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SPECIFIC MATTERS ARISING FROM THE RESOLUTIONS,  
RECOMMENDATIONS AND OTHER DECISIONS ADOPTED BY  
THE CONFERENCE AT ITS SIXTH SESSION REQUIRING  
ATTENTION OR ACTION BY THE BOARD AT ITS  
THIRTY-THIRD SESSION

Recent economic developments in the occupied Palestinian territories

A Review of the work completed by the Special Economic Unit  
(Palestinian People)

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PREFACE

Review of the work of the Special Economic Unit (Palestinian People), 1985-1986

(i) Pursuant to Conference resolution 146 (VI) and in accordance with the 1986-1987 work programme of UNCTAD, the Special Economic Unit (Palestinian People) is required to prepare reports containing: "(i) reviews and analyses of developments in the economic conditions of the Palestinian people, and, (ii) proposals on strategies and measures for future development of the Palestinian economy and for the improvement of the economic condition of the Palestinian people.". In addition, the work programme of UNCTAD calls upon the Unit to establish and develop, on a continuous basis, a data base on the Palestinian economy, participate in co-operative programmes on such matters with other concerned departments of the United Nations and ensure liaison with them (A/40/6).

(ii) In the period July 1985 through June 1986, the Unit was able to make substantial progress in the above areas. In particular, the Unit embarked on work in the following areas:

(a) An overall analysis of recent developments and trends affecting the economy of the occupied Palestinian territories. This constitutes the subject of the 1986 issue of the Unit's annual report on the economy of the occupied Palestinian territories. The report monitors current economic policies and measures taken by the Israeli authorities affecting the economic development of the occupied territories. Attention is given to overall and sectoral developments. Emphasis is specially focused on selected crucial issues vital to the economy of the territories. In view of the critical economic situation of the Gaza Strip, a brief section is devoted separately to some of the main economic issues and problems confronting the Strip. (Additional related material can be obtained upon request.);

(b) Financial structures and activities in the occupied Palestinian territories. This involves an in-depth analytical study investigating various structural and operational aspects of the monetary and fiscal system prevailing in the territories since 1967. Emphasis is particularly given to their evolution during the occupation period and to their contribution to economic development, focusing on Israeli policies and analysing problems encountered in serving the economy of the territories. The study will critically evaluate the present and future role of banking and other financial institutions, as well as public expenditures and revenues, with particular emphasis on the structure of the tax system. The study is being jointly undertaken with ESCWA and is expected to be completed for publication early in 1987,

(c) A data base on the economy of the occupied Palestinian territories. In view of the paucity of qualitative and quantitative information on the economy of the occupied territories, the Unit continued its work on the establishment of a comprehensive data base. It has initiated a three-tiered

system of data classification accommodating bibliographical information (Arabic-English), research indexing, and statistical information. An additional section of the data base is being compiled to cover Israeli military orders affecting economic activity in the territories. While the system is for the immediate use of UNCTAD in its work on the economy of the occupied territories, it will also serve as a potential source of reference for others working on the subject.

(iii) During the period in question, the Unit continued its effort to strengthen its substantive working relations with other United Nations departments and agencies concerned with economic development issues in the territories, notably ESCWA, ILO, UNCHS (Habitat) and UNIDO. Co-operation has taken the form of exchanges of information, consultations, contributions to work being carried out under other programmes, and joint activities.

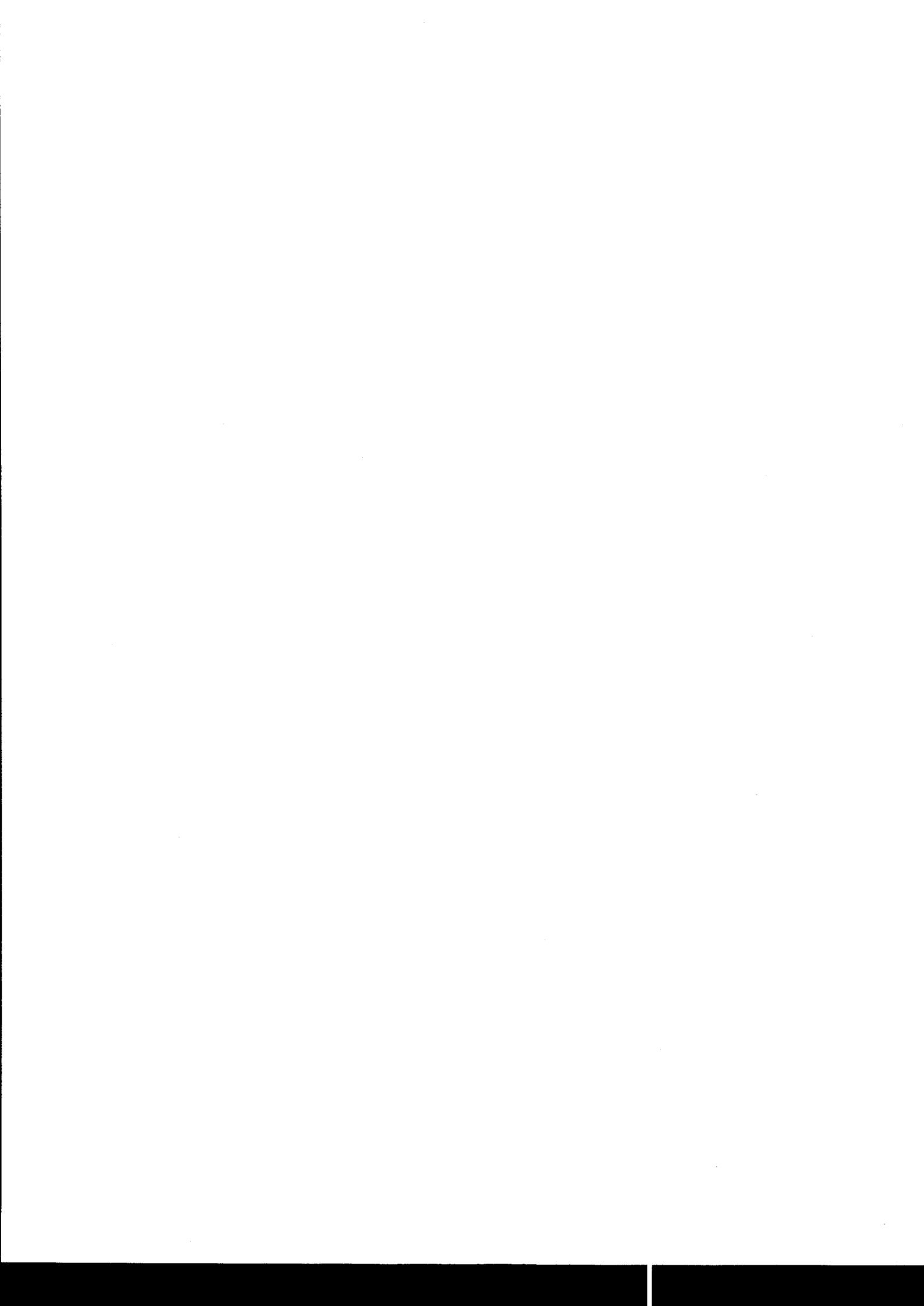
(iv) The staff of the Unit undertook missions to Egypt, Jordan and Iraq in connection with the ongoing research projects involving meetings with a large number of officials of Governments, regional and national organizations and institutions dealing with the economy of the territories, all aimed at gaining a clearer picture of the development situation, problems and requirements of the territories.

(v) In an effort to further enrich its research on the territories and in view of the paucity of data, UNCTAD attempted to establish direct access to information pertaining to the economic development of the territories. Accordingly, it contacted the Permanent Representative of Israel to the United Nations Office at Geneva proposing a mission to the West Bank and the Gaza Strip. To date, the Government of Israel has refused UNCTAD's request to field a mission for such a purpose. As a result, the work of the Unit has had to rely mainly upon primary and secondary published sources of information. Every effort has been made to verify and check the findings of research carried out, despite the fact that the lack of direct contact with the territories constituted a major limitation.

(vi) As for future activities, as envisaged in the 1986-1987 work programme of UNCTAD, the Unit will commence work on a second in-depth study immediately after the completion of the study on the financial sector. Although the subject matter of the next study is still under consideration, it will possibly focus on the trade sector and its role in the process of the development of the territories. Other issues under consideration for investigation include the territories tourism sector, the role of development aid in the territories and the special problems of the Gaza Strip. It is expected that studies on these and other issues will provide the basis for the preparation of the comprehensive and in-depth survey of the state of the economy of the Palestinian people in the occupied territories called for under Trade and Development Board resolution 239 (XXIII) which could not be undertaken owing to time and budgetary constraints. Simultaneously, the Unit will begin its work on its next annual report for presentation to the Trade and Development Board at its session in September 1987.

(vii) Work on the data base will involve investigating modalities for wider dissemination of information. Possibilities of computerizing quantitative and qualitative information will be further explored. The options will initially be studied at the level of UNCTAD, with possibilities on a wider United Nations level being examined at a later stage with the view to developing a comprehensive series of statistics on various economic and social aspects of the occupied territories. Publication of a comprehensive bibliography on economic conditions in the territories is also under consideration.

(viii) The Unit will continue its efforts to enhance liaison and work with United Nations agencies on issues of mutual concern and further develop contacts with regional and national institutions, especially Palestinian academic and research centres.



## INTRODUCTION

1. In discussing the economy of the occupied Palestinian territories, two factors mitigate against an analytical approach which might lead to a greater understanding of the dynamics of the situation and advance the interests of the inhabitants of those areas. First, the situation in the territories does not allow a clearcut identification and analysis of economic problems. The presence of a foreign occupation force and its intervention in most aspects of daily Palestinian life, economic aspects included, has created conditions over 19 years which subject the operation of the economy to a variety of non-economic factors in addition to those often experienced in the "usual" process of economic development. Second, conventional economic analysis and concepts can lose some of their relevance when applied to a context whose unconventionality arises not only from occupation, but also from historical factors which have created an entity (i.e. the occupied Palestinian territories) where the application of the traditional tools of national economic analysis does not always provide reliable results. 1/ Rather than pursuing such an approach, it has been argued 2/ that under circumstances of occupation, the predominant economic interest, aspiration and concern of the inhabitants of the territories is to ensure their basic needs and a future for themselves in their country. Subject to these limitations, the present report attempts, through a diagnosis of actual trends and underlying determinants, to arrive at a better understanding of economic processes at work in the territories.

## Chapter I

### ISRAELI POLICIES AND MAIN ECONOMIC DEVELOPMENTS IN THE OCCUPIED PALESTINIAN TERRITORIES, 1984-1986

#### A. The determinants of development

2. More than at any time since 1967, the territories can be seen to be experiencing a serious economic crisis, the aspects of which manifest both the territories' precarious economic position and the operation of the elements which influence it. As shall be reviewed in this report, most of the standard indicators of growth and development point to the emergence in recent years of major problems for the territories. Though these indicators usually tend to exhibit strong fluctuations, overall trends in the territories are especially unstable and negative. While this is not exceptional given the overall regional and international economic climate of the past years, it assumes a special significance when considered in light of the limited opportunity for manoeuvre afforded the territories' economy.

3. The course of economic development in the territories is determined by four separate groups of factors:

(a) The existing resource base, economic structure and local development efforts and aspirations of the territories;

(b) Policies and measures of the Israeli authorities concerning the territories;

(c) Developments in the Israeli economy and policies which do not directly pertain to the territories but exert considerable linkage effects upon them;

(d) The economic environment in the Arab region (especially in the oil-producing States), to the extent that the territories can maintain their traditional economic links with it.

The often conflicting influences exerted by these factors have become particularly apparent in recent years and their effects have been felt throughout the territories' economy. It is the extraordinary constraints of these influences which make for the unique nature of the problems faced by the economy of the territories.

4. Unlike other economies, the existing resource base and economic structure of the territories do not have the requisite institutions to shape an independent course of action, steer their available productive capacities and transform their structures with a view to creating an integrated, self-sustaining and viable economy. Nor, indeed, do they have the means to effectively resist the steady encroachment upon land and water sources brought about by Israeli settlements in the territories. Consequently, the economy of the territories has remained fragmented internally, dependent externally, and passive to the interplay of forces at work both within and outside their borders.



5. The power of regulating and controlling economic and other activity in the territories has been assumed by the Israeli occupation authorities, since 1967, through a military government, which has been partially transformed in recent years into a "civil administration". 3/ This authority rules by issuing periodic military orders and decrees, guided by overall or specific policy decisions and orientations emanating from the Israeli central authorities. By mid-1984, of a total of 1,950 military orders (including amendments) issued in the West Bank and the Gaza Strip, some 935 (almost half) were directly concerned with economic matters: taxation, customs, banking, money and insurance, agriculture, industry and crafts, commerce, land and water, labour and other areas. 4/ Whereas some of these are adapted or amended versions of Jordanian or Egyptian laws in force up to 1967, most represent new regulations reflecting Israeli policy concerns. 5/ In general, Israeli policy has been summarized officially as follows: "There will be no development (in the territories) initiated by the Israeli Government, and no permits will be given for expanding agriculture or industry (there), which may compete with the State of Israel". 6/ The policies and measures applied by the Israeli authorities can be seen to be based upon three major premises: maintaining the minimum of order in the economic affairs of the territories, with no explicit commitment to advancing the economic interests of the territories; ensuring that this regulation of economic activity in the territories corresponds to the general patterns of relevant policy and legislation in Israel; and, most importantly, ensuring that economic activity in the territories does not conflict with or harm Israeli economic interests. Thus, this second major determinant of the territories' economic activity works through a strategy dictated by the overall national interest of Israel. Of relevance here is how policies ultimately make themselves felt in their application and what effects they have upon economic conditions in the territories.

6. The above-mentioned determinants (structural and policy) are less subject to fluctuation than are the other two factors influencing the territories' economy, namely the close economic relations with Israel and with the Arab hinterland. Due to the nature of economic relations between Israel and the territories, the latter have few, if any, means at their disposal to guard themselves against changes in the Israeli economy. 7/ Thus, just as the territories can, in principle, expect to benefit from growth in demand by the Israeli economy in times of boom (e.g. after the 1967 war), so do they share in the effects of slump in times of recession. 8/ Recent developments in the Israeli economy, characterized by a pronounced recession and an economic austerity programme involving reduced public expenditure, coupled with wage and price controls to stem spiralling inflation, have had a direct effect on most aspects of the territories' economy. Yet the capacity of the economy of the territories to escape these is practically non-existent, due both to the nature of its own structure and to the dynamics of economic links that bind it to Israel and have largely isolated it from the rest of the world.

7. Since 1967, the pattern of the relationship between the territories and their Arab hinterland has altered dramatically. Though some of the pre-1967 trade, labour and financial flows existing between the territories and Arab countries (especially Jordan) have been maintained over the years, these remain limited due to the effective barriers instituted since the occupation to the free movement of goods, people and funds between the territories and the Arab countries. In this important part of their external relations, the

territories are subject to terms established by other considerations, i.e. those dictated by the security, economic or political interests of the Israeli authorities and the vicissitudes of economic development in the Arab countries. Just as important, if not more lucrative, than the income generated by the territories labour in Israel has been the income earned through more than a decade of work in the Arab oil-producing States. This is in addition to the role played in supporting the territories' economy by the unilateral transfer of financial resources (Arab and Palestinian aid, government employees' salaries and other transfers). The present crisis in the Arab region as a whole has resulted in a sharp drop in demand for the migrant labour which had previously supplied various Arab countries, 9/ and an equally significant fall in demand (in Jordan especially) for the agricultural and industrial commodities exported by the territories. In addition to the drop in remittances and export earnings accruing to the territories, unilateral (foreign aid) transfers to the territories have also fallen. This has helped in the creation of an environment of increasing isolation, uncertainty and recession in the territories' economy which has greatly influenced the performance of economic indicators, discussed below, and in which it attempts to survive today.

8. The weight of the latter three factors discussed above in determining the limits placed upon the development of the territories' economy cannot be over-emphasised. Any analysis of economic development in the territories must take these well into consideration, as must any effort to improve that process. It is clear that the primary distortion in the operation of the economy is related to the nature of the relations between the territories and their environment, primarily that represented by the endurance of 19 years of foreign occupation. In any similar situation elsewhere in the world, the local economy would at least have had recourse to its central power to regulate these external factors according to its own interests and would exercise that power to its greatest ability. However, that power is absent in the case of the territories, and its exercise effectively forfeited to a range of external economic and other forces, most prominently the Israeli occupation authorities. It remains possible, however, to examine present conditions and trends without entering into a discussion of how the absence of such a central local or national authority negatively affects the development process. 10/

B. The growth of gross domestic product (GDP) 11/

9. A prominent feature of the occupied territories' economy is the relative weakness of their indigenous productive capacity and their increasing reliance upon "net factor income from abroad" (i.e., mainly from occupied territories labour employed in Israel, but also from Palestinians working in Arab countries). The contribution of GDP to gross national product (GNP) has been falling steadily in past years, from 75 per cent in 1981 to 73 per cent in 1983 and reaching an all time low of 56 per cent by 1984. 12/ A decade of high to moderate rates of growth in GDP 13/ was followed by a declining trend in GDP, with lower growth rates of 2.9 per cent in 1980/81 and -0.4 per cent in 1983/84. In absolute terms, GDP in 1984 amounted to \$1,085 million, a level reached originally in 1980. 14/ While the fluctuating behaviour of GDP growth rates is discernable, the general trend depicts a decline in the annual rate of growth. Although the average annual decline in 1983/84 was somewhat exaggerated due to poor agricultural output, the situation reflects an overall slowdown in growth of all sectors during the two-year period.

10. The performance of the two largest sectors, i.e., agriculture and trade/transport/personal services, largely accounts for the decline in domestic product. Together, these sectors' contribution to GDP fluctuated between 58 per cent and 63 per cent during the period 1978-1984. The share of agriculture in GDP has been falling, from 32 per cent in 1978 to 28 per cent in 1984, while that of trade/transport/personal services has been rising, from 26 per cent to 33 per cent in the same period. However, the average annual rate of growth in trade/transport/personal services has slowed since 1980/81, reflecting the strong linkage between agriculture and trade/transport, with no structural diversification of the economy to provide for alternative redeployment to other sectors. As such, the occupied territories' trade and transport cannot easily locate other areas of business in case of an agricultural slump. Industry is neither diversified nor strong enough to provide alternatives to make up for the decline in agricultural trade. Meanwhile, in the 1978-1984 period, the share of industry in GDP fluctuated between 7 and 9 per cent, construction from 16 to 17 per cent and public services from 13 to 16 per cent. Whilst growth in the once booming construction sector has contracted in recent years, reaching an average annual rate of 1.8 per cent in 1983/84, industry was the only sector to sustain high positive growth, at levels between 7 and 9 per cent from 1982.

C. Sources of income 15/

11. The declining role of GDP in the territories' economy is further highlighted by an examination of the components of gross private income (GPY). 16/ As a component of GPY, GDP fell from 70 per cent in 1978 to a low of 58 per cent in 1983, before rising to 66 per cent in 1984. Both government and private transfers have maintained a fairly constant share of GPY in the period, at around 1 per cent and 5 per cent respectively. 17/ The share of factor income increased from 23 per cent in 1978 to 34 per cent in 1983, then fell to 28 per cent in 1984, equivalent to \$470 million. A significant aspect of these flows is the increasing proportion of gross private income appropriated as taxes and other transfers to the Government. These rose from a level of 6 per cent of GPY in 1978 to over 11 per cent of all income accruing to the occupied territories in 1984. Thus, in 1984, the territories transferred to Israeli authorities a sum of \$185 million, equivalent to more than twice the amount transferred from abroad, eleven times the transfers to the territories from the Israeli Government and Palestinian local authorities, 40 per cent of the wage bill from employment in Israel and abroad, and 17 per cent of GDP.

12. As noted, factor income witnessed a sharp decline in 1984 - the first since labour from the territories became increasingly drawn to work in Israel in the mid 1970s. This decline was accompanied by a similar drop in income from private transfers from abroad, also the first witnessed since occupation. Both these developments can be seen to reflect the Israeli and Arab economic determinants of the territories' economic activity described above as recession and the accompanying policies began to take effect. Whereas GDP manifested this trend through a stagnation of output, there was by 1984 no indication of an absolute decline in production. In fact, GDP rose from the level of \$930 million in 1983 to \$1,085 million in 1984. 18/ These developments seem to exhibit a link between a decrease in work opportunities in Israel and abroad, and a consequently greater participation in domestic production. This would appear to signify a certain dynamism in the local

economy, as represented by the high rate of industrial growth in 1983/84. It can thus be argued that employment in Israel and abroad may have adverse effects on long-term economic development given the lack of a central indigenous authority capable of rationalizing the benefits and costs of the migration process. The dual handicap on the territories' economy from the transfer of resources to Israel and the increasing absorption of Palestinian labour in the Israeli economy is a major factor in constraining the local productive base.

D. Resource use 19/

13. Perhaps the clearest indicator of the constraints on the territories' indigenous resources is found in a comparison of GDP with private consumption expenditure. This latter figure has grown steadily throughout the period, at an average annual rate of over 3 per cent, and accounts for a fairly constant share of all uses of resources in the territories (i.e., between 56 and 61 per cent since 1978). However, were it not for income from work in Israel and abroad, as well as transfers, local production capacity would have no way of supporting the high level of private consumption. Since 1978, private consumption has exceeded GDP, with margins varying from a low of 3 per cent in 1980, a year marked by strong economic performance in the territories, to a high of 18 per cent in 1979 and 14 per cent in 1984. The adverse effect of this trend upon domestic investment and the balance of payments cannot be underestimated.

14. On the basis of the above data, it may be argued that a relatively high level of private consumption expenditure has become a permanent feature of the economy. However, per capita private consumption has since 1979 been growing at an increasingly low rate. From a 2 per cent average annual increase in 1979/80, growth in per capita consumption has fluctuated between 0.8 per cent and 1.1 per cent in the years since, and it fell to 0.9 per cent in 1983/84. This is not surprising in the light of the similarly low and decreasing rate of growth in per capita GDP in the territories, which had fallen by 1983/84 to -1.4 per cent. 20/

15. Another way of looking at the strength of the territories' economy is through a comparison of its per capita GDP with that of other countries. It is found that in 1982, while the annual per capita GDP of the territories was \$867 (\$1,032 in the West Bank and only \$610 in the Gaza Strip), it was far behind Israel (\$6,086), the world average (\$2,399), the Syrian Arab Republic (\$1,904), Jordan (\$1,109), all developing countries (\$1,003) and Lebanon (\$970). It was only slightly higher than in other Arab countries such as Egypt (\$721), Morocco (\$678) and the least developed Arab countries. By 1984, per capita GDP had fallen to \$848 for the territories as a whole, primarily because of a fall in the Gaza Strip's per capita GDP to \$555. Even when external income available to the territories is added to GDP, the figure for per capita gross national product (GNP) was \$1,214 in 1984. The development gap between the territories and Israel, neighbouring Arab countries and many developing countries is clear, and it shows no signs of diminishing.

16. The level of gross capital formation (GCF) has remained relatively low, with its share in the total use of resources declining from 16 per cent in 1978 to 14 per cent in 1984. Most recently, the average annual growth rate of GCF was negative, standing at a disinvestment rate of -6 per cent in 1983 and 1984. Nor are these trends offset by any sign that investment, however

limited, has been in productive sectors. Private sector investment has since 1978 constituted almost 90 per cent of overall GCF, but its real value fell by 6 per cent from 1978 to 1984. This reflects a decline in investment in capital goods, while a steady level of investment was maintained in building and construction works. Since 1978, more than 80 per cent of private sector investment has been in residential construction. This is intended to meet the growing need for housing, hedge against inflation, which reached over 400 per cent in 1984, and establish a physical presence on land, despite high taxes (17 per cent property taxes plus 15 per cent value added tax), thus reducing the chances of expropriation of land.

17. The level of Israeli Government investment has not been able to offset this trend. Moreover, there have been no clear developmental objectives along with incentives to induce private investment in productive areas. The increase in the public sector share of GCF in the territories can be attributed mainly to extensive road and electricity infrastructure works undertaken in recent years. This share gradually rose from 13 per cent in 1978 to 19 per cent in 1984, reflecting mainly the drop experienced in the share of private investment. It accounted for 2.8 per cent of domestic uses of resources and 5 per cent of GDP in 1984, a very low figure, especially given the present stage of economic development in the territories and their dire need for increased investment outlays. Moreover, instead of directly enlarging the productive base in the territories, the small sums involved in general reflect infrastructural outlays related to Israeli settlements in the territories. <sup>21/</sup> It has been stated that "in the absence of a central economic planning authority, there is no promotion of capital formation aimed at encouraging growth. The budgetary policies of the Israeli authorities illustrate the deliberate freeze characterizing official policy with regard to the Palestinian productive sector". <sup>22/</sup>

E. The balance-of-payments position <sup>23/</sup>

18. The increasing dependence of the territories on external resources to augment their own low level of income is amply illustrated by their balance-of-payments position. In 1984, the territories sustained a deficit in goods and services of \$96 million due to a trade deficit of \$384 million which was only partially offset by a surplus on services of \$288 million. These figures indicate a continuing trend towards a growing overall balance-of-payments deficit, which rose by some \$36 million from 1983 to 1984. The main factor behind this increase is the large inflow of merchandise imports, amounting to \$689 million in 1984, despite the significant "credit" in goods (exports) and in factor income. The "credit" element of services is almost totally composed of income from wages of the territories workers in Israel, which has accounted for 94 per cent of all "credit" on services since 1982. In fact, 48 per cent of the total deficit in goods and services in 1984 was offset by "credit" in income from wages. However, even this item fell in 1984 by over \$70 million as the effects of the Israeli recession began to take their toll upon Palestinian labour in Israel. A surplus of \$92 million in transfer payments in 1984, though lower than earlier years, also helped to offset the balance-of-payments deficit of the territories. These payments include grants and loans from Palestinian, Jordanian and other Arab and international sources, wages paid to Jordanian Government employees in the West Bank, and remittances from Palestinians working in Arab countries and elsewhere.

19. The most recently available figures indicate that the balance-of-payments deficit with Israel, which stood at \$147 million in 1984, rose by half to \$219 million in 1985. This was due primarily to an \$80 million fall in income earned by workers in Israel, "...victims of the erosion of Israeli salaries and of a cutback in construction work". <sup>24/</sup> It suggests that the territories' economy can ill afford such continuing dependence upon sources of income totally outside its control, be they foreign aid, remittances or income from work in Israel and elsewhere. Indigenous productive and export capacity remains in an especially vulnerable position, incapable of offsetting the growing reliance of consumption in the territories upon (mainly Israeli-produced) imports.

F. The structure and direction of the territories' trade <sup>25/</sup>

20. The lifeline of the territories' economy is its long-standing international trade links. Historically, the West Bank has been a supplier of certain commodities and manufactured goods which had a more or less guaranteed market abroad, especially olives, olive oil, and soap. Similarly, the Gaza Strip citrus sector established markets for its output in a number of eastern European countries and, more recently, in the Arab world. Under Israeli occupation, this pattern was more or less maintained, while new elements were introduced. While the occupation authorities allowed trade with Arab and other countries to continue (the so-called "open bridges" policy), the practical problems involved (transportation and storage, finance, marketing and distribution, Israeli customs duties and formalities) in moving goods from the territories to outside are considerable. At the same time, specific regulations govern trade with Israel whereby there are no restrictions upon Israeli exports to the territories while a range of the territories' commodities may not be exported to Israel. <sup>26/</sup> Further, most Israeli links with the industrial exports of the territories are geared to the labour-intensive stages of the production process (e.g. in textiles and clothing). These are profitably subcontracted to the labour surplus economy of the territories and the resulting products are exported to Israel in partially or fully finished form, without the growth benefits that can otherwise accrue to the local economy from investment in new production capacities. Thus, a very specific pattern in trade relations between the territories and Israel has been instituted. This is characterized by a distortion of the normal principles of comparative advantage such that the terms of trade are defined not through the market, but rather by the exigencies of Israeli economic activity and the extent to which the territories' production conforms to that. As a result, the territories' trade relations with both Israel and the Arab world are to a great extent subject to a distorted and unequal trading situation.

21. In 1984, the territories exported \$316 million of industrial and agricultural goods to Israel, Jordan and the rest of the world. The trend in exports has recently entered a downward phase, after having peaked at \$403 million in 1981. Export figures for the first half of 1985, compared to those of the first half of 1984, indicate a continuation of this decline. The recent trend in imports has not been so clear. After having increased steadily until 1981 reaching \$664 million, imports began to fall, picking up in 1983 only to fall again to \$620 million in 1984. The territories have exhibited a deficit in their trade position which has grown at an annual average rate of around 6-8 per cent; by 1984 it stood at \$390 million. The

deficit with Israel in 1984 was even larger, at \$424 million, and has been growing constantly since 1967. It is only the trade surplus with Jordan that helps to lessen the burden in trade relations with Israel. However, that surplus is showing incipient signs of a downward trend, stabilizing around \$90 million in 1983 and 1984 after having peaked at \$116 million in 1982.

22. The direction and composition of trade are highly concentrated. Some two thirds of exports <sup>27/</sup> go to Israel, while most of the rest goes to or through Jordan and only a small proportion to other countries. Industrial exports account for an increasing share of the total exports of the territories, reaching a record 77 per cent in 1984. While under normal circumstances this might be considered a positive development, industry is not a major contributor to GDP, and most industrial exports are part of a production process directly linked to the Israeli industrial sector. Although industry accounted for 7 per cent of GDP in 1984, industrial exports constituted the equivalent of 25 per cent of GDP in that year. This situation arises from the divergence between the low industrial value added in the territories, which keeps industry's share of GDP low, and the higher value of industrial exports, which reflects the total value of locally manufactured goods as well as the large proportion of semi-manufactured goods imported from Israel for local finishing and re-export to Israel under subcontracting arrangements.

23. Thus, since 1978, between 71 and 82 per cent of exports to Israel have consisted of industrial goods. As these constitute a growing percentage (reaching 54 per cent in 1984) of total occupied territories' exports, this situation points to Israeli domination of the territories' export capabilities. This is partially offset by industrial exports to Jordan (22 per cent of the territories' exports) and agricultural exports to/through Jordan, which account for a declining proportion of the territories' exports (down from 23 per cent in 1978 to 14 per cent in 1984). Only 8 per cent of total occupied territory exports in 1984 consisted of agricultural goods traded with Israel. On the whole, while the territories do not in themselves supply a significant part of Israel's imports (around 3 per cent of Israeli non-military imports), their own trade relations are increasingly dominated by Israel. The only trade link that would appear to indicate the territories' significance in Israeli trade relations is the role of the territories' market as a consumer of Israeli exports. An average of 16 per cent (dropping to 13 per cent in 1984, for the first time in several years) of Israeli exports are destined for the territories, making the Palestinian economy one of the largest Israeli (non-military) export markets after the United States. <sup>28/</sup> However, the territories have no way of influencing this factor or turning it to their best interest, and little or no control is exerted over the quality and quantity of goods entering the territories in such a way as to safeguard the interest of local production capacity in agriculture or elsewhere. As has been noticed, "this 'export' is possible because Israeli manufactured goods enjoy massive protection, estimated at 60 per cent of the value of the products on the international market". <sup>29/</sup>

#### G. Labour and employment in Israel <sup>30/</sup>

24. As already noted, one of the crucial aspects of the territories' economy is the relationship between weak local productive capacity and the high proportion of national income generated from sources outside the territories.

The phenomenon of migrant labour providing a substantial part of national income through remittances is not uncommon internationally or regionally, 31/ nor is it necessarily a negative one: if carefully channelled, it can be a necessary, and a growth-inducing, source of income in a labour-surplus economy struggling to develop its indigenous potential. In this context, and with regard to the territories, two questions must be borne in mind: whether the causes of such migration are locally induced and due to an inefficient allocation of labour in the territories' economy; and, whether the material benefits of this process are being utilized with developmental consequences or have found their way into unproductive consumption patterns.

25. An important feature of labour force development in the territories in the past few years has been the labour force's increasing rate of growth, outstripping that of population. In 1983-1984, while population grew by under 3 per cent, the labour force grew by 5 per cent, such that some 12,000 new jobs are now required each year. This has meant a growing crude participation rate in the labour force, rising from 33 per cent in 1980 to 35 per cent in 1984. The main factor behind this development is decreased labour migration to Arab countries. 32/ Associated with an overall recessionary climate, it is not surprising that this growing labour force found it increasingly difficult to obtain employment. The rate of unemployment in the territories had by 1984 risen to 2.9 per cent. In the first half of 1985, the rate had risen to 3.7 per cent, with some 9,000 people unable to find work, and it most likely stayed at that level, or increased, in the second half of 1985. 33/ At the heart of this growing unemployment situation lies the fall in work opportunities for Palestinian workers in Israel and in the Arab countries, as they tend to face dismissal in periods of economic crisis in both markets. 34/ The nature of the local economy, which is dependent upon external demand for its output and labour, is such that there are few local alternatives. 35/

26. In effect, there exist two markets for the territories' labour, i.e., in the territories themselves, and inside Israel. To consider them together might be an adequate approach to supply-side analysis, but the main determinants of much of labour force characteristics originate in demand conditions, especially in Israel. This effect is exercised on the labour force working in Israel and, to a lesser extent, on local labour. The main sectoral trend in the territories' resident labour force which has greatly influenced labour developments in other sectors has been the sharp decline in the proportion (and numbers) employed in agriculture. Thus, from 39 per cent of total resident labour force in 1970, employment in agriculture followed a steady decline throughout the decade, reaching 32 per cent in 1975; by 1984 under 25 per cent of the local labour force of the territories was employed in agriculture. This fall reflected the operation of a number of factors: attempts at competing in the local market with Israeli agriculture and releasing surplus labour; the attraction of higher wages from employment in Israel; the continuous pressure on the cultivated area posed by Israeli settlement policy. 36/ While employment in other local sectors grew steadily into the 1980s, its growth in industry was directly linked to subcontracting for Israeli industry. By 1984, 16 per cent of resident labour in the territories was in industry, 10 per cent in construction and over 48 per cent in other sectors (mostly in public services and commerce). 37/



27. Since 1967, an increasing proportion of the territories' labour force has been drawn into work in Israel. In 1970, the 21,000 Palestinians working in Israel constituted only 11 per cent of the territories' labour force, by 1979, the 74,000 workers commuting into Israel constituted 35 per cent of the labour force. The number and proportion seems, however, to have finally peaked in 1984, when 90,000 Palestinians were working in Israel, some 37 per cent of the territories' work-force. <sup>38/</sup> The Israeli demand for the territories' labour exhibits trends somewhat similar to those in the local labour market. The share of the territories' labour employed in Israeli agriculture fell from 24 per cent of the territories' labour employed in Israel in 1970 to 14 per cent in 1984. Employment of the territories' labour in Israeli industry rose in the 1970s to 23 per cent of those employed in Israel in 1979 but fell to 18 per cent in 1984. Construction activity has always been the main employer of the territories' labour in Israel. The share of the migrant labour force in this sector fell from its high of 54 per cent early in the 1970s to 48 per cent in 1984, a reflection of the Israeli recession.

28. Further light is shed on the migration process when the characteristics of the migrant labour force are examined. Consideration must be given to geographic factors, since West Bank and Gaza Strip workers in Israel exhibit certain differences in their migration patterns. Sectorally, it is found that a larger proportion of West Bank workers are employed in construction, while more of the Gaza Strip migrants are found in Israeli agriculture, trade and services. <sup>39/</sup> The absence of strong intersectoral mobility, even in the case of a move from local to Israeli employment, is confirmed when it is noticed that the largest proportion of West Bank labour in Israeli agriculture is, in fact, from the West Bank agricultural centres of Tulkarem and Jenin. Similarly, the largest proportion of migrant West Bank labour in Israeli industry comes from the industrial centres of Nablus and Ramallah. The resident labour force contains a much higher proportion of "white collar" occupational categories (22 per cent) <sup>40/</sup> than does the migrant labour force (5 per cent). Additionally, there is a larger proportion of unskilled production workers in the migrant labour force (43 per cent) than among the residents (22 per cent). An indication that difficult living conditions in the territories are a factor in the migration process is found in the relatively large proportion of migrants who have households larger than seven persons (61 per cent). Moreover, some 55 per cent of Gaza Strip migrants (though fewer of those from the West Bank) have only one earner in the household. Over 35 per cent of West Bank migrants also cultivate a farm, and most of those from the West Bank who do not cultivate a farm are one-earner families.

29. The above factors would seem to indicate that in addition to any "pull" effect of the Israeli economy on potential migrants, there are also the "push" elements which strengthen the dynamics of the process. These are primarily related to lower living standards, the pressures upon the subsistence levels of larger families, and the inability of the family farm to support the family. While the migration process is a necessary response to deteriorating economic conditions in the territories, it has had an important role in maintaining subsistence. This is achieved by channelling factor income into the local economy, providing resources for investment in agriculture, or allowing for the continued operation of farms which it might otherwise not be possible to maintain under prevailing circumstances.

H. Main sectoral developments 41/

30. The primary and secondary sectors naturally have been the first to be affected by the recession in Israel and the Arab region. While the dynamics of agricultural and industrial performance are to a great extent internally generated, trends in tertiary sectors, especially construction and trade, reflect, either directly or with a certain time lag, those in the two main productive sectors. Commercial activity is primarily related to the ability of the territories to trade with Israel and the rest of the world, whereas construction activity depends to a great extent upon the accumulated savings generated from several sources. 42/ It is, therefore, useful to examine developments in agriculture and industry in the light of the preceding analysis of the continuing slowdown in regional economic activity and the slump noticed in growth in the territories.

31. The immediate prospects of the territories' economy are largely determined by the course of agricultural development. As noted, agriculture continues to play a central role in domestic production. It is a major exporting sector and foreign exchange earner. It provides significant employment opportunities to the large rural population of the territories and absorbs redundant labour from other sectors in time of recession. 43/ Furthermore, agriculture has some significant "downstream linkages", especially with industry, providing the important raw materials for some of the main industrial branches in the territories (olive oil, soap and leather); it remains to be seen whether agriculture can realize its potential for encouraging further industrial expansion in such areas as food processing. However, agriculture is faced with especially significant policy constraints upon its development.

32. After more than a decade during which the territories' agricultural activity was generally growing (in output, value and productivity terms), the contribution of agriculture has begun to decline since the start of the 1980s. The major responsibility for this situation lies in the significant constraints upon agriculture created by Israeli policy. For instance, through a policy of production quotas for the most lucrative Palestinian crops, within the context of "integrated and comprehensive production planning for vegetable production in Israel, the West Bank and Gaza", the authorities are able to shelter Israeli farming competition from the territories. 44/ Additional obstacles, such as the lack of marketing facilities, credit or subsidized inputs and the unfavourably high cost of water, tend to further weaken local producers. On the whole, it has been reported that

"economic life in the occupied territories has become enmeshed in Israeli regulations, some used politically. Israeli restrictions on the export to Israel of West Bank and Gaza products, especially agricultural products, limits local market opportunities. While Jordan imposes market-protection limits on West Bank produce, export to Jordan is sometimes banned by Israel as punishment for a security incident". 45/

33. The decline in agriculture is depicted through several indicators. Cultivated area in the West Bank continued to decrease, from 160,057 hectares (ha.) in 1982 to 158,480 ha. by 1984. Though a small proportionate decrease, this is the first to bring total area below 160,000 ha. since 1967 and one which indicates a continuing downward trend

from the figure of 216,870 ha. in 1964. Most irrigated land is devoted to vegetables, melons and citrus. This proportion of total cultivated land fell by 8 per cent in 1984, after having risen slightly in 1983. 46/ "The taking of land by Israeli authorities for settlements, military use, and in connection with major road plans, and the reclassification of communal areas as State land, significantly affects the lives and economic activities of Palestinians." 47/

34. The strongest indications of agricultural decline are to be found in three sets of figures: total value of agricultural output (i.e. in the wholesale market), income originating in agriculture (net farm income after deduction of wages and inputs), and per capita (employed) value of output. These all point to a serious crisis developing in agriculture in the territories. Although the fluctuations have been aggravated on the one hand by the biannual olive crop production cycle and by the particularly poor rainfall in 1984, it remains obvious that the territories' agriculture is being subjected to severe pressures, both from internal and external sources. Thus, the value of output had by 1984 fallen back to its 1981 level of \$385 million, despite rises above that level in 1982 and 1983. 48/ The main crops to suffer between 1980 and 1984 and which consequently affected the overall performance of the sector were olives and non-citrus fruit plantations, whose value of output in this period fell from \$47 million to \$28 million and from \$56 million to \$39 million respectively. While net farming income rose in 1982, it declined in 1983 close to its 1981 level of \$303 million, falling further to \$249 million by 1984. Productivity, measured by value of output per employed person in agriculture, reflected this decline. From \$10,500 of output per employed person in 1980, the level rose by 1982 but has since fallen, reaching \$10,200 by 1984. There is no indication that this fall is related to the phenomenon of underemployment, which pertains to situations where labour can be withdrawn (or added) without a concomitant change in output. In the one year that employment rose (by 2,700 in 1982), there was a concurrent increase in the value of total and per capita output. As value of output and net farm income began to fall in 1983 and 1984, farmers exhibited rational behaviour by employing fewer wage labourers: employment fell from 39,600 in 1982 to 37,500 in 1984.

35. The overall structure of industry in the territories has not altered greatly in recent years, nor have its external links changed. Its contribution to domestic product has remained constant at some 7 per cent of GDP, and the branch distribution of units has not changed. 49/ Meanwhile, the marketing patterns of industry in the territories have been maintained: with Israel, through well-established subcontracting links, mainly in textiles and leather, and sales of occupied-territory-produced building materials, with Jordan, through exports of liquid margarine, olive oil, soap and construction stone, and local marketing of olive oil, soap, paper, cigarettes and food products. There are minimal intraterritory (West Bank and Gaza Strip) trade flows in both industrial goods and agricultural commodities. 50/ The picture of occupied-territory industry that emerges is one of a variety of mainly small-scale production units. These are labour-intensive in their production processes but absorb a relatively small number of the total employed, they have a low level of output 51/ with none of the basic, "leading" or technologically advanced industries that might be expected in a developing country. 52/ While initiation of new factories has been restricted since 1967 for political and economic reasons by the Israeli authorities, and some

localities have been declared "off-limits to development projects because of local security offences", 53/ Israeli policy towards industry in the territories is such that the special needs of a weak and unprotected indigenous sector with limited markets dominated by a strong Israeli industrial sector are not catered for. "The Palestinian industrial sector is unable to withstand Israeli competition. Moreover the industry has lately had to compete with Israeli enterprise located in the settlements enjoying far-reaching incentives and subsidies." 54/

36. There is evidence that the downturn in the Israeli and other economies of the region has begun to affect the territories' industrial sector. Most recently available figures indicate that the index for monthly revenue of industry in the territories, which averaged some \$9.2 million in 1984 in the West Bank and \$3.3 million in the Gaza Strip, had in the first half of 1985 begun to show signs of recession. The index had fallen from its base level of 100 in mid-1984 to 95 in the first quarter, regaining a level of 101 by mid-1985, the decline hit hardest at food and beverages, leather, wood products and building stone, all of which registered a fall in turnover. In the Gaza Strip, the index fell much more sharply, to 78 by mid-1985. There were no Gaza industries whose turnover had improved as of mid-1984, the branch with the greatest monthly value of output, subcontracted textiles and clothing, witnessed a fall in revenue of 40 per cent in 1984-85. Thus, through the contraction in local demand, the weakened export market, and the fall-off in Israeli industrial activity, the already existing constraints upon industrial growth in the occupied territories have in recent years been tightened due to the open and unprotected environment in which industry in the territories must operate.

#### Notes

1/ An authoritative Israeli observer has questioned the reliability of official data sources, describing macro-economic indicators for the territories as "inaccurate at best and misleading at worst" adding that "the 'national accounts' of the territories have no territorial basis" due to the inclusion of figures on Jewish settlers in the territories within those of the Israeli economy. See M. Benvenisti, 1986 Report: Demographic, economic, legal social and political developments in the West Bank, (Jerusalem, The West Bank Data Base Project, 1986), p. 5. An additional shortcoming arises from the omission of data on East Jerusalem in Israeli statistical series for the territories. These are included as part of official statistical series on the Israeli economy, and as such are not readily available for analysis.

2/ In A. Mansour, Palestine: Une économie de résistance en Cisjordanie et à Gaza, (Paris, Harmattan, 1983).

3/ For a full and up-to-date account of the operation of the military administration in the territories, see West Bank Data Base Project, West Bank Handbook, (Jerusalem, WBDBP, 1986).

4/ Compiled from Israel Defence Forces, Notices, Orders and Appointments, Judea and Samaria and Gaza District Areas (issues 1 - , June 1967 - ).

5/ An example of the alignment between Israeli and the territories economic legislation is found in the process whereby taxation in the territories is being gradually brought into line with that prevailing in Israel.

6/ Jerusalem Post, 15 February 1985.

7/ This is demonstrated by the manner in which all Israeli agricultural produce may be marketed in the territories, while Palestinian farmers have only limited entry of their output into the Israeli market, see section F below.

8/ The elasticity of Israeli demand for Palestinian labour in construction, for example, as compared to that for partially finished industrial goods of the territories are naturally different, linked as they are to different sectors in the Israeli economy. Thus, the effects of boom and recession will have a different impact in each of the (labour and industrial export) markets. For example, in recession, it is probable that Palestinian labour in construction will be affected before the textile and clothes subcontracting sector of the territories which itself is linked to the more crucial Israeli industrial export sector. The deeper the recession bites, the more sectors of the territories' economy (subcontracting, agricultural exports, private services) will be affected, depending upon their significance to key Israeli economic activities. The multiplier effect upon the territories' consumption levels (for local and imported goods), as a result of a fall in income from work in Israel, further complicates the process. This example helps to exhibit the extent to which economic conditions in the territories are directly influenced, if not determined, by fluctuations in the Israeli economy.

9/ See for example, T. Abdul Jaber, The Returnees from the Oil Fields, (Amman, Arab Thought Forum, 1986) (in Arabic).

10/ Strictly speaking, the issue of economic development in the territories cannot be divorced from the broader non-economic issues of self-determination, sovereignty and the promotion of national interests, which constitute the minimum requisite for the operation of any national economy. While this report neither can, nor intends to, discuss this major impediment to economic development in the territories, analysis of current economic conditions and trends must recognize this as a part of any effort to ameliorate conditions and resolve problems.

11/ Unless otherwise specified, the figures in this section are calculated from Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, CBS), Vol. XV, No. 2, December 1985, pp. 72-73 and 79-80. Unless otherwise mentioned, and in order to smooth out cyclical fluctuations and provide clearer trend analysis, growth rates quoted in this report are calculated as averages of annual quantity changes on the previous year (two year moving averages) based on constant 1980 prices.

12/ 1981 and 1983 figures are from Israel, Central Bureau of Statistics, Statistical Abstract of Israel 1985 (Jerusalem, CBS, 1985), p. 708.

13/ See R. Meron, Economic Development in Judea, Samaria and the Gaza District 1970-80 (Jerusalem, Bank of Israel, 1983).

14/ United States dollar figures have been calculated according to average annual exchange rates for the Israeli Shekel, in International Monetary Fund, International Financial Statistics (Washington D.C., IMF., 1985).

15/ Figures in this section are calculated from Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, CBS), Vol. XV, No. 2, December 1985, pp. 73 and 80.

16/ The following equations explain the relation between the different components as discussed below. The computations and designations do not adhere strictly to standard national income accounting.

$$GPY = GDP + FI + G + PT;$$

$$GDPY = GPY - T;$$

$$GDPY = GDP + FI + G + PT - (T);$$

where GDPY = Gross disposable private income;

GPY = Gross private income;

GDP = Gross domestic product;

FI = Factor income (from labour in Israel and abroad);

G = Government and local authority transfers and subsidies;

PT = Private transfers from abroad;

T = Indirect taxes on production, income tax and other transfers to Government and local authorities.

17/ Private transfers, mostly from Jordanian, Palestinian and other Arab sources, in addition to remittances from relatives, etc., declined between 1983 and 1984, from \$96 to \$84 million.

18/ It should be noted, however, that while GDP increased from 1983 to 1984, its rate of growth has followed a declining trend in recent years.

19/ Figures in this section on resource use, GDP, GNP, domestic capital formation and inflation rates are calculated from Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, CBS), Vol. XV, No. 2, December 1985, pp. 15-26, 67, 70, 73-74, and 77; population figures used to calculate per capita data are from Israel, Central Bureau of Statistics, Statistical Abstract of Israel 1985 (Jerusalem, CBS, 1985), p. 703; comparative per capita GDP figures are from UNCTAD, Handbook of international trade and development statistics, 1985 Supplement, (United Nations publication, Sales No. E/F.85.II.D.12), pp. 416-421.

20/ For the purposes of the present analysis, per capita GDP is a much more accurate indicator of the economy's ability to support its own population than is per capita GNP which reflects factors other than indigenous productive power. International statistical series also focus on GDP as a more representative measure of national income.

21/ The proportion is difficult to determine as figures for outlays in the territories appear as part of the overall Israeli Government budgetary transactions. Road, water, electricity and other networks are generally designed exclusively to serve Israeli settlements, often with no direct benefits accruing to the Palestinian population.

22/ Benvenisti, op. cit., p. 16.

23/ Figures in this section are calculated from Israel, Central Bureau of Statistics, Statistical Abstract of Israel 1985 (Jerusalem, CBS, 1985), p. 712.

24/ Jerusalem Post, 29 April 1986.

25/ Trade figures quoted in this section are calculated from: Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, CBS), Vol. XV, No. 2, pp. 6-7; Israel, Central Bureau of Statistics, Statistical Abstract of Israel 1985 (Jerusalem, CBS, 1985), p. 713; Israel, Central Bureau of Statistics, Administered Territories Statistics Quarterly (Jerusalem, CBS), Vol. XI, July-September, 1981, pp. 6-7; Israel, Central Bureau of Statistics, Statistical Abstract of Israel 1984, (Jerusalem, CBS, 1984).

26/ Certain of the territories' cash crops (cucumbers, tomatoes, eggplant, melons, etc.) which would compete with Israeli produce.

27/ This figure fluctuated between 60 per cent and 74 per cent between 1978 and 1984.

28/ Since the mid-1970s, the territories have been second only to the United States as importers of Israeli goods. Excluding Israeli exports of diamonds to the United States, the territories are the largest single market for Israeli exports. See, F. Gharaibeh, The Economies of the West Bank and Gaza Strip (Boulder, Westview Press, 1985), p. 110.

29/ Benvenisti, op. cit., p. 7.

30/ Data in this section is calculated from Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, (Jerusalem, CBS), Vol. XV, No. 2, pp. 27, 182, 184-5, and Israel, Central Bureau of Statistics, Statistical Abstract of Israel 1985 (Jerusalem, CBS, 1985), p. 725.

31/ Egypt, Jordan, and Yemen are three Arab countries which in recent years have benefited from this process. It should be noted that strictly speaking, Palestinians working in Israel are not "migrants" in that they reside in the territories and work in Israel - labour mobility is a more accurate description of the process.

32/ For an incisive examination of the patterns of migration from the territories and its economic causes and effects, see S. Gabriel and E. Sabatello, "Palestinian migration from the West Bank and Gaza: economic and demographic analyses", Economic Development and Cultural Change, Vol. 34, No. 2, January 1986.

33/ Comparisons with previous years' seasonal fluctuations indicate this possibility; the unemployment rate at the source of the recession, in Israel, was generally higher than in the territories throughout the period. It should be noted that local Palestinian sources quote higher levels of unemployment than those officially reported (Benvenisti, op. cit., p. 11). For a recent and illuminating discussion of unemployment figures, see International Labour Conference, Report of the Director General on the Situation of Workers in the Occupied Arab Territories, seventy-second session, (Geneva, ILO, 1986), pp. 20-21.

34/ See, for example "Women likely to be next victims of unemployment", Jerusalem Post, 19 January 1986. Along with other foreign workers in Arab oil-producing countries, Palestinians have been among the first victims of expenditure and employment cutbacks.

35/ Due to this crisis and the nature of trends in local human resource development (universities and technical training institutions, etc.), there has been a growing proportion of higher education graduates among the territories' unemployed labour force. See, for example, Arab Graduates' Club, Unemployed Graduates in the West Bank and Gaza Strip, a Statistical Bulletin, Jerusalem, 1985 (in Arabic).

36/ These issues are examined below.

37/ Other characteristics, including tenure, occupational, and demographic (educational/age/sex) features are not discussed in the present report.

38/ Data for the first two quarters of 1985 indicate a level lower than the same period for 1984, thus providing for a lower annual average. It is unfortunately not possible to analyse the characteristics of the undefined number of occupied-territory workers previously in Arab countries and whose return to the territories in recent years has aggravated the local employment situation.

39/ The following figures all refer to 1984 data.

40/ Scientific, professional, administrators and sales workers.

41/ As it will not be possible to review the situation of all sectors, attention is focused on agriculture and industry. Figures on agriculture are from: UNCTAD, "Review of the economic conditions of the Palestinian people in the occupied Palestinian territories" (TD/B/1065), and Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, (Jerusalem, CBS), Vol. XV, No. 2, pp. 97-103 and 107; Israel, Central Bureau of Statistics, Statistical Abstract of Israel 1984, (Jerusalem, CBS, 1984), p. 769. Employment figures are calculated from Israel, Central Bureau of Statistics, Statistical Abstract of Israel 1985, (Jerusalem, CBS, 1985), p. 725. Industrial data is calculated from Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, (Jerusalem, CBS), Vol. XV, No. 2, pp. 39-42 and from Israel, Central Bureau of Statistics, Statistical Abstract of Israel, 1985, (Jerusalem, CBS, 1985), pp. 736-7.

42/ These consist of income from local production and commercial activity, transfer payments and employment outside the territories. The absence of an indigenous central development planning mechanism with the authority to deal, in an orderly fashion, with the problems of housing tends to subject building activity to the vagaries of real estate speculation, the fluctuations of regional economic activity and the efforts of Palestinians to maintain a physical presence in the territories through building and owning their own houses.



43/ There is no evidence that this has decreased agricultural productivity in the short term, since it has been shown that some of the migrant workers leave agriculture not necessarily due to underemployment but also due to improved income possibilities through employment in Israel.

44/ Benvenisti, op. cit., pp. 9-10.

45/ United States, Department of State, Country Reports on Human Rights Practices for 1985 (Washington D.C., 1986), p. 1276.

46/ Benvenisti, op. cit., p. 9.

47/ United States, Department of State, op. cit. It is also reported by this source that "according to some calculations, Palestinians have been precluded from use of an area approaching 50 per cent of the West Bank land area and 15 per cent of the Gaza Strip, of which about one half is presently vacant and barren".

48/ These figures have been calculated from current prices of April of each year, converted to United States dollars according to the exchange rate prevailing in that month.

49/ There are sharp discrepancies between some data, especially on branch distribution, contained in the two major sources on this subject, that published annually by the Israeli Central Bureau of Statistics in Judea, Samaria and Gaza Area Statistics, and that published by UNIDO, in Survey of Manufacturing Industry in the West Bank and Gaza Strip (Vienna, UNIDO, 1984).

50/ This is discussed below, in the context of the review of conditions in the Gaza Strip.

51/ A recent Israeli study noted that "the combined output of (occupied territory) industries totals approximately \$150 million - equivalent to the production of one medium sized firm in the United States.", reported in Israel Economist, January 1986, p. 16.

52/ See UNCTAD document TD/B/1065, pp. 16-20.

53/ United States, Department of State, op. cit.

54/ Benvenisti, op. cit., p. 11.

## Chapter II

### PROMINENT ISSUES IN THE DEVELOPMENT OF THE OCCUPIED PALESTINIAN TERRITORIES

37. This section examines some of the issues of major significance to development in the territories. The approach followed is aimed at identifying issues which cannot be fully addressed by a sectoral analysis but which, nevertheless, merit attention as issues of major concern to occupied-territory inhabitants and are of relevance to their development. Through such intersectoral issues, further light can be shed on the effect of Israeli policies upon economic development in the territories. A review of the current economic situation indicates the prominence of two subjects: the economic ramifications of Israeli policies towards "devolution" and "autonomy" in the territories, and the special problems of an impoverished area of the territories, the Gaza Strip. Both of these issues have received much attention due to their immediate significance and long term policy implications.

#### A. Autonomy, devolution and development in the occupied territories

38. The preceding analysis of recent economic developments in the territories has revealed a number of pressing problems. Prominent among these are the narrowing local resource base, an over-dependence upon external sources of income, sectoral imbalances, low productive investment, and uncontrolled and unfavourable flows of trade and labour. It has also been explained how these problems are compounded by the absence of an indigenous authority capable of evaluating development needs and instituting the relevant remedies. Further, it has been suggested that amelioration of the development prospects of the territories is dependent upon the free operation of such local institutions vested with the authority required to plan and implement appropriate policies. All available information seems to suggest that the Israeli authorities have to date neither allowed such institutions to emerge nor taken that role upon themselves. Instead, local economic institutions and individual entrepreneurs have had to seek the aid of international agencies and private voluntary organizations, as well as Jordanian, Palestinian, and other Arab financial aid, in their attempts to mount local projects of a developmental nature. Because of the unco-ordinated and decentralized pattern of project formulation, funding and implementation, coupled with specific Israeli Government guidelines, the results have been minimal and have had diffused impact. <sup>55/</sup> Certainly, such diverse and disjointed efforts have not compensated for the absence of effective public developmental planning and funding.

39. Israeli policy in this sphere in recent years has received attention locally and internationally, especially in the light of Israeli declarations regarding measures to "improve the quality of life" in the territories. Originally conceived by United States Government officials, this phrase soon became symbolic of policy intentions announced by Israeli officials beginning in late 1984. <sup>56/</sup> The concomitant measures were expected to include steps on the local authority and social services level, as well as the approval of development projects, with the relaxing of restrictions on Arab and Palestinian funding for these and on currency flows from Jordan. <sup>57/</sup> This

orientation was regarded by most Palestinian and Arab sources and some Israeli analysts as part of a "pacification policy" for the territories, since Israeli policy in this regard was aimed at "permitting personal prosperity but forcibly restraining communal development". 58/ There was agreement among most Israeli observers that the new policies were part of an overall political initiative by the Israeli Government with regard to the territories. 59/ What is of concern, however, is how the authorities subsequently elaborated on the modalities of implementation of this policy. Developments to date indicate that despite the new Israeli policy intentions, the prospects for the Palestinian people in the occupied territories with regard to obtaining the authority and capacity to plan and manage their own economic development remain dim.

40. Commencing late in 1985, Israeli Government officials proposed several related concepts to describe their view of possible modalities for implementing their declared economic policy aims. It should be stressed that not only have these proposals been subject to changing political circumstances, but to date they effectively remain in their original status, i.e., that of proposals and not implemented plans. Yet, it is instructive to examine them for two reasons: first, they indicate what options for economic development in the territories are envisaged by the Israeli authorities; further, certain partial steps have been taken towards implementing these modalities and as such deserve attention.

41. The first of these concepts was referred to as a "condominium" power sharing arrangement in the territories between Israel, Jordan and the population of the territories, though little information is available regarding the practical aspects involved. 60/ This was soon elaborated upon with suggestions for the imposition of "unilateral autonomy" in some areas of the occupied territories: "In its framework, responsibility for internal affairs, education, health, sewage, sanitation and social services will pass to the local councils..." 61/ However, water resources, construction, land, transportation over the bridges and economic development would remain under direct Israeli supervision. 62/ Another version of this scheme was described as "devolution, or giving the inhabitants some measure of real self-government". 63/ The official conception of this latter process was not detailed; rather, a number of authoritative Israeli commentators advanced suggestions concerning the projects and measures that would have to be instituted to give the term some meaning. These included: different formulae for introducing an effective banking system in the territories, a land classification and settlement policy less detrimental to the Palestinian inhabitants, encouragement of foreign private investment, and other local authority and administration arrangements; 64/ halting settlement construction and road building, appointing Palestinian officials in local administrations and development of a local industrial infrastructure; 65/ "enabling the Arab community to intensify economic activity, including development of local banks and investment of external capital in industry and infrastructure". 66/ Further suggested measures included expanded Israeli aid for economic development, and encouraging extra exports from the territories to Arab countries. 67/ The most recent formula being studied by the Israeli Government is the application of "unilateral autonomy" or "devolution" to the Gaza Strip alone (in a proposal that was termed "Gaza first") through measures similar to those described above, and including the approval of a project proposal to establish a citrus processing factory in Gaza. 68/

42. The declared intention to initiate these measures indicates that the Israeli authorities are aware that their economic policy towards the territories has not satisfied the minimum requirements for their development. It is worth noting that the basic requirement for development specified above, i.e., the existence and free operation of indigenous economic development capacities and authorities, has not been addressed by the above proposals. Instead, notwithstanding any other changes that might occur in policy, the crucial aspect of occupied-territory development planning and project implementation remains the prerogative of the occupying power, with little or no scope for local influences and interests to come to bear upon that process. Further, it does not appear, for reasons external to the economic development process itself, that the "autonomy", "devolution" or other formulae are being implemented as such. Rather, certain associated steps have been taken to ease some restrictions upon monetary flows; attempts were made, though largely unsuccessfully, to appoint Palestinians to local authorities and administrations; and some UNDP-funded projects previously refused have now been approved. <sup>69/</sup> Meanwhile, the authorities embarked upon an effort to secure UNDP and United States Government funding for some \$600 million worth of development-oriented projects in the territories. <sup>70/</sup> To understand whether such steps represent any significant departure from previous policy, this latter initiative merits further examination. On the one hand, while the effort on the part of the authorities to raise funds is the first of its kind, Israel itself will not provide any of the proposed sum, since officials claim Israel "lacked the funds to launch such projects". <sup>71/</sup> Funding for the projects, of which some are productive but most are infrastructural, would only be accepted under certain conditions. According to the military government co-ordinator for occupied-territory affairs, "aid would be accepted only if it did not conflict with (Israel's) economic and security interests..." and "aid will not go to industries that compete with Israeli manufactures". <sup>72/</sup> Equally significant is the affirmation that the proposed projects "...do not form an overall economic development plan for the territories. Israel would examine the projects on a case-by-case basis, and leave their execution to Palestinians in the territories and the contributing agency.". <sup>73/</sup>

43. It is therefore indicative that those institutional and policy changes required to promote economic development do not seem to be envisaged by the authorities, and that the intended measures are not likely to alter the unplanned and unco-ordinated approach to development that has characterized the past years. More importantly, the authorities have affirmed that the overall policy guidelines and considerations of Israeli interests remain the same, and that Israel has no intention of bearing the cost of development in the territories. Meanwhile, Israeli settlement and industrial investment plans in the territories continue to be implemented. Palestinian control of infrastructure, such as local electricity supply and telecommunications, is increasingly facing integration into the Israeli system, and the building of road networks designed to serve Jewish settlement patterns and Israeli security interests continues unabated. <sup>74/</sup>

B. The Gaza Strip and the roots of impoverishment in the occupied Palestinian territories

44. The discouraging trends in economic development in the territories have been influenced by the range of factors mentioned at the outset, i.e., existing resources, the dynamics of Arab and Israeli economic developments and

Israeli policy towards the territories. If the economic development of the territories as a whole can be seen to be constrained by the effects of Israeli occupation and the circumstances this has given rise to, then the Gaza Strip represents a most striking embodiment of the impediments confronted. This section briefly reviews the prevailing situation in the Gaza Strip and highlights aspects unique to it which must be considered in any analysis of development problems and prospects in the territories. It is important to focus attention on this subject, both because of its own particular significance and uniqueness and due to the weight the Gaza Strip carries in overall occupied-territory development. In this latter regard, it is worth recalling the point made at the outset about the problems of analysing an economic unit (the occupied territories) which exists as a result of non-economic factors.

45. The special status of the Gaza Strip has been recognized recently by a number of observers and analysts. <sup>75/</sup> While the main criteria for classifying the Strip among the group of "least developed economies" do not apply, however, in terms of most indicators, it constitutes the least developed part of the territories and is close to the lower margin of developing countries and territories. <sup>76/</sup> In many respects, the weaknesses of the territories' economy are accentuated by the special weaknesses of the Gaza Strip economy.

46. The GDP of the Gaza Strip has been falling at an average annual rate of up to 3 per cent since 1980, a more accentuated trend than that noticed in the West Bank. <sup>77/</sup> This is primarily a result of an annual decline in the agricultural product, which has registered an average negative rate of some 4 per cent since 1978. The growth in manufacturing and services has not been strong enough to compensate. In 1984, the shares of agriculture and industry in GDP were 16 per cent and 11 per cent, respectively, and per capita GDP had reached \$555, its lowest point in many years and some \$300 below that of the West Bank. This decline began as of 1980, with per capita GDP falling at an annual average rate of over 2 per cent. The heavily populated Gaza Strip accounted in 1984 for 39 per cent of the total population of the territories, 6 per cent of its area and 26 per cent of its GDP. The dependency of the Strip on external sources of income is manifested in the share of factor income from abroad in GNP: 44 per cent in 1984, compared to 24 per cent in the West Bank. The balance-of-payments deficit of the Gaza Strip is similarly more accentuated than that of the West Bank. The small net surplus in goods and services that had existed prior to 1984 turned into a deficit in that year, mainly as a result of a fall in service payments, mostly wages. From an overall surplus position of \$20 million in 1983, the Strip registered a deficit of \$16 million in 1984. This was caused by a simultaneous fall in the surplus of income from wages from \$248 million to \$217 million, and the rise in its trade deficit from \$150 million to \$163 million between 1983 and 1984.

47. The possible gains to the territories from the growth, albeit minimal, in West Bank exports since 1978 were retarded by the fall in Gaza Strip exports in the same period. As a larger proportion of the Gaza Strip's goods are exported to Israel than is the case with the West Bank (83 per cent compared to 50 per cent in 1984), the fall in exports is not surprising in light of the slowdown in the Israeli economy. It is significant to note the extent to which the Gaza Strip and West Bank are isolated from each other in terms of

marketing of agricultural output. Most of the Strip's supply of agricultural goods is locally produced, with almost all of the rest originating in Israel. The situation is similar in the West Bank, which consumes an insignificant amount of the Gaza Strip's produce. Israeli production and markets prevent the development of any significant common marketing arrangements between the two areas.

48. Since 1980, the Gaza Strip has experienced a fairly constant level in the total value of its agricultural output, a fall in the share of agriculture in GDP and a relatively constant level of income to farmers originating in agriculture. Decreasing agricultural employment in the Strip helped to boost the value of output per person employed and kept net per capita (per farmer) income from agriculture constant in the period. By releasing hired labour, farm owners were able to withstand stagnation in agricultural sales and slightly improve their profit margins (i.e. value of output minus costs of inputs and wages) while the absolute level of profits remained constant. Yet, agriculture's critical condition continues to be manifested in a number of ways. Citrus fruit, a long-standing export earner for the Gaza Strip, has been in constant decline since early in the decade, when many trees were uprooted and the production of existing trees began to fall. <sup>78/</sup> Although the area concerned has been partially used for vegetable production, the markets for these crops are solely in Israel, whereas citrus exports afforded the Strip a greater degree of independence from the Israeli market and served as a source of foreign exchange. Further, Gaza Strip fishing, inherited from the pre-1948 Palestinian fishing industry, faces serious problems, due to limitations on fishing areas imposed by the authorities and pressures from the Israeli fishing industry. <sup>79/</sup> The fish haul for 1984/85 was only one third of that in the same season for 1983/84 (October-June), and the figure for the whole year will most likely be well below the low point reached in 1982/83 of 840 tons.

49. As indicated in chapter I, the figures for the Strip's average monthly industrial revenue in 1985 show a sharp fall in all branches. Coupled with the continuing agricultural decline, this could combine to bring Gaza Strip's GDP to an even lower level in 1985. The once prominent traditional industries, such as pottery and weaving, have given way in recent years to small-scale subcontracting textiles, clothing and construction related workshops dealing mainly with Israeli industrial enterprises.

50. Because of the Gaza Strip's inherently weaker industrial infrastructure and an agricultural sector more dependent than the West Bank upon exports to Israel, the proportion of its labour force employed in Israel is larger than that of the West Bank. <sup>80/</sup> Whereas this proportion for the West Bank rose from 30 per cent in 1979 to 33 per cent in 1984 and fell back to 31 per cent in mid-1985, the figures for the Gaza Strip were 43 per cent in 1979, increased to 46 per cent in 1984 and stayed at this level during the first half of 1985. While the number of West Bankers employed in Israel started to fall in 1984, that of Gazans has exhibited a slight increase. Thus, the official Gaza Strip unemployment rate has remained significantly lower than that of the West Bank since the 1970s. However, the migrant Gaza Strip labour force is differentiated from that of the West Bank by its greater degree of employment in agriculture and trade, transport and services in Israel, as well

as the higher proportion with large families to support and with only one earner in the family. Furthermore, fewer Gaza Strip migrants also cultivate a farm than is the case with West Bank migrant workers, because a greater proportion among them are refugee camp inhabitants or dispossessed peasants.

51. Not all aspects of the low level of Gazan development can be covered here, especially those related to infrastructure, institutional development and social structure. In contrast with the West Bank, the Gaza Strip is increasingly being noted for its poorer natural resource base, an inordinately high degree of population density, its lack of an indigenous tourist and developed commercial sector, complete dependence upon Israel for its electricity supply, a greater degree of isolation from the Arab world, and a weaker level of municipal, local-authority and other services, including research and academic institutions. The Gaza Strip's social structure has been more profoundly affected by the consequences of the Palestinian refugee problem, with a greater proportion of its population composed of 1948 refugees from Palestine than in the West Bank. Furthermore, whereas West Bank inhabitants can benefit from the possession of full Jordanian citizenship, almost all of Gaza's population remain stateless, possessing only refugee travel documents. All of these factors have played their role in the creation of economic conditions, structures and relations beset by a host of problems which continue to demand international attention. Such concern, it is hoped, could result not only in an amelioration of present circumstances, but in establishing sound and viable bases for the eventual economic development and future prosperity of the inhabitants of the occupied Palestinian territories.

#### Notes

55/ It has been argued that the pattern of official approval of United States private voluntary organizations' project proposals indicates an Israeli discouragement of productive projects in favour of infrastructural and social-service-oriented ones in order to reduce the budget burden upon the Israeli authorities (M. Benvenisti, United States Government Funded Projects in the West Bank and Gaza (1977-83), (Palestinian Sector) (Jerusalem, West Bank Data Base Project, 1984)).

56/ Ibid., pp. 1-2.

57/ Haaretz, 19 October 1984 (in Hebrew).

58/ Benvenisti, United States Government Funded..., opinions on the subject of a group of academics and community leaders from the territories were published in Sawt al Bilad, 17 November 1984 (in Arabic).

59/ See comments in Haaretz, 12 October 1984, 22 October 1984, Maariv, 23 October 1984, Al Hamishmar, 26 October 1984 (in Hebrew).

60/ Certain details were published in Haaretz, 30 October 1986 (in Hebrew), also see S. Avineri in Jerusalem Post, 9 January 1986.

61/ Al Hamishmar, 17 January 1986 (in Hebrew).

62/ Davar, 16 February 1986 (in Hebrew).

63/ Jerusalem Post, 16 February 1986.

64/ Jerusalem Post, 9 January 1986.

65/ Jerusalem Post, 16 February 1986.

66/ Jerusalem Post, 27 February 1986.

67/ Jerusalem Post, 10 March 1986.

68/ Ibid. and Haaretz, 4 March 1986.

69/ See Jerusalem Post, 4 February 1986; Al Fajr, 7 February 1986

70/ Jerusalem Post International Edition, 29 March 1986.

71/ Ibid.

72/ Jerusalem Post International Edition, 12 April 1986.

73/ Ibid.

74/ Serious problems emerged in 1985-1986 in relations between the Palestinian-owned Jerusalem Electricity Company and the Israeli authorities, and were widely reported in the local press. For details on West Bank telephone networks, see Jerusalem Post, 28 February 1986; for discussions on road networks see Davar, 17 January 1986, (in Hebrew) and Al Fajr, 11 April 1986. New industrial investments to serve Israeli settlements in the Hebron area were announced by Israeli officials in Jerusalem Post, 20 May 1986.

75/ This is reflected in the recent appearance of a number of publications whose titles indicate a prevailing view of the Strip's conditions: Ann M. Lesch, The Gaza Strip: Heading Toward a Dead End, Universities Field Staff International, Reports No. 10 and 11 (1984); Ann M. Lesch, "Gaza: Forgotten Corner of Palestine", Journal of Palestine Studies, Vol. XV, No.1, Issue 57, Autumn, 1985; Richard Locke and Antony Stewart, Bantustan Gaza (Zed, London, 1985); Joan Mandell, "Gaza: Israel's Soweto", MERIP Reports, Nos. 136/137, Vol. 15, Nos 8/9, October-December 1985; "Gaza: the Invisible Land", New Outlook, December, 1985; Sara Roy, The Gaza Strip: A Survey (West Bank Data Base Project, Jerusalem, May 1986).

76/ For recent LDC eligibility criteria, see "Identification of the least developed among the developing countries" (E/AC.54/L.107), April 1981.

77/ Figures here and in the following paragraphs are calculated from Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Jerusalem, Vol. XV, No.2, December 1985.



78/ This was due to a number of factors, including pressures upon common subterranean water resources posed by Israeli settlements, the special problems faced by smaller farmers in the southern part of the Gaza Strip, Israeli regulations forbidding planting of new trees, and incentives offered by Israeli marketing agencies for the shift into vegetable production. See Lesch, "Gaza: Forgotten Corner ...", pp. 47-48, Middle East International, 7 February 1986, Mandell, op. cit., pp. 12-13.; Al Fajr, 18 October 1985.

79/ See Mandell, op. cit., pp. 13-14; Al Fajr, 7 June 1985.

80/ For an interesting insight into some of the individual experiences of Gazan small-scale industrialists and migrant labourers, see Al Fajr, 4 October 1985, 11 October 1985 and 18 October 1985.



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Item 2 of the provisional agenda

SPECIFIC MATTERS ARISING FROM THE RESOLUTIONS, RECOMMENDATIONS  
AND OTHER DECISIONS ADOPTED BY THE CONFERENCE AT ITS  
SIXTH SESSION REQUIRING ATTENTION OR ACTION BY THE BOARD AT ITS  
THIRTY-THIRD SESSION

Recent economic developments in the occupied  
Palestinian territories

A review of the work completed by the Special Economic Unit  
(Palestinian People)

Corrigendum

Paragraph 9, seventh line

For 56 per cent read 70 per cent

Paragraph 10, nineteenth line

For 1.8 per cent read -1.8 per cent

Paragraph 15, sixth line

For (\$1,003) read (\$893)

Paragraph 18, thirteenth line

For deficit read "debit"

Paragraph 23, first line

For 71 and 82 per cent read 79 and 88 per cent

Paragraph 25, sixth line

For 1980 read 1979

Paragraph 27, third line

For 11 per cent read 12 per cent

Paragraph 28, fourteenth line

For 22 per cent read 32 per cent

Paragraph 28, seventeenth line

For 22 per cent read 10 per cent

Paragraph 34, seventh line

For biannual read biennial

Paragraph 35, third line

For 7 per cent read 8 per cent