



UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory

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**Report on UNCTAD Assistance to the Palestinian People:
Developments in the Economy of the
Occupied Palestinian Territory**



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Note

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In accordance with the relevant resolutions and decisions of the General Assembly and Security Council, references to the Occupied Palestinian Territory or territories pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term "Palestine" refers to the Palestine Liberation Organization, which established the Palestinian National Authority (PNA). References to the "State of Palestine" are consistent with the vision expressed in Security Council resolution 1397 (2002) and General Assembly resolution 67/19 (2012).

Executive summary

Fifty years have passed since Israel occupied the Gaza Strip and the West Bank, including East Jerusalem; five decades of de-development, suppressed human potential and denial of the right to development, with an economy incapable of employing one third of its workforce and featuring extremely high unemployment among women and youth. In 2016, the Occupied Palestinian Territory witnessed deteriorating humanitarian conditions, decreasing donor support and the continuation of the restrictive measures imposed under the occupation. Israel accelerated settlement expansion in violation of Security Council resolution 2334. The international community should assume its responsibility to support the Palestinian people to withstand the adversities of prolonged occupation.

UNCTAD successfully delivered technical cooperation, training and advisory services to the Palestinian people, and completed a project on developing Palestinian trade facilitation capacity. Additional resources are required for UNCTAD to assess and report on the economic costs of the Israeli occupation, as requested in General Assembly resolutions 69/20, 70/12 and 71/20, and to upgrade Palestinian capacities for public financial management.

Table of Contents

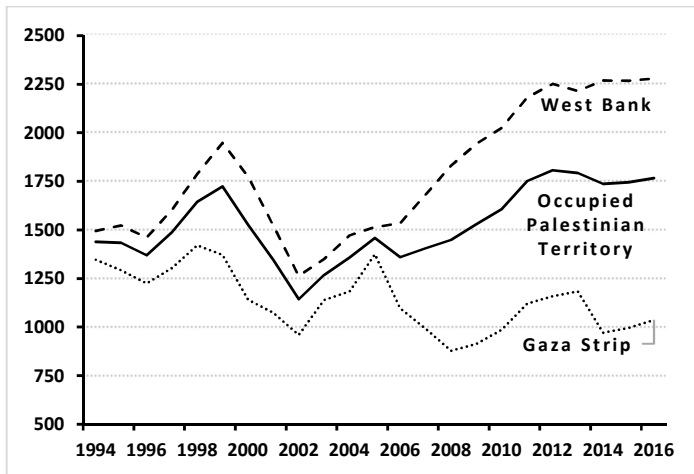
I.	Prolonged occupation, economic stagnation and de-development	1
A.	A stifled economy, impaired competitiveness and loss of resources	2
B.	Economic cost of occupation mounts while Gaza continues to suffer	5
C.	Economic shock of decreasing donor support exacerbates mirage of fiscal sustainability under occupation	7
D.	Economic growth restrained on both demand and supply sides by occupation and decreasing donor support	9
E.	Israeli settlements are in violation of international law and an impediment to the right to development.....	10
II.	Fifty years of dispossession, de-development and mass unemployment ..	12
A.	West Bank labour market as ravaged as that of Gaza	13
B.	Extreme dependence on Israel for employment	14
C.	Half a century of jobless growth with a greater impact on women and youth	17
D.	High youth unemployment a threat to the future.....	18
III.	UNCTAD assistance to the Palestinian people	19
A.	Framework and objectives.....	19
B.	Operational activities under way	20
C.	Coordination, resource mobilization and recommendations	21
	References.....	22

I. Prolonged occupation, economic stagnation and de-development

2017 marks the fiftieth anniversary of the Israeli occupation of the Gaza Strip and the West Bank, including East Jerusalem; the longest occupation in recent history. For the Palestinian people, these were five decades of de-development, suppressed human potential and denial of the basic human right to development, with no end in sight. Instead of the hoped-for two-State solution envisaged by the United Nations and the international community, occupation is currently even more entrenched, while its complex socioeconomic toll has worsened over time.

Despite a 4.1 per cent growth in gross domestic product (GDP) in 2016, the productive capacity of the Palestinian economy continued to erode, economic performance was far below potential and unemployment persisted at levels rarely seen around the world since the Great Depression. In addition, in 2016, real per capita GDP was roughly at the level in 1999; \$1,766 in constant 2004 dollars (figure; table 1).

Real gross domestic product per capita, 1994–2016
(Constant 2004 United States dollars)



Source: Palestinian Central Bureau of Statistics (PCBS).

In 2016, 3 per cent GDP growth in the West Bank barely kept up with population growth, and did not have much positive impact on per capita income. In Gaza, although the economy picked up, with real GDP growth of 7.7 per cent, this growth reflected only reconstruction activities to repair the extensive damage caused by the Israeli military operation in 2014. Despite this growth, the de-development of Gaza continued unabated. Since the conclusion of the Oslo Accords in 1995, per capita GDP in Gaza has shrunk by 23 per cent (figure).

As in previous years, in 2016, GDP growth was driven by an unsustainable expansion in domestic demand, in particular private consumption, which accounted for 26 per cent of bank credit to the private sector. While the relative importance of private consumption in economic growth increased relative to government consumption, investment and exports continued to lag behind.

A. A stifled economy, impaired competitiveness and loss of resources

The observed GDP growth should not obscure the bleak economic reality of the ongoing erosion of the productive base and continuing loss of land and natural resources to settlements and the annexation of land in the West Bank, as well as fragmentation of the economy into disconnected markets and regions and restrictions by Israel on the importation of essential production inputs, all of which escalate production costs, depress investment and inevitably set the economy onto a distorted path of high unemployment and widespread poverty.

Furthermore, asymmetric economic relations continue to reinforce the imposed Palestinian economic dependence on Israel. Throughout the decades of occupation, Israel has consistently accounted for the largest segment of Palestinian international trade. This continued in 2016, with Israel accounting for at least half of Palestinian trade, while the share of the Occupied Palestinian Territory in the trade of Israel is around 3 per cent. In 2016, Palestinian imports from Israel were estimated to exceed exports to Israel by \$2.6 billion (19.4 per cent of GDP), at a time when cheaper and more competitive sources for Palestinian imports are available worldwide.

Table 1

Economy of the Occupied Palestinian Territory: Key indicators

	1995	1999	2002	2006	2010	2014	2015*	2016*
Macroeconomic performance								
Real gross domestic product growth (percentage)	7.1	8.3	-12.5	-3.9	8.1	-0.2	3.4	4.1
Gross domestic product, nominal (millions of dollars)	3 283	4 271	3 556	4 910	8 913	12 716	12 673	13 397
Gross national income (millions of dollars)	3 723	5 025	3 775	5 333	9 512	14 198	14 385	14 976
Gross national disposable income (millions of dollars)	4 122	5 398	4 826	6 624	11 503	15 604	15 807	17 220
Gross domestic product per capita, nominal (dollars)	1 427	1 553	1 182	1 449	2 339	2 960	2 864	2 944
Gross national income per capita, nominal (dollars)	1 618	1 827	1 255	1 573	2 496	3 305	3 251	3 290
Real gross domestic product per capita growth (percentage)	-0.2	4.8	-15.0	-6.8	5.0	-3.1	0.4	1.2
Real gross national income per capita growth (percentage)	0.5	4.7	-16.1	-5.4	2.7	-1.9	1.7	-0.7
Population and labour								
Population (millions) ^a	2.34	2.96	3.23	3.61	4.05	4.55	4.68	4.82
Unemployment (percentage)	18.2	12.0	31.2	23.7	23.7	26.9	25.9	26.9
Total employment (thousands)	417	588	452	636	743	913	959	978
In public sector	51	103	105	147	178	209	211	211
In Israel and settlements	68	135	42	55	78	107	112	116
Fiscal balance (percentage of GDP)								
Revenue net of arrears/clearance withheld	13.0	23.4	8.2	25.0	21.6	21.6	22.2	26.7
Current expenditure	15.0	22.1	28.0	46.4	34.5	32.1	31.7	32.3
Total expenditure	25.1	29.3	34.2	52.1	39.6	34.1	33.5	34.8
Overall balance (commitment basis)	-12.1	-5.9	-26.0	-27.1	-17.9	-12.5	-11.3	-8.1
Public debt ^b	..	20.0	21.1	22.2	21.1	17.4	20.0	18.5
External trade								
Net current transfers (millions of dollars)	400	373	1 051	1 291	1 991	1 405	1 421	2 244
Exports of goods and services (millions of dollars)	562	752	478	736	1 367	2 172	2 338	2 432
Imports of goods and services (millions of dollars)	2 441	3 364	2 234	3 683	5 264	7 209	7 538	7 603
Trade balance (millions of dollars)	-1 879	-2 612	-1 756	-2 947	-3 897	-5 037	-5 200	-5 170
Trade balance (percentage of gross domestic product)	-57.2	-61.2	-49.4	-60.0	-43.7	-39.6	-41.0	-38.6
Trade balance with Israel (millions of dollars)	-922	-1 598	-886	-1 887	-2 737	-2 838	-2 578	-2 602
Trade balance with Israel (percentage of GDP)	-28.1	-37.4	-24.9	-38.4	-30.7	-22.3	-20.3	-19.4
Palestinian National Authority trade with Israel/total Palestinian National Authority trade (percentage) ^c	83.5	67.5	56.9	64.4	66.6	61.9	59.8	58.5
Palestinian National Authority trade with Israel/total Israeli trade (percentage) ^c	4.2	3.7	1.8	2.2	2.7	3.1	3.5	3.3

Sources: Israel Central Bureau of Statistics, Palestinian Ministry of Finance, Palestinian Monetary Authority and PCBS.

* Preliminary estimates.

^a Except for the population figures, all data exclude East Jerusalem, due to the fact that PCBS has no access to the city.

^b Public debt includes domestic and external debt but not arrears and PNA debt to the pension fund.

^c Israeli and Palestinian trade data refer to goods and non-factor and factor services.

The massive Palestinian trade deficit is a direct result of the weakness of the tradable goods sector and the inability of agricultural and industrial producers to penetrate export markets, as well as their inability to compete domestically against imports from abroad.

The decline of the productive sectors is illustrated by continued de-agriculturalization. According to PCBS, the value added of agriculture contracted by 11 per cent in 2016. Consequently, between 2015 and 2016, the sector's share in GDP fell from 3.4 to 2.9 per cent. The decline of the tradable goods sector continued in 2016, with a 21.3 per cent decline in the value added of mining and quarrying, which more than offset the slight increase in the share of manufacturing in GDP.

The distribution of credit to the private sector presents a similar picture of decline in the productive sectors. In 2016, the share of agriculture and food processing in credit to the private sector was a mere 2 per cent, or half of that allocated for financing vehicles, while the share of mining and manufacturing was 6 per cent and consumption and real estate accounted for more than half of the credit, at 26 and 25 per cent, respectively, followed by trade, at 20 per cent (World Bank, 2017). The concentration of credit in consumption and real estate reflects the aversion of banks to the high risk of investment in productive sectors because of the unpredictability and severity of the economic restrictions that Israel unilaterally imposes and adjusts at will.

There are several reasons for concern with regard to the decline of the industrial and agricultural sectors. Due to their capacity for export, these sectors have greater scope for realizing economies of scale and expanding employment. They tend to be more dynamic and innovative than the services and construction sectors. Furthermore, the fact that agricultural and manufactured goods are internationally tradable encourages technological progress, efficiency and international competitiveness. De-industrialization and de-agriculturalization thus stifle economic and technological progress and leave the Palestinian economy further behind in the global supply chain.

The low contribution of the agricultural sector is also explained by the fact that only 21 per cent of cultivable land is utilized and a high 93 per cent of cultivated land is not irrigated. Moreover, restrictions by Israel on the importation of suitable fertilizers add \$28.6 million to the costs borne by producers and cut one third of land productivity. Palestinian agricultural producers also face unequal competition with subsidized imports from Israel and settlements – in the range of

\$500 million per year – while producers in Israel operate under normal cost conditions and benefit from a range of supportive government policies (Palestine Economic Policy Research Institute (MAS) et al, 2017).

Moreover, Area C, which accounts for at least 60 per cent of West Bank area, remains under the control of Israel and off-limits to Palestinian producers, although it is the only contiguous terrain in the West Bank. It includes much of the West Bank's natural resources and has great potential for job creation in agriculture, tourism, cosmetics, construction, mining and quarrying.

Another factor inhibiting the productive sectors is the lack of a national currency and Palestinian reliance on the new Israeli shekel. As a result of the monetary and exchange rate policies of Israel, in the last two decades, the inflation rate has been subdued and the real effective exchange rate of the new Israeli shekel has been on an upward trend (appreciation) as its real value has increased by 25 per cent (International Monetary Fund (IMF), 2016). This appreciation acts as a tax on exports and a subsidy on imports, thereby impairing the already weak international competitiveness of the Palestinian economy. UNCTAD (2009 and 2011) analysed the high cost of Palestinian reliance on the new Israeli shekel and underscored that its exchange rate level reflected the needs of the structurally different and much more advanced economy of Israel.

A prerequisite for economic recovery is rebuilding national competitiveness, along with the productive capacity of the economy, by removing the costly occupation-related constraints that have not only undermined the viability of existing tradable goods producers but also thwarted potential domestic and foreign investment. This has led to a national output mix of lower value added products and small-scale inefficiencies.

B. Economic cost of occupation mounts while Gaza continues to suffer

In 2016, UNCTAD prepared a note to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people, in accordance with General Assembly resolution 69/20 (UNCTAD, 2016). The note highlighted the fact that occupation imposed heavy economic costs on the Palestinian people, and emphasized the need to establish within the United Nations system a systematic,

evidence-based, comprehensive and sustainable framework for estimating the economic costs of occupation as an essential step in reversing its damages, achieving the Sustainable Development Goals in the Occupied Palestinian Territory and forging a just and lasting peace in the Middle East. The note suggested that the Palestinian economy could have been twice its current size had there been no occupation.

The enormity of the economic cost of occupation has been confirmed by various organizations and in various reports and studies. Most recently, IMF suggested that, under the most conservative assumptions, if there had been no occupation, real GDP per capita in the Occupied Palestinian Territory would currently have been nearly 40 per cent higher, while another methodology suggested that real GDP per capita would have been 83 per cent higher. A further methodology noted that in 1994–2014, per capita output in the Occupied Palestinian Territory grew at an insignificant rate of 0.1 per cent and concluded that had it continued to grow at the 4.4 per cent trend observed in 1968–1987, when borders were more open, current real GDP per capita would have been 130 per cent higher (IMF, 2016).

UNCTAD (2015) emphasized that for Gaza to be a liveable place in 2020, enormous reconstruction efforts were urgently needed in sectors such as health, education, energy, water and sanitation. However, the humanitarian and economic situation has instead worsened since then. According to the World Bank, Gaza's economic performance over the past two decades has been the worst in the world. The Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO, 2017) observed the following with regard to the severity of the protracted, unprecedented level of human suffering in Gaza:

- (a) There have been more than 10 years of collective punishment through land, sea and air blockades;
- (b) 35 per cent of the agricultural land and 85 per cent of the fishing waters of Gaza are not accessible to producers;
- (c) Exports from Gaza were 65 per cent lower in early 2017 than the level in 2007;
- (d) Two thirds of the population of Gaza need some form of humanitarian assistance;
- (e) About half of the population is food insecure, although 80 per cent receive food assistance and other forms of social transfers;

(f) Electric power was unavailable for 12–18 hours per day in 2016 and up to 20 hours per day in early 2017. This cripples all economic activities and impedes the delivery of services, especially water supply, sewage treatment and health services;

(g) Access to an improved water supply fell from 98 per cent of the population in 2000 to 10 per cent in 2014;

(h) Partially treated sewage is routinely discharged into the sea;

(i) Only 51 per cent of the \$3.5 billion pledged for Gaza at the Cairo Conference on Palestine – Reconstructing Gaza held in 2014 has been disbursed, and 84 per cent of total recovery needs have yet to be addressed.

C. Economic shock of decreasing donor support exacerbates mirage of fiscal sustainability under occupation

In 2016, PNA achieved favourable, but unsustainable, revenue performance. The 24 per cent increase in revenue is not sustainable since it was the result of one-time windfalls in two areas, namely receipt of \$145 million in telecommunications licensing fees (an additional \$73 million in 2017 and 2018) and two payments totalling \$300 million made by Israel to compensate PNA for leaked fiscal resources related to health stamps, equalization levies, border exit fees and value added tax. At the same time, total expenditures grew by 10 per cent compared with expenditures in 2015. Therefore, the success of PNA in reducing the deficit between 2015 and 2016, from 11.3 to 8.1 per cent of GDP, hardly indicates an improved fiscal space, because it was mainly due to these one-time windfalls; without which the deficit would have increased from 11.3 to 11.5 per cent.

It is worth noting that UNCTAD research and studies were a major factor behind the above-mentioned \$300 million in reimbursement from Israel to PNA. As early as 2004, UNCTAD (2004) stressed the sizeable indirect Palestinian imports from Israel as an issue that required investigation. In 2011, UNCTAD followed up with pioneering research on the leakage of Palestinian fiscal resources to Israel and conveyed its findings in its report to the Trade and Development Board.

UNCTAD (2014) conducted a further study on this leakage, which detailed that significant Palestinian fiscal revenues were unduly leaked to the treasury of Israel. These research findings were echoed by IMF, the Quartet and the World Bank in their April 2016 reports to the meeting of the Ad Hoc Liaison Committee.

Subsequently, in early 2016, negotiations commenced between Israel and PNA, and an agreement was reached whereby Israel reimbursed PNA \$300 million to settle part of the leaked Palestinian fiscal resources. This is a welcome step, but an ad hoc one. In order to achieve fiscal sustainability and improve PNA budget planning, there is a need to establish a bilateral mechanism whereby Israel shares with PNA all Palestinian trade data in a timely, transparent and verifiable fashion. Such a mechanism should not only put an end to the leakage of Palestinian resources but should also address the cumulative Palestinian fiscal losses dating to the establishment of PNA in 1994.

In the past few years, the Palestinian economy has suffered yet another negative external shock, in the form of a 38 per cent drop in donor support in 2014–2016, from \$1.23 billion to \$757 million, which is projected to further decline by 13 per cent in 2017 (IMF, 2017). One of the reasons for weakening donor engagement is that occupation has prevented aid from translating into development gains. Damage control, humanitarian interventions and budget support have been taking priority at the expense of development support.

In this sense, the increasing belligerence of occupation presents a two-fold challenge, because it denies the Palestinian people access to their natural and economic resources and at the same time discourages donor support by minimizing development gains. Occupation has therefore undermined the efficacy of ordinary, traditional development policies and set the Palestinian economy onto a uniquely distorted growth path, whereby donor-funded government spending plays a crucial role in maintaining a minimum level of aggregate demand.

Since 2008, PNA has introduced serious and far-reaching reforms to achieve fiscal sustainability. These measures have been implemented in an extremely unfavourable politico-economic environment, yet PNA succeeded in reducing the fiscal deficit from 27 per cent of GDP in 2006 to 8 per cent in 2016. Within this context, PNA has not been able to reverse the downward trend in public investment, which has recently been around 2 per cent of GDP. Furthermore, PNA responded to the shock emanating from lower levels of external support with a combination of unsustainable borrowing from domestic banks and the accumulation of arrears to the private sector and the pension fund.

PNA is running out of less painful options for cutting spending. Any further fiscal austerity, under worsening conditions of occupation and negative donor support shocks, could lead to perilous economic, social and political consequences, with undesirable impacts on the provision of critically important public services

and the institution-building efforts required for a well-functioning economy in a future sovereign State.

D. Economic growth restrained on both demand and supply sides by occupation and decreasing donor support

In 2017, PNA continued its ambitious plans to lay the foundations for a viable, independent Palestinian State, and drafted its National Policy Agenda 2017–2022, which features priority targets in diverse sectors such agricultural and water resources, renewable energy, tourism, quarrying, trade facilitation and public transportation, including railroads and the establishment of an airport in the West Bank and a seaport in Gaza.

However, to bear even modest fruits, this development agenda needs substantial donor support and a reversal of the ongoing downward trend of donor support, as well as the lifting of the restrictions imposed by Israel on Palestinian productive and trade activities. More than anything else, economic development in the Occupied Palestinian Territory requires Israel to dismantle the multilayered matrix of controls that have suffocated the economy, hollowed out the productive base, damaged the investment climate and eliminated Palestinian competitiveness.

GDP growth has been heavily reliant on public and private consumption. Therefore, lower levels of aid and a consequent decline in government spending will further weaken economic growth. The combination of severe occupation-related measures and declining donor support forms a double-pronged constraint that stifles economic growth on the supply side as well as on the demand side. Weaker growth and a stagnant GDP will exacerbate the fiscal situation, worsen the debt burden and dampen investment even further.

There is a significant risk of the emergence of a vicious cycle involving a mutually reinforcing trio of increasingly belligerent occupation, falling aid levels and political discontent. Termination of the blockade on Gaza, the lifting of restrictions on internal and external Palestinian trade and the ending of the occupation of Area C are necessary conditions to launching sustainable development in the Occupied Palestinian Territory.

Even before these conditions are satisfied, the international community needs to assume its responsibility to support the Palestinian people, if only to prevent humanitarian collapse. Intensifying donor support is essential for maintaining the gains made by PNA in building the institutional foundations for a sovereign Palestinian State and for a lasting peace in the Middle East. However, enhanced donor support, although critical, should not be a substitute for calling on the occupying Power to bear its responsibilities under international law.

E. Israeli settlements are in violation of international law and an impediment to the right to development

In its annual reports to the Trade and Development Board, UNCTAD consistently highlights the expansion of Israeli settlements as a major obstacle to Palestinian economic development and the viability of the two-State solution as called for in several United Nations resolutions. Along the same lines, on 23 December 2016, the Security Council adopted resolution 2334, in which the Security Council:

- “1. *Reaffirms* that the establishment by Israel of settlements in the Palestinian territory occupied since 1967, including East Jerusalem, has no legal validity and constitutes a flagrant violation under international law and a major obstacle to the achievement of the two-State solution and a just, lasting and comprehensive peace;
2. *Reiterates* its demand that Israel immediately and completely cease all settlement activities in the Occupied Palestinian Territory, including East Jerusalem”

Despite this Security Council resolution, in 2017, Israel intensified the expansion of settlements and housing units in the occupied West Bank. In 2016, housing construction in these settlements was 40 per cent higher than in 2015 and at the second highest level since 2001 (International Labour Organization (ILO), 2017). Further plans have been announced to build more than 5,000 new housing units and for the retroactive legalization of 4,000 units in settlements and outposts.

In recent years, the settler population growth rate has not only surpassed the rate in Israel but also the growth rate of the Palestinian population. The settler population has more than doubled since the Oslo Accords in 1993 and 1995, and currently stands at between 600,000 and 750,000. This is encouraged and

incentivized by housing, education and tax benefits from Israel to individual settlers and to industries.

In 2016, more Palestinian structures were demolished in the West Bank than in any other year. The United Nations Office for the Coordination of Humanitarian Affairs (2017) reports that in 2016, Israel demolished or seized 1,094 Palestinian structures throughout the West Bank, double the rate in 2015 and the highest since 2009, resulting in the displacement of over 1,600 Palestinians, half of them children. Moreover, the destruction of donor-funded humanitarian assistance spiked in 2016, with 292 donor-funded structures demolished or seized, 165 per cent more than those demolished in 2015, and affected relief items including shelters, tents, water cisterns, animal barracks and other basic structures necessary for survival and the maintenance of livelihoods (United Nations High Commissioner for Human Rights, 2017).

In addition, Palestinians in the West Bank remain subject to many forms of violence by settlers, including harassment, attacks and damage to property. For example, in 2016, more than 1,500 Palestinian olive trees were vandalized or uprooted by settlers, on top of 2.5 million productive trees uprooted since 1967. Furthermore, there are two parallel legal systems in the occupied West Bank, namely the domestic law of Israel, with more guarantees for defendants, is applied to Israeli settlers, while Palestinians are subject to Israeli military law.

Restrictions on the freedom of movement and access of Palestinians continue to be stringent near settlements. By the end of 2016, there were 572 obstacles to movement in the West Bank (UNSCO, 2017). Denial of the freedom of movement entails the denial of other freedoms and human rights, such as the right to education, health, work, family life and development. The prolonged closure policies of Israel and restrictions on Palestinian mobility have had a direct impact on the economy, employment and poverty. Using individual level regressions for a large sample of Palestinian workers, Cali and Miaari (2012) examined the impact of the closure policies of Israel on the local economy in the West Bank, and concluded that closures had a strong negative impact on the probability of being employed and the hourly wages and number of days worked, while they raised the number of working hours per day.

II. Fifty years of dispossession, de-development and mass unemployment

One of the harshest consequences of occupation is an unemployment rate that is persistently among the highest in the world. In 2016, unemployment remained extremely high, at 18 per cent in the West Bank, 42 per cent in Gaza and 27 per cent in the Occupied Palestinian Territory; more than twice the regional average (ILO, 2017; World Bank, 2017). However, as high as the official rate of unemployment is, it does not fully reflect the real depth of the problem and the attendant economic suffering and waste of human resources. A low labour force participation rate of 45 per cent, disproportionately high unemployment among women and youth and extreme dependence on the labour market in Israel add to the toll exacted by joblessness and poverty crises, which are not fully captured in official unemployment statistics.

Official statistics are based on the strict definition of unemployment, whereby only those actively searching for work are counted. This measure, as opposed to a relaxed definition, understates the severity of the problem in the Occupied Palestinian Territory because it does not include those who desire to work but are no longer seeking employment as they have lost hope of finding work.

The employment situation is worsened by the fact that about 10 per cent of the labour force is not employed in the domestic economy but in Israel and settlements. UNCTAD (2017) refers to this as the labour measure of the resource gap, which includes the unemployed and those working in Israel and settlements, that is the part of the labour force that the domestic economy cannot employ. Therefore, the level of unemployment as measured would be much higher in the Occupied Palestinian Territory if the number of unemployed included discouraged workers no longer seeking employment, in addition to those employed in Israel and settlements.

The severe constraints on productivity and weak and mainly jobless GDP growth have created unfavourable labour market conditions, whereby 78 per cent of private sector workers in Gaza, and 20 per cent in the West Bank, are paid less than the legal minimum wage (NIS 8.5 or \$2.4 per hour) set by PNA in 2013, amid concerns of falling labour force participation and rising incidents of child labour (ILO, 2017; MAS et al, 2017).

With weak growth and high unemployment levels, poverty and food insecurity have deepened. Moreover, the unemployment rate (42 per cent) and poverty rate (39 per cent) in Gaza are more than double the corresponding rates in the West Bank. Unemployed Palestinians are twice as likely to be poor compared to those employed (UNSCO, 2017). The dependency ratio of 7 in Gaza and 5 in the West Bank means that the joblessness of one Palestinian worker impacts, on average, six other Palestinians. Combating poverty therefore requires the implementation of pro-poor growth strategies featuring large-scale investment in employment-intensive sectors.

UNCTAD calculations suggest that annual real GDP growth consistently above 5.3 per cent is needed to make a minor dent in unemployment. This is consistent with the IMF finding that above 4 per cent annual GDP growth is required simply to maintain unemployment at current levels and prevent even more precipitous socioeconomic deterioration. IMF (2017) projections suggest that if current trends persist, GDP growth in the midterm will be around 3.3 per cent in the Occupied Palestinian Territory as a whole and 2.7 and 5.5 per cent in the West Bank and Gaza, respectively. Therefore, with the Palestinian population expected to double by 2050, unless current trends are reversed, unemployment will worsen, per capita income will fall and poverty will worsen, adding to the risk of the emergence of a vicious cycle of mutually reinforcing economic decline and political crises.

A. West Bank labour market as ravaged as that of Gaza

Since the onset of occupation in 1967, the high unemployment rate and low wages in the Occupied Palestinian Territory have forced Palestinian workers to seek employment in Israel and settlements. Dependence on employment in Israel and settlements has worsened with the increasing restrictions placed under occupation, which has damaged the economy's productivity and its capacity for job creation.

By stunting labour productivity, occupation has depressed Palestinian wages and generated a huge gap between wage levels in the Occupied Palestinian Territory and those in Israel. For example, the average daily wage of Palestinian workers in Israel and settlements, at about NIS 220 (\$62), is nearly three times the average wage in the Occupied Palestinian Territory (MAS et al, 2017). In the last

decade, labour productivity in the Occupied Palestinian Territory was stagnant, with a mere 0.6 per cent annual growth. The 2 per cent increase in labour productivity in 2016 was insufficient to compensate for more than 8 per cent negative growth in 2014 and 2015.

The lower unemployment rate in the West Bank in 2016 does not indicate a better labour market, but reflects the absorption of more Palestinian workers in Israel and settlements. A high 18.2 per cent of West Bank workers were employed in Israel and settlements in 2016, up from 15.6 per cent in 2014. Employment in Israel and settlements accounted for one quarter of total wages earned by West Bank workers.

If the risky jobs in Israel and settlements did not exist, the unemployment rate in the West Bank would be more than 36 per cent, not much higher than the 42 per cent observed in Gaza. That is, without the problematic and vulnerable employment in Israel and settlements, unemployment in the West Bank would be nearly as high as the extremely high level in Gaza. Therefore, despite the conspicuously worse conditions in Gaza, it is crucial that with regard to the labour market, conditions in the West Bank are no less grim than conditions in Gaza. The entire economy of the Occupied Palestinian Territory, in the West Bank or Gaza, is stifled and stripped of its capacity to produce jobs.

B. Extreme dependence on Israel for employment

While in the period before the establishment of PNA in 1994 and the start of the second Intifada in September 2000, Gaza was more dependent on employment in Israel than the West Bank, the reverse has been true since 1999. In 1975–1999, employment in Israel and settlements accounted for 40 and 33 per cent of total employment in Gaza and the West Bank, respectively.

In the West Bank, employment in Israel and settlements accounted for 25 per cent of total employment before 2000, but had fallen to 10 per cent by 2004 and has been volatile since then. By the third quarter of 2016, it had reached 18 per cent. In Gaza, employment in Israel and settlements fell from 15 per cent of total employment at the start of the second Intifada to 3 per cent by the end of 2000 and had been eliminated by 2006 (MAS et al, 2017). The blockade of Israel on Gaza, and frequent military strikes, have hollowed out its productive base and neutralized the capacity of its economy to generate employment opportunities

that would have compensated for the loss of employment in Israel and settlements.

Table 2 summarizes the deep dependence of the Palestinian workforce on Israel since the early days of occupation, showing that in the years of direct occupation, unemployment was not an issue. The economy was almost at full employment, with only a 2.8 per cent unemployment rate. This rate can be perceived as the natural rate of unemployment, reflecting a combination of frictional and structural unemployment.

Table 2
Occupied Palestinian Territory: Unemployment, 1969–2016 (Percentage)

	<i>1969–1992</i>	<i>1994–2016</i>
Unemployment rate	2.8	22.8
Employment in Israel and settlements as percentage of total employment	33.1	12.1
Total unemployment if Palestinian workers did not work in Israel and settlements	35.9	34.9
Gross domestic product growth rate	7.4	4.4

Sources: PCBS and Farsakh (1998).

However, the pre-1994 full employment situation does not imply a robust job-creating Palestinian economy because, in this period, one third of the labour force was employed in the economy of Israel. Similarly, in the period that followed the establishment of PNA in 1994, the variability and severity of unemployment had a strong correlation with the percentage of Palestinian workers employed in Israel and settlements. UNCTAD calculations show that the correlation between the domestic Palestinian unemployment rate and employment in the economy of Israel is a high -0.82.

As shown in table 2, had it not been for employment in Israel and settlements, unemployment in the Occupied Palestinian Territory would have been shockingly and consistently above 35 per cent before and after 1994. Thus, one of the most important determinants of unemployment in the Occupied Palestinian Territory is access, or lack thereof, by Palestinian workers to employment in Israel and settlements. In other words, the Palestinian unemployment rate has been

sensitive to the willingness of Israel to employ Palestinian labour based on its political objectives and economic needs.

A crucial characteristic of Palestinian workers in the economy of Israel is that, in contrast to migrant workers from other countries, they return to their villages and towns inside the Occupied Palestinian Territory on the same day, and their income is a significant source of financing Palestinian imports from Israel. For example, in 2016, the income of Palestinians working in Israel was about \$1 billion (or 25 per cent of West Bank labour income), the equivalent of 27 per cent of the \$3.6 billion cost of Palestinian imports from Israel.

Of the total Palestinian workforce employed in Israel and settlements, 38 per cent do not have proper work permits and are thus subjected to exploitative practices while employed in jobs that lack protection, and even lack treatment in the event of work injuries. For those with a legal right to work in Israel, the Israeli employment permit system has led to the emergence of permit brokers, who further exploit Palestinian workers by charging them exploitative fees for helping them to secure permits (ILO, 2017; IMF, 2017). ILO (2017) notes that permit brokers often charge Palestinian workers NIS 1,500 to NIS 2,500. If NIS 500 for transportation costs is added, the combined cost is on average above NIS 2000 (\$565) per month. This lost income is equivalent to full pay for nine days of work at the average daily wage of NIS 220 (\$62).

According to the Macro Centre for Political Economics (2017), Palestinians working in Israel and settlements are mainly employed in dangerous and difficult jobs, with inadequate health and safety provisions; 73 per cent are employed in construction and agriculture and the remaining 27 per cent are employed in industry, commerce, hotels and restaurants. Wage discrimination is prevalent; Palestinian workers, even those at a higher seniority level, are paid 39–44 per cent of the pay received by an Israeli worker performing similar work (ILO, 2017; Macro Centre for Political Economics, 2017).

In addition to the high financial cost of employment in Israel, many workers must leave home at night to arrive early at overcrowded crossings, where they are subject to security checks, harassment and long delays under inhumane and humiliating conditions (ILO, 2017). Such delays can easily extend the workday to 16 hours (MAS et al, 2017), which exhausts workers, impacts productivity and elevates the risk of work-related injury. The overall vulnerability, harassment by settlers and the high financial and time-related costs associated with employment in the economy of Israel suggest that Palestinian employment in Israel is driven

more by the dearth of jobs in the Occupied Palestinian Territory (push factor) than the wage differential between the two economies (pull factor).

C. Half a century of jobless growth with a greater impact on women and youth

Another feature of the Palestinian economy is that, although the economy grew by an average 7.4 per cent in 1969–1992 and 4.4 per cent in 1994–2016 following the establishment of PNA and despite low labour force participation rates, the domestic economy has consistently failed to provide employment for more than one third of the workforce. This raises serious questions about the nature of the GDP growth that has been taking place under occupation.

The failure of Palestinian GDP growth to make a dent in unemployment is consistent with UNCTAD analyses of the de-industrialization and de-agriculturalization of the economy. High political risks, restrictions on movement and access, limited access to imported inputs and isolation from global markets have contributed to the low level of investment in agriculture and industry (the tradable goods sector) and limited their contribution to employment to around 12 per cent of the total. This explains, in part, the low employment aspect of Palestinian economic growth throughout the history of occupation.

The restrictive measures imposed under occupation have condemned Palestinian women to one of the lowest participation rates and the highest unemployment rates in the world. Palestinian women cannot have the same access as men to employment in Israel and settlements, while Israeli barriers to movement and closure policies make it particularly unsafe for women to search for work away from their immediate localities.

In 2016, women's unemployment increased by a substantial 5.5 percentage points to 45 per cent, while men's unemployment remained largely unchanged, at 22 per cent. Women accounted for only 15.7 per cent of employed Palestinians, yet represented 34.5 per cent of unemployed Palestinians. The situation is worse in Gaza, where unemployment among young women is a huge 85 per cent (ILO, 2017).

D. High youth unemployment a threat to the future

Another major challenge in the Palestinian labour market is the extremely high rate of unemployment among youth in the 15–29 age group. In 2016, at 27 per cent in the West Bank and 56 per cent in Gaza, Palestinian youth unemployment rates were the highest in the region. This is even more alarming in the light of the fact that these rates do not include the 59 per cent of the population in this age group who have dropped out of the labour market and are no longer seeking employment (ILO, 2016). This means that 30 per cent of the population of the Occupied Palestinian Territory (1.44 million Palestinian youth) are neither at school nor looking for work.

Unemployed youth are often considered a lost generation, as they do not have the opportunity to build up relevant skills during their first years in the workforce. Such disenfranchisement of young generations discourages investment in education, lowers the accumulation of human capital and deprives the economy of the new thinking, creativity, technological awareness and transformative innovations that are naturally associated with the young.

For the economy as a whole, extreme youth unemployment has negative ramifications for long-term productivity, competitiveness, economic growth and fiscal sustainability. The skills atrophy caused by youth unemployment is associated with longer spells of job searches in the future, underemployment, long-term unemployability, reduced lifetime earnings, poverty, despair and poor health, as well as economic, cultural, social and political marginalization. The underutilization of human capital pertaining to youth, college graduates and women is another element of the economic cost imposed by occupation on the Palestinian people.

ILO (2016) indicated that 38 per cent of employed youth in the 15–24 age group worked in the informal sector, while 57 per cent held an informal job in the formal sector, working without entitlement to social security, medical insurance and paid annual or sick leave. The result was an extremely high 95 per cent of working youth being informally employed. The crises of unemployment and informality affecting this age group have created conditions whereby more than 50 per cent of young workers earn less than the minimum wage and lack the basic benefits and protection of formal employment (ILO, 2016).

The loss of future income due to youth unemployment will aggravate the fiscal problems of PNA with regard to both revenue and expenditures as a result of

low tax revenues and the increased burden of government spending on social transfers and health services. The economic and social effects of youth unemployment deserve special attention from Palestinian policymakers and their development partners. Containing youth unemployment should therefore be a leading policy priority, as the future of the Palestinian people, the health of their economy and the cohesion and egalitarianism of their society are at stake.

III. UNCTAD assistance to the Palestinian people

A. Framework and objectives

For over three decades, UNCTAD has been supporting the Palestinian people through relevant policy-oriented studies, the implementation of technical cooperation projects, the provision of advisory services and the promotion of international consensus on the challenges facing the Palestinian people and their development aspirations.

In 2016, UNCTAD continued to extend technical assistance to the Palestinian people to build their economic and institutional capacities. Numerous institutions benefited from UNCTAD initiatives, research findings, advisory services and recommendations. Guided by paragraph 35 of the Sao Paulo Consensus, paragraph 44 of the Accra Accord and paragraph 31 (m) of the Doha Mandate, and in accordance with General Assembly resolutions 69/20, 70/12 and 71/20, the UNCTAD programme of assistance to the Palestinian people was centred on the following four clusters:

- (a) Trade and macroeconomic policies and development strategies;
- (b) Trade facilitation and logistics;
- (c) Finance and development;
- (d) Enterprise, investment and competition policy.

B. Operational activities under way

In 2016, UNCTAD successfully concluded the implementation of a technical cooperation project on capacity development for facilitating Palestinian trade. This \$2.1 million project, funded by Canada, significantly strengthened the capacities of the Palestinian public and private sectors in trade facilitation and enhanced the knowledge base of exporters and importers. One of the key achievements of the project was the establishment of a professional diploma training programme, entitled Supply Chain Management, which was developed jointly by UNCTAD, the Ministry of National Economy, the Palestinian Shippers Council and Birzeit University. The programme features eight modules covering key aspects of international trade, including legal and regulatory aspects, contracts, insurance, transport procedures, logistics management and customs procedures. The programme is designed to serve the needs of Palestinian exporters, importers, customs brokers, government staff, young graduates, lawyers and other professionals with an interest in the field. In 2017, the programme was accredited by the Ministry of Education and Higher Education. This caps other major achievements under the project in previous years.

UNCTAD benefited from a \$200,000 grant from Qatar to sustain its capacity to extend technical cooperation activities and advisory services to the Palestinian people.

In addition, in 2016, UNCTAD explored areas for further cooperation and provided continuous advisory services in areas of UNCTAD expertise to the Palestinian Shippers Council, the newly established Palestinian International Cooperation Agency in the Ministry of Foreign Affairs and various public and private sector institutions.

As in previous years, in 2016, UNCTAD hosted and trained a Palestinian diplomat. This training introduced the diplomat to the United Nations system and the work of other international organizations in Geneva, Switzerland, covering the scope of the work of UNCTAD, including the annual session of the Trade and Development Board.

UNCTAD contributions to building and modernizing Palestinian customs date to 2001, when customs authorities adopted the UNCTAD Automated System for Customs Data (ASYCUDA) to carry out the sovereign functions of customs. ASYCUDA was implemented in all Palestinian customs offices, including in Gaza at

the Rafah border crossing with Egypt. UNCTAD has also trained Palestinian functional and information and communications technology teams of experts and empowered them to manage ASYCUDA independently.

However, the version of ASYCUDA World presently used by Palestinian customs is out of date. There is therefore an urgent need for renewed cooperation to introduce the numerous updates developed since 2011, with a view to upgrading customs capacity as a key component of the ongoing efforts of PNA to strengthen its capacity for public financial management in pursuit of fiscal sustainability.

The proposed new intervention should, among other things, strengthen Palestinian customs capacity for customs valuation, risk analysis and customs and post-clearance controls. It should also seek to establish an interface between ASYCUDA in the Occupied Palestinian Territory and the global gate system used in Israel to facilitate the exchange of trade data between the two systems in real time. This interface is essential for Palestinian fiscal sustainability. It can be used to ensure timely access by PNA to accurate, comprehensive Palestinian trade data, which is a prerequisite for stemming the leakage of hundreds of millions of dollars of Palestinian fiscal resources to Israel.

Within the realm of public financial management, the critical role of sound debt management was highlighted under the Millennium Development Goals and has again been underlined in the Sustainable Development Goals. Given the increasing Palestinian debt, and its growing complexity, there is an emerging need to reintroduce the UNCTAD Debt Management and Financial Analysis System (DMFAS) in the Occupied Palestinian Territory to enhance the quality and scope of Palestinian public financial management. DMFAS can play a key role in mitigating the evolving risk of debt distress and ensuring that Palestinian public debt remains sustainable.

C. Coordination, resource mobilization and recommendations

In 2016 and early 2017, UNCTAD continued its development support to the Palestinian people in coordination with PNA, Palestinian civil society, the United Nations and other international agencies, donors and the United Nations Country Team. However, difficult field conditions impact the delivery of UNCTAD support

to the Palestinian people, especially in Gaza, as Palestinian members of the private sector and civil society are not allowed to travel outside Gaza, while staff from the United Nations and other organizations face significant entry and exit barriers.

It is recommended that serious efforts be taken to support upgrading Palestinian capacities for public financial management, and to fulfil the mandate of General Assembly resolutions 69/20, 70/12 and 71/20, which request UNCTAD to assess and report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people. A shortage of resources limits the ability of UNCTAD to deliver on this mandate. Therefore, and as requested in paragraph 55 (dd) of the Nairobi Maafikiano, member States are invited to consider extending additional resources, to enable UNCTAD to fulfil paragraph 9 of each of the aforementioned resolutions and to implement new ASYCUDA and DMFAS projects.

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