost-price on a household and wholesale basis in several areas. A trend of "return to agriculture" can be noticed, even though the sector requires re-organization and support to ensure that the "return" is not only to subsistence and low-productivity forms of cultivation. Some efforts have stressed the need to cultivate staples, vegetables and fruits which can substitute for the imports of these items from Israel. While this implies a move away from recent trends to cultivate export crops, it is doubtful that the shift will be so great as to disrupt export possibilities seriously. However, dependence on agricultural imports from Israel could lessen as a result.

2. Industry

39. Industry provides an example of minimal structural transformation amidst stagnation. Excluding 1986, there has been no industrial growth since 1980, after a decade of expansion. While there has been an increase in the number of production units, this has favoured small, family-based workshops.^{49/} The share of private investment in machinery and industrial plant in the occupied territories has been around 15 per cent of GDCR in most years, mainly in the form of replacement of obsolete stock.^{50/} Growth in industrial employment has been sluggish, within the range of 3-4 per cent per annum.

40. The relative weight of branches within the sector has shown little flexibility, with constant differential levels of revenue, labour intensity and productivity.^{51/} In the Gaza Strip, monthly average revenue since 1980 has been greatest in two branches: textiles, clothing and leather products; and, basic metal and metal products. In the West Bank, the historically more developed, diversified and integrated industrial structure has helped to

maintain the prominence of three major branches: food, beverages and tobacco; plastics and chemical products; and, textiles, leather and clothing. In both territories, the textiles, clothing and leather branch has been the major employer within the industrial sector, followed by basic metal and metal products in the Gaza Strip and food, beverages and tobacco in the West Bank.

41. Productivity between 1980 and 1986 (in terms of average monthly revenue per employed person) was highest in the West Bank food and beverages industries, between \$3,000 and \$4,000. In the Gaza Strip, productivity in no industrial branch has risen above \$1,000 (except in food, beverages and tobacco in 1986). In other branches in the two territories, productivity is well below \$1,000, (except for plastics and chemicals). The differential between the West Bank and Gaza Strip in the same branches is manifested in the gap in the two territories' respective levels of industrial productivity. Productivity of all branches has improved in the West Bank from \$800 in 1980 to \$1,100 in 1985, reaching a record high of \$1,500 in 1986. In the Gaza Strip, productivity has been low, at between \$370 and \$500 from 1980 to 1985, rising to \$670 in 1986.

42. One aspect of Israeli industrial development policy affecting the Palestinian economy has led to the emergence of a significant sub-contracting branch in the occupied territories, geared to finishing, assembling or processing Israeli raw or semi-processed materials (especially textiles, some food products and construction materials). Meanwhile, in areas bordering Israel there has been a growth of small-scale workshops specializing in low-cost repairs of Israeli cars, trucks, agricultural machines and implements. These activities, previously not known on a wide scale, are a major aspect of the transformation of the Palestinian economy since 1967. It has been calculated that the value of sub-contracting related industrial activity has amounted in recent years to \$150 - \$200 million annually.^{52/}

43. Notwithstanding the strong performance in 1986 of the economy, there is little evidence to suggest that industry will be able to lead the territories on a different path of development from the one followed so far. Production and marketing patterns, influenced in several branches by the sub-contracting arrangements with Israeli enterprises, show no signs of changing. Investment in industry has remained low since 1980, and rigidities in structure between branches are exhibited in the limited changes in relative revenue, employment and productivity rates. Industry has few means at its disposal to determine significant transformations, in terms of scale or organization of production, investment, labour absorption and productivity, or composition of output.

44. The debilitation of Palestinian industry might have been avoided were it not for the impact of Israeli policies. While the first years of the occupation witnessed a degree of Israeli government support, this was discontinued and gradually replaced by measures which have oscillated between neglect and outright discouragement. The former is manifested by the absence of policies, institutions or regulations favouring the rationalization and development of a local industrial base. Israeli authorities have also applied a range of measures designed to curb and regulate industrial development in a way that ensures integration into Israeli industrial strategies.^{53/} These are mainly related to the difficulties inherent in competing with the dominant Israeli economy and the unrestricted penetration of local markets by relatively better quality, lower-priced Israeli manufactures. Restrictive practices have also included delays or obstacles in issuing building or

operating permits for enterprises which are considered to compete with existing Israeli industries, import controls on industrial machinery and labelling regulations which restrict entry to Israel of certain food products and pharmaceuticals. Other measures have indirectly affected the scope for expansion, including high rates of taxation, shortages in capital, raw materials, energy and certain skills.

45. The uprising in the territories might encourage a disengagement of some industrial links in the Israeli-Palestinian economic relationship, especially in areas related to sub-contracting. However, in the short term at least, this will entail serious losses to small-scale Palestinian industries and entrepreneurs owing to the small domestic market and the rigidities of industrial structure. One large factory in the West Bank has already shut down temporarily while others have reduced production.^{54/} There have been serious difficulties in maintaining raw material supply from/through Israel, while the commercial strike has discouraged production of some branches (plastics, wood, metals and electrical appliances, and tourist goods).^{55/} Some local industries, however, have experienced rises in demand as consumers attempt to switch from Israeli imports. The possibilities for maintaining output levels while concurrently "disengaging" from the Israeli economy depend to a large degree on entry of Palestinian products to new markets. Until now, most industrial exports to Arab markets are restricted under the Arab boycott of manufactures using raw materials obtained from or through Israel.^{56/}

3. Labour force developments and employment in Israel

46. By 1987, the Palestinian labour force had grown to 277,800, continuing a trend of relatively high growth since 1984, after a decade of manpower drain engendered by migration in search of employment largely in the Arab States.^{57/} This has encouraged a gradual rise in the crude labour force activity rate, from 34 per cent in 1980 to 36 per cent in 1986 and a high of 38 per cent in 1987.^{58/} In 1986, 48 per cent of all employed Palestinians worked away from their locality of residence, mostly commuting to work in Israel, as well as to other localities in the territories.

47. The sectoral composition of the domestically employed labour force confirms the broad outlines of structural change encountered above. The largest shifts occurred before 1980; changes since then have been relatively small. Employment in Palestinian agriculture has fallen steadily from 39 per cent of the domestically employed labour force in 1970 to 25 per cent in 1986. The share of domestic industrial employment has meanwhile grown moderately, from 14 per cent to 16 per cent. Construction and other sectors have absorbed most of the shift out of agriculture. Their shares grew from 8 to 11 per cent and 39 to 47 per cent, respectively.

48. It has been noted by the ILO that "the economic and employment situation in the occupied Arab territories and prospects for development are largely determined by external factors and by uncontrollable changes in the economic and political situation, as happened, for example, as a result of the slackening of growth and the reversal of demand for manpower in the countries of the Gulf, or during the recent deterioration of the employment market situation in Israel or, yet again, because of the events that have occurred since December 1987 which have resulted in a wave of absenteeism on the part of the Palestinian workers from the territories employed in Israel."^{59/} Recession in the Israeli economy (as in 1984 and 1985) has had the dual effect

of arresting growth in Palestinian labour employed in Israel while also encouraging a slow-down in Palestinian economic activity and stimulating a growth in Palestinian unemployment. Most recent indications show significant disruptions in the level and patterns of employment in Israel, including decreased employment in Israeli construction and agriculture.

49. Of the two main axes through which the Palestinian economy is bound to Israel - namely imports of Israeli merchandise and reliance on employment opportunities in Israel - it is difficult to state which most impairs the potentials for Palestinian economic development. The two linkages appear increasingly interdependent and mutually reinforcing. With the emergence of a source of income to Palestinians working in Israel, there has been a rise, albeit small in recent years, in Palestinian private consumption as noted earlier, while a significant proportion of consumption expenditure was devoted to goods and services purchased from Israel.^{60/} Recently, this proportion has declined, indicating the potentials for reliance on domestic resources. Nevertheless, a clear trend of "disengagement" from the Israeli economy cannot yet be deduced. This is supported by the fact that 1986 witnessed a recovery in factor income payments to the occupied territories, concomitant with a rise in the number of Palestinians employed in Israel from 89,200 in 1985 to 94,700 in 1986. It was estimated that some 109,000 Palestinians were employed in Israel in 1987.^{61/} The proportion of the Palestinian labour force employed in Israel has grown since the earliest period of occupation, except in years characterized by recession in Israel (e.g. 1975-1977 and 1984-1985). Whereas 12 per cent of the territories' labour force was employed in Israel in 1970, this figure grew to 35 per cent in 1980, peaked at 38 per cent in 1983 and fell afterwards to 36 per cent in 1986. Indications are that the share regained the level of 38 per cent in 1987.^{62/}

50. Palestinian labour employed in Israel earns a significant part of Palestinian national income, which reduce the overall deficit in the current account of the international balance of payments of the territories. Wages paid to Palestinian labour (migrant workers and sub-contracting and repair services) have been the single most significant source of external credit to the Palestinian current account since 1980, reaching \$480 million in 1986.^{63/} Official estimates expected Palestinian "labour exports" to Israel to reach over \$700 million in 1987.^{64/} Despite earlier official forecasts to the contrary, it is probable that labour export receipts will fall in 1988 owing to the slowdown in Israeli absorption of Palestinian labour since the uprising.

4. The financial sector: banking, money, taxation and public expenditure

51. The Palestinian financial sector continues to be characterized by the same shortcomings and marginality already noted by the UNCTAD secretariat.^{65/} There have been few, if any, significant developments to indicate that the occupation authorities intend to promote the sector's role in Palestinian economic development. The only exception to this was the permission granted to the Cairo Amman Bank to re-open its branches, in 1987 and 1988, in Kamallah and Hebron, while the Bank of Palestine in Gaza was still awaiting permission to re-open its Khan Yunis Branch closed by the authorities since 1967.^{66/} These indigenous banks have not been able to expand their role to the extent required, though they have begun to attract deposits away from Israeli banks and provided a useful channel for financial dealings with Jordan and the rest of the world. The controls exercised by

Israel have limited the potential effectiveness of these facilities. The informal sector continues to play a small role in financial intermediation, reflecting the absence of reliable financial facilities in the territories. It had been recently reaffirmed that "the paucity of financial services is, in fact, one of the clearest reflections of the underdeveloped state of the Palestinian economy."^{67/} The role of the tax system in providing entrepreneurial incentives remains nil and there are no visible indications that the authorities envisage undertaking the necessary reforms.^{68/}

52. Significant aspects of the Palestinian uprising have been related to Israeli monetary and fiscal policy in the territories. Israeli bank branches previously operating in the Gaza Strip have moved their offices outside the area and thousands of accounts have been closed.^{69/} The Palestinian commercial strike has caused great strains for many businessmen who have incurred debts and overdrafts and there was a spate of issuance of uncovered cheques to pay for imports from Israel.^{70/} After two months, debts to Israeli suppliers had reached between \$50 to \$70 million. Meanwhile, new restrictions imposed on the amounts of funds permitted to be brought into the territories, including Israeli supervision of funds to relief agencies, have reversed the trend towards liberalization noted in this respect in recent years.^{71/} The ban on moneychangers' travel to Jordan has effectively paralysed the informal system they operated in the past.

53. There has been a sharp fall in tax revenue caused by the drop in Palestinian income, the widespread "tax boycott" and resignations of Palestinian tax collectors.^{72/} Countered by Israeli policies to enforce revenue collection through a range of coercive measures,^{73/} this has highlighted the centrality of fiscal issues in the territories. There is a distinct possibility that the limited services of the Israeli Civil Administration will be reduced in order to make up for the alleged heavy losses in tax revenue.^{74/} This is notwithstanding renewed indications that revenues collected by the Israeli authorities from the occupied territories continue to outpace its expenditures.^{75/} The uprising has targeted Israeli taxation measures as a major problem faced under occupation and adds urgency to the need for serious policy reform in this area.

Part II

THE EXTERNAL TRADE OF THE OCCUPIED PALESTINIAN TERRITORIES

54. Part II depicts some of the major findings and recommendations emerging from the study on the external trade of the occupied territories (UNCTAD/ST/SEU/7). The study is intended to provide the basis for policy measures aimed at enhancing the contribution of the trade sector to the economic growth and development of the occupied Palestinian territories. Particular attention is given to the role that the international community can also play in this process.

A. The role of trade in Palestinian economy

1. Trade performance

55. Trade has played an important role in the economy of the West Bank and Gaza Strip before and since Israeli occupation. Exports and imports constituted around 50 per cent of GNP in 1965/1966, rising to 77 per cent in 1975 and declining to 62 per cent in 1986. In terms of gross domestic product, the share of trade increased from 54 per cent in 1965/1966 to 105 per cent in 1975, declining to 81 per cent in 1986 with imports rapidly increasing to a share of almost two thirds of total foreign trade. This very high degree of "openness" has rendered the economy of the occupied territories vulnerable to external economic and political forces. The lack of a central authority and the inability to negotiate and benefit from international agreements on trade and finance have further added to the vulnerability of the territories' trade. Its potential for contributing to the domestic economy has been contained by a variety of constraints mostly imposed under occupation. The relative "freedom of choice" in trade which the territories enjoyed was shattered as a result of occupation since 1967. Consequently, the net result has been the emergence of patterns and terms of trade which are markedly unfavourable to the territories.

56. Since 1967, the occupied territories have been drawn progressively into a close trading relationship with Israel. The closure of traditional trading outlets made the territories almost totally dependent on Israel for both exports and imports. From a position of no trade with Israel until 1967, 46 per cent of Palestinian exports were destined for Israel and 84 per cent of imports originated in Israel (both in value terms) in 1970, giving rise to a deficit of \$54 million.^{16/} By 1986, 73 per cent of the territories exports went to Israel. Israel's share of Palestinian imports, on the other hand, showed a slow increase, standing at 90 per cent in 1986. In absolute terms, however, the growth of imports from Israel over the occupation period was more than nine-and-a-half fold between 1970 and 1986, reaching almost \$800 million by 1986. Accordingly, the territories' merchandise trade deficit with Israel surged throughout the two decades of occupation, to stand at \$523 million in 1986. If one adds to this the deficit with other countries, the merchandise trade deficit of the territories with and through Israel (i.e., not including Jordan) stood at more than \$600 million in 1986 or 40 per cent of GDP and 30 per cent of GNP in that year. This deficit was covered by factor income derived from the export of labour to Israel and partly by the surplus (of some \$90 million in 1986) maintained in merchandise trade with Jordan, as well as transfers from the rest of the world. By contrast, the Israeli policy of benefiting from low wage Palestinian labour has both enabled it to control

production costs and created a market for its own subsidized products in the territories. This has led to greater labour export dependency on Israel and consequently to lower domestic production and merchandise export capacity in the territories.

2. Trade composition

57. While agriculture remains the backbone of the territories' economy the value of its exports declined from \$107 million in 1977 to \$75 million in 1986. The share of agricultural produce in total exports has fallen from 42 per cent in 1977 to 19 per cent in 1986. This fall in the export capacity of the largest sector of the economy has serious implications for the future role of trade in growth and development of the Palestinian economy.

58. The market distribution of agricultural exports indicates the historical role played by Jordan and other Arab countries in the absorption of Palestinian merchandise exports. Since 1980, an annual average of 54 per cent of agricultural exports went to and through Jordan to other Arab markets. However, the value of agricultural exports to/through Jordan has followed a declining trend since 1977, reflecting a fall both in quantities and prices. Much of this may be attributed to the general economic recession in the region, policies aimed at supporting domestic agricultural sectors in Arab countries, and the entry of new competitors in the traditional markets of Palestinian exports. In the 1980s, Israel imported an annual average of 44 per cent (\$36 million) of Palestinian agricultural exports.

59. Agricultural imports increased from \$89 million in 1977 to \$130 million in 1986. In itself, this is not necessarily an unexpected phenomenon, considering that the territories have not been self-sufficient in a number of items, especially staples. The growth in food imports has been so high that the surplus in agricultural trade enjoyed by the territories until 1982 has turned into a large and growing deficit, equivalent to \$55 million in 1986. Almost all food imports come from Israel; they are unrestricted and are directly competitive with domestic output.

60. Meanwhile, despite this growth in imports, surpluses of some types of domestic agricultural produce have accumulated without adequate markets to absorb them. Owing to the lack of overall guidance and market orientation, farmers have tended to emulate each other in the selection and production of crops, especially the traditional ones. They have achieved increases in productivity in certain crops, but the size of both domestic and external markets for the territories' produce has not shown a corresponding increase. Constraints imposed on agricultural marketing have prevented Palestinian agriculture from balancing and rationalizing output between domestic and external demand, while at the same time striving towards the achievement of a greater degree of self-sufficiency in certain foods.

61. With regard to industry, the situation does not appear more promising. Industrial products constitute the bulk of the territories' exports. While industrial exports have significantly grown over the last decade, most of the increase has been directed towards Israel, which accounted for more than 80 per cent of total industrial exports in 1986. Much of this constitutes manufactured goods traded under sub-contracting arrangements for semi-finished goods between Israeli firms and Palestinian producers. The balance of total

industrial exports is composed of traditional output (olive oil, other vegetable oil, dairy products, soap and construction materials), which has continued to be absorbed through Jordan.

62. It may be inferred that Palestinian industrial trade is highly dependent on a single market involving specific production processes, the scale of which greatly overshadows the production and performance of the indigenous industrial sector. The industrial export sector of the territories has been effectively turned into an external enclave of the Israeli industrial sector, performing low-wage labour-intensive tasks that require fewer technical and managerial skills. This allows Israeli industries to concentrate increasingly on the development of new technology-oriented capital-intensive activities that provide for higher value-added industrial processes in which Israel can realise significant foreign exchange gains. The arrangement provides limited, if any, gains to the economy of the territories and inhibits the development of complementarities, linkages and integration within the Palestinian industrial sector.

63. Israel has provided close to 90 per cent of Palestinian industrial imports, during most of the occupation period, with a rapidly rising value reaching \$665 million in 1986. A significant portion of this is constituted by semi-finished goods destined for processing in the territories and re-export to Israel, as mentioned above. The balance includes a range of consumer goods, some of which compete with local Palestinian output. Close to 10 per cent of the territories' industrial imports originate in other countries and enter via Israeli ports. The value of industrial imports from abroad has risen from \$40 million in 1977 to \$81 million in 1986. Around one per cent or about \$11 million of the total industrial imports of the territories originated in/through Jordan in 1986. These include edible oil, dairy products, paper, textiles and metals intended for processing and re-export.

B. Factors affecting the development of Palestinian external trade

1. Israeli policies and practices

64. The poor trade performance of the two most important economic sectors briefly examined above is attributed to a wide range of factors largely reflecting the severe constraints imposed under conditions of occupation. The policy measures and practices of Israeli authorities have had a dampening effect on the economy of the territories, including the dynamics of its trade sector.

(a) Production constraints

65. More than 52 per cent of the total area of the occupied territories has been gradually brought under direct Israeli control. This has sharply reduced the area devoted to rain-fed and cereal cultivation and production after 1967. The inevitable decrease in rain-fed agriculture was mainly manifested in the fall in cereal production. While the irrigated area and its productivity increased through improved inputs and techniques, aggregate production has remained fairly constant over the past decade. This has been an important impediment to expanding agricultural trade.

66. Two important bottlenecks that have impeded expansion and intensification of irrigated areas are water and capital. Out of total annual supplies of 800 million cubic metres, the Palestinian inhabitants are allowed the use of only 110 million cubic metres despite the rapid growth of population, with the balance available for use by Israel and its settlements in the territories. The Palestinian inhabitants are not permitted to exploit their water resources for the development of their economy. Deep wells are only bored for the benefit of Israeli settlers, thus causing the drying-up of shallow tube wells in nearby Palestinian villages. On the other hand, the high cost of fresh water has forced farmers to mix brackish water with fresh water from springs that were already in use before 1967. This has also led to the cultivation of certain crops at the expense of others.

67. One of the most notable Israeli practices adversely affecting Palestinian industrial structure and output deals with sub contracting arrangements in the occupied territories. This practice has turned much of the industrial base of the territories into a de facto "free zone" operating exclusively for the benefit of Israeli producers. The non existence of a central authority, trade unions and other bodies capable of defending the interest of Palestinian producers and workers has added to the range of anomalies under which the Palestinian economy struggles.

68. Another important factor which has adversely affected the economy of occupied territories and helped create a captive market for Israeli output is the growing number of unemployed and underemployed Palestinians who have been obliged to take up low-paid jobs in Israel. With the domination by Israel of Palestinian agriculture and industry, the engagement of close to 40 per cent of the Palestinian labour force in Israel has strengthened Israeli control over the trade of the territories and added to the vulnerability of their economy.

(b) Financial constraints

69. Scarcity of equity and working capital has been another limiting factor for agriculture, industry and international trade. There are no specialized financial institutions geared to meet the financial needs of agriculture and industry. Inflation and the uncertainty of the investment climate have further complicated the problem for entrepreneurs. In the area of trade, the role of the branches of Israeli banks, operating in the territories as the only financial institutions until 1986, has remained insignificant particularly with regard to export import needs.

70. The use of over-draft facilities from the branches of Israeli commercial banks in the territories is hampered by constraints arising from both Government regulations and banking practices. In addition, poor banking services and delays in processing customs formalities have increased the cost of imports and exports to Palestinian merchants. No monetary and fiscal incentives are applied in order to reduce the cost of exports which might add to the competitiveness of the territories' outputs and increase gains in international trade. Additional obstacles have been imposed in the wake of the recent uprising in the territories, which specifically affect the financing of foreign trade, including the severe restriction of funds brought into the territories.

(c) Marketing constraints

71. Israeli agricultural and industrial products are assured complete protection in the occupied territories' markets. No tariffs and/or non-tariff regulations are applied to the entry of Israeli goods into the territories. There is no limitation on the amount and type of Israeli goods entering the occupied territories except those with high technology contents and military goods. Many of the agricultural and industrial goods involved are subsidized at the production level. In a captive market where the Israeli producers benefit from a unilaterally imposed division of labour, the gains from these subsidies accrue totally to Israeli producers and traders.

72. The production and marketing of Palestinian agricultural and industrial goods are subject to strict regulations ranging from licenses to quotas and numerous administrative restrictions. The entry of Palestinian agricultural output into Israel and occupied East Jerusalem is subject to numerous restrictions. High fines are imposed on the territories farmers seeking to find an outlet for their goods in East Jerusalem and in Israel. Palestinian exports to Israel are subjected to quotas, both by type and amount, covering items that complement Israeli local production or that are either more expensive to produce locally in Israel or to import from elsewhere. The territories' comparative advantage in both traditional and new lines of production is used to serve the interest of the Israeli economy.

73. Direct commercial contacts between the territories and the rest of the world other than with Jordan and other Arab States are maintained largely through Israeli commercial agents. Palestinians are not allowed to export or import goods directly to and from outside markets using Israeli ports. Gaza Strip producers alone have been allowed to export citrus fruit directly to Eastern Europe through the Israeli port of Ashdod. Difficult barter trade conditions and inadequate transit handling have caused this export to fall from 20-25 per cent of citrus production in the 1960s to less than 10 per cent of the much lower production levels of 1987. While the restriction on direct trade with the rest of the world may have put the experience of Israeli agents at the disposal of Palestinian exporters/importers, the cost-benefit aspect of such a policy and its consequences for the Palestinian economy deserve careful examination. This constraint has prevented the Palestinian entrepreneur from coming into direct contact with external markets, learning the dynamics of supply and demand in these markets, searching for new outlets and concentrating on ways and means of reducing cost and maximizing gains in trade with the rest of the world. In certain markets, such as those in the European Economic Community (EEC) and in North America, products obtained from Palestinian producers in the occupied territories and from Israeli settlements in these territories have been marketed as Israeli produce carrying Israeli brand names. The Commission of the European Communities is reported to have asserted that this practice is not only in violation of international law but also an abuse of the preferential treatment extended to Israeli products.^{17/}

74. Domestic trade of the territories is equally controlled by Israeli producers and traders. The flow of farm products between the West Bank and Gaza Strip and within the territories themselves is subject to permits from relevant Israeli authorities in the district of origin. The permits specify the kind of produce, quantity, date of entry and route of the vehicles involved. On the other hand, free and unlimited entry of subsidized Israeli goods, together with forceful marketing campaigns, has confronted local

producers with stiff competition. The lack of institutional arrangements such as marketing centres and research facilities for improving and maintaining quality and reducing costs, poor transport facilities, and numerous administrative obstacles dealing with permits, paper work, and payment of various levies have all rendered domestic trade costly and less attractive.

(d) Infrastructural constraints

75. The loss in quality and markets has adversely affected the incentive to invest in physical infrastructures such as storage, cold stores, packing and grading stations, containers and other prerequisites that are an absolute necessity for modern export marketing. This has had a particularly damaging effect on the bulk of agricultural output that goes to Jordan and beyond to the Arab hinterland. Despite the Israeli "open bridges" policy, trade with Jordan experiences numerous obstacles. The transport facilities are inadequate and cumbersome for the shipment of products to Jordan. The open trucks do not provide for sufficient protection of perishable goods, and are few in number. They have to return empty within a short period and are held up for a considerable time for security checks. Unpredictable security measures and import restrictions as well as Israeli customs formalities at the bridges have frustrated Palestinian traders. The risks of loss from delays in preparing shipments to Jordan and during the crossing of bridges are high.

76. In view of poor transport facilities, Palestinian agricultural produce continues to experience problems with packaging which is done with the use of inadequate wooden boxes. This is required in order to comply with League of Arab States boycott provisions which prohibit the entry into Arab markets of materials produced in or imported through Israel. Every effort is needed to increase production of packaging materials and to arrange for the grading and packing of the produce to take place in the territories themselves. The only existing cardboard plant in the West Bank could be supported by increasing its capacity and facilitating the importation of the required raw materials.

77. One of the most important gaps in the physical institutional prerequisites for the promotion of the territories trade is the lack of a marketing facility. The existing institutions, including co-operatives and their unions, chambers of commerce and individual exporters, are not adequately equipped with the technical expertise needed for the type of activities required to develop and implement appropriate export promotion programmes. It is also equally important to expand domestic markets in the territories. There are no indigenous facilities created to achieve this crucial objective. This need was addressed by Conference resolution 169(VII).^{78/}

2. Arab policies and practices

78. After 1940, the West Bank was cut off from its traditional trading routes to the Mediterranean and European countries. New routes had to be established through the Jordanian port of Aqaba. West Bank exports benefited from the liberal foreign trade and exchange systems of Jordan and its industries were accorded protection against unfair competition. Jordan maintained its trade relations with the West Bank after 1967. Trade relations with the Gaza Strip were also initiated. Israeli restrictions on imports to these territories meant that trade with Jordan became virtually a one-way flow from the territories to and through Jordan, resulting in surpluses which paid for the territories' growing deficit with Israel.

79. Since the 1970s, however, the export position of the territories with Jordan and other Arab countries has gradually deteriorated, resulting in unmarketable surpluses of agricultural output which in turn acted as effective disincentives to Palestinian growers. Much of the reason for this development lies in a fall of demand in traditional export destinations and in the Israeli policies and practices enumerated above which have prevented growers from maintaining their competitiveness, as well as in the continued occupation of the territories and the uncertainties this carries for the future.

80. Trade with most of the traditional markets of the territories (namely, Islamic Republic of Iran, Iraq, Lebanon, Saudi Arabia, Syrian Arab Republic and the Arab countries of the Gulf) has decreased considerably over time. This leaves Jordan as the most important external market for the agricultural output of the territories. This development comes at a time when Jordan itself is confronted with growing preoccupations concerning the marketing of its own agricultural output. In addition, the application of League of Arab States regulations which boycott goods produced in or imported through Israel have had the effect of restricting Palestinian industrial exports to Jordan. In compliance with these same boycott regulations, the agricultural exports of the occupied territories to and through Jordan are considered as being of Arab origin and thus exempt from boycott. While this has facilitated the exports of the territories to Jordan and other Arab countries in the region, the repacking and handling charges in Jordan are likely to increase the final price vis-à-vis similar products in Jordan. This is in addition to the cost of transportation from the territories to Amman and various levies and charges imposed by the Israeli authorities.

81. These developments have prompted the Jordanian authorities to periodically examine policies vis-à-vis the agricultural and industrial sectors of the occupied territories. The goals of these exercises have been: to continue to provide an outlet for the agricultural and industrial output of the territories aimed at ensuring their markets in Jordan and the Arab countries and strengthening the capabilities of the Palestinian people to cope with discriminating policies and practices of occupation; to abide by the boycott regulations of the League of Arab States; and to protect domestic Jordanian production sectors from unregulated competition.

82. In line with the objectives enumerated above, Jordan has regulated domestic crop production, accompanied by import quotas geared to West Bank agricultural produce. Entry to Jordan is permitted for up to 50 per cent of West Bank agricultural output (depending on the products concerned) and up to 65 per cent of industrial output for firms established prior to 1967 and importing their raw materials via Jordan. A number of items imported to Jordan (olive oil, stones, soap, handicrafts) were exempted from these requirements. Some firms established after 1967 were subsequently allowed to register in Jordan in order to be entitled to the exemptions. Jordan has also relaxed requirements applicable to some items with respect to the importation of industrial raw materials and equipment through Jordan as a pre-condition for exemption from boycott provisions. The effective implementation of these favourable decisions, however, calls for coordination in production and marketing and for improvement in formalities and transport facilities affecting the export of the territories to and through Jordan. The building-up of the appropriate organizational infrastructures to deal adequately with this crucial task is an absolute necessity. Similarly, it signals the need for increasing the active role of Palestinian institutions in promoting the production and exports of these territories.

C. External trade policies

1. Trade and overall economic development goals

83. It is necessary to underline, at the outset, that any attempt at improving the performance of the external trade sector must emanate from an overall strategy that is aimed at accelerating the growth of the domestic economy at a rate faster than natural increases in population. At the sectoral level, such a strategy would have to concentrate on increasing overall productivity in agriculture and industry, with sufficient employment opportunities to absorb the growing labour force, and expand the output of essential goods by promoting import substitution industries based on local raw materials and by expanding and diversifying exports. While import rationalization measures deserve careful examination in this regard, feasible export promotion and diversification policies should receive priority attention.

84. Over the past 21 years of occupation, the economy of the territories has performed without a strategy, governed by ad hoc impulses that were often alien to its own interests. More than at any other time, the territories need to be provided with appropriate indigenous institutions to establish an economic identity of the territories themselves reflecting their needs and providing prospects for their future development. Short of a comprehensive development strategy, immediate efforts need to concentrate on certain policy measures primarily aimed at increasing employment opportunities in order to provide jobs for that part of the Palestinian labour force which functions under precarious circumstances outside the national economy. It is necessary to initiate the basis for establishing a productive and viable indigenous Palestinian economy. This necessitates a restructuring of the economy with the orientation of production for the domestic market and for exports by developing complementarities with Arab economies and exploiting opportunities in other markets. In the absence of an indigenous central authority, the role of entrepreneurs and local institutions is now becoming crucial in the process.

85. The areas to be considered at first should be those in which the territories demonstrated a comparative advantage in both agriculture and industry. Emphasis could be placed on the improvement of productivity, quality and diversification of agricultural output and the development through small scale employment-generating projects. The abundance of low-wage labour and the existence of a pool of skilled and technically proficient manpower enhance the potential role that the private sector will be expected to play in this connection. Given the similarities that exist especially between the territories and Jordan in the availability of raw materials and other factors of production in both agriculture and industry, and bearing in mind the limited size of their markets, efforts need to aim at achieving a degree of economic complementarity between the territories, Jordan and other Arab countries.

86. Understandly, the realization of much of the restructuring required to set the economy on a path for sustained growth and development and provide a sound basis for external trade of the territories is a relatively long-term process. Parallel measures are needed on a more urgent basis to revive the economy by providing an impetus for activities that increase output and improve the balance of trade of the territories. Therefore, a two-pronged approach involving both domestic and household economies is needed to achieve

this objective. With respect to the latter, the emphasis could be placed on increasing crop and animal production for household consumption, thus reducing dependence on imports. The pioneering work of Palestinian agricultural committees to promote self-reliance with respect to certain commodities deserves support. International assistance is needed to provide the basic requisites for developing and sustaining a programme of activities involving the household sector in crop and animal production and processing.

2. Export promotion and trade concessions

87. With respect to the domestic economy, efforts need to be concentrated on increasing and diversifying production and promoting its marketing both domestically and abroad. Immediate attention could be directed to the marketing of the surpluses that accumulate in the agricultural sector by launching a carefully structured export promotion drive not only to increase its share in traditional markets but to also penetrate new ones. The exports of the territories have not increased at a pace that can further stimulate the growth of the productive sectors. The territories' comparative advantage in certain productive sectors has not been exploited owing to the factors enumerated earlier. This is so despite the fact that Palestinian producers realize the importance of identifying new external markets.

88. Even where new markets are opened, the territories have not been able to take full advantage of the opportunities offered. A clear example is the trade concession extended by the European Economic Community (EEC) to the occupied Palestinian territories. In a move to enable the territories to benefit directly from trade with the EEC, the Council of the European Communities upon the proposal of the Commission, in October 1986 extended to the territories trade concessions similar to those enjoyed by other countries of the region in their trade with the Community.^{79/} The Community has adopted autonomous tariff arrangements applicable to imports into the Community of products originating in the occupied territories. The Community has accepted chambers of commerce in the occupied territories as authorities qualified for issuing certificates of origin and for ensuring the necessary administrative co-operation. There have been numerous contacts between the Community and the Israeli authorities in order to enable exports to pass through Israeli territory, the most economic export route to Europe. Some trial shipments of manufactured goods from the territories by this route have recently been effected. However, the Israeli authorities have not yet allowed Palestinian agricultural producers direct access to EEC markets. The Community has repeatedly stressed to Israel the importance it attaches to the effective implementation of its trade measures, without any administrative or other obstacles to Palestinian exporters. Israeli authorities have argued that they should be able to co ordinate Palestinian exports to Europe so as to ensure that their own exports to these markets are not subject to competition from similar Palestinian products. It is only very recently that the Israeli authorities are reported to have agreed, in principle, to the idea of allowing the export of Palestinian agricultural produce directly to Europe through Israel. Palestinian producers are awaiting the implementation of this agreement in the 1988/89 agricultural year and discussions are under way aimed at overcoming existing difficulties with export procedures.^{80/}

89. A similar move of support for the economy of the territories has been recently made at the Ministerial Meeting on the Global System of Trade Preferences (GSTP) among developing countries members of the Group of 77.^{81/}

The resolution calls for granting trade concessions and concrete preferential measures to Palestinian exports on a non-reciprocal basis pending the elimination of the Israeli occupation. It also calls for treating Palestinian exports and imports through neighbouring ports and points of exit and entry on a transit basis. These concessions can greatly enhance the role of the Palestinian private sector in the expansion of output and promotion of exports, thus strengthening the occupied territories' position in external markets.

90. It is of paramount importance for Palestinian agriculture in the territories to be able to benefit fully from these measures and concessions, not only to find an outlet for surpluses but also to be able to exploit and develop its potential comparative advantages. In the industrial sector, the prospects for expanding exports would initially lie in the standardized goods that require less technical and managerial skills, low wage labour cost, and raw materials that have low opportunity cost. More importantly, certain branches could enter a complete cycle of production, with all phases vertically and horizontally integrated, unlike the present sub-contracting arrangements.

91. However, many factors that determine the extent of the responsiveness of the private sector to these concessions need to be carefully and adequately dealt with. It is not realistic to expect producers from the territories, irrespective of their dynamism, to benefit through individual initiative from any preferential treatment accorded to them in external markets. Many conditions need to be met, some by the Israeli authorities as the occupying power, others by the Palestinians people themselves and their local institutions and some by the international community.

3. Prerequisites for successful export promotion

92. An important factor in optimizing the benefits of competitive and concessional trade is the consolidation of the production process by achieving some degree of coordination among producers in both agriculture and industry. This is needed in order to avoid over- or under production of goods, misallocation of resources and damaging competition among producers of rival goods. In view of market limitations, both domestic and external, this issue deserves serious consideration. The role of producers' associations, chambers of commerce and industry and other existing institutional facilities in the occupied territories is crucial in this respect. Such local agricultural and industrial facilities need to embark, inter alia, on operationally-oriented surveys to determine the nature and size of markets, both local and foreign, for commodities that can be produced in the territories along with production forecasts falling within a medium-term time horizon.

93. In view of keen competition in export markets, improvement in the quality of exportable commodities should remain the foremost preoccupation of Palestinian producers and their various associations in the territories. Given the relatively limited size of the territories' exportable output compared with that of its competitors, the territories' position in international markets will be determined primarily by the quality and prices of what it can offer. This is very important as most of the competing countries either enjoy a modern agricultural sector or are modernizing their agriculture. Emphasis on quality and competitive prices will become even more crucial when ERC evolves into a "single market" with the abolition of all internal tariffs and customs

duties by 1992. The territories should be able technically to meet expectations in such a competitive environment. Palestinian producers' organizations, universities and research centres could play a significant role by mobilizing resources and co-ordinating efforts on research aimed at improving the quality of agricultural and industrial output. This could be accompanied by strong sales promotion campaigns on behalf of small producers using various channels aimed at increasing the share of markets for the territories' output.

94. The impact of external concessions on the price structures of exportable commodities and on the distribution of gains among the various actors involved in the production and marketing processes equally requires careful examination. The present structure and operation of agricultural institutions need to be oriented to the new opportunities in order to encourage a realistic price structure of exportable output, thus providing maximum benefit to the sector/branches concerned. Similarly, land tenure arrangements and market relations among producers need careful treatment so as to ensure an equitable distribution of gains among all producers. Special attention should be given to the significant contribution of small land owners, share croppers, and tenant farmers who are in dire need of remaining on the land. The same applies to small producers involved in the industrial sector.

4. The urgency of direct Palestinian marketing arrangements

95. The direct marketing of exportable commodities responds to the urgent need to optimize the gains of external trade and ensure their equitable distribution among the contributors. The past position of the Israeli authorities, whereby part of the territories' output should be marketed by Israeli agencies and the rest sent through "open bridges" to Jordan places unjustifiable constraints on Palestinian producers. To deny Palestinian producers the right of direct export while granting this right to Israeli settlers in the territories is a clear penalization of the Palestinian producers as against Israeli settlers/producers, who furthermore enjoy the benefits of concessions, subsidies and services denied to the indigenous inhabitants of the territories.

96. Israeli policies towards the Palestinian external trade sector have resulted in an important missing link in the institutional infrastructure of the trade sector in the territories. In order to take full advantage of the opportunities that trade offers for the growth and development of the Palestinian economy, independent local facilities ought to be created. The establishment of a Palestinian trade promotion and marketing facility would be a first step in this direction, especially with respect to expansion of agricultural exports from the territories. Such a facility would be the nucleus of an independent trade promotion and marketing organization in the territories.

97. The proposed marketing facility could collaborate with existing local institutions regarding all technical and administrative tasks involved in the identification, production and marketing (including grading, packing, cold storage and processing) of exportable goods from the territories. The same facility could also be entrusted with authority to deal with local marketing needs and could operate a branch each in the West Bank and the Gaza Strip. Action needs to be initiated urgently to investigate the technical, administrative, financial and other requirements of such a facility and to

obtain the necessary authority for its operation. The EEC offer to provide technical and, if necessary, financial assistance for the establishment of export structures is a welcome move in this direction.^{82/}

98. An adequate and efficient transport system is another important prerequisite for the promotion and development of the territories' trade. While local institutions, including municipalities, can contribute to the improvement of the present transport system, much of the physical infrastructural requirements would need to be met by Israeli authorities. Moreover, the provision of refrigerated containers and trucks, improvement in customs and security formalities, and installation of more modern equipment for monitoring of goods would also need to be permitted and encouraged by Israeli authorities.

99. The trade of the territories with non-Arab markets, either through Jordan or Egypt, is hampered by the high cost of transport and the long duration of the journey involved. This has had an adverse effect on the quality of the goods reaching their final destinations. Obviously, the rise in cost and decline in quality are detrimental to the perishable exports of the territories, especially in the highly competitive markets of Western Europe or North America. The most natural outlet for such exports is the development of the port of the Gaza Strip. In addition to the existing fishing port, which is specifically designed to meet the requirement of the Gaza fishing community, the commercial port that existed prior to 1967 also needs to be re-opened and developed to accommodate the future trading requirements of the occupied territories. The Israeli authorities and the international community could contribute to the construction of this vital facility. In the meantime, the proposed Palestinian trade promotion and marketing facilities would need to obtain transit facilities through Israeli sea and airports for direct access to international markets.

5. Other trade support measures

100. Parallel with efforts to meet the various institutional and physical infrastructural requisites outlined above, a number of policy measures could further enhance the vital role of trade in the economy of the territories. This would require above all the rescinding of many related Israeli orders and measures adopted since 1967 which have inhibited trade and other economic activities in the territories. The major issues outlined in the following paragraphs need to be urgently and seriously considered.

101. Efforts to eliminate the numerous administrative constraints that have obstructed economic activities affecting the trade of the territories could fruitfully be set in motion. Most importantly, such relaxation would necessitate the abolition of military government requirement for permits to start a new business, expand a product line, diversify crops, export a consumer good or import manufacturing equipment and the like.

102. The occupied Palestinian territories need to be treated as an entity with distinct economic interests. Israeli policies over the 21 years of occupation have treated the territories as an extension of the Israeli market, while impairing their participation in benefits that accrue. The market of the occupied territories should be treated independently of Israel and subject to the laws and regulations of the territories.

103. The severe shortages of financial resources in the territories and the inadequacy of financial institutions deserve serious consideration. Given this unique problem of the territories, a more imaginative approach to the monetary and fiscal aspects of economic policy may have to be pursued in order to revive the economy and expand trade. The implementation of the suggestions embodied in previous reports^{83/} could go a long way to contributing to such an approach. Emphasis needs to be specifically concentrated on areas that can contribute to the expansion and development of trade. Regional and international monetary and development finance institutions can also play a leading role in meeting the needs of the territories.

104. With respect to export earnings, it is necessary to ensure the purchasing value of these earnings to Palestinian exporters who export through Israel. The conversion of export proceeds into the Israeli shekel could be pegged to a stable currency, such as the Jordanian dinar, which is the medium of exchange in the territories and is used in transactions with Jordan, in order to avoid undue losses that may arise from exchange rate fluctuations and the drop in the market value of the Israeli currency.

105. Attempts at encouraging exports could include the exemption of small exporters' profits from income tax for a specified period of time. This is vital for the survival of these exporters as they have no influence on the prices of their output in domestic or external markets. Such profits could be deducted from total taxable income of the exporter, thus lowering the marginal tax rate. This would provide greater incentive to small exporters to expand business activities and stimulate non traditional exports, thus contributing to a diversification of production.

106. As for export financing, arrangements could be worked out through the intermediation of the branches of local Arab banks and foreign importers and their institutions to provide lines of credit in favour of small exporters. This could be maintained until such time as the local banks can build up an "export promotion fund" from small surcharges on imports, and/or exports. In this connection, the newly opened branches of the Cairo-Amman Bank need to be given every support and their resources augmented in order to meet the growing financial requirements of internal and external trade. External resources could be mobilized and made available at low interest rates, enabling these branches to grant short-term credit to farmers and manufacturers.

107. Similar incentives need to be instituted in the form of exemption from customs duties on imported inputs used in the production of small and non traditional exports. This could cover the import of raw material and equipment essential for such exports. The incentive could be introduced through a "drawback" arrangement which would ensure its appropriate use. In view of financial constraints, exemption from advance import deposits could further strengthen the position of small exporters. The amount of revenue foregone through such monetary and/or fiscal measures could be adequately compensated for by the contribution these measures will make to the overall volume of business activities.

108. The case for the abolition of the value added tax on Palestinian business in the territories has already been made in earlier reports by the UNCTAD secretariat.^{84/} This tax puts Palestinian producers and exporters at a disadvantage compared to Israelis, who are compensated by numerous subsidies. The same is true of an Israeli tax on imports ("Tamah") which raises the value

of imports to/through Israel for the purpose of purchase tax. Despite the claimed reduction of import tariffs, the "Tamah" rates are much higher in some cases than the reduction in tariffs. As a result, the price of imported raw material and equipment through Israel is 15 to 25 per cent higher than in the world market. As the external trade of the territories is handled through Israeli middlemen, the Palestinian importer has to bear the tax cost. The existence of this tax further adds to the argument for abolishing the levies that are imposed on the trade of the territories under occupation.

D. Role of the international community

109. Conscious of the deteriorating economic conditions in the occupied Palestinian territories in general and their trade sector in particular, the United Nations Conference on Trade and Development, at its seventh session, adopted resolution 169 (VII).^{85/} The resolution, inter alia, welcomed the decision of the European Economic Community to give Palestinian goods and products preferential access to its market on the basis of Palestinian certificates of origin. It urged all states to facilitate the access of Palestinian goods and products to their markets and to continue providing assistance to the Palestinian people to enable them to develop their economy, including the trade sector, free of occupation.

110. The concessions made to the occupied territories, as noted earlier, represent major multilateral and bilateral measures aimed at assisting the Palestinian people in their efforts to develop their economy. In order for these concessions to have a positive impact, action is needed by the Israeli occupation authorities and the international community in support of Palestinian efforts. The Israeli occupation authorities have the responsibility to facilitate international assistance to enable it to reach the Palestinian people in the occupied territories. The international community, through multilateral and bilateral arrangements, could maintain the momentum of its assistance to these territories in order to enable the Palestinian people to build up the foundation of a sound economy and foster its independent growth and development. In addition to the points stated earlier, further attention needs to be focused on the following specific issues of immediate concern to the external trade of the territories.

111. Pending the establishment of a Palestinian marketing facility, international marketing facilities could extend their assistance to Palestinian producers in the occupied territories by promoting the sale and marketing of their products. Such immediate measures could include short-term credit facilities, input provisions including cartons and packing facilities, sales promotion activities, as well as training and orientation programmes for developing a local cadre. Possible joint venture arrangements for the processing of primary produce could also contribute much to this process.

112. The expertise of some of the United Nations organizations, such as the International Trade Centre UNCTAD/GATT, in export promotion programmes could also provide Palestinian producers and institutions with the technical assistance they need. The Centre's vast knowledge and experience in the establishment of export promotion facilities in many developing countries could benefit the territories in the design of a comprehensive export promotion programme, including the establishment of the proposed Palestinian marketing organization.

113. Relevant multilateral and bilateral sources could contribute to the reopening and development of the commercial port in the Gaza Strip and its related infrastructural facilities. Pending that, consideration could be given to possibilities of instituting transit arrangements for Palestinian exports to regional and international markets.

114. Within the framework of the League of Arab States, in line with decisions of the Council for Arab Economic Unity (CAEU) and bearing in mind the provisions of the League of Arab States boycott regulations, the Arab Economic and Social Council has adopted resolutions urging member States to facilitate the entry into their markets of Palestinian agricultural and industrial products. However, the access of Palestinian products to many of these markets has in fact been falling for the economic and administrative reasons mentioned earlier.

115. A fresh attempt is therefore needed to revive traditional Arab markets for the agricultural and industrial products of the occupied territories. The Arab markets in the region should provide one of the most satisfactory outlets for the products of the territories. Any attempt at benefiting from existing and/or new Arab markets should concentrate on areas that promote the comparative advantage of the territories and develop complementarities with their trading partners. This would necessitate better co-ordination of policies and practices that affect agricultural and industrial production. As noted, another vital prerequisite for the success of such efforts is improvement in the quality and delivery of exportable goods to these markets.

116. Another aspect which needs to be pursued urgently, especially in view of the Palestinian uprising in the territories, is to review the effect of League of Arab States boycott regulations on Palestinian exports and the implementation of their provisions in a manner that provides increased impetus to Palestinian export capacity and performance. The Council of Arab Economic Unity and the Federation of the Unions of Arab Chambers of Commerce and Industry, within the framework of efforts aimed at achieving regional food security, increased trade and greater economic integration among the Arab countries of the region, could play a significant role in promoting and expanding markets in these countries for the products of the occupied territories.

Notes

1/ For the proceedings of the seventh session of the Conference on the adoption of resolution 169 (V11), see Report of the United Nations Conference on Trade and Development on its seventh session, (TD/351).

2/ Responses had been received, as of 15 July 1988, from the Federal Republic of Germany, the German Democratic Republic, Greece on behalf of the States members of the European Communities, Hungary, the Netherlands, Mauritania, Iraq, Niger, Nigeria, and the Commission of the European Communities.

3/ The periodicity with which data become available allows for an update covering main statistical indicators for 1985-1986 in addition to information on developments in 1987-1988. See previous reports by the UNCTAD secretariat on this subject, namely "Review of the economic conditions of the Palestinian

people in the occupied Palestinian territories" (TD/B/1065), 1985; "Recent economic developments in the occupied Palestinian territories" (TD/B/1102), 1986; "Recent economic developments in the occupied Palestinian territories: with special reference to the financial sector" (TD/B/1142), 1987.

4/ Part II of this report summarises the main findings and recommendations of an in-depth study of the role of the Palestinian trade sector (UNCTAD/ST/SEU/7). This being so, issues related to trade are not discussed in Part I.

5/ See sections B and C below.

6/ See "The Palestinian financial sector under Israeli occupation" (UNCTAD/ST/SEU/3 and Corr. 1 and 2), 1987, Chap. I.

7/ "Recent economic..." op.cit. (TD/B/1102), paras. 8 and 42-3.

8/ See "The Palestinian financial..." op.cit. (UNCTAD/ST/SEU/3), Chap. I.

9/ "Recent economic..." op.cit. (TD/B/1142), para. 104.

10/ "Report submitted to the Security Council by the Secretary General in accordance with resolution 605 (1987)" (S/19443), 1988, para. 49.

11/ ILO, "Report of the Director-General - Appendices (Vol. 2)" (Geneva, 1988), p. 3.

12/ UNDP, "Assistance to the Palestinian people - report of the Administrator" (DP/1988/23), 1988, para 3.

13/ See: Jerusalem Post, 14/1/88, 22/1/88, 26/1/88, 4/2/88, 22/2/88, 3/3/88, 4/3/88, 6/3/88, 7/3/88, 8/3/88, 11/3/88, 13/3/88, 15/3/88, 23/3/88, 27/3/88, 30/3/88, 18/4/88; Yediot Aharonot, 15/1/88 (in Hebrew); Filasteen al Thawra, 9/2/88, 10/3/88, 17/3/88, 7/4/88, 5/6/88 (in Arabic); Financial Times, 28/3/88; Israel Economist, March 1988.

14/ Filasteen al Thawra, 5/6/88 (in Arabic). Earlier estimates put the loss at \$500 million (Jerusalem Post, 29/4/88).

15/ Jerusalem Post, 17/5/88, 20/6/88.

16/ "The cumulative cost may well, however, be proportionately much higher and harder to bear for the Palestinian economy in the occupied territories, for obvious reasons... connected with the unequal strength of the two economies, the relationship of dependence and the effects of domination that have been intensified by the restrictive measures of all kinds applied since the beginning of the uprising." ILO, "Report of the Director-General..." op.cit. para. 25.

17/ See Jaffa Press "The economic implications of the uprising" in Al Yawm al Sabi', 11/4/88 (in Arabic).

18/ For detailed information on these initiatives, reference is made to the periodic communiqués issued by the 'Unified National Command of the Uprising' which may be consulted in editions of Filasteen al Thawra (in Arabic) since December 1987.

19/ Al-Fajr, 22/5/88.

20/ Jerusalem Post, 18/1/88, 20/1/88, 18/2/88, 8/3/88, 13/3/88, 15/3/88, 16/3/88, 30/3/88, 25/4/88, 2/6/88; Al-Fajr, 7/2/88, 22/5/88.

21/ "For 20 years, Israeli governments have deliberately not developed those areas and disregarded them as an independent economic unit. Because they feared that economic autonomy might inspire thoughts about political autonomy, they fostered dependency... When the Bank of Israel in the late 1970s examined the likely implications of West Bank and Gaza self-administration, for Israel a worrying picture emerged. It was therefore proposed that under no circumstances must an iron curtain be allowed to fall between Israel and the territories..." Yediot Aharonot, 15/1/88 (in Hebrew).

22/ Jerusalem Post, 18/2/88, 14/3/88, 16/3/88, 26/4/88, 27/4/88, 3/5/88; Financial Times, 28/3/88; sawt al Bilad, 1/4/88 (in Arabic).

23/ Jerusalem Post, 16/3/88.

24/ Quoted in Financial Times, 28/3/88. Also see Pinhas Landau in Jerusalem Post, 22/2/88, and M. Benvenisti in Jerusalem Post, 11/1/88 for analyses of the possible long term implications of the economic confrontation.

25/ Yehuda Litani in Jerusalem Post, 20/1/88.

26/ "Given the hardening of feelings on both sides, it is likely that every form of joint economic activity, whether involving employer-employee, producer-wholesaler-retailer, contractor-subcontractor, manufacturer-agent, service provider-client or partner-partner relationships, will become more difficult in the future." Israel Economist, March 1988.

27/ Jerusalem Post, 2/6/88.

28/ Ibid.

29/ Figures in this section are calculated from: 1) Israel, Central Bureau of Statistics, Quarterly Statistics of the Administered Territories, Vol. IX, No. 2, (Jerusalem, CBS, 1979), pp. 63, 65, 69; 2) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem CBS, 1985), Vol. XV, No. 1, Tables 6 and 13, pp. 168 and 175; 3) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, CBS, 1985), p. 711; 4) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, CBS, 1987), pp. 705 and 707. Figures originally appearing in Israeli currency have been converted to United States dollars according to the annual average exchange rate in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = US\$1 in 1968 to NIS 1.4878 = US\$1 in 1986.

30/ The expression in this report of statistical indicators in terms of current United States dollars is intended to establish a relatively consistent standard for comparison as against figures expressed in current Israeli shekels. However, there has been a significant decline since 1985 in the value of the United States dollar as against SDRs. The increase in various economic indicators measured in terms of United States dollars during 1985-1986 signifies smaller increases in real terms than shown by current United States dollar values.

31/ See "The Palestinian financial..." op.cit. (UNCTAD/ST/SEU/3), Chap. I.

32/ Figures in this section calculated from (1) "The Palestinian financial..." op.cit. (UNCTAD/ST/SEU/3), Chap. IV; (2) Israel, Central Bureau of Statistics, Statistical Abstracts of Israel (Jerusalem, CBS, 1985, 1986 and 1987), pp. 708, 688 and 706 respectively; (3) Israel, Central Bureau of Statistics, "Judea, Samaria..." op.cit., pp. 164 and 171; (4) Israel, Central Bureau of Statistics, "Statistical..." op.cit. (1987) p. 701.

33/ See section C. 4.

34/ See note 32 for sources of figures. The increase in per capita GNP in terms of SDRs was almost seven-fold during the period.

35/ Figures for this section calculated from (1) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, CBS, 1987; 1978; 1983; 1986), pp. 705-8; 768-71; 762-65; 687-89 respectively; (2) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, CBS, 1987), vol. XVII, No. 3, pp. 80, 84, 90, 94; (3) Israel, Central Bureau of Statistics, "Statistical..." op.cit. (1985), p. 710; (4) Israel, Central Bureau of Statistics, "Statistical..." op.cit., (1987), p. 708.

36/ Figures in this section are calculated from the sources given in note 35.

37/ Jerusalem Post, 7/3/88.

38/ Ibid., 23/3/88.

39/ Ibid.

40/ Ibid., 13/3/88, 23/3/88, 20/6/88.

41/ Al Hamishmar, 5/5/88 (in Hebrew).

42/ Jerusalem Post, 2/6/88.

43/ Figures calculated from sources in note 35.

44/ Data in this section are calculated from Israel, Central Bureau of Statistics, Statistical Abstracts of Israel (Jerusalem, CBS, 1984, 1985 and 1987), pp. 769, 731 and 731.

45/ These rates include the spurt in growth of 1986; calculations for the 1980-1985 period indicate an overall negative trend in value of output (-19 per cent) and income originating in agriculture (-29 per cent), compared to a rise in the value of inputs of 17 per cent.

46/ See "The Palestinian financial..." op.cit. (UNCTAD/ST/SEU/3), Chap. I.

47/ See Sawt al Bilad 1/4/88 (in Arabic); Jerusalem Post, 16/3/88, 2/6/88; Al Fajr, 22/5/88.

48/ See Jaffa Press, "The economic..." op.cit.

49/ Calculated from Israel, Central Bureau of Statistics, "Statistical..." op.cit., (1987) pp. 736-7; and ECWA, "The industrial and economic trends in the West Bank and Gaza Strip" (E/ECWA/UNIDO/WPI) 1981, p. 8.

50/ Israel, Central Bureau of Statistics, "Statistical..." op.cit., (1987) p. 708; and Israel, Central Bureau of Statistics, "Judea, Samaria..." op.cit., (1985) pp. 163-176. Also see "The Palestinian financial..." op.cit., (UNCTAD/ST/SEU/3), Chap. I.

51/ Israel, Central Bureau of Statistics, Statistical Abstracts of Israel (Jerusalem, C.B.S., 1981, 1982, 1983, 1984, 1985, 1986 and 1987), pp. 742-3, 764-5, 792-3, 774-5, 736-7, 718-9, and 725-6, respectively.

52/ In "The external trade sector of the occupied Palestinian territories" (UNCTAD/ST/SEU/7).

53/ "The Palestinian financial..." op.cit., (UNCTAD/ST/SEU/3), Chap. I.

54/ Jerusalem Post, 2/6/88.

55/ See Jaffa Press, "The economic..." op.cit.

56/ See part II.

57/ Figures quoted in this section for all years except 1987 are from Israel, Central Bureau of Statistics, "Statistical..." op.cit., (1987), pp. 718-24. Figures for 1987 are from ILO, "Report..." op.cit., pp. 9-11.

58/ I.e. the rate of labour force participation in relation to the working age population. See ILO, "Report..." op.cit., pp. 8-11.

59/ Ibid. p. 13

60/ See "The external trade..." op.cit., (UNCTAD/ST/SEU/7).

61/ ILO, "Report..." op.cit. p. 11.

62/ Ibid.

63/ See "The external trade..." op.cit., (UNCTAD/ST/SEU/7).

64/ Israel, Ministry of Finance, Department of International Affairs and Investment Authority, Main Economic Indicators 1972-1987 and forecast for 1988, (Jerusalem, The Ministry, March 1988).

65/ "Recent economic..." op.cit., (TD/B/1142), and "The Palestinian financial..." op.cit., (UNCTAD/ST/SEU/3).

66/ Jerusalem Post, 7/7/88 and 2/9/88; Al Fajr, 23/8/88.

67/ Pinhas Landau in Ibid., 23/2/88.

68/ "Recent economic..." op.cit., (TD/B/1142), paras. 111-112.

69/ Israeli Economist, April 1988.

70/ Jerusalem Post, 5/2/88.

71/ Ibid., 18/2/88, 23/3/88, 23/2/88.

72/ See Al Fajr, 28/2/88 and 5/6/88, and Jerusalem Post, 7/3/88, 14/3/88, 30/3/88.

73/ Jerusalem Post, 18/2/88, 26/4/88; Al Fajr, 15/5/88.

74/ Jerusalem Post, 2/6/88.

75/ M. Benvenisti, The West Bank Data Base Project 1987 Report, (Jerusalem, WBDSP, 1987), pp. 28-32; also see Jerusalem Post, 7/3/88.

76/ Figures in this section are calculated from: (1) Israel, Central Bureau of Statistics, Statistical Abstracts of Israel (Jerusalem, CBS, 1983, 1985, 1986 and 1987), pp. 766, 712, 692 and 710; (2) Israel, Central Bureau of Statistics, "Quarterly..." op.cit., p. 72; (3) Israel, Central Bureau of Statistics, "Statistical..." op.cit., (1983), p. 202; (4) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, CBS, 1986 and 1987) pp. 198, 204 and 711.

77/ Al-Fajr, 28/6/88; Jerusalem Post, 13/10/87, 2/12/87.

78/ See Report of the United Nations Conference... op.cit. (TU/351), pp. 37-38.

79/ Council Regulation (EEC) No. 3363/86, Official Journal of the European Communities, 1/11/86, No. L 306/103-104.

80/ Information on EEC policy action provided in Commission of the European Communities, Note Verbale, 17 May 1988 in response to UNCTAD secretariat's Note TUO/140 (PAL), 6 April 1988.

81/ Proceedings of the Ministerial Meeting on the Global System of Trade Preferences Among Developing, Belgrade, 11-13 April 1988, volume II, p. 4.

82/ Jerusalem Post, 2/12/87.

83/ See, for example, "Recent economic..." (TU/B/1142), part II.

84/ Ibid.

85/ See note 1.



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TRADE AND DEVELOPMENT BOARD
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Geneva, 19 September 1988
Agenda item 9

ASSISTANCE TO THE PALESTINIAN PEOPLE
(Conference resolutions 146 (VI) of 2 July 1983
and 169(VII) of 3 August 1987)

Recent economic developments in the occupied Palestinian territories,
with special reference to the external trade sector

Report by the UNCTAD Secretariat

Corrigendum

Page ii, last line, (section B.2) and page 20, heading for section 2

For Arab policies and practices read Trade with Arab countries

Paragraph (i), twelfth line

Delete and others concerned

Paragraph 54, third line

For The study read It

Paragraph 77, first line

Delete physical

Paragraph 86, first line

For Understandly read Understandably

Paragraph 89, second sentence

For the resolution calls read the resolution adopted calls

Paragraph 114, first line

Replace the first sentence with the following:

Bearing in mind the provisions of the boycott regulations of the League of Arab States, the Arab Economic and Social Council and the Council for Arab Economic Unity have adopted resolutions urging member States to facilitate the entry into their markets of Palestinian agricultural and industrial products.

Paragraph 114, last line

For earlier read earlier in this report

Paragraph 116, fifth line

For The Council of Arab Economic Unity read The Arab Economic and Social Council, the Council for Arab Economic Unity

Note 3, first line

Before the first sentence, insert the following

Unless otherwise stated, designations of "the territories" and "the occupied territories" denoted in this report refer to the occupied Palestinian territories (West Bank and Gaza Strip).

Note 32, first line

For calculated read are calculated

Note 69

For Israeli read Israel