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Palestinian external trade under Israeli occupation

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Palestinian external trade under Israeli occupation

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EXPLANATORY NOTES

- The term dollar ($) refers to United States dollars.
- The term JD refers to Jordanian dinars.
- The term NIS refers to new Israeli shekels.
- An oblique stroke (/) between two years, e.g. 1980/1981, signifies a fiscal or crop year.
- Two dots (..) indicate that the data are not available, or are not separately reported.
- A dash (-) indicates that the amount is nil or negligible.

PREFACE

(i) An important feature of the economy of the occupied Palestinian territory (West Bank and Gaza Strip) until 1967 was its long-standing international trade links. Historically, the West Bank had supplied neighbouring Arab markets with certain commodities and manufactured goods for which there was a stable demand. Similarly, some exports from the Gaza Strip became well established in a number of European markets. The options for developing external trade remained flexible in so far as direct commercial links could be established and maintained with a number of import and export markets, both regionally and internationally.

(ii) This relative "freedom of choice and exchange" has been systematically altered by the cumulative effect of a set of regulations and procedures promulgated during the past 21 years of Israeli occupation. Existing institutions and arrangements for the promotion of trade have been amended, replaced or totally suspended. The Palestinian people have thus been progressively denied the opportunity to play any role in the formulation and implementation of policies and measures aimed at promoting and developing their trade. The net result of all this has been the emergence of an external trade sector subjected to Israeli economic interests and operating under severe conditions of occupation.

(iii) As part of the 1988-1989 work programme of UNCTAD, this study constitutes the second in-depth investigation into the Palestinian economy, following the secretariat's previous study of the Palestinian financial sector under occupation (UNCTAD/ST/SEU/3). The study investigates various aspects of Palestinian external trade. It examines the problems encountered during the 21 years of occupation and analyses the role of trade in the Palestinian economy and the factors that have contributed to the gradual deterioration of Palestinian trade. Special emphasis is given to a thorough analysis of the potentials for international trade and the policies and measures needed to revive the role of external trade in the occupied territory and enhance its contribution to the growth and development of the Palestinian economy. The study is based on data from official sources, published and unpublished reports, studies and other references, as well as from field information, covering developments until the end of 1988, compiled as part of the research requirements for the study.

(iv) The study comprises five chapters. Chapter I provides an overview of the Palestinian economy under Israeli occupation. The purpose of the chapter is to familiarize the reader with some of the fundamental aspects of the Palestinian economy and the constraints that have affected the development of Palestinian trade. It analyses the aggregate performance of the economy, especially since 1980, by focusing attention on output, consumption, savings and investment, as well as developments in major sectors. To the extent possible, attention is paid to the obstacles that have hindered the vital interaction of trade with other sectors, thus minimizing its contribution to economic growth and development.

(v) Chapter II analyses the aggregate performance of the Palestinian trade sector. Following an examination of the significance of external trade, attention is focused on the contribution of trade to national income and the balance-of-payments position, with a thorough coverage of merchandise and service trade as they have evolved under 21 years of occupation.

(vi) Chapter III examines the factors that have gradually affected the overall performance of the Palestinian external trade sector. It commences with an analysis of structural considerations by looking into such issues as resource endowments, commodity composition, product characteristics and market determinants. This is followed by an examination of infrastructural requisites including institutional and physical facilities, human resources and capabilities, and the myriad of regulations and procedures vital for the efficient performance of the external trade sector. Special consideration is given to Israeli policies and practices that directly or indirectly affect the role and performance of Palestinian trade. The chapter is concluded by an examination of the occupied territory's trade with the Arab countries and other developing countries, as well as with developed market and socialist economies.

(vii) Chapter IV concentrates on an examination of prospects for the development of Palestinian trade by looking into such determinants as factor endowment and its utilization, institutional capacities, comparative advantages and complementarities at the subregional and regional levels. Emphasis is placed particularly on the expansion and development of a range of agricultural and industrial products, as well as on certain services that have traditionally served as a source of livelihood for the Palestinian people and contributed to their national income.

(viii) Chapter V assesses the relevance of policies and measures in some crucial areas with a view to promoting Palestinian external trade. In the light of the findings and conclusions emerging from the study and the realities of the situation manifested under prolonged occupation, an attempt is made to propound some feasible recommendations aimed at ameliorating the performance of the territory's external trade. It covers such issues as legal, administrative, structural and technical considerations, access to markets and infrastructures comprising mainly, physical, institutional and human resource requirements.

(ix) The study is issued under the symbol UNCTAD/RDP/SEU/1 instead of the symbol UNCTAD/ST/SEU/7 referred to in document TD/B/1183.

Chapter I

THE ROLE OF TRADE IN THE PALESTINIAN ECONOMY

1. Prior to engaging in an analysis of Palestinian trade performance, its determinants and prospects, an attempt is made to briefly examine the overall trend of economic development in the occupied Palestinian territory of the West Bank and Gaza Strip. 1/ This introductory review of the main economic sectors and their position *vis-à-vis* neighbouring economies sets the scene for the subsequent examination of the contribution of trade to the Palestinian economy and the issues associated with its long-term prospects and potentials.

A. Salient features of the economy

1. Occupation and the emergence of a fragmented economy

2. The potentials for sustained development of the Palestinian economy have been constrained by a process of transformation unaccompanied by the requisite policies and measures to absorb and regulate the pressures of readjustment. The economy has performed through arbitrary impulses often alien to its own interests. This state of affairs has been aggravated by restrictive Israeli policies *vis-à-vis* Palestinian economic activities. Though transformations pre-date the occupation of the territory in 1967, the path of change has been qualitatively and quantitatively different since then.

3. Israeli occupation brought to bear upon the Palestinian economy a host of pressures which adversely affected its development process, resulting in a steady decline in traditional branches without parallel encouragement for real growth in modern sectors. The effects of occupation and of consequent measures were to, *inter alia*, reduce agricultural employment opportunities; encourage the flight of labour from the traditional sector into labour-intensive sectors of the Israeli economy; neglect the needs of the Palestinian productive sector or reorient them towards serving Israeli production and consumption interests; and control trade channels in a manner that ensured Israeli domination of Palestinian trade. These measures were profoundly felt by the small and unsophisticated Palestinian economy, confronted since its occupation in 1967 with the challenge of competing on unequal and unprotected terms with the articulated, highly capitalized and technologically advanced economy of Israel.

4. The mechanisms whereby the local economy might be better planned, regulated and supported have been eroded over 21 years of occupation. While power over economic management has been assumed by the Israeli occupation authorities, the latter have not assumed the concomitant responsibilities. The exclusion of the Palestinian people from authority and responsibility over their own economy covers a wide range of functions: industrial and commercial licensing and regulation; agricultural production planning (cultivation and planting quotas, marketing contracts, water distribution and input provision); trade régimes and procedures (tariffs, levies, import and export licensing, etc.); industrial, agricultural, trade and other credit facilities, in both the private and government sectors; agricultural, industrial and residential land use and construction; the development and provision of public utilities and infrastructures; and the establishment of appropriate public services. The increasing concentration of such activities within the jurisdiction of the Israeli military authorities continues to inhibit economic performance and potentials in the occupied Palestinian territory.

5. The economy that has thus emerged in the occupied Palestinian territory is subject to a range of pressures and weaknesses and sorely lacks the sense of purpose and direction that can be imparted by an active indigenous central authority. In these circumstances, a stable and rational development path and concomitant policies and measures cannot emerge spontaneously. While increases in production, per capita income, living standards or other growth indicators are at times discernable, these do not reflect the emergence of a sound indigenous basis for the sustained growth and development of the Palestinian economy. Today, the problem runs deeper than delineating the complex web of Israeli policies and measures which inhibit or simply ignore Palestinian economic development. The adverse effect of these policies, the impact of 21 years of unequal competition with the Israeli economy and the inability to further develop the territory's historical economic relationship with the Arab hinterland have combined to shape a new Palestinian economy. It is an economy which is fragmented, lacking internal consistency, and forcibly prevented from taking its own affairs into hand and forging the most appropriate development path through the effective mobilization of the human and natural resources at its disposal. 2/

6. The problems that have plagued the Palestinian economy under Israeli occupation have acquired fresh urgency and significance since the beginning of the uprising (intifada) in the occupied territory in December 1987. By the end of 1988, there were few indications that the Israeli authorities intended to rescind restrictions affecting Palestinian development, including those instituted since the beginning of the year. The main concern of Israeli official sources and other commentators regarding the economic effects of the uprising was the damage to the Israeli economy (mainly in agriculture, construction, services and industry) as a result of Palestinian labour absenteeism and the reduced market for certain Israeli exports which feature prominently in Palestinian markets (especially textiles, foodstuffs and other consumer goods). 3/ This concern was prompted by indications that, as a result of the uprising, the overall fall in Israeli economic growth in 1988 could reach over 2 per cent, while other estimates indicated that by the end of 1988 the total cost of the uprising to Israel would reach over $1 billion. 4/ This cost was attributed to increased security costs and declines of 15-20 per cent in Israeli tourism revenues, 20-40 per cent in construction activities and over 3 per cent each in output of agriculture and industry, as well as indirect costs caused by manpower shortages arising from extra duty in the Israeli armed forces. 5/

7. No comparable figures were made available to evaluate the costs to the Palestinian economy of the losses incurred, though these appear to have been significant. As pointed out in a report by the Director General of the ILO, "the cumulative cost may well, however, be proportionately much higher and harder to bear for the Palestinian economy in the occupied territories, for obvious reasons ... connected with the unequal strength of the two economies, the relationship of dependence and the effects of domination that have been intensified by the restrictive measures of all kinds applied since the beginning of the uprising." 6/ Few areas of the economy have been spared: 7/ factor income from labour in Israel has fallen; there has been a freeze in Israeli demand for Palestinian tourist and other services; agricultural and industrial production has been disrupted; savings have been diverted to cover consumption; income levels and purchasing power have fallen; local and export trade has been reduced; and the weak informal domestic financial system is

facing renewed pressures. These disruptions of the Palestinian economy resulted from the interplay of various Palestinian initiatives directed against Israeli occupation and the Israeli authorities' efforts to control the situation by instituting emergency and/or provisional measures (see chapter III, section C.6). The net result to date has been a further tightening of long-standing restrictions on Palestinian economic development and a marked deterioration in living conditions and economic activity.

2. Aggregate economic performance and indicators of structural change

8. The growth of the Palestinian economy since 1967 has been marked by uncertainty, sluggishness and perennial fluctuations. Despite increases in domestic production, growth has been fuelled mainly from external sources, especially factor income, as payments to labour employed abroad, and unilateral transfers (i.e. remittances and international aid). These are subject to regular changes in scale due to factors mostly beyond the control of the Palestinian economy itself. One of the clearest trends that has emerged since 1967 is the falling contribution of domestic output to gross national product (GNP). Whereas gross domestic product (GDP) constituted 98 per cent of GNP in 1968, its share fell to as low as 66 per cent in 1983 and gradually recovered to 75 per cent by 1986, its highest point since the early 1970s (see table 1). 8/

9. Due to fluctuations in the absolute level of GDP, its annual rate of growth fluctuated during the period 1980-1985 between a low of -9.7 per cent and a high of 5.6 per cent, equivalent to an annual average rate of growth of -1.8 per cent. The high degree of instability exhibited by these and other figures reflects, inter alia, the impact of prolonged and successive waves of inflation experienced in the Israeli economy until 1985. This phenomenon, directly transferred to the occupied territory through a number of factors (especially wages and imports from Israel), has acted to distort Palestinian domestic price levels and consequently to undermine the real value of earnings and output. 9/ The unpredictability of the growth path was highlighted dramatically in 1986, the latest year for which data are available, when a record olive crop in the West Bank, accompanied by a recovery in the Israeli economy and related sectors of the Palestinian economy, encouraged an estimated 58 per cent growth in GDP, at current prices, from under $1 billion in 1985 to almost $1.5 billion in 1986. However, disturbances in the domestic economy related to the Palestinian uprising since December 1987 are expected to have reduced domestic output. The impact is likely to be strong in sectors linked to Israel (e.g. sub-contracting industry, tourism and services) and those dependent on private savings (e.g. construction), and possibly less so in relatively isolated branches (especially agriculture and food processing industries) which can also provide alternative sources of subsistence and economic activity during the uprising.

Table 1. Occupied Palestinian territory (West Bank and Gaza Strip)
Industrial origin of gross domestic product at factor cost, 1968-1986 (selected years)
(Thousand new Israeli shekels, million United States dollars and percentages a/)
(Current prices)

	Agriculture	%	Industry	%	Construction	%	Public Serv.	%	Trade/transport	%	GDP Total	%	GNP	GDP as % of GNP
1968														
(NIS)	16		3		1		9		17		46		47	
(US$)	46	34	9	7	3	3	26	19	48	36	131	100	134	98
1975														
(NIS)	102		29		56		54		104		344		474	
(US$)	161	29	46	9	88	16	85	16	164	30	543	100	748	73
1980														
(NIS)	1,763		407		846		690		1,645		5,350		7,270	
(US$)	346	33	80	7	166	16	135	13	323	31	1,050	100	1,425	74
1981														
(NIS)	3,182		792		1,961		1,741		3,127		10,802		15,517	
(US$)	279	30	69	7	172	18	153	16	275	29	948	100	1,361	70
1982														
(NIS)	6,407		1,710		4,511		3,832		7,716		24,317		36,541	
(US$)	264	26	70	7	186	19	158	16	318	32	1,001	100	1,504	67
1983														
(NIS)	14,027		4,564		10,601		10,310		19,362		58,864		89,701	
(US$)	249	24	81	8	189	18	183	17	345	33	1,047	100	1,596	66
1984														
(NIS)	54,038		22,630		51,225		60,132		101,862		289,917		416,126	
(US$)	184	19	77	8	175	18	205	21	347	35	989	100	1,419	70
1985														
(NIS)	221,277		89,851		189,325		193,930		420,109		1,114,492		1,540,550	
(US$)	188	20	76	8	161	17	165	17	356	38	945	100	1,307	72
1986														
(NIS)	677,492		192,752		350,255		263,824		738,271		2,222,594		2,948,398	
(US$)	455	30	130	9	235	16	177	12	496	33	1,494	100	1,982	75

Sources:
(1) Israel, Central Bureau of Statistics, Administered Territories Statistical Quarterly, Vol. IX, No. 2, (Jerusalem, C.B.S., 1979), pp. 63, 65, 69 for 1975 figures; (2) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, C.B.S., 1985), Vol. XV, No. 1, Tables 6 and 13, pp. 168 and 175 for 1980-83 figures for GDP; (3) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1985), p. 711 for GNP figures for 1980-83; (4) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1987), pp 705 and 707 for all figures for 1968 and 1984-86.

All figures originally expressed in Israeli currency have been converted into United States dollars using the average annual exchange rate as quoted in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = US$1 in 1968 to NIS 1.4878 = US$1 in 1986.

a/ Decimal percentage points are rounded up to the nearest figure.

10. While a process of structural change in the Palestinian economy can be discerned since occupation, it has taken place under turbulent conditions and in a distorted manner. The overall position of the agricultural sector, which has traditionally served as the backbone of the Palestinian economy, has declined sharply since the onset of occupation. Its share in GDP fell from some 34 per cent in 1968 to a low of 20 per cent in 1985, rising again to 30 per cent in 1986 owing to the exceptionally good olive harvest. In value terms, agricultural production showed an increase during the first decade of occupation, though estimates of the scale of its growth differ somewhat. While official statistics indicate an average annual growth in value of 15 per cent, field surveys put the rate closer to 11 per cent and ascribe it primarily to a rise in the real price level of major agricultural commodities as a result of exposure to the more developed Israeli economy. 10/ In the 1980s, however, agriculture showed signs of deepening stagnation, with the value of output falling at an annual average rate of 6 per cent during the period 1980-1985. Though the path has been unsteady, with occasional upturns in the downward trend, Palestinian agriculture has lost the prominence it once enjoyed as the prime source of employment, income and "tradeable goods".

11. This gradual decline and reorientation of agriculture has not been offset by any parallel growth in and transformation of the industrial sector over the 21 years of occupation. Industry's share in GDP has remained low, fluctuating between 7 and 9 per cent since 1967, while growth in output was negative during the period 1980-1985. Thus, the value of industrial output fell from $80 million in 1980 to $76 million by 1985, having reached a low point of $69 million in 1981. As in agriculture, the annual growth rate of industrial production has fluctuated between a high of 16 per cent in one year and -14 per cent in another. During the 1980-1985 period, the average annual growth rate of industrial output was negative at -0.6 per cent. Only in 1986, when the Palestinian economy began to show signs of recovery from a deepening slump, did industrial production also pick up, with the value of industrial output, including processed olive oil, surging from $76 million to $130 million in one year. Uncertain conditions since then, including the effects of the uprising, do not allow further evaluation of whether that year's unusual performance heralds the emergence of a growth path stimulated by a successful sectoral readjustment after a long period of stagnation.

12. The relative stagnation of industrial and agricultural output in the occupied territory has been only slightly compensated for by activity in other sectors. The major change since the onset of occupation has been in construction, whose share of GDP rose from around 2 per cent or a value of $3 million in 1968 to an average annual share of 17 per cent in the 1980-1986 period amounting to an annual average of $183 million. The average annual growth rate in construction was around 7 per cent during the period 1980-1986, though it was the first years of this period in which construction activity boomed. The significant performance of this sector has been the result of a range of factors, at their forefront the need to meet severe housing shortages, weaknesses in local financial intermediation, the uncertainties and/or obstacles surrounding investment in productive and "growth-inducing" sectors, and the need to protect earnings from the vagaries of Israeli inflationary pressures transferred to the territory through a variety of factors (including labour and wages, raw materials and other production factors, imported consumer goods, etc.). 11/

13. Other sectors have also changed in relative prominence. The share of public services in GDP fell from 19 per cent in 1968 to an average annual figure of some 16 per cent during the 1980s. Growth in this sector has been positive in most years since 1980, at an average annual rate of 5 per cent, reflecting the relatively predictable level of social services provided in the territory given the steady population growth and increasing needs for such services. Output in trade, transport and private services (grouped statistically as one sector) has also recorded relatively steady growth during the period 1980-1986, at an annual average rate of some 8 per cent. However, the sector's share in GDP fell from 36 per cent in 1968 to an annual average of 33 per cent during the period 1980-1986, while the value of sectoral output rose from $165 million in 1975 to $500 million in 1986.

14. The unstable and highly sensitive nature of the domestic Palestinian economy is further illustrated in the relation of external sources of income to GNP and to total national disposable income (see table 2). The growth in net factor income, generated by resident Palestinian migrant labourers working in Israel and elsewhere, has been steady and significant throughout most of the occupation period, especially since the mid-1970s. The share of factor income in GNP has been in the range of 24 to 30 per cent since the mid-1970s. In terms of United States dollars, factor income, most of which is earned in Israel, more than doubled in the past decade, from $232 million in 1977 to $488 million in 1986. This latter figure had been surpassed earlier in the 1980s, when factor income reached a record figure of $548 million in 1983, equivalent to 33 per cent of the territory's GNP.

15. Similarly, the dependence of the occupied territory on unrequited transfers from abroad in the form of migrants' remittances and international aid and their position in the territory's balance of trade and payments exhibits the inability of the domestic economy to sustain itself without recourse to external financial flows. Transfers have been an important source of income throughout the period of occupation, equivalent to $51 million in 1968, or some 27 per cent of the territory's gross national disposable income (GNDI). The significance of transfers was greatest early in the 1980s, when Arab and non-Arab aid was readily available and prosperity in Arab oil-producing States generated considerable remittable income to Palestinian expatriate labour in those countries. The value of transfers grew to a high of $120 million in 1981, or 8 per cent of GNDI. However, the fall in demand in manpower in the Arab oil-producing States since, and the increase in domestic output in 1986, brought the share of transfers in GNDI down to under 5 per cent since 1985. Nevertheless, the role of external financial resources in the Palestinian economy remains predominant. Since 1968, the annual share of transfers and factor income combined in GNDI has fluctuated between 27 and 37 per cent, underscoring the growing dependency and vulnerability of the Palestinian economy owing to its inherent incapacity to generate domestic resources for growth and development.

16. The impact of absenteeism connected with the uprising on the level of factor income in 1988 cannot be gauged yet, though a significant fall may be expected. Similarly, recent Israeli restrictions imposed on the movement of funds into the territory will be felt in the level of transfers reaching the economy. This might be partially offset by the growth in international aid to the territory. Of special interest is the extent to which the balance between

Table 2. Occupied Palestinian territory (West Bank and Gaza Strip)

Gross domestic product, factor income, gross national product, current transfers, national disposable income, 1980-1986

(Columns (1) to (5) in thousand new Israeli shekels and million United States dollars)

(Current prices)

	Gross domestic product (GDP)	Net factor income	Gross national product (GNP)	Net current transfers	Gross national disposable income	Population (000's)	Per capita GNP (US$)	Factor income as a percent of GNP (%)	Factor income and current transfers as a percent of gross national income disposable (%)
	(1)	(2)	(3) = (1)+(2)	(4)	(5) = (3)+(4)	(6)	(7) = (3)/(6)	(8) = (2)/(3)	(9) = (2)+(4) / (5)
1968									
(NIS)	46	1	47	18	65				
(US$)	131	3	134	51	185	940	143	2	29
1977									
(NIS)	724	243	967	89	1,056				
(US$)	692	232	924	85	1,009	1,147	805	25	31
1980									
(NIS)	5,489	1,920	7,409	584	7,993				
(US$)	1,076	377	1,453	114	1,567	1,180	1,230	26	31
1981									
(NIS)	11,198	4,715	15,913	1,364	17,277				
(US$)	982	414	1,396	120	1,516	1,201	1,160	30	35
1982									
(NIS)	25,546	11,232	36,778	2,326	39,104				
(US$)	1,051	462	1,513	96	1,609	1,227	1,235	31	35
1983									
(NIS)	62,312	30,803	93,115	5,040	98,155				
(US$)	1,109	548	1,657	90	1,747	1,266	1,310	33	37
1984									
(NIS)	312,301	126,207	438,508	26,267	464,775				
(US$)	1,065	431	1,496	90	1,586	1,303	1,150	29	33
1985									
(NIS)	1,177,842	426,060	1,603,902	71,586	1,675,488				
(US$)	999	361	1,360	61	1,421	1,342	1,015	27	30
1986									
(NIS)	2,321,157	725,804	3,046,961	111,335	3,158,296				
(US$)	1,560	488	2,048	75	2,123	1,381	1,480	24	27

Sources:
(1) Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, C.B.S., 1985 , 1986 and 1987), pp. 708, 688 and 706 for figures for 1981, 1982 and 1983, and 1968 and 1984-86, respectively; (2) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Vol XV, No. 1, (Jerusalem, C.B.S., 1985) pp. 164 and 171 for figures for 1977 and 1980 respectively; (3) Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, C.B.S., 1987) p. 701 for population figures (end-of-year estimates).

All figures originally expressed in Israeli currency have been converted into United States dollars using the average annual exchange rate as quoted in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = US$1 in 1968 to NIS 1.4878 = US$1 in 1986.

domestic and external income sources might change as a result of the structural reorientations witnessed during the uprising in 1988, thus providing indicators of the potential of the Palestinian economy to transform the patterns and direction of its development through enhanced self-reliance.

3. Consumption, savings and investment

17. The relatively favourable rates of growth in personal income during much of the period under review reflect the availability of external sources of income and are not rooted in the domestic Palestinian economy. Per capita GNP grew steadily through the 1970s to reach $1,230 in 1980. Including the extraordinary spurt of growth in 1986, per capita GNP has grown by an average annual rate of 4.7 per cent since 1980; the exclusion of 1986 figures reverses the trend for the period to a negative average annual growth rate of -3.6 per cent. This constitutes a striking example of the vulnerability of the economy and its dependences on developments in exceptional agricultural years, such as 1986, which do not constitute a firm basis for the economy to withstand shocks in other years, nor for entrepreneurs to invest with any certainty. Private consumption expenditure in the Palestinian economy increased through the 1970s, reflecting the growth in disposable income (see table 3). From a level of $657 million in 1975, aggregate private consumption expenditure reached $1,125 million by 1980. This level showed little change over the 1980-1985 period as a whole. Recovery in national income for 1986 was accompanied by a large increase in private consumption, from $1,195 million (in 1985) to $1,691 million. The composition of domestic private consumption expenditure shows that the share of expenditure on manufactured goods dropped from 45 per cent in 1975 to 35 per cent in 1986 in favour of increased expenditure on services. Expenditure on agricultural products (mostly food) maintained its stable share in domestic private consumption expenditures, at around 34 per cent.

18. Though the share of private consumption expenditure in gross disposable private income grew between 1980 and 1985, this reflected the sluggish performance of the latter rather than any significant increases in real terms in the former. By 1980, Palestinian private consumption expenditure had attained a level which was not subsequently improved upon, despite small increases in disposable income. The behaviour of per capita consumption levels illustrates similar tendencies. Whereas per capita consumption expenditure grew from $570 in 1975 to $980 in 1980, on average it followed a declining trend during the period 1980-1985. This confirms the impression that the gains registered in some indicators of the standard of living under Israeli occupation (e.g. as in the 1970s) were fragile and easily reversible. This is particularly so since such increases do not reflect fundamental structural reorientations. The gains of 1986, which were largely the result of an exceptional olive harvest, must be interpreted with caution and do not invalidate these observations. Moreover, the effect of the unrest since December 1987 and the restrictive measures imposed by the Israeli authorities are expected to further accentuate the negative tendencies observed as the fall in Palestinian national income is felt in overall levels of consumption.

Table 3. Occupied Palestinian territory (West Bank and Gaza Strip) Private consumption expenditures, 1968-1986 (selected years)
(New Israeli shekels and United States dollars)
(Current prices)

Year	Domestic private consumption expenditures: Agricultural	Industrial	Services	TOTAL	Private consumption expenditures	Private consumption per capita a/
	Thousand new Israeli shekels and Percentages				Thousand NIS & million US$	NIS & US$
1968 (NIS)	17 34%	19 38%	14 28%	49 100%	51 $145	0.107 $305
1975 (NIS)	132 33%	177 45%	87 22%	397 100%	414 $657	0.36 $570
1980 (NIS)	1,810 34%	2,323 43%	1,260 23%	5,400 100%	5,737 $1,125	5 $980
1981 (NIS)	4,173 35%	4,704 40%	2,925 25%	11,803 100%	12,676 $1,112	11 $965
1982 (NIS)	7,840 34%	8,736 37%	6,765 29%	23,341 100%	27,190 $1,119	22 $905
1983 (NIS)	20,775 34%	22,274 37%	17,197 29%	60,246 100%	69,872 $1,243	55 $980
1984 (NIS)	104,308 34%	112,874 37%	86,311 29%	303,493 100%	348,846 $1,190	268 $915
1985 (NIS)	416,950 34%	453,676 37%	362,520 29%	1,233,146 100%	1,408,815 $1,195	1,049 $890
1986 (NIS)	854,366 38%	795,290 35%	598,692 27%	2,248,348 100%	2,516,850 $1;691	1,822 $1,225

Sources:
Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1987; 1978; 1983; 1986), pp. 705-7; 768-71; 762-65; 687-89 for figures for 1968 and 1984-86; for 1975; for 1980-81; and for 1982-83, respectively.

All figures originally expressed in Israeli currency have been converted into United States dollars using the average annual exchange rate as quoted in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = US$1 in 1968 to NIS 1.4878 = US$1 in 1986.

a/ Calculated using population figures from table 2

19. Domestic consumption patterns have demonstrated noticeable changes since the Palestinian uprising. In the absence of comprehensive data, these changes can be perceived through reference to exports of Israeli merchandise to the territory. Early indications appeared in a survey of Israeli food producers which reported that sales had shown "modest" declines, though certain food imports with readily available domestic substitutes registered greater reductions, 12/ including Israeli meat products. 13/ Consumption of Israeli building materials also fell, indicating a slow-down in Palestinian construction activity. One of the most significant decreases in consumption of Israeli imports was registered in textiles. 14/ Israeli textile firms that sell all or part of their output in the territory and which traditionally rely on Palestinian subcontractors, especially those in Hebron and Gaza, were hardest hit. Within five months of the uprising, exports of Israeli goods to the territory had fallen by 30 per cent, a trend that was subsequently accentuated. 15/ There were clear indications that consumption of durables had fallen sharply, while consumption of most staples showed less decline and was accompanied by shifts in its composition. 16/

20. An important indicator of the evolution of the Palestinian economy is found in the performance of savings and investment rates, which reflect the interplay of domestic and external sources of income. Palestinian private savings, though bolstered by the impact of factor income and transfers from abroad, declined at an annual average rate of 15 per cent in the 1980-1985 period (see table 4). Despite the positive effects of the 1986 recovery on income, the generally high propensities to consume, the inefficiencies in financial intermediation and the general lack of lucrative investment opportunities which continue to characterize the Palestinian economy constitute long-term disincentives to save and invest. 17/ Total average annual private savings amounted to $345 million during the period 1980-1983, falling to an annual average of $225 million during the period 1984-1986. Recent trends in the rate of savings are not encouraging. Whereas private savings averaged some 23 per cent of gross private disposable income in the period 1980-1983, they fell sharply to 14 per cent for the period 1984-1986. Similarly, while private savings on average amounted to 33 per cent of GDP during the period 1980-1983, signs of dissavings reduced this average to only 18 per cent in 1984-1986, below the average for developing countries and middle-income oil-importing economies. 18/

21. Investments, covering private and public fixed capital formation and changes in stock, have also weakened in recent years. Private investment continued to account for the bulk of domestic investment. However, this share declined from an average of 85 per cent during 1980-1983 to 82 per cent in 1984-1986. As has been the case for most of the period since 1967, private investment remains heavily concentrated in residential construction. Since 1980, investment in machinery, transport and other equipment has fluctuated between 14 per cent and 18 per cent of total private investment and between 12 per cent and 16 per cent of public and private investment combined. 19/ This concentration of private investment in construction and so-called "social infrastructure" has been somewhat less pronounced since 1983. However, the trend in the economy has not favoured investment in directly productive activity in agriculture and industry.

Table 4. Occupied Palestinian territory (West Bank and Gaza Strip)
Savings and capital formation, 1980-1986
(Cols. (1) - (4) in thousand United States dollars and thousand new Israeli shekels)a/
(Current prices)

Years	(1) Gross disposable private income from all sources	(2) Private savings	(3) Private consumption expenditure	(4) Gross domestic capital formation b/	(5) (2) as % of (1)	(6) (3) as % of (1)	(7) (2) as % of GDP	(7) (2) as % of GNP	(8) (4) as % of GDP	(8) (4) as % of GNP
1980										
(NIS)	7,468	1,784	5,684	1,774						
(US$)	1,464	349	1,132	350	24	76	32	24	32	24
1981										
(NIS)	16,195	3,533	12,676	3,265						
(US$)	1,421	310	1,112	286	22	78	32	22	29	21
1982										
(NIS)	36,627	9,494	27,190	8,560						
(US$)	1,507	391	1,119	352	26	74	37	26	34	23
1983										
(NIS)	87,744	18,750	69,872	18,578						
(US$)	1,561	337	1,243	331	21	79	30	20	30	20
1984										
(NIS)	414,917	66,073	348,846	90,700						
(US$)	1,415	225	1,190	309	16	84	21	15	29	21
1985										
(NIS)	1,558,395	149,583	1,408,815	331,559						
(US$)	1,322	127	1,195	281	10	90	13	9	28	21
1986										
(NIS)	2,991,367	474,517	2,516,850	731,408						
(US$)	2,011	319	1,691	492	16	84	20	16	31	24

Sources:
(1) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, C.B.S., 1987), vol. XVII, No. 3, pp. 80, 84, 90, 94 for cols. (1) and (2) for all years and col. (3) for 1984-86; (2) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1985), p. 710 for col. (3) for 1981-83 and col. (4) for 1981-83; (3) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1987), p. 708 for col. (4) for 1984-86; (4) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1983), pp. 762-3 for col. (4) for 1980.

All figures originally expressed in Israeli currency have been converted into United States dollars using the average annual exchange rate as quoted in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = US$1 in 1968 to NIS 1.4878 = US$1 in 1986.

a/ Figures have been revised from previously published estimates for years prior to 1985.
b/ Includes changes in stock. Except for 1980 and 1982, there has been a net decrease in stock in the West Bank.

22. While gross domestic capital formation (including stocks) fell from $350 million in 1980 to a low of $281 million in 1985, its annual average share in GDP fell from 31.5 per cent during the period 1980-1983 to 29 per cent in 1984-1986. From 1980-1986, private investment in machinery, transport and other equipment (i.e. non-social infrastructural investment) has averaged 4.3 per cent of GDP. The 1986 recovery in GDCF brought total investment to a high of almost $500 million, representing mainly the accumulation of olive and olive oil stocks in 1986. This pushed the investment rate up to 31 per cent of GDP in 1986. Though this constitutes a relatively strong ratio, its composition, coupled with the fact that savings have been largely fuelled from non-domestic sources of income, makes it an unreliable factor in the growth of the domestic economy. This is especially so in view of the deficiencies in the indigenous financial system which offers few mechanisms for productive deployment of private savings.

4. Sectoral developments

23. Palestinian trade has suffered from the effects of instability and unregulated shifts in the composition of output, income generation, savings and investments. The composition of Palestinian exports and imports has changed over time as a result of these and other factors, including the shifts associated with changing external market conditions, in addition to being tied to partners and markets where the domestic economy has little, if any, influence or leverage. This reflects, inter alia, the high dependence on external resources, the structural weaknesses and fragmentation in local production patterns and the effects of the constraints operating specifically against trade. These distortions also reflect the way in which the tasks of economic decision-making, planning and regulation under occupation either have been neglected altogether or else have been assumed by the Israeli authorities with no account being taken of the increasing and changing needs and interests of Palestinian producers and consumers.

24. Changes in output over the past 20 years are observed within and among the major sectors. Coupled with the impact of trade policies, market conditions and other factors, shifts in production patterns have had a notable effect on the composition and direction of external trade. Possibilities for optimizing the benefits from external trade through diversification, specialization and development of comparative advantages have been limited. It has been difficult for the territory to seize emerging opportunities in trade or to minimize the negative effects which arise from changes in external conditions governing trade. Palestinian consumers have tended to adapt tastes and expenditure patterns according to what is made available in the form of imports from Israel, rather than what can be chosen freely from locally produced or imported goods. This phenomenon has had a significant negative impact on trends in Palestinian agricultural and industrial production.

(a) Agriculture

25. Agricultural output began to decline in the 1980s, after over a decade of growth which had come about largely as a result of increases in production efficiency, a shift away from traditional subsistence crops and concentration on a range of cash-crops with potential for export to Arab and other traditional markets (see table 5). From a peak of $356 million in 1980, the total value of output fell to $216 million in 1984. In 1986, the value of

Table 5. Occupied Palestinian territory (West Bank and Gaza Strip)
Agricultural output, inputs, income and employment, 1980–1986[a/]

(Current prices)[b/]

YEAR	Field crops		Vegetables & potatoes		Melons		Olives		Citrus		Other fruits[c/]		Livestock[d/]	Production for investment[e/]	Total output	Inputs[f/]	Income originating in agricult	Employment
									(thousands)									
	Tons	US$	Tons	US$	Tons	US$	Tons	US$	Tons	US$	Tons	US$	US$	US$	US$	US$	US$	Persons
1980/81																		
WB	46.4	15,921	159.5	37,465	42.7	5,237	45.0	43,421	73.5	19,868	105.9	41,491	107,052	2,105	272,561	53,991	218,570	28.5
GS	NA	640	72.7	12,281	6.1	1,351	NA	NA	179.3	36,132	20.8	10,351	22,798	325	83,877	23,360	60,517	8.4
OPT TOT	46.4	16,561	232.2	49,746	48.8	6,588	45.0	43,421	252.8	56,000	126.7	51,842	129,850	2,430	356,438	77,351	279,087	36.9
1981/82																		
WB	32.7	10,165	182.3	39,959	25.9	5,514	95.0	78,189	79.5	14,362	99.8	33,950	88,930	2,387	273,456	63,621	209,835	31.3
GS	NA	411	81.3	13,704	3.1	411	NA	NA	201.3	31,152	15.4	5,555	19,835	206	71,276	25,226	46,049	8.3
OPT TOT	32.7	10,576	263.6	53,663	29.0	5,925	95.0	78,189	280.8	45,514	115.2	39,505	108,765	2,593	344,732	88,827	255,884	39.6
1982/83																		
WB	54.3	12,740	172.9	43,380	74.9	2,384	45.0	21,406	82.0	16,067	85.5	25,551	107,455	3,149	239,769	73,986	165,782	29.2
GS	NA	605	79.8	16,886	3.1	463	NA	NA	166.5	29,573	19.9	6,014	19,698	249	73,487	25,124	48,363	8.8
OPT TOT	54.3	13,345	252.7	60,256	78.0	2,847	45.0	21,406	248.5	45,640	105.4	31,565	127,153	3,398	313,256	99,110	214,145	38.0
1983/84																		
WB	32.2	6,630	170.0	21,003	80.6	6,787	62.0	15,689	74.3	9,635	93.7	19,771	78,703	3,294	161,514	56,194	105,320	29.6
GS	NA	133	86.7	10;866	1.0	55	NA	NA	159.5	24,713	17.1	4,901	13,809	293	54,771	18,438	36,333	7.8
OPT TOT	32.2	6,673	256.7	31,869	81.6	6,842	62.0	15,689	233.8	34,348	110.8	24,672	92,512	3,587	216,285	74,632	141,653	37.4
1984/85																		
WB	27.1	7,986	169.2	34,083	88.8	19,101	19.1	16,762	76.3	14,935	85.6	27,617	101,470	4,801	218,904	676,796	151,185	28.4
GS	NA	94	104.5	18,650	0.6	53	NA	NA	175.7	24,725	17.0	7,839	17,133	220	68,715	22,448	46,267	8.8
OPT TOT	27.1	8,080	273.7	52,733	89.4	19,154	19.1	16,762	252.0	39,660	102.6	35,456	118,603	5,021	287,619	90,244	197,452	37.2
1985/86																		
WB	32.0	9,677	181.4	54,177	73.5	15,133	148.0	158,197	80.4	24,369	93.1	59,447	172,609	6,979	500,590	107,341	393,249	33.1
GS	NA	166	105.7	30,546	0.5	98	NA	NA	146.9	28,104	17.1	13,608	28,931	702	102,236	33,366	68,870	8.6
OPT TOT	32.0	9,843	287.1	84,723	74.0	15,231	148.0	158,197	227.3	52,473	110.2	73,135	201,540	7,681	602,816	140,707	462,119	41.7

Sources:

(1) Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, C.B.S., 1984, 1985 and 1987), pp. 769, 731 and 731, for 1980/81, 1981/82 – 1982/83 and 1983/84 – 1985/86, respectively for figures on value and volume of output, and income originating in agriculture;

(2) (i) Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, C.B.S., 1985, 1986, 1987), pp. 726, 706 and 724 respectively for figures for 1984, 1985 and 1986 employment figures; (ii) Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, C.B.S., 1987) p. 721 for 1981–83 employment figures.

WB = West Bank. GS = Gaza Strip. OPT TOT = occupied Palestinian territory - total.

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a/ Agricultural year is October to September; employment figures are for calendar years.
b/ Prices are adjusted to April of each year.
c/ Includes olives for Gaza Strip.
d/ Livestock includes meat, milk, eggs and fish production.
e/ Production for investment in forestry and new fruit plantations.
f/ Inputs include materials and services purchased from other branches, excluding agricultural wages.

output subsequently regained, and then surpassed, previous levels, amounting to over $600 million. This was mainly due to the record olive harvest, valued at $158 million, compared to an annual average of $35 million for the previous five years. The cyclical nature of the performance of this crop indicates how the impact of changes in its annual output is felt throughout the sensitive Palestinian economy. It also highlights the marginality of the "recovery" noted in 1986 as compared to the 1980-1985 trend.

26. The major transformation within agriculture since the 1970s has been the shift away from field crops to the more remunerative vegetables and melons demanded in Israeli and international markets. Output of field crops fell from 46,000 tons in 1980 (worth some $16.5 million) to 32,000 tons in 1986 (valued at under $10 million). This was accompanied by a rise in production of vegetables, including potatoes, from 232,000 tons ($50 million) in 1980 to 287,000 tons ($85 million) in 1986. At the same time, melon production rose from 49,000 tons ($6.6 million) in 1980 to 74,000 ($15 million) in 1986. These parallel developments reveal differential rates (value/ton) of productivity in the two major branches over the period. For example, the value of field crop output dropped from an average of $356 per ton in 1980 to $308 per ton by 1986, reflecting, inter alia, local production conditions and international market price deterioration. Meanwhile, vegetables fetched an average of $214 per ton in 1980 rising to $295 per ton in 1986, while the average remuneration of melons increased from $135 to $205 per ton. The steady decrease in the returns on field crops as compared to the rise in price levels affecting vegetables and melons acted as a clear incentive to Palestinian farmers to reorient the organization of production. Another significant influence has been the rising cost of inputs, other than wages, whose value grew by 82 per cent, compared to a 69 per cent rise in the value of output in the 1980-1986 period. This differential led to a smaller rate of growth (66 per cent) in farmers' income originating in agriculture (including wages). 20/

27. Agriculture continues to represent an important potential impetus for growth in other sectors, but it has been impossible for it to realise sustained growth and development because of increased restrictions coupled with the haphazard and undirected nature of shifts in production patterns. These have had negative ramifications in terms of agriculture's ability to mobilize and allocate resources and to rationalize production in line with market considerations. Other sectors also have been restricted in terms of linkages to agriculture and their ability to share the burden of readjustment through absorption of labour, new investment, enhanced efficiency and increased output. The fragmention and low articulation within the economy, coupled with the absence of policies aimed at overcoming these and other handicaps, have rendered agricultural decline the single most identifiable and significant recent trend in Palestinian economic development.

28. In addition to the new directions in "household cultivation" during the uprising, other changes have also been noted. Price levels of vegetables fell due to weakened domestic demand, new marketing constraints, and continued unrestricted entry of Israeli agricultural produce. Sales and prices of locally produced seedlings, seeds and other inputs have also fallen, while local slaughterhouses have suffered as a result of difficulties in marketing fresh meat. Problems have been encountered throughout the sector in moving the output to local and export markets owing to security restrictions, curfews, and specific cases of "collective punishment" of areas of unrest. 21/

29. Despite immediate shortfalls in production and marketing opportunities for vegetables and fruits, the uprising has brought about some positive shifts in cultivators' and consumers' attitudes to agriculture. 22/ Local agricultural committees have attempted to reduce the negative impact of recent developments. Measures have included preventing marketing of Israeli produce through local markets and promoting co-operative efforts to transport Palestinian produce from farms directly to consumers. Farmers were encouraged to benefit from the low prices of seedlings and the surplus of available agricultural labour to cultivate new areas. Inputs were distributed at cost-price on a household and wholesale basis in several areas, though the Israeli authorities eventually clamped down on such informal distribution channels, declaring them to be part of outlawed popular committee networks. 23/ A trend of "return to agriculture" can be noticed, even though the sector requires reorganization and support to ensure that the "return" is not merely to subsistence and low-productivity forms of cultivation. Some local efforts have stressed the need to grow staples, vegetables and fruits which can substitute for the imports of these items from Israel. While this implies a move away from recent trends to grow export crops, it is doubtful that the shift will be so great as to disrupt export possibilities seriously. Yet, dependence on agricultural imports from Israel could lessen as a result.

(b) Industry

30. Industry provides an example of minimal structural transformation amidst stagnation (see tables 1 and 6). Excluding 1986, there has been no industrial growth since 1980, after a decade during which industrial output expanded at rates consistent with the growth of the economy as a whole. Industry has not increased its share in domestic output, and other features associated with structural transformation have been largely absent, be they increases in the scale of production and employment, new investment, or changes in the composition of output. As noted above, private investment in machinery, vehicles and other equipment has remained relatively low since 1980. The sluggish performance of industry should be seen in light of these low levels. From 1980 to 1985, there was hardly any growth in this component of investment, which fluctuated between annual levels of $38 and $45 million, only picking up in 1986 to reach $67 million. 24/

Table 6. Occupied Palestinian territory (West Bank and Gaza Strip)
Industrial revenue and employment by selected branches, 1980–1986[a/] –
(Monthly averages (X-XII)[b/])
(Revenue in thousand new Israeli shekels and thousand United States dollars (current prices); employment in absolute figures)

	GAZA STRIP						WEST BANK								
	Food beverages & tobacco	Textiles clothing & leather prod.	Wood & its products	Basic metal, metal products, electronic & transport equipment	Other industrial products	Gaza Strip TOTAL	Food beverages & tobacco	Textiles clothing & leather prod.	Wood & its products	Rubber, plastics & chemical prod	Non-metallic minerals	Basic metal, metal products, electronic & transport equipment	Other industrial products	West Bank TOTAL	Occupied Palestinian territory TOTAL
Branch Code[c/]	11-12	13-15	16	22-26	17-21,28	1-2	11-12	13-15	16	19-20	21	22-23	17-18, 24-25,28	1-2	1-2
X-XII 1980															
REV. (NIS)	3	3	3	5	4	18	30	5	2	7	1	3	2	51	69
REV. (US$)	432	423	441	609	535	2,440	3,993	663	268	958	198	452	322	6,770	9,210
EMPLOYED	660	2,271	871	931	1,040	5,773	1,332	2848	929	755	636	1,303	693	8,496	14,269
X-XII 1981															
REV. (NIS)	6	8	5	9	8	35	56	10	4	19	5	7	6	11	141
REV. (US$)	371	514	340	549	486	2,261	3,566	635	232	1,221	333	426	383	6,796	9,057
EMPLOYED	668	2,390	892	1,067	1,007	6,024	1,278	2,650	915	741	749	1,191	593	8,117	14,141
X-XII 1982															
REV. (NIS)	12	33	11	27	15	98	131	24	9	35	11	16	12	239	337
REV. (US$)	379	1,042	350	050	405	3,123	4,198	764	303	1,125	344	504	390	7,628	10,751
EMPLOYED	675	2,576	927	1,108	1,002	6,288	1,333	2,936	1,144	777	790	1,329	591	8,908	15,196
X-XII 1983															
REV. (NIS)	48	80	30	159	39	255	357	63	33	107	33	50	43	686	941
REV. (US$)	532	095	340	1,780	433	2,060	3,994	708	367	1,200	370	558	481	7,679	10,539
EMPLOYED	641	2,638	928	1,039	943	6,189	1,381	3,199	1,224	819	827	1,520	584	9,554	15,743
X-XII 1984															
REV. (NIS)	190	301	481	522	170	1,442	2,563	411	182	836	219	278	294	4,786	6,228
REV. (US$)	353	559	259	969	316	2,677	4,758	763	338	1,552	406	516	546	8,884	11,561
EMPLOYED	421	2,572	1,081	1,136	1,174	6,383	1,390	3,067	1,197	988	891	1,512	665	9,708	16,091
X-XII 1985															
REV. (NIS)	597	781	489	1,367	658	4,244	8,178	1,897	856	2,791	1,406	1,299	1,134	17,560	21,784
REV. (US$)	358	527	330	923	444	2,852	5,521	1,281	578	1,884	949	877	766	11,855	14,707
EMPLOYED	403	2,537	1,038	1,137	1,111	6,226	1,529	3,264	1,294	976	1,008	1,901	709	10,679	16,905
X-XII 1986															
REV. (NIS)	1,002	2,170	856	1,431	1,230	6,689	10,730	3,519	1,240	3,765	1,640	1,972	1,821	24,685	31,494
REV. (US$)	673	1,457	575	961	826	4,492	7,205	2,363	033	2,528	1,101	1,324	1,223	16,576	21,146
EMPLOYED	419	2,882	1,087	1,157	1,176	6,720	1,744	3,465	1,187	1,097	987	1,799	698	10,976	17,696

Sources:
Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, C.B.S., 1981, 1982, 1983, 1984, 1985, 1986 and 1987), pp. 742–3, 764–5, 792–3, 774–5, 736–7, 718–9, and 735–6, respectively.

All figures originally expressed in Israeli currency have been converted into United States dollars using the average annual exchange rate as quoted in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = US$1 in 1968 to NIS 1.4878 = US$1 in 1986.

a/ Figures have been rounded to the nearest decimal; thus the totals are not necessarily equal to the sum of all branches.
b/ Figures for months of X-XII have been used for reasons of data availability and consistency.
c/ Branch code is according to ISIC classifications

31. By 1986, there was a total of 4,088 industrial enterprises employing 17,700 workers in the West Bank and Gaza Strip (equivalent to some 16 per cent of the domestic labour force), compared to a total of 3,716 units, employing 17,100 persons just prior to the Israeli occupation. 25/ While there has been an increase in the number of production units, this has favoured small, family-based workshops, with only 10 per cent of Palestinian industrial enterprises employing eight or more workers. Growth in industrial employment has also been sluggish, ranging beween 3 to 4 per cent per annum. This slow absorption of labour has been especially noticeable in the Gaza Strip, where smaller-scale industries are most evident, where possibilities for new investment and initiative are especially constrained, and where there are few local or external market opportunities for expansion of output.

32. The relative weight of branches within the sector has shown little flexibility, with more or less constant differentials in levels of revenue, labour intensivity and productivity between branches since the 1970s. In the Gaza Strip, for example, monthly average revenue since 1980 has been greatest in two major branches: textiles, clothing and leather products; and basic metal and metal products. The food, beverage and tobacco branch, and wooden products are next in order of monthly average revenue levels. In the West Bank, an historically more developed, diversified and integrated industrial structure has helped to maintain the prominence of three major branches (in terms of average monthly revenue), i.e.: (a) food, beverages and tobacco; (b) rubber, plastics and chemicals; and, (c) textiles, leather and clothing. The differential rates of labour absorption between branches reveals a similar, though not identical, ranking which has been maintained since 1980. In the Gaza Strip and West Bank, the textiles, clothing and leather branch has been the major employer within the industrial sector, followed by basic metal and metal products in the Gaza Strip and food, beverages and tobacco in the West Bank. Other labour-intensive branches include wooden products, food and beverages in the Gaza Strip; basic metal and metal products, wooden products, rubber, plastics and chemicals in the West Bank.

33. Productivity, in terms of average monthly revenue per employed person, exhibits higher levels in the West Bank than in the Gaza Strip. The wide gaps in productivity between the West Bank and Gaza Strip in the same branches represents the difference in the two areas' respective levels of industrial activity, reflecting, inter alia, differentials in scale, investment and labour productivity. Productivity for all industrial branches has improved in the West Bank, from around $800 in 1980 to $1,100 in 1985, reaching a record high of $1,500 in 1986. In the Gaza Strip, however, productivity of all branches has been low, wavering between $370 and $500 from 1980 to 1985, rising to $670 in 1986. The figures for the two areas combined show that productivity in Palestinian industry in the occupied territory as a whole wavered between $640 and $870 until 1985, rising to $1,200 in 1986.

34. Notwithstanding the exceptional performance of the Palestinian economy in 1986, there is little evidence to suggest that industry will be able to lead the territory on a significantly different path of development from the one followed so far. The structural rigidities among industrial branches are exhibited in the limited changes in relative revenue, employment and productivity rates. Production and marketing patterns, influenced in several

branches by the subcontracting arrangements with large-scale Israeli enterprises, show no signs of changing. Industry appears to have few means at its disposal to determine significant transformations in terms of scale and organization of production, investment, labour absorption and productivity, or the composition of output.

35. The uprising in the occupied territory might encourage a disengagement of some industrial links in the Israeli-Palestinian economic relationship, especially in areas related to subcontracting. However, in the short term at least, this will entail serious losses for small-scale Palestinian industries and entrepreneurs owing to the small domestic market and the rigidities of the industrial structure. A number of larger factories in the West Bank have been forced to shut down temporarily, while others have reduced production. 26/ There have been serious difficulties in maintaining raw material supplies from/through Israel, while the commercial strike has discouraged production in some branches (plastics, wood, metals and electrical appliances, and tourist goods). 27/ Some local industries, however, have experienced rises in demand as consumers attempt to switch from Israeli imports. The possibilities for maintaining output levels while concurrently "disengaging" from the Israeli economy depend to a large degree on entry of Palestinian exports to new markets, especially those in nearby Arab States.

(c) Labour force and employment

36. By 1987, the Palestinian labour force had grown to 277,800, continuing the trend of a relatively high rate of growth since 1984, after a decade of manpower drain engendered by migration in search of employment largely in the Arab States. 28/ This has encouraged a gradual rise in the crude labour force activity rate, 29/ from 34 per cent in 1980 to 36 per cent in 1986 and a high of 38 per cent in 1987. In 1986, 48 per cent of all employed Palestinians worked away from their locality of residence, mostly commuting to work in Israel as well as to other localities in the territory.

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

38. It has been noted by the ILO that "the economic and employment situation in the occupied Arab territories and prospects for development are largely determined by external factors and by uncontrollable changes in the economic and political situation, as happened, for example, as a result of the slackening of growth and the reversal of demand for manpower in the countries of the Gulf, or during the recent deterioration of the employment market situation in Israel or, yet again, because of the events that have occurred since December 1987 which have resulted in a wave of absenteeism on the part of the Palestinian workers from the territories employed in Israel." 30/ Recession in the Israeli economy (as in 1984 and 1985) has had the dual effect of arresting growth in Palestinian labour employed in Israel while also

encouraging a slow-down in Palestinian economic activity and resulting in an upsurge in Palestinian unemployment. Most recent indications since the Palestinian uprising show significant disruptions in the level and patterns of employment in Israel, including decreased employment in Israeli construction, agriculture and industry.

39. Of the two main axes through which the Palestinian economy is bound to Israel - namely imports of Israeli merchandise and reliance on employment opportunities in Israel - it is difficult to state which one impairs most the potentials for Palestinian economic development. The two linkages appear increasingly interdependent and mutually reinforcing. With the emergence of an assured source of income for Palestinians working in Israel, there has been a rise, albeit small in recent years, in Palestinian private consumption, as noted earlier. While a significant proportion of consumption expenditure was previously devoted to goods and services purchased from Israel, recently this proportion has declined, indicating the potential for reliance on domestic resources.

40. Nevertheless, a clear trend of "disengagement" from the Israeli economy cannot yet be deduced. This is supported by the fact that 1986 witnessed a recovery in factor income payments to the occupied territory, concomitant with a rise in the number of Palestinians employed in Israel from 89,200 in 1985 to 94,700 in 1986. It was estimated that some 109,000 Palestinians were employed in Israel in 1987. The proportion of the Palestinian labour force employed in Israel has grown since the earliest period of occupation, except in years characterized by recession in Israel (e.g. 1975-1977 and 1984-1985). Whereas 12 per cent of the territory's labour force was employed in Israel in 1970, this figure grew to 35 per cent in 1980, peaked at 38 per cent in 1983 and fell afterwards to 36 per cent in 1986. Indications are that the share regained the level of 38 per cent in 1987. Since the uprising, the rate of Palestinian labour absenteeism has been generally high, with most available estimates reporting a fall of at least 20 per cent in the average annual figure for Palestinian labour employed in Israel.

(d) Finance

41. The Palestinian financial sector continues to be characterized by the shortcomings and marginality already noted by the UNCTAD secretariat. 31/ There have been few, if any, significant developments to indicate that the occupation authorities intend to promote the sector's role in Palestinian economic development. The only exception to this was the permission granted to the Cairo-Amman Bank to reopen its branches (closed since 1967 by the Israeli authorities) in Ramallah and Hebron in 1987 and 1988 respectively while the Bank of Palestine in Gaza was still awaiting permission to reopen its Khan Yunis Branch closed by the authorities since 1967. 32/ Meanwhile, the West Bank offices of the Arab Bank Ltd., which provided correspondant services to Palestinians with accounts in Jordan, were closed down by the occupation authorities. 33/ The existing indigenous banks have not been able to expand their role to the extent required, though they had begun to attract deposits away from Israeli banks and provided a useful channel for financial dealings with Jordan and the rest of the world. The controls exercised by Israel have limited the potential effectiveness of such formal financial facilities. The informal sector continues to play a small and increasingly restricted role in financial intermediation, reflecting the absence of

reliable financial facilities in the territory. It has been recently reaffirmed that "the paucity of financial services is, in fact, one of the clearest reflections of the underdeveloped state of the Palestinian economy." 34/

42. Significant aspects of the Palestinian uprising have been related to Israeli monetary and fiscal policies in the territory. Israeli bank branches previously operating in the occupied territory have moved their offices outside the area and thousands of accounts have been closed. 35/ The Palestinian commercial strike has caused great strains for many businessmen who have incurred debts and overdrafts, and there was a spate of issuance of uncovered cheques to pay for imports from Israel. 36/ Meanwhile, new restrictions imposed on the amounts of funds permitted to be brought into the territory, including Israeli supervision of funds to relief agencies, have reversed the trend towards liberalization noted in this respect in recent years. 37/ The ban on moneychangers' travel to Jordan has effectively paralysed the informal system they operated in the past. 38/ All these factors have posed new constraints on the external trade of the territory.

43. The role of the tax system in providing entrepreneurial incentives remains nil and there are no indications that the authorities envisage undertaking necessary reforms. There has been a sharp fall in tax revenue caused by the drop in Palestinian income, the widespread "tax boycott" and resignations of Palestinian tax collectors. 39/ Countered by Israeli policies to enforce revenue collection through a range of coercive measures, 40/ this situation has highlighted the centrality of fiscal issues in the territory. The already limited services of the Israeli Civil Administration have been further reduced in order to make up for the alleged heavy losses in tax revenue. 41/ This is notwithstanding renewed indications that revenues collected by the Israeli authorities from the occupied territory continue to outpace expenditures. 42/ The uprising has targeted Israeli taxation measures as a major problem faced under occupation and adds urgency to the need for serious policy reform in this area.

B. Trade and related services in the Palestinian economy

44. The preceding discussion has indicated that the Israeli-Palestinian economic relationship since 1967 has been characterized by a significant exchange of commodities, services and financial resources. The proximity of the two economies and the political/administrative conditions under which the occupied territory's economy operates have forced the emergence of a growing volume of trade between them. The imposed linkage with the Israeli economy has been most influential on the small, less diversified and relatively isolated Palestinian economy. At the same time, the flow of goods, services and financial resources between Israel and the occupied territory has become increasingly prominent in certain sectors of the Israeli economy.

1. Pre-1967 situation

45. Prior to 1948, the West Bank's external trade routes and the associated transport and communications networks passed through Haifa and other ports which subsequently became part of Israel. When access to these areas was lost in 1948, and a substantial part of the population was forced to become refugees in Jordan and other Arab countries, the West Bank had to reorient its

trading relations and channels by expanding the local market and exploiting those openings which existed in and through Jordan. Within that context, and as part of the Jordanian economy, the West Bank slowly recovered from the devastating impact of the 1948 developments. It eventually established new import and export patterns on the basis of redefined complementarities and linkages which evolved with the development of new markets locally and in the surrounding Arab countries. By the time the West Bank was occupied by Israel in 1967, its trade links with Jordan had developed, much as between regions of any economy. The West Bank's output retained a distinct identity within the internal Jordanian market, while its exports became part of the Jordanian export mix and imports were obtained from and/or through Jordan.

46. The economic impact of developments in 1948 carried similar implications for the Gaza Strip, and its initially smaller economy was cut off from the pre-1948 Palestinian market, including the West Bank. Combined with the large influx of refugees in 1948, this led to even greater disruption in the local economy. External trade, which had expanded prior to 1948 owing to Gaza's direct access to sea routes and its growing citrus fruit sector, became constrained by the loss of markets in the West Bank and the Arab hinterland. The Strip, already poor in natural resources and industrial infrastructure, became even more dependent on a range of imported consumer and intermediate goods. However, the Egyptian military administration, which assumed responsibility for the area until 1967, allowed and encouraged the continuation and expansion of trade in a number of sectors, which offered the Gaza Strip some minimal relief from the hardships endured in 1948.

47. For both the Gaza Strip and the West Bank, therefore, the period until 1967 was largely devoted to recovery from the impact of dismemberment of pre-1948 Palestine and reorientation and restructuring of the domestic economies, each according to prevailing administrations and laws (i.e. Egyptian and Jordanian respectively). Simultaneously, the territory began to establish new export markets, as in the Gaza Strip, or integrate local markets, as between the West and East Banks of the Jordan river. This is not an easy task for a developing economy, much less so in conditions of continuing Israeli hostilities, great uncertainty and the territory's status as a "front-line" area.

48. The composition and direction of West Bank trade in this period is difficult to ascertain due to lack of data, though an initial assessment can be made of the area's nascent external sector on the eve of Israeli occupation. Within the Jordanian economy, the West Bank primarily supplied certain agricultural commodities (fruits, olives and olive oil) and a few manufactured consumer goods (soap and quarry stone). These were quickly and inexpensively transported from the commercial centres of the West Bank (Nablus, Jerusalem, Ramallah and Hebron) to wholesale outlets in Jordan, some of which were also owned by West Bank businessmen. Export trade was handled through Amman overland to neighbouring markets or via Aqaba port. In 1966, the West Bank contributed around 40 per cent of total Jordanian, output mainly in agriculture, construction, trade, finance and other personal services. 43/

49. Tourism and services constituted the major "export" items in the "external sector" of the West Bank prior to 1967, offsetting much of the merchandise import bill. While the domestic economy was largely self-sufficient in most basic agricultural commodities, it was unable to cover

its growing needs for consumer and other manufactured or processed goods and had not developed any notable export capacity in industrial or agricultural goods. 44/

50. The available data on the West Bank balance of payments indicates that commodity "exports" (i.e. goods supplied to Jordan and/or external markets) accounted for under 15 per cent of the credit side of the current account in 1965, while merchandise imports amounted to 95 per cent of debits in the current account. 45/ Imports from abroad followed similar routes as exports and were subject to prevailing Jordanian customs tariffs at the point of entry into Jordan. West Bank imports (i.e. including goods produced in the East Bank and abroad) were valued at some $66 million in 1965, equivalent to about 43 per cent of the West Bank GDP. 46/ Imports were composed of 65 per cent consumer goods, 31 per cent intermediate goods and only 4 per cent capital goods. This relatively large import bill left the West Bank with an overall merchandise deficit in the order of over $60 million (JD 21.6 million). This was reduced to some $32 million (JD 11.5 million) through services' payments credited to the West Bank (primarily tourism). The rest of the deficit was covered by payments in the form of remittances and Jordanian government and UNRWA social welfare payments.

51. The external sector of the Gaza Strip was more clearly delineated than that of the West Bank and its pre-1967 status was less ambiguous. The Gaza Strip was an administered area, politically, legally and economically distinct from Egypt. Despite the difficulties inherent in productive absorption by the economy of a large refugee population, the Gaza Strip developed a relatively active external sector before 1967. The GDP (equivalent to some $40 million in 1966) was dominated by agriculture and trade, including personal services, each contributing some 34 per cent of GDP, followed by public services and administration at 22 per cent, while industry, transport and construction generated relatively little output. 47/

52. The predominance of agriculture in the Gaza Strip was largely due to the opportunities for citrus fruit production and export. A range of dairy, poultry and fish products, cereals, fruits and vegetables were also produced, though not in sufficient quantities to meet local demand. Barter trade in citrus with Egypt and some Eastern European countries also featured in this period. Citrus exports were destined for Eastern Europe and some Western European countries, helping to generate a minimum level of foreign exchange or goods for barter. The relatively low customs duties maintained by the Egyptian Administration allowed for the development of a booming import trade in durables, mostly destined for subsequent re-export to Egypt. The value of this "transit" trade is estimated to have been as high as two thirds of total imports to the Gaza Strip. 48/ An important factor in the growth of the external sector of the Gaza Strip was the flow of Egyptian tourist-shoppers to the area, attracted by inexpensive imports. Another significant source of income for the Gaza Strip economy was transfer payments in the form of migrants' remittances and UNRWA transfers. Together, these accounted for 22 to 25 per cent of income from all sources in 1966. 49/ By comparison, some 13 per cent of income accruing in 1965 to the West Bank was from external sources, indicating the Gaza Strip's greater dependence on external sources of income. 50/ The situation has clearly deteriorated under Israeli occupation. In the 1980s, as much as a third of all income available to the occupied territory was generated externally. 51/

53. By 1967, therefore, the Palestinian external sector was composed of several clearly identifiable elements. Imports of consumer and other manufactured goods, as well as some agricultural imports, created a steady outflow of resources from the territory. The territory's import bill in the period highlights the incapacity of domestic production to meet a range of consumer needs. This deficit in the current merchandise account of the territory was largely covered by the services "exported" by the West Bank (primarily in tourism) and Gaza Strip (trade and tourism), the merchandise exports of the Gaza Strip and, to a lesser degree, those of the West Bank. Transfers, including remittances, constituted another element in the external sector, though their significance was still minimal as compared to trade in goods and services. In neither area did factor income from labour abroad appear as a significant element in the external sector, notwithstanding the employment of West Bank residents in the East Bank or Gaza Strip residents in Egypt.

54. Though an external sector had begun to develop in the territory by 1967, characterized by a certain extent of diversification and specialization, most local development efforts were directed at consolidating the domestic economic base without any special attention to the role of trade expansion in that process. The options for developing external trade (in goods and services) remained flexible in that period, in so far as direct commercial links could be established with a number of import and export markets, both regionally and internationally. This relative "freedom of choice" enjoyed in the pre-1967 period is crucial to the understanding of the full impact of the Israeli occupation on the re-emergent Palestinian trade sector. Just as the West Bank and Gaza Strip had recovered from the shocks experienced in 1948 and begun to reorient their economies accordingly, the Israeli occupation of 1967 brought new disruptions, which have dramatically and systematically transformed the structure and conditions of Palestinian economic activity in the territory.

2. The post-1967 developments

55. The Palestinian trade sector today operates within a complex and conflicting network of potentials and constraints, channels and obstacles, and regulations and procedures. The parameters which define the external sector are the cumulative result of the military occupation's interventions, which have added to, amended, replaced or suspended pre-existing arrangements. Twenty-one years of Israeli occupation have witnessed crucial and far-reaching transformations in this regard. The Palestinian people in the occupied territory have been prevented from playing any role in determining, elaborating or implementing policy measures to promote and guide the development of their trade sector. Because of this and other factors, the net result has been the emergence of patterns and terms of trade which are markedly unfavourable to the territory and are regularly subjected to further deterioration according to changes in external markets and the interests of the occupation authorities. The territory has tended to be able to trade only in those commodities that fulfil a range of conditions which are not strictly related to trade performance. The criteria for Palestinian trade decisions have much less to do with features of international comparative advantage or specialization than with what is permissible in prevailing geographic, political, legal and administrative conditions.

56. Palestinian agricultural exports have come to include a range of items not previously produced or traded. Various commodities, especially certain lucrative vegetables and fruits, came into local production recently or have been able to enter export markets that previously did not exist. Some are transported to Jordan for local sale and/or re-export to other Arab countries, though the composition of this flow and market orientation have changed over the years. Israel imports only certain vegetables and fruits in limited quantities, which are used in Israeli juice or food processing and/or are included by Israel in its own exports of off-season goods to profitable European markets. An important effect of attempts at opening new external markets to Palestinian agricultural exports has been the reorientation of production to the magnitude and pattern of demand which are potentially relevant to a wider export market than presently available. It remains to be seen whether Palestinian producers are able to exploit incentives before conditions change again which may render the new orientations redundant.

57. Since 1967, Palestinian manufactures exports to Arab markets of certain well-established products (soap, processed olive oil, quarry stone, dairy products) have continued and some new items (especially plastics and handicrafts) have been introduced into the export mix. The Israeli market has absorbed some manufactured exports, allowing for the growth of Palestinian exports in certain branches. Some consumer goods produced or finished in the occupied territory (ready-made clothing, wood, stone and metal products for construction, and certain food products) have made inroads among Israeli consumers, over and above the domestic market.

58. The provision of Palestinian labour services to Israel has become another significant export item, whereby inexpensive and highly mobile Palestinian labour is employed to add value in Israeli productive sectors at relatively low cost. The most notable element of this export is the daily migration of a large proportion of the Palestinian labour force to work in various sectors of the Israeli economy. A second form of labour "export" involves the network of Palestinian production units which engage in subcontracting work for Israeli manufacturing enterprises (especially textiles and construction materials), using mainly Israeli raw or semi-processed materials to deliver a finished product. A third sphere in which the territory has developed a capacity for labour export is that of repair services. The Gaza Strip and some West Bank towns near the border with Israel have witnessed the growth of small-scale workshops specializing in relatively low-cost repairs of Israeli cars, trucks, agricultural machinery and implements. These activities have been a major aspect in the transformation of the Palestinian external sector since 1967 and constitute one of the greatest challenges to building indigenous Palestinian productive capacities within the dynamic and open environment prevailing in the territory. While this exploitation of the territory's labour pool has had certain limited income-generating and self-motivated skill-enhancing effects, a price has been paid by the domestic economy in terms of foregone production capacity, lost opportunities for investment in new production processes and branches, and a high degree of dependence on external sources of income.

59. Against the limited "gains" realized through the exports of new commodities and services, the external sector of the occupied territory has experienced a number of losses since 1967. Within the agricultural sector, changes in local production conditions and external market opportunities have led to the termination of the movement to East Bank markets of cereals (wheat,

barley, herbs and spices), as well as the discontinuation or fall in exports of some cash-crops (e.g. cucumbers, tomatoes, marrows, plums and cherries). The supply to the East Bank of poultry and livestock for meat and dairy products has either ceased altogether or been severely restricted due to the conditions arising from occupation. Only some of those industrial products that were supplied to Arab markets before 1967 still cross the bridges. Tourism, an important and lucrative component of the pre-1967 external sector, has suffered seriously from prevailing conditions, losing the predominance it enjoyed in the pre-1967 economies of the West Bank and Gaza Strip.

60. Most of the handicaps under which Palestinian trade operates arise from the impact of policies and measures instituted since the Israeli occupation, which are analysed in detail in chapter III. The power of regulating and controlling economic activity in the occupied territory has since 1967 been assumed by the Israeli occupation authorities through a military government which has been partially transformed in recent years into a "civil administration". The military Israeli government and civil administration in the territory are guided by overall or specific policy decisions and orientations emanating from the Israeli central authorities. In general, Israeli policy towards Palestinian economic development has been summarized officially as follows: "There will be no development (in the territory) 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". 52/

61. The Israeli authorities rule through periodic military orders and decrees which affect every aspect of Palestinian economic activity: taxation, customs, banking, money and insurance, agriculture, industry and crafts, commerce, land and water, labour and other areas of endeavour. Whereas some of these have amended and updated Jordanian or Egyptian laws in force up to 1967, most represent new regulations reflecting Israeli policy concerns. The policies and measures applied by the Israeli authorities can be seen to be based upon certain basic considerations: maintaining the minimum of order in the local economy with no commitment to advancing the economic interests of the territory; ensuring that this regulation of economic activity corresponds to the general patterns of relevant policy and legislation in Israel; and ensuring that Palestinian economic activity does not conflict with or harm Israeli economic interests. This major determinant of Palestinian economic activity works through a strategy dictated by the overall national interest of Israel, leaving the occupied territory with little, if any, recourse to measures or facilities which might redress the imbalance and protect vital sectors.

62. Israeli policy constitutes the major, all-pervasive, influence in the regulatory environment affecting Palestinian trade. Of special relevance is how policies ultimately make themselves felt in the manner they are applied and their effect upon economic conditions in the territory. The foremost consideration influencing Israeli policy towards Palestinian trade is that Israeli exports flow freely to the occupied territory while Palestinian exports to Israel are closely controlled to safeguard the interests of Israeli producers. The existing patterns of trade of the occupied territory, surveyed in chapter II, reflect this consideration. When new policy guidelines for Palestinian exports to Israel were announced in 1986, the Israeli Minister of Trade and Industry confirmed this orientation by stating that Palestinian

exports "threaten Israeli firms with unfair competition". 53/ Thus, the range of Israeli restrictions imposed on Palestinian productive sectors is complemented by the unequal terms on which Israeli policies steer Palestinian trade with Israel and the rest of the world. By contrast, the influence on Palestinian trade of both domestic structural and infrastructural factors and the regulations and procedures relative to Palestinian trade with traditional Arab markets carry much less weight among the overall determinants of Palestinian trade. This is especially so since structural and infrastructural shortcomings in the domestic economy have been accentuated or, at best, generally neglected by the Israeli occupation authorities. Meanwhile, most of the features of the Arab trading environment affecting Palestinian trade have emerged in response to the occupation of Palestinian territory by Israel, rather than reflecting policies towards trade with the occupied territory *per se*. The influence exercised by these factors is dealt with in chapter III.

Chapter II

PERFORMANCE OF THE PALESTINIAN TRADE SECTOR

63. The imbalances noted in the Palestinian economy are expressed in the pattern of trade flows. Relatively weak merchandise export capacity, coupled with rapidly rising imports, annual fluctuations and unreliable trends resulting from uncertainties in production, and an increasing concentration of trade with an exclusive partner (Israel) constitute some of the main trends in Palestinian trade in the 1980s. This chapter examines developments in the external trade of the occupied Palestinian territory, especially highlighting trends since 1980. Following a review of some of the major patterns of Palestinian trade, the investigation focuses on the overall contribution of trade to GDP, developments in the balance of payments, the composition and direction of merchandise trade and the role of services in offsetting growing deficits in merchandise trade. 54/

A. Patterns of external trade and Palestinian economic development

64. The influences that have shaped the Palestinian external sector and the often conflicting dynamics which characterize its performance have rendered the role of trade and its potential contribution to development ambiguous and uncertain. Of equal influence is the fragmented nature of the Palestinian economy and its internal and external markets, and the legal and political status of the territory with regard to neighbouring economies. Because of the particular nature of borders with neighbouring States and the absence of a Palestinian national authority in the occupied territory, there is a corresponding lack of the standard national commercial, monetary, fiscal and other support measures that might help to give a clear identity to the external sector and provide a supportive atmosphere in which it could operate and grow. A preliminary assessment of some issues raises two major questions: what are some of the recurrent patterns affecting Palestinian external trade relations; and, has trade acted as a spur to development, lagged behind, or simply accompanied the fluctuations already noticed in the Palestinian economy since 1967?

1. Establishing Palestinian comparative advantages

65. To the extent that comparative advantages can be identified according to the composition of the export mix and its changes over time, it can be said that the occupied Palestinian territory has established a comparative advantage in some agricultural commodities, manufactures and various labour services. However, the fact that a certain item is exported does not in itself confirm that the economy is supplying this item at internationally competitive prices or that its production and export are efficient. This might have been so if the decisions which govern the production and trade in goods were made strictly according to shifts in relative price levels and the domestic economy's ability to profitably supply within that margin.

66. However, the regulatory environment engendered by occupation has often restricted production of certain commodities or goods, encouraged others and generally dampened entrepreneurs' willingness to innovate and initiate. The disincentive effect of such restrictions on Palestinian products' ability to competitively enter export markets often creates a barrier to initiation of new product lines. The opportunities for freely realizing and exploiting

comparative advantages can thus be limited from the outset, notwithstanding the terms of trade which prevail at a given point. Nevertheless, certain Palestinian products and services have succeeded in establishing a presence in export markets.

67. An ability to compete internationally has emerged essentially on the basis of those natural endowments which Palestinian producers have been able to exploit adequately. Examples include the production of quality commodities with relatively good international demand prospects such as citrus and certain perishable fruits and vegetables, as well as the long-standing Palestinian expertise in processing the local olive crop into oil and related products. A further necessary condition for the supply of these goods to export markets has been the ability to produce them through intensive application of an abundant resource common to many developing areas, namely inexpensive and relatively low-skilled manpower. Other factors have of course contributed, including improved production methods, entrepreneurs' willingness to experiment through introduction of new varieties, and cost-cutting through intensive farming and judicious application of scarce water resources. Palestinian labour has proven itself to be advantageous in establishing and consolidating export capacity in combination with other favourable factors.

68. However, the operation in neighbouring economies of the same dynamics which establish Palestinian comparative advantages has also gradually decreased the relative benefits available to the Palestinian economy from further intensive application of inexpensive labour. While the occupied territory's regional trading partners have exploited their own comparative advantages in commodity and other exports through favourable policies and measures, Palestinian exports of similar items have gradually lost their edge in some external markets. This narrowing of the competitive gap in export markets has been hastened by the unfavourable conditions under which Palestinian producers are operating, resulting in a deterioration in the terms of trade or slow productivity growth, coupled with changes in quality and increasing (actual or implicit) costs affecting production. Palestinian producers lack the bargaining position and mechanisms to compensate for changing external price or supply conditions. Over time, it has become more difficult for Palestinian productive sectors to maintain export shares and to trade by benefiting solely from intensive application of labour. Short of effecting domestic productivity increases or reverses in existing export markets, the Palestinian economy's main potential for obtaining further benefits from exports of labour-intensive and high-quality products rests in the identification and penetration of new markets where similar, or new, comparative advantages may be realized.

69. Concentration by the Palestinian economy on export of labour-intensive goods highlights the central position in the external sector of another aspect of Palestinian export capacity, namely the supply of labour services throughout the region, and mainly to Israel. Since 1967, earnings from labour services have come to account for the bulk of exports of goods and services. Apart from the immediate income generated through wages of workers, the process conveys few and limited benefits to the Palestinian economy. The wage differential (between local employment and work in Israel) is small, there is no foreign exchange gain (all such income is in Israeli shekels, which remains a relatively weak currency), and skill acquisition opportunities are minimal, given the manual labour performed by most Palestinian migrant workers. Accordingly, the gains from labour export to Israel are worthwhile mainly to

the extent that the process has helped to absorb a rapidly growing pool of unemployed and/or under-employed labour. However, there appear to be few consequential growth-inducing benefits to the domestic economy, as Palestinians are denied the policies and measures needed for maximizing the benefits of potential gains from labour export and establishing a self-sustaining basis for the Palestinian economy.

70. Any benefits that accrue from continuation of this overspecialization in the export of labour services must be seen against the grave consequences in terms of foregone production capacity, orientation of local production processes and human resource development to the prerequisites of external interests, reduced domestic product and ensuing dependence on external resources. The Palestinian economy has not been given the chance to determine this course of events, nor to choose export of labour as opposed to productive employment within the local economy and export of goods instead. Whatever advantages present resource allocations might appear to exhibit in favour of the Palestinian economy, the Israeli economy's interests have prevailed and possible alternative domestic allocations of Palestinian labour resources are effectively ruled out.

71. At the same time, policies and measures have been enacted which have encouraged the supply of labour services exports. This has entailed a restructuring and/or restricting of Palestinian agriculture and industry in such a way that has reduced their capacity for employment generation. This has had the effect, <u>inter alia</u>, of better complementing Israel's economic interest and allowing it to develop its own comparative advantage in other areas. One Israeli observer has noted that the supply of cheap Palestinian labour has bestowed upon Israel "important economic benefits. It mitigated the pressures for higher wages and therefore contributed to faster economic growth and lower inflation rates. The supply of unskilled workers also enabled labour-intensive branches to prosper. It also delayed, and even eliminated, the need for capital investment in mechanization." <u>55/</u>

2. <u>Complementarities</u>

72. A related issue of continuing relevance to Palestinian trade is that of existing and potential complementarities between domestic output and similar production processes in neighbouring economies. It might appear that export of labour services to Israel helps to establish and enhance "complementarities" between the highly capitalized Israeli economy and the labour-surplus Palestinian economy, but this is not self-evident. With regard to labour exports to Israel, complementarities have not arisen between two distinct economies through the operation of market mechanisms. Instead, Israeli policy has acted unilaterally since 1967 and has treated the occupied territory as part of the local labour market in so far as Israeli needs are concerned, while considering it a foreign labour supply as far as Palestinian needs are concerned, and for which Israel is not responsible. This is seen, for example, in the operation of Israeli "labour exchange" offices, which regulate the flow of labour from the territory to Israel, both geographically and sectorally, while labour deployment in the territory is left to the open market. These dual standards are no less evident in Palestinian-Israel merchandise trade, with Israeli productive sectors enjoying levels of protectionism denied to the vulnerable Palestinian economy.

73. Until 1984, the proceeds from exports of Palestinian resident labour (i.e. excluding migrants' remittances) to Jordan and other Arab countries accounted for under 25 per cent of total wages credited to the occupied territory, with the balance originating in Israel. 56/ With the contraction in employment opportunities in the region since then, Israel's share of these payments has risen. For most of the residents of the occupied territory who work in Jordan and other Arab countries for varying periods of each year, relatively lucrative employment abroad takes place within the context of family and other personal ties within the region which predate the Israeli occupation and reflect well-established and tried complementarities between skilled Palestinian labour supply and regional demand for it.

74. In contrast, the flow of Palestinian labour to Israel is a process which is generated in, and unilaterally regulated by, Israel. Unskilled labour requirements in certain sectors of the Israeli economy have been easily (and inexpensively) met by the "selective" import of labour from the occupied territory. Palestinian labour export takes place on terms dictated by Israel with little regard for the ramifications on, and with no compensation to, the exporting Palestinian economy other than wages which are more or less equivalent to those prevailing in the occupied territory. The process is facilitated by the sluggishness in the domestic Palestinian labour market and its high degree of exposure to Israeli seasonal demand for manpower that is readily available in the occupied territory. Palestinian labour export selectively complements the Israeli labour force, but this is a one-way process. There is no reciprocal encouragement of sectors or branches in the Palestinian economy. While this process might be seen to evoke labour migration flows in other economies and regions, the context within which it takes place here, of occupation restrictions which have caused a deterioration in productive sectors of the exporting economy, is on balance distorting and disadvantageous for the occupied territory.

75. Palestinian importers of capital or intermediate goods pay a high price to obtain needed inputs, and domestic Palestinian productive sectors are increasingly squeezed by the flow of Israeli products into the occupied territory. The increase in subcontracting and repair services (the wages for which constitute a portion of Palestinian labour export) has not encouraged domestic complementarities with other branches or sectors not directly involved in the process. The Palestinian labour export sector has emerged somewhat in the mold of the classical "export enclave", with few benefits bestowed on other areas of the economy in the form of new or enhanced skills, production linkages or market expansion. The simple technological and labour processes required of subcontractors have rendered this practice relatively attractive, low-risk and profitable as compared to other industrial activities, while discouraging initiatives in other branches with local or export marketing potentials.

76. Complementarities between Palestinian and Israeli manufacturing branches that might appear to be exhibited in the composition of Palestinian-Israeli merchandise trade have been largely manifestations of the ability of the more powerful Israeli economy to selectively import in line with its own industrial development prerequisites. Palestinian manufactures which have penetrated Israeli markets (e.g., some food products, construction materials and some textile products) have done so by virtue of their relatively low prices rather than through any special ability and/or arrangement to supply materials which cannot be (or are not) produced in Israel. This export has entered the lower

end of the Israeli market for such goods, permitting some Israeli manufacturers to shift into branches characterized by greater capital intensity and productivity. Such breakthroughs by Palestinian merchandise exports have been possible owing to Palestinian producers' long efforts to reduce cost and to avoid strong opposition by Israeli manufacturers to Palestinian goods. Meanwhile, other Palestinian industrial branches are weakened by the unregulated competition of imports from Israel. More than ever before, the criteria for continued operation of Palestinian industrial enterprises are determined by the ability to complement Israeli industrial processes (especially via subcontracting) and certain areas of consumer demand. The role of domestic Palestinian market demand and non-Israeli export possibilities have become increasingly marginalized after two decades of Israeli occupation.

77. The composition of Palestinian commodity exports to Israel constitutes another example of how one-way "complementarities" have emerged through trade between between Israel and the occupied territory. Palestinian agricultural goods that are allowed by Israeli regulations to enter Israel fill gaps in the Israeli market caused by production shortfalls, substitute for Israeli products which benefit from higher returns through export, or else are re-exported as Israeli produce. In the latter two cases, there is a foreign exchange gain which is not passed on to Palestinian producers. In no case does Israel suffer any foreign exchange losses through imports from the territory, which are paid for in Israeli currency. Because of the unpredictable seasonal nature of these exports to and via Israel, this process offers few perceivable benefits to Palestinian producers. Export markets are not assured from one year to the next, and producers often face unpredictable price structure differentials and systems between the local, Israeli, Jordanian and other export markets. Thus, production cannot be oriented to ensure long-term structural benefits from possible complementarities.

3. Trade in the Palestinian economy: leading or led?

78. An important aspect of the dynamics of Palestinian external trade and their relation to economic development arises from the geographic and administrative conditions accompanying foreign occupation of the West Bank and Gaza Strip. All-pervasive influences have arisen owing to the geographic "openness" of the occupied territory to foreign imports. 57/ In exploring the major parameters that limit trade's contribution to, and potential generating role in, Palestinian economic development, two related issues appear to be of special concern: first, the impact on domestic production and export capacity of unprotected exposure to non-indigenous trade régimes, especially Israeli; second, whether trade has generated overall positive growth or developmental effects for the Palestinian economy which may have outweighed the development-retarding impact of prevailing patterns of production and trade.

79. The occupied Palestinian territory trades in an environment and on terms unlike those enjoyed by its trading partners. Denied the standard legislative and administrative features of an external trade sector, with all that this implies in the way of indigenous institutions, regulations, procedures and an array of commercial, fiscal and monetary arrangements, the occupied territory has none the less strived to maintain and expand its external trade sector. Political, geographic and economic circumstances have left the territory with no option but to operate within the context of existing (non-Palestinian) trade régimes in order to continue commercial transactions with traditional

markets as well as with new partners (including Israel). The terms on which the Palestinian economy (both as exporter and importer) trades with the rest of the world have been generally lopsided and unequal, with its ability to negotiate and implement mutually beneficial policies reduced virtually to nil. In traditional markets which were previously open to direct dealings, Palestinian exporters and importers have had to count on favourable treatment in order to minimize the disadvantages of isolation from regional economic developments. Despite the "open bridges" since 1967, the realities of occupation have placed significant limitations on the extent to which Palestinian international trade can be managed and regulated with a view to enhancing economic growth and development.

80. Occupation has greatly enlarged the potential "local" market for Israeli products, and this has produced tangible effects from economies of scale for Israeli producers in certain manufacturing branches. Israeli agricultural goods compete in Palestinian markets with locally produced goods, since substantial government subsidies to Israeli agriculture allow prices to be driven down, often below the level of Palestinian domestic production costs which are borne fully by Palestinian farmers. Though the levels of Palestinian agricultural output are such that domestic food self-sufficiency could potentially be met in most branches, the prevailing pattern of commodity exchange with Israel has militated against that.

81. While Palestinian agricultural exports are a residual "marketable surplus", this surplus arises as a result of barriers in the local market which prevent domestic producers from even attempting to satisfy local demand. These include the underdeveloped domestic trading infrastructure and the volatility in price and supply conditions arising from high exposure to the Israeli economy and production/supply conditions particular to it. A further important barrier arises from the arbitrary practices of the Israeli authorities, which often physically prevent marketing of domestic produce and allow for disposal of low-priced Israeli surpluses in Palestinian markets. Export flows from the occupied territory are as much a function of the inability to consolidate, protect and integrate the domestic market and dispose of output domestically as they are the outcome of conscious export promotion and marketing strategies. These distortions in Palestinian trade relations have created a structural bias against trade acting as a stimulus to economic growth or development.

82. Owing to the high level of protection enjoyed by many Israeli industries (against imports from abroad), Israeli goods which are not competitive internationally may enter Palestinian markets where they compete against similar Palestinian products which do not benefit from any subsidies such as those offered to many Israeli industries. Moreover, Israeli military occupation has denied those concessions and subsidies which exist under Egyptian and Jordanian laws that are applicable throughout the occupied territory. As well as driving some Palestinian industries out of the domestic market, this unilateral protectionism has had a markedly unfavourable effect on Palestinian consumers, whereby the burden of the difference between the prices of imports (in Israel) and of protected Israeli manufactures is transferred to the Palestinian consumers in the territory. "The level of protection on consumer goods is particularly high, allowing an average Israeli producer to sell at prices almost two thirds above the import prices ... A cost is imposed on the Palestinian consumers in the West Bank and the Gaza Strip, who have to share the same burden as Israeli consumers, while Israeli

producers gain access to highly protected markets." 58/ Meanwhile, Palestinian industry has neither the capacity nor the competitive edge to penetrate those sectors of the Israeli market where protection is prevalent (e.g. consumer durables).

83. Another aspect of trade patterns between the occupied Palestinian territory and Israel is their effect on local consumption patterns and tastes, which have been re-oriented to goods supplied by Israel. Trade with Israel has also had a role in unifying price structures between Israel and the territory, further binding the latter to production and consumption patterns more relevant to the Israeli than to the Palestinian economic interest. Perhaps the greatest benefit that has accrued to Israel from existing patterns of trade with the occupied territory is the interdependence between one trade flow (labour export to Israel) and another (Israeli exports to the territory). As Palestinian labour services fill important gaps in the Israeli economy, the low cost that Israel pays for this service is fully and speedily recouped when factor income returns in the form of payment for Israeli consumer goods.

84. Other important benefits of trade, such as the transmission of growth effects in neighbouring economies, have reached the occupied territory in a dampened and volatile manner. The economy as a whole cannot fruitfully direct these immediate "spin-offs" into longer-term, tangible economic gains. Only with respect to a few commodities, especially those which involve irrigation and agricultural inputs, has the occupied territory witnessed the transfer of technological, learning, demonstration, savings and investment or other effects usually associated with trade. Possible "integrative forces" arising from trade, in terms of the stimulus imparted to the economy from exports, have been largely absent from the occupied territory. The weak linkage effects of exports to the domestic economy can be explained not only by a possibly weak stimulus from those exports in which the occupied territory has specialized, but also by the range of impediments that limit the transmission of the gains from trade to other sectors. Foremost among these is the weak financial intermediation in the Palestinian economy, the high level of consumption of imports, and the disincentives to investment in the productive sectors.

85. Consequently, the high degree of export concentration (of a few goods and labour services) has turned parts of the external sector into enclaves, generally unintegrated into the rest of the economy and geared to exclusive clients or markets. Increasingly, these enclaves can be considered as "viable" only on the premise of maintaining present distortions in trade conditions. Reversal of this trend cannot be achieved through the free operation of existing market forces - conscious and comprehensive policy treatment is a prerequisite for correcting most existing imbalances and blockages.

86. It is difficult to discern concrete and lasting gains for the occupied territory from the present growth path of the Palestinian economy. Features of economic co-operation and integration which can provide developmental "spin-off" effects to trading partners have not been experienced by the occupied territory. The prevailing dynamics of the Israeli-Palestinian economic relationship are those which have provided Israel with cheap labour, inexpensive processing of certain industrial goods, low-priced Palestinian agricultural commodity exports suitable for re-export abroad, and a growing consumer market for a range of Israeli industrial and agricultural goods. These one-way links have forced Palestinian consumers to rely on an exclusive

source of imports, while productive and service sectors have been deprived of manpower, a role in adding value within industrial production processes, possible intersectoral linkages and the benefits from export of lucrative crops. As Palestinian producers are being squeezed out of the domestic market, Israeli contracting enterprises benefit from economies of scale. Similarly, new or enhanced labour skills and specializations and the financial and managerial benefits that could accrue to the Palestinian economy from control of agricultural export marketing are forfeited to Israeli commercial interests.

87. The Palestinian external sector might have been able to provide a greater spur to domestic growth and development were it not for Israeli occupation and the one-way trade flows and the benefits that have accrued to Israel. There are few indications that the trade sector has encouraged the initiation of new production lines or has been able to dispose of domestic surpluses. Most of the features of the external sector that have been noted indicate that the trade sector has not been able to provide a <u>lead</u> to the economy. Rather, to the extent that trade has not been an "enclave" isolated from the rest of the economy, it has been <u>led</u>, primarily by the sheer force of association with the Israeli economy, into a range of areas which have served the Palestinian economy only occasionally and coincidentally. This is obvious in a number of respects, including the fragmentation of markets and price structures; the effective barriers to entry in both the domestic and potential external markets which are imposed through the operation of Israeli restrictions; and the exploitation of Palestinian labour exports with reciprocal benefits to the Palestinian economy limited to factor-income receipts. The occupied territory enjoys only minimal returns from trade, owing to low financial benefits, weak human resource development, under-exploitation of productive capacity in industry and agriculture, and the disarticulation among domestic sectors, between both the West Bank and Gaza Strip and with neighbouring economies.

B. <u>Contribution of trade to gross domestic product</u>

88. Since the 1970s, trade (including external and internal trade, transport and private services which are statistically grouped together as one sector in national accounts) has recorded relatively steady growth, as the Palestinian economy became increasingly engaged in transactions with Israel. The sector's growth has been mainly positive, at an average annual rate of 8 per cent from 1980 to 1986 (see table 1). Trade accounts for some one third of domestic product and its share in GDP has fluctuated over the period since the Israeli occupation, falling from 36 per cent in 1968 to an annual average of 33 per cent during the period 1980-1986. In terms of current United States dollars, the value of sectoral product rose from $165 to $500 million between 1975 and 1986, with annual fluctuations less severe than those noted in other sectors or in GDP itself. There are no clear indications of a link between the aggregate performance of the trade sector and that of domestic product, despite the former's sensitivity to fluctuations in output of certain key commodities, especially olives. For example, four of the years from 1981 to 1986 witnessed growth trends in similar directions in both domestic output and trade, though this included fairly wide divergences in the rates of (negative or positive) growth. In two years (1984 and 1985), as the value of trade continued to increase minimally, GDP actually fell.

89. The degree of "openness" of the economy of the occupied territory, is especially high. The share of trade (exports plus imports) in GDP and GNP exhibits no consistent trend. Since 1975, the share of trade in the former

fluctuated annually between 82 and 116 per cent, while its share in the latter wavered between 62 and 84 per cent. 59/ These ratios are inordinately high when compared to developing countries and territories, where the ratio of the value of exports and imports to GDP averaged 39 per cent in 1985; in the developing countries of West Asia the ratio was 40 per cent. 60/ While this high degree of interaction between the Palestinian external sector and the rest of the world might appear to signify a dynamic integrative process, other features of trade performance belie such an impression. For example, export capacity, measured in terms of the ratio of merchandise exports to GDP, has declined steadily since it peaked at 42 per cent in 1981; by 1986 this ratio had fallen to 25 per cent.

90. Within the dynamic context of "openness", the role of Palestinian trade could have been paramount, regulating and intermediating between domestic sectors and external markets, thus diversifying output and providing a strong impetus to growth. However, the undiversified structure of trade has rendered the sector reactive to the changing fortunes in the different productive sectors. Few, if any, of the usual fall-back or buffer mechanisms have been available to Palestinian trade to cope with the shocks and turbulence which confront the productive sectors. As compared to performance in other economic sectors, trade's ability to contribute to growth and development is more dependent on the interplay between geographic, political and administrative factors and the possibilities for negotiating favourable terms concerning, *inter alia*, trade routes and markets. The Palestinian economy has few resources to actively influence that dynamic. The impact of occupation on possibilities for diversification has been such that no branch has been able to lead or encourage others, and there remain limited opportunities for expansion in either the level or range of produced and traded goods. The relatively high export concentration (of certain commodities and services) represents a growing liability in terms of the external sector's ability to impart growth impulses throughout the Palestinian economy.

C. The Palestinian balance-of-payments position

1. Goods and services in the current account

91. Notwithstanding their deficiencies, official Israeli estimates of the balance-of-payments position (current and capital accounts) of the occupied Palestinian territory provide useful insights into the position and interplay of the different components of the Palestinian external sector. The current account position of the West Bank and Gaza Strip has been in regular deficit since 1967. As shown in table 7, by the late 1970s the deficit had reached an annual average of over $135 million (equivalent to nearly 15 per cent of GNP and 20 per cent of GDP). The deficit stabilized around that level for several years until it contracted sharply as of 1982 as a result of increased labour services exports, standing at 4 per cent of GNP and 6 per cent of GDP. Following 1983, when the deficit fell to its lowest level in many years ($60 million), it grew fourfold and reached $260 million in 1986. By this stage, the deficit had also increased in overall significance and was equivalent to some 13 per cent of GNP and 17 per cent of GDP. The improvement and subsequent deterioration of the current account position in the 1980s reflects the effects of expansion and recession, respectively, in the Israeli and neighbouring Arab economies in that period.

Table 7. Occupied Palestinian territory (West Bank and Gaza Strip)
Balance of payments estimates, 1977 and 1980-1986
(Million United States dollars)a/
(Current prices)

	CURRENT ACCOUNT										CAPITAL ACCOUNT		
	GOODS		SERVICES										
	Merchandise	Thereof with Israel	Transportation	Insurance	Travel	Other	Thereof: Wages	Services Total	Thereof: with Israel	Goods & Services Total	Net Transfer Payments	Capital Movements	GRAND TOTAL
1977													
CREDIT	258	154	5	3	13	227	226	249	193	507	122	50	679
DEBIT	507	466	14	7	33	83	5	137	85	644	35	-	679
BALANCEb/	(249)	(312)	(9)	(4)	(20)	144	221	112	108	(137)	87	50	-
1980													
CREDIT	353	224	9	5	17	372	372	403	304	757	167	55	979
DEBIT	680	584	24	11	49	130	11	214	122	894	56	29	979
BALANCE	(327)	(360)	(15)	(6)	(32)	242	360	189	182	(137)	111	26	-
1981													
CREDIT	410	289	11	6	17	407	407	441	333	851	174	60	1,085
DEBIT	752	668	22	12	59	133	11	226	123	978	62	45	1,085
BALANCE	(342)	(379)	(11)	(6)	(42)	274	396	215	210	(127)	112	15	-
1982													
CREDIT	398	259	12	6	13	459	459	491	365	890	172	27	1,089
DEBIT	734	653	24	13	47	149	59	233	128	968	65	56	1,089
BALANCE	(336)	(394)	(12)	(7)	(34)	310	400	258	237	(78)	107	(29)	-
1983													
CREDIT	393	285	12	8	15	560	560	594	452	988	179	25	1,192
DEBIT	792	718	24	16	45	170	13	256	144	1047	79	66	1,192
BALANCE	(399)	(433)	(12)	(8)	(30)	390	547	338	308	(59)	100	(41)	-
1984													
CREDIT	296	196	11	24	11	434	434	481	412	776	150	75	1,001
DEBIT	690	623	22	30	47	147	14	246	133	936	58	7	1,001
BALANCE	(394)	(427)	(11)	(6)	(36)	287	420	235	279	(160)	92	68	-
1985													
CREDIT	280	172	11	17	11	361	361	400	336	679	109	153	941
DEBIT	671	600	26	21	43	139	10	227	140	900	41	-	941
BALANCE	(391)	(428)	(15)	(4)	(32)	222	351	173	196	(221)	68	153	-
1986													
CREDIT	386	289	15	17	13	482	482	527	488	913	123	172	1,208
DEBIT	891	780	37	21	48	168	9	274	157	1,165	42	-	1,208
BALANCE	(505)	(491)	(22)	(4)	(35)	314	473	253	331	(252)	81	172	-

Sources:
(1) Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, C.B.S., 1983, 1985, 1986 and 1987), pp. 766, 712, 692 and 710 for figures for 1980 and 1981, for 1982, for 1983 and for 1984-86 respectively; (2) Israel, Central Bureau of Statistics, Quarterly Statistics of the Administered Territories, Vol. IX, No. 2, (Jerusalem, C.B.S., 1979), p. 72 for figures for 1977; (3) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1986 and 1987) pp. 198 and 204 for 1980 and for 1981-86 respectively on balance of payments with Israel; (4) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1983) p. 202 for 1977 figures on balance of payments with Israel. All figures for 1977-83 originally expressed in Israeli currency have been converted into United States dollars using the average annual exchange rate as quoted in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = $US 1 in 1968 to NIS 1.4878 = $US 1 in 1986.

a/ Figures have been rounded to the nearest decimal; thus the totals are not necessarily equal to the sum of the separate items.
b/ Figures in parentheses indicate a negative (deficit) balance.

92. However, the high degree of "openness" of the occupied territory's economy, coupled with generally weak GDP growth and decreasing export capacity indicate that the benefits of a possible "spin-off growth effect" through trade are lost as a result of the price that is paid in weaker domestic production capacity, rising import capacity unaccompanied by additional productive investment, and increased international indebtedness. The nature of the Palestinian balance-of-payments dilemma is such that the growth potential as generated by the exports of labour and goods is constantly frustrated through excessive imports for consumption as against insufficient investment in productive activities.

93. Within the current account, the gap between the merchandise deficit and the services surplus has been large in most years, especially recently, with the surplus in services only partially compensating for the steep rise in merchandise imports. Since 1977, the size of the merchandise deficit has fluctuated between 1.3 and 2.2 times the size of the services surplus, as is seen in table 7. The gap was smallest in 1983, with a relatively large services surplus of $338 million set against a high merchandise deficit of $399 million. Since 1980, the deficit has grown at low average annual rates, decreasing in some years by a few million dollars. However, since 1983 and concurrent with the fall in labour export to Israel, the merchandise deficit has become pronounced. The growth of the deficit in 1986 was particularly large, reaching a level of $505 million. This sharp rise was not surprising in light of the expansion in the Israeli and Palestinian economies noted for 1986. The merchandise deficit has increased primarily because of the relative stagnation in export earnings since the 1980s, including sharp falls in 1984 and 1985. This was coupled with a rapid rise in merchandise imports. In 1986, merchandise exports regained the level of almost $400 million, already witnessed in the early 1980s. However, by this time, the merchandise import bill had grown to almost $900 million, outstripping export growth. The resulting deficit of 1986 was, of course, closely linked to the higher rates of Palestinian private consumption made possible by the recovery in Israel and renewed demands on the Palestinian economy, primarily in absorption of its labour export.

94. The export of services has emerged as the prime generator of external resources within the current account, ensuring an increasing annual surplus until 1983. Since then, the fall in revenues from this source has had negative consequences for the current account position in the light of the growing merchandise deficit. The Palestinian economy imports a relatively low level of services (from Israel, Jordan and elsewhere) as compared to the level of its exports of services. This has helped to maintain the surplus in revenues from services in most years. The average annual cost to the economy of imported services has been around $240 million since 1980, but this reached a high of $274 million in 1986. This has been compensated for by a regular and strong growth in revenues from service exports, which peaked at $600 million in 1983. Though the value of service exports was less than that of merchandise exports during the 1970s, the figure has since grown significantly, reaching as much as $200 million or 52 per cent more than the value of merchandise exports in 1983. While the difference has been smaller in other years, it provides an indicator of the challenge to the Palestinian balance of payments, i.e. developing a merchandise-based export sector while reducing dependence on external demand for labour and related services.

2. Israeli domination of the Palestinian current account

95. The structural limitations now facing Palestinian external trade are complicated by the degree to which a single trading partner (Israel) features both on the import and export sides. This dilemma is manifested by the fact that while 85 per cent of Palestinian exports of goods and services went to Israel in 1986, 80 per cent of imports to the occupied territory originated in Israel. The merchandise deficit with Israel has grown steadily since 1967, reaching almost $500 million in 1986, and was expected to have risen to above $600 million in 1987. 61/ In all years since 1980 (except 1986), the territory's merchandise deficit with Israel has been greater than its merchandise deficit with the rest of the world.

96. Of equal concern is Israeli domination of the export market for different Palestinian services. By the early 1980s, the share of Israel in the export of such services had already reached alarming proportions, accounting for some 75 per cent of all Palestinian services exports. With the decreasing possibilities for generating income from export of labour and other services to neighbouring Arab markets in the past years owing to the economic slowdown in the region, Israel's share in Palestinian service exports has risen sharply, reaching over 90 per cent by 1986. Earnings from Palestinian labour services exports to Israel increased from $305 million in 1980 to almost $500 million in 1986, slightly more than the value of the 1986 Palestinian merchandise trade deficit with Israel. Official estimates expected earnings from Palestinian labour exports to Israel to reach over $700 million in 1987. 62/ Prior to the high levels of labour absenteeism witnessed since the Palestinian uprising, official Israeli estimates had expected Palestinian labour in Israel to earn a record amount of $800 million in 1988. However, this revenue has in fact fallen significantly during 1988.

97. Palestinian payments for insurance, transport, tourist and other services provided by Israel have also grown, from $85 million in 1977 to an estimated $205 million for 1987. Nevertheless, while the territory's surplus with Israel in services remained under $200 million until 1980, it has subsequently increased, reaching some $330 million in 1986. It is estimated to have risen to over $500 million in 1987 in favour of the occupied territory.

98. The major feature of the Palestinian balance-of-payments dilemma is reflected in the fact that the territory's current account (goods and services) with Israel has remained in deficit (under $200 million) since the occupation, despite a regular surplus in the current account for services. Any narrowing of the deficit with Israel has usually taken place in conditions of slowdown in both economies (as in 1983-1984). In light of the sluggish performance of merchandise exports, one way to achieve a smaller current account deficit with Israel is to expand labour service exports to Israel, with all that that entails in terms of engendering further long-term economic dependence on Israel. The current account deficit with Israel is estimated to have fallen in 1987 to the pre-1980 level of $100 million, but as noted, this was achieved primarily through an increase in the export of labour services to Israel, i.e. of around 46 per cent from 1986 to 1987, compared to a 17 per cent increase in merchandise exports.

99. These developments further illustrate the increasing "integration" of much of actual and potential Palestinian development resources into the Israeli economy. The total value of Palestinian goods and services

transactions with Israel in 1986 surpassed $1.7 billion, equivalent to 80 per cent of total Palestinian trade transactions. The territory's external sector, once diversified and enjoying relatively wide export market potentials, has fallen under the overwhelming influence of the Israeli economy. This burden of trade links with Israel highlights the distortive structural effect of 21 years of occupation on the composition, level and direction of trade and on the performance and orientation of the major productive sectors.

D. Merchandise trade

1. The overall balance of merchandise trade

100. As noted above, the occupied Palestinian territory has endured for many years a trade deficit reflecting what now appears as a chronic weakness in the merchandise export sector. In practically every year since 1970, Palestinian imports were worth over twice as much as exports, leaving the territory with a deficit greater than the value of exports (see table 8). Rapid increases in imports over the period 1970-1986 have gradually resulted in large trade deficits, growing from a level of $54 million in 1970 to stabilize around $400 million in 1985 and reaching their highest level of $512 million in 1986. 63/

101. After a decade of export growth, Palestinian export performance began to follow a declining trend, registering an average annual rate of -3 per cent between 1980 and 1985. Prior to the upsurge of exports in 1986 (when they reached $378 million), Palestinian exports had bottomed out at $272 million, a low not known since the mid-1970s. The high degree of "openness" of the Palestinian economy indicates an increasing orientation towards trade, featuring a greater degree of "openness" with respect to imports than with respect to export capacity and markets. The merchandise export capacity has been too weak to allow any improvement in the Palestinian balance of merchandise trade. In fact, the persistent trade deficit has in most years appeared to be unaffected by transitional improvements in export performance. This reflects another aspect of the Palestinian trade dilemma, whereby certain potentials (e.g. in exports) are almost structurally subservient to dependency relations with Israel.

102. The behaviour of imports and exports between 1980 and 1983 is indicative of how occupation has marginalized the role of Palestinian trade. In this period, which was characterized by high growth and expansion in the Israeli economy, the income which accrued to the occupied territory from international transfers and export of labour permitted a strong and steady growth in merchandise imports. The falling levels of exports in the period, and the low rates of directly productive investment characterizing the economy, imply that domestic production capacity in agriculture and industry was partially idle, while import of capital or intermediate goods for production of exports was similarly weak (see section 2 (d) below). Instead, the territory's expenditure on imports has been mainly concentrated on expendable consumer goods.

103. The present pattern of heavy and unregulated reliance on imports for consumption has few, if any, growth-encouraging effects for the occupied territory. This is because of the constraining effect of Israeli policies on domestic productive sectors, coupled with the orientation of domestic consumption patterns and tastes to imported goods and the tendency of the

Table 8. Occupied Palestinian territory (West Bank and Gaza Strip)
Volume and direction of merchandise trade by major markets, 1970-86 (selected years)
(Million United States dollars a/ and percentages)
(Current prices)

YEAR	Trade with Israel $US	Trade with Israel %	Trade with Jordan $US	Trade with Jordan %	Trade with other countries $US	Trade with other countries %	TOTAL $US	TOTAL % b/
1970								
Imports	83.2	83.6	3.7	3.7	12.6	12.7	99.5	100
Exports	20.9	46.2	17.2	38.1	7.1	15.7	45.2	100
Balance	(54.3)		13.5		(5.5)		(54.3)	
1975								
Imports	371.2	91.2	5.2	1.3	30.5	7.5	406.9	100
Exports	123.3	63.9	51.7	26.8	17.9	9.3	192.9	100
Balance	(247.9)		46.5		(12.6)		(214.0)	
1980								
Imports	517.7	86.4	5.0	0.8	76.7	12.8	599.4	100
Exports	224.4	66.4	101.8	30.1	11.5	3.4	337.7	100
Balance	(293.3)		96.8		(65.2)		(261.7)	
1981								
Imports	664.4	90.1	7.3	1.0	65.5	8.9	737.2	100
Exports	288.7	71.6	105.4	26.1	8.9	2.2	403.0	100
Balance	(375.7)		98.1		(56.6)		(334.2)	
1982								
Imports	648.4	89.0	8.9	1.2	71.6	9.8	728.9	100
Exports	258.5	66.2	125.0	32.0	7.1	1.8	390.6	100
Balance	(389.9)		116.1		(64.5)		(338.3)	
1983								
Imports	712.6	90.1	6.8	0.9	65.4	8.3	784.8	100
Exports	285.1	74.7	88.4	23.1	8.1	2.1	381.6	100
Balance	(427.5)		81.6		(57.3)		(403.2)	
1984								
Imports	619.9	90.3	8.2	1.2	58.1	8.5	686.2	100
Exports	185.3	64.1	98.4	34.0	5.3	1.8	289.0	100
Balance	(434.6)		90.2		(52.8)		(397.2)	
1985								
Imports	598.0	89.5	8.7	1.3	61.2	9.2	667.9	100
Exports	181.3	66.6	85.4	31.4	5.7	2.0	272.4	100
Balance	(416.7)		76.7		(55.5)		(395.5)	
1986								
Imports	797.8	89.6	10.9	1.2	81.3	9.1	890.0	100
Exports	274.6	72.6	100.6	26.6	3.1	0.8	378.3	100
Balance	(523.2)		89.7		(78.2)		(511.7)	

Source:
Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, C.B.S., 1987), p. 711.

a/ Figures in parentheses indicate a negative (deficit) balance.
b/ Figures are rounded to the nearest decimal; thus the totals are not necessarily equal to the sum of the separate items.

economy to "live beyond its productive means". Close contact with the Israeli economy encourages draining local productive sectors of manpower which is attracted to the opportunities for income-generation through exportation of labour services. In the absence of growth-inducing policies and institutions, this income is used mainly to pay for more consumer imports and for investment in local residential construction, rather than increased consumption of local products and productive investment, in turn weakening domestic production and export capacity.

2. Direction of trade

104. The broad outlines of Palestinian import patterns were established from the very first years of Israeli occupation; changes since then have merely magnified or reduced the basic trends. In 1970, 83 per cent of Palestinian imports originated in Israel, 4 per cent originated in or passed through Jordan and 13 per cent came from other countries. Since then, the major shift in import patterns has been a rise in the share of Palestinian imports from Israel and a corresponding fall in imports from/through Jordan and from the rest of the world. In 1986, while the territory imported $11 million and $81 million from/through Jordan and elsewhere respectively, imports from Israel totalled $798 million. Despite established historical commercial relations between the occupied territory, Jordan and some other Arab countries, imports from/through Israel dominate Palestinian trade. This significant degree of re-orientation of import patterns has far-reaching implications for Palestinian economic development. The nature of import composition, the shifts in Palestinian domestic consumption patterns, and other developments indicate a growing isolation of the Palestinian economy from its traditional environment and markets.

105. The market position of Palestinian exports has deteriorated under Israeli occupation: the choices facing the West Bank and Gaza Strip have become exceedingly limited. Shifting market shares since 1970 between Israel, Jordan and the rest of the world have produced an inordinate concentration of exports almost exclusively with one partner. From a position of no trade with Israel until 1967, 46 per cent of Palestinian exports, equivalent to $21 million, were destined for Israel in 1970. Despite the relatively low value of exports in this period, Israel's share had grown rapidly during the first three years of occupation, considering that the occupied territory had not yet re-oriented its production.

106. The situation was further transformed during the 1970s, and exports from the occupied territory developed a well-defined and fairly rigid pattern. Israel's share of the Palestinian export market has since fluctuated upwards, to reach an annual average of around 69 per cent during the period 1980-1986. Jordan's share of the territory's exports has averaged 29 per cent since 1980, and the share of other markets has averaged 2 per cent during the period. Until 1981, Palestinian export capacity was relatively high, with exports in some years reaching over 40 per cent of GDP, but with the declining export trend since then, export capacity had fallen to a low of 24 per cent by 1986, a level which characterized the early 1970s. Meanwhile, the rapid rise in imports since 1967 has contributed to the overall increased significance of trade with respect to the domestic economy. This growing openness of the economy without commensurate policies and measures to safeguard Palestinian interests has seriously undermined and threatened the viability of Palestinian productive and export capacity.

107. Against the large and rising level of imports from Israel to the occupied territory, the key balancing element in Palestinian external merchandise trade has been the constant surplus in trade with Jordan. Exports to Israel since 1975 have been around double the value of exports across the bridges to Jordan. But the low import bill with Jordan has allowed the occupied territory to maintain a constant surplus in merchandise trade with Jordan, which has remained around an annual level of $100 million (except in 1982).

108. In the prevailing circumstances, the surplus with Jordan represents the only (limited) immediate relief for the chronically deficit merchandise trade sector of the territory. It plays a similar role within the balance of merchandise trade as do labour exports within the current account of the balance of payments. There is a distinct advantage for the territory in maintaining its position in traditional markets and in the relatively favourable effect on the domestic economy created through promotion of merchandise exports to and through Jordan (and hence domestic output). On the other hand, the concentration on export of labour services to Israel under present circumstances provides little, if any, impetus to domestic productive investment and output, as noted earlier. A "vicious circle" has arisen whereby the high merchandise deficit in trade with/through Israel has in recent years been accompanied by greater labour service export dependency on Israel and increased conspicuous consumption, especially of imports, as against productive investment. This has led to weaker merchandise output and export capacity, which in turn reinforces the deficit and so on. The basic structural problems in the Palestinian external sector involve, in an interdependent and mutually aggravating manner, both import and export trade of merchandise and services.

3. Composition of Palestinian merchandise trade

(a) Agricultural goods: exports

109. The relatively large share of Palestinian domestic product originating in agriculture has not been reflected in the export mix. Since the 1970s, the value of agricultural exports has steadily declined, the share of agricultural goods within total exports has become increasingly marginal, and there are few indications of possibilities for improvement in the near future. The export of agricultural output from the occupied territory amounted to $107 million in 1977, falling to a record low of $64 million in 1984, only to register a slight increase in 1986 and reach the level of $75 million (see table 9). The share of agricultural goods in total merchandise exports fell from 42 per cent in 1977 to as low as 19 per cent in 1986. Despite the restructuring experienced in Palestinian agriculture and the shifts towards "modern" farming techniques and crops, these trends in exports of the largest productive sector carry grave implications for the future role of agricultural trade in the Palestinian economy, especially in view of the bleak prospects facing Palestinian industrial development. Obstacles to market entry and loss of markets have led to less agricultural production being directed towards export. Despite the various restrictions it faces, domestic production capacity, especially in the West Bank, has not been decreasing at a rate that would cause a large decline in agricultural exports. The main causes of falling agricultural exports must rather be sought in other non-production-related areas, especially the ability to penetrate and compete in a range of markets.

Table 9. Occupied Palestinian territory (West Bank and Gaza Strip)
Exports by market and commodity composition (major groups) 1977, 1980-1986
(Million United States dollars a/)
(Current prices)

	AGRICULTURAL EXPORTS								INDUSTRIAL EXPORTS									
	JORDAN					ISRAEL	OTHER COUNTRIES		JORDAN						ISRAEL	OTHER COUNTRIES		
	Vegetables	Citrus fruit	Other fruit	Others	TOTAL	TOTAL	TOTAL b/	AGRICULTURAL EXPORTS TOTAL	Olive oil & olives	Stone and marble	Soap	Samna and dairy	Others	TOTAL	TOTAL	TOTAL	INDUSTRIAL EXPORTS TOTAL	EXPORTS GRAND TOTAL
1977	4.0	52.8	4.5	0.4	61.7 (57.4)	33.3 (31.0)	12.4 (11.6)	107.4 (100)	2.2	2.1	4.1	9.8	4.7	22.9 c/ (15.8)	120.9 (83.5)	1.0 (0.7)	144.8 (100)	252.2
1980	3.2	37.4	7.5	0.1	48.2 (44.5)	50.7 (46.8)	9.5 (8.7)	108.4 (100)	31.0	4.8	4.4	15.1	3.1	58.4 (24.6)	177.3 (74.7)	1.6 (0.7)	237.3 (100)	345.7
1981	5.2	34.5	10.0	0.5	50.2 (49.0)	45.3 (44.2)	7.0 (6.8)	102.5 (100)	25.5	6.3	4.1	13.9	2.9	52.7 (17.7)	243.0 (81.8)	1.5 (0.5)	297.2 (100)	399.7
1982	8.2	39.3	12.6	0.3	60.4 (60.6)	34.1 (34.2)	5.2 (5.2)	99.7 (100)	37.0	8.0	4.9	22.6	6.6	79.1 (25.8)	226.6 (73.9)	0.8 (0.3)	306.5 (100)	406.2
1983	4.0	25.7	12.9	0.6	43.1 (47.7)	40.2 (44.5)	7.0 (7.8)	90.3 (100)	15.8	7.9	3.6	13.7	2.2	43.2 (14.9)	244.9 (84.7)	1.1 (0.4)	289.2 (100)	379.5
1984	5.2	17.8	12.6	0.6	36.3 (56.4)	23.9 (37.1)	4.2 (6.5)	64.4 (100)	28.5	10.6	3.5	17.7	1.8	62.1 (26.4)	171.8 (73.1)	1.1 (0.5)	235.0 (100)	299.4
1985	8.3	24.2	15.8	0.5	48.8 (62.2)	25.0 (31.8)	4.7 (6.0)	78.5 (100)	0.7	12.0	3.4	18.4	2.1	36.7 (17.9)	167.2 (81.6)	1.0 (0.5)	204.9 (100)	283.4
1986	4.9	23.1	13.5	1.1	42.6 (56.5)	30.6 (40.6)	2.2 (2.9)	75.4 (100)	24.7	11.8	3.6	15.8	2.1	58.0 (18.3)	258.4 (81.4)	0.9 (0.3)	317.3 (100)	392.7

Sources:
(1) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1978), p. 773 and Israel, Central Bureau of Statistics, Administered Territories Statistical Quarterly, Vol. IX, No. 2, (Jerusalem, C.B.S., 1979) for 1977 figures; (2) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Vol. XVI, No. 1, (Jerusalem, C.B.S., 1986), Pp. 6-7, 13 for figures for Jordan for 1980-83 and all other figures for 1983; (3) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1983), p. 767 for figures for 1980-82 (except for Jordan); (4) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Vol. XVII, No. 2, (Jerusalem, C.B.S., 1987), pp. 6-7, 11 for all figures for 1984-86.

All figures for 1984-1986 (and for Israel and other countries in 1983) were originally expressed in United States dollars; all other figures originally expressed in Israel currency were converted to United States dollars using ing to the average annual exchange rate as quoted in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = $US 1 in 1968 to NIS 1.4878 = $US1 in 1986. The values of export totals in this table diverge slightly with totals in table 8 because of differences in the original sources between aggregate and disaggregated figures and the conversion of Israeli shekels to United States dollars.

a/ Figures in parentheses are in percentages.
b/ All citrus fruit.
c/ For 1977, pickled olives and marble are included in the figures for "others", and not under olive oil/olives and stone/marble.

110. The direction of agricultural exports reflects the significant role that Jordanian and other Arab markets have played in the disposal of Palestinian agricultural output. Since 1980, an annual average of 54 per cent of agricultural exports has been destined for Jordan and other Arab markets. This relatively stable share has been maintained in a situation of a declining volume of agricultural exports accompanied by a steady fall in the value of agricultural goods shipped to Jordan. In 1977, over $60 million of vegetables and fruits crossed the bridges for sale in Jordan and other Arab markets, while by 1986 the figures reached a low of $43 million.

111. In 1977, when the territory could still count on exports to other countries (especially to Eastern Europe and Iran), some 12 per cent of agricultural exports went to these markets. The value and share of exports to these markets have since gradually declined, falling to as low as $3 million (2.2 per cent of agricultural exports) in 1986. On the other hand, in 1977 Israel imported 31 per cent of Palestinian agricultural output, amounting to $33 million, while the average annual value of Palestinian agricultural exports to Israel during the period 1980-1986 amounted to $36 million, or an average of 44 per cent of total agricultural exports.

112. While no data are available on the composition of agricultural exports to Israel, two separate series of data cover the territory's agricultural exports to Jordan. Table 9 provides information on the respective shares of main branches in the total value of agricultural exports. It is seen that citrus fruits constitute the territory's major agricultural export earner with Jordan, though the share declined from 84 per cent in 1977 to 50-55 per cent by the mid-1980s. Most of this citrus fruit originates in the Gaza Strip and transits through Jordan mainly for sale in nearby Arab markets. Citrus fruits are Gaza's only export commodity to Jordan besides small amounts of guava and dates. Other fruits from the West Bank, including mostly olives, have increased their share in the Jordanian market from under 10 per cent of all agricultural exports in 1977 to over 30 per cent since 1982, with a corresponding change in value from under $5 million to some $16 million. The share of vegetables in the agricultural export mix to Jordan has usually been over 10 per cent, with no significant change in value since the 1970s.

113. Another series of data (see table 10) allows for a detailed examination of the volume of exports to Jordan. 64/ The quantities of vegetables shipped from the West Bank to Jordan have grown dramatically since 1977, when under 10,000 tons crossed the bridges. While the two most significant items in this flow are tomatoes and melons, the share of potatoes in exports to Jordan has also grown, especially since the early 1980s. Vegetable exports to Jordan reached over 80,000 tons by 1985, but have since declined. In most years since 1980, the territory has exported between 20 to 30 per cent of vegetable output to Jordan, though this proportion dropped to only 14 per cent in 1987. 65/ The changes in the export commodity composition appear again to reflect market conditions (including relative prices) and policies, more than factors related to production levels.

114. The largest export item of West Bank fruits to/through Jordan is citrus fruit, followed by olives (in good years), grapes and bananas. In recent years, the total quantity of fruit entering Jordan has followed a declining trend; after having peaked at 66,000 tons in 1981, it declined to 34,000 tons in 1987. As has been the case since the 1970s, citrus fruit accounted for over half of the total quantity of fruits entering Jordan from the West Bank,

Table 10. Occupied Palestinian territory (West Bank and Gaza Strip)
Total production of agricultural commodities and entry to Jordan (East Bank), by selected crops, 1976/7, 1979/80 -1986/87[a/]
(Thousand tons)

	WEST BANK																WEST BANK		GAZA STRIP			
	Tomatoes		Melons		Potatoes		Total vegetables		Grapes		Bananas	Olives & olive oil	Total citrus		Total fruit		Total fruit & vegetables		Total citrus		Total fruit	
Source*	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(2)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
1976/77																						
Prod.	43.2	NA	8.9	NA	8.2	NA	158.4	NA	34.5	NA	NA	NA	76.1	NA	154.9	NA	313.0	NA	232.2	NA	304.0	NA
Entry	3.2	3.3	0.2	-	1.9	0.3	12.2	9.4	2.5	3.7	1.3	1.9	44.3	45.7	54.8	56.4	67.0	65.8	158.2	122.9	160.1	125.9
1979/80																						
Prod.	45.6	45.8	19.6	17.5	6.7	6.6	165.1	162.8	44.9	45.4	8.0	138.4	74.3	73.9	165.1	163.3	330.2	326.1	168.1	NA	251.4	NA
Entry	6.2	3.3	5.5	6.4	1.1	0.9	16.8	13.8	5.5	4.9	1.9	8.6	40.1	33.6	51.5	53.4	68.3	67.2	107.4	104.5	110.0	106.7
1980/81																						
Prod.	10.4	50.2	42.7	46.1	10.4	9.5	202.2	204.9	45.0	51.7	9.0	50.0	73.5	75.3	179.4	205.5	387.6	410.9	199.9	NA	273.9	NA
Entry	1.4	7.3	19.1	16.1	1.0	1.6	37.8	35.5	11.0	6.1	3.4	3.5	43.9	39.6	65.5	66.5	103.3	102.0	121.3	107.0	130.9	109.3
1981/82																						
Prod.	71.7	73.3	25.9	25.9	11.5	5.1	208.2	205.4	40.0	64.8	13.4	143.7	79.5	82.1	179.4	205.5	387.6	410.9	199.9	NA	292.9	NA
Entry	24.7	15.2	18.6	9.5	2.5	2.5	60.6	49.4	13.0	5.6	4.3	10.0	49.2	39.0	75.2	58.7	135.8	108.1	116.7	100.9	119.0	103.1
1982/83																						
Prod.	56.9	50.6	74.9	74.9	11.4	11.5	247.8	247.3	35.0	58.9	14.7	57.4	82.0	47.2	167.5	156.6	415.3	403.9	166.5	NA	259.5	NA
Entry	10.1	10.7	36.9	37.7	2.7	3.9	61.4	56.5	10.0	5.8	3.9	3.1	49.0	31.7	69.0	45.9	130.4	102.5	89.9	75.6	92.3	77.5
1983/84																						
Prod.	66.8	66.3	80.6	100.8	12.4	12.4	246.8	284.6	36.1	51.8	16.1	88.9	74.3	82.9	168.0	121.7	414.8	406.3	159.5	NA	260.5	NA
Entry	10.0	20.1	15.3	46.8	1.0	5.0	79.9	77.8	9.0	6.0	8.3	5.6	44.9	34.0	64.7	54.1	144.6	131.9	101.2	89.4	103.5	91.5
1984/85																						
Prod.	60.2	60.1	88.8	100.6	18.5	19.9	259.3	273.0	35.6	51.4	18.2	24.8	76.3	69.9	161.9	168.3	421.2	441.3	175.7	NA	294.5	NA
Entry	28.0	21.7	60.0	47.6	3.3	4.4	103.0	81.7	13.0	7.9	7.4	0.2	45.0	29.6	67.4	49.9	170.4	131.6	NA	81.6	NA	85.4
1985/86																						
Prod.	66.4	66.4	73.6	89.1	18.9	16.4	255.0	260.2	39.1	44.1	18.2	NA	80.5	78.2	173.6	182.5	428.6	442.7	146.9	NA	265.0	NA
Entry	22.0	16.1	46.2	27.7	7.1	3.9	85.9	55.1	11.0	5.2	7.6	8.1	45.8	19.5	70.2	42.2	161.1	88.7	81.6	72.9	81.6	76.7
1986/87																						
Prod.	NA	58.6	NA	72.5	NA	18.2	NA	256.2	NA	34.7	19.3	8.3	NA	89.1	NA	164.2	NA	420.4	NA	NA	NA	NA
Entry	NA	4.6	NA	20.0	NA	5.5	NA	35.0	NA	6.2	4.6	-	NA	21.2	NA	33.6	NA	68.6	NA	58.2	NA	61.6

*Sources:

(1) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1978, 1981, 1982, 1983, 1984, 1985, 1986, 1987), pp. 794, 738, 760, 788, 770, 732, 714, and 732, respectively.

(2) (i) Jordan, Ministry of Agriculture, Agricultural Statistics, 1974-80, (Amman, The Ministry, 1987) (in Arabic); Jordan, Ministry of Agriculture, Agricultural Statistics, 1981-85, (Amman, The Ministry, 1986) (in Arabic); data obtained from the Ministry of Agriculture, Directorate of Agricultural Economy and Planning, Department of Statistics, Amman, Jordan, 1988 (in Arabic), for all figures for 1982-87 and all figures on entry of goods to Jordan for 1977, 1980, and 1981.

(ii) ESCWA, Developing agricultural exports of the occupied Palestinian territories (West Bank and Gaza Strip), (Baghdad, ESCWA, 1987), p. 57 (in Arabic) for figures on production for 1980 and 1981.

a/ Reference is to the agricultural year October-September.

and its decline has been responsible for bringing down the overall level of fruit exports to Jordan. Production levels of citrus and other fruits have in recent years been generally stable, standing at between 160,000 and 180,000 tons. The volume of fruit exported to Jordan has fluctuated at around 30 per cent of total output throughout the 1980s. 66/

115. Meanwhile, Gaza Strip exports through Jordan, composed almost totally of citrus fruit, have decreased severely since the 1970s when up to 160,000 tons were shipped annually. By 1987, the Gaza Strip exported only 58,000 tons of citrus fruit to/through Jordan, less than half the level of 1977. The proportion of output which is exported was over 60 per cent in the late 1970s, but declined to around half of total citrus production by 1986. Unlike the situation in the West Bank, this decline in Gaza Strip export capacity can be linked, inter alia, to a fall in production in the Gaza Strip of 37 per cent from 1977 to 1986. These factors have also contributed to rising costs and the relatively higher price structure in domestic commodity markets as compared to export markets, thus making Palestinian products less competitive externally.

116. Overall, the experience of West Bank and Gaza Strip agricultural exports to/through Jordan in the 1980s confirms the emergence of serious long-term market constraints affecting Palestinian export capacity. By 1987, the quantities crossing the bridges had fallen back to levels originally experienced in the mid-1970s (for the West Bank) or far below 1970 levels (for the Gaza Strip). With regard to the traditional markets where Palestinian products used to enjoy a reputation of high quality, there have been decreasing opportunities for Palestinian exports. In addition to the pervasive influence of Israeli policies, the fall in exports to these markets may be attributed to the general economic recession in the region coupled with policies aimed at supporting domestic agriculture and the entry of new competitors in the traditional markets for Palestinian exports. Despite these most recent trends, the favourable historical role of these key markets continues to represent a clear potential impetus to future Palestinian trade development.

(b) Agricultural goods: imports

117. Against the falling trend of Palestinian agricultural exports, an alarming development has taken place with regard to agricultural imports. Since 1977, when the occupied territory imported $89 million worth of agricultural commodities, this amount has surged steadily to reach a high of $130 million in 1986 (see table 11). The occupied Palestinian territory has not been self-sufficient in certain areas, especially in respect of some cereals and basic food items. However, the growth in food imports has been so great that the surplus in agricultural trade that the territory enjoyed until 1982, has since turned into a large and growing deficit. In 1977, the West Bank and Gaza Strip generated a $18 million surplus in agricultural trade, but by 1986 the territory required $55 million worth of food imports to cover growing domestic demand.

118. The deficit appears to reflect the increasingly fragmented and weakened structure of the domestic agricultural sector and increased purchasing power due to the flow of income from abroad through remittances and transfers. In addition to no longer being able to meet domestic demand, Palestinian agriculture has been unable to balance and rationalize output between domestic

Table 11. Occupied Palestinian territory (West Bank and Gaza Strip)
Imports by market and commodity composition (major groups) 1977; 1980-86
(Million United States dollars)
(Current prices)

	AGRICULTURAL IMPORTS				INDUSTRIAL IMPORTS														TOTAL
	ISRAEL	JORDAN	OTHER	TOTAL	ISRAEL	JORDAN					OTHER COUNTRIES VIA ISRAEL								
						Oils and dairy prods.	Paper & print-ing	Text-iles & cotton	Iron & steel prods.	TOTAL	Oils	Food prod. total a/	Soap & plastic	Wood, paper & card-board	Text-iles & prods.	Iron & steel prods.	Mach-ines & elec-trical equip.	TOTAL	
1977	74.0	0.3	14.9	89.2	377.3	2.4	0.2	0.9	0.4	4.4	7.2	14.9	0.6	0.7	2.1	1.3	4.5	39.3	421.0
1980	90.4	0.5	5.9	96.8	506.8	4.3	0.2	0.1	0.2	4.9	12.9	18.8	1.8	2.0	5.0	4.3	12.1	76.7	588.4
1981	91.3	0.2	5.0	96.5	581.3	6.0	0.3	0.3	0.3	7.0	8.8	11.3	2.5	2.3	5.8	2.8	8.1	65.5	653.8
1982	75.3	0.4	10.9	86.6	573.1	7.8	0.2	0.1	0.3	8.5	8.5	14.6	2.3	3.6	4.6	2.5	10.7	71.6	653.2
1983	89.6	0.3	12.1	102.0	623.0	5.5	0.2	0.2	0.3	6.5	5.4	8.5	3.0	4.8	4.5	2.9	10.0	65.4	694.9
1984	98.2	0.1	10.7	109.0	521.7	7.4	0.2	0.1	0.3	8.1	6.0	11.6	2.7	4.8	3.3	1.8	8.0	58.1	587.9
1985	87.8	0.3	14.0	102.1	510.2	7.3	0.3	0.1	0.5	8.3	10.1	10.6	2.0	5.2	3.7	2.1	7.7	61.2	579.7
1986	114.4	0.2	15.6	130.2	665.9	9.1	0.5	0.3	0.6	10.8	7.1	12.6	3.8	3.1	4.5	3.2	15.7	81.0	757.7

Sources:
(1) Agricultural imports, and industrial imports from Israel:
(i) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Vol. XV, No. 2, (Jerusalem, C.B.S., 1985), pp. 6-7, and Vol. XVII, No. 2, (Jerusalem, C.B.S., 1987), pp. 6-7 for 1982-86;
(ii) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1983), p. 767 for 1980/81;
(iii) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, C.B.S., 1978), p. 773 for 1977.
(2) Industrial imports from Jordan and from other countries:
(i) Israel, Central Bureau of Statistics, Administered Territories Statistical Quarterly, Vol. XI, No. 2, (Jerusalem, C.B.S., 1981), p. 10 for 1977;
(ii) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Vol. XVII, No. 1, (Jerusalem, C.B.S., 1987), pp.10 and 12 for 1980-85;
(iii) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Vol. XVII, No. 2, (Jerusalem, C.B.S., 1987), pp. 11 and 12 For 1986.

All figures originally expressed in Israeli currency have been converted to United States dollars using the average annual exchange rate as quoted in International Monetary Fund, International Financial Statistics (Washington D.C., IMF, 1986). Repeated devaluation of the Israeli currency has brought the exchange rate down from the equivalent of NIS 0.00035 = $US 1 in 1968 to NIS 1.4878 = $US 1 in 1986.

a/ Comprising milk powder, coffee, tea, spices, cereals, flours, sugar and preparations of meat.

and external demand conditions in such a way as to minimize foreign exchange losses (and maximize earnings) while also striving towards a degree of food self-sufficiency. This is an objective that should not be impossible to realize in the case of the relatively diversified and potentially productive Palestinian agricultural sector.

119. It is not coincidental that the Israeli policies which have helped to distort the structure of Palestinian agricultural output have been accompanied by two significant trends in agricultural trade between Israel and the occupied territory. The low level of Palestinian agricultural exports to Israel has been mainly linked to industrial (food) processing. Meanwhile, Israeli agricultural products have entered the occupied territory at levels of up to $100 million annually since the 1970s. Since 1983, the value of agricultural imports from Israel have annually exceeded that of total Palestinian agricultural exports, by a margin of as much as $30 million in 1984 and 1986. Israel provides 85 to 95 per cent of Palestinian agricultural imports, with the rest largely consisting of wheat, cereals and other staples coming from elsewhere. Most of the imports from Israel are directly competitive with domestically produced fruits and vegetables and have played a role in creating surpluses in domestic production of some items. Thus, constraints affecting production are added to by problems in maintaining export markets, as well as strong competition in the local market from unrestricted entry of Israeli goods to the occupied territory.

(c) Industrial goods: exports

120. As is the case with agriculture, industrial export performance has not mirrored domestic trends. Industrial exports have grown significantly under occupation, though the main direction of this increase has been towards Israel, with the Jordanian market accounting for a share of less than 20 per cent in most years (see table 9). The value of industrial exports to other countries has rarely exceeded $1 million. As noted above, industrial products account for the bulk of total Palestinian exports, reaching a high of over 80 per cent in 1986. The value of all industrial exports has grown considerably from its 1977 level of $145 million, reaching a record level of $317 million in 1986, over four times the value of total agricultural exports in that year.

121. The value of Palestinian industrial exports to Jordan increased during the 1970s but has stabilized since 1980 at an annual average of $55 million. The composition of exports to Jordan is fairly well-defined: olive oil and pickled olives account for the bulk of industrial exports (around 45 per cent when olive output is strong) and vegetable oil and dairy products amount to 25 to 30 per cent in most years. Exports of West Bank stone and soap account for under 20 per cent and 10 per cent, respectively, of industrial exports.

122. There are no data available on the composition of Palestinian industrial exports to Israel, so a detailed analysis of this important flow cannot be undertaken. The significance of Palestinian industrial exports to Israel is explained partly by the considerable increase in its value since the 1970s. While $121 million of Palestinian manufactures entered Israel in 1977, these exports grew to $245 and $258 millions in 1983 and 1986 respectively, by which time the Palestinian industrial export sector appeared to be mainly oriented to producing for the Israeli market.

123. Another significant aspect of Palestinian industrial exports to Israel is indicated by the data for total value of industrial exports compared to the total value of domestic Palestinian industrial output as represented in GDP. It appears that the value of total industrial exports since the 1970s has exceeded the value of domestic output originating in industry at factor cost by a factor of three to four. The annual excess of industrial exports over the value of domestic industrial product has been in the range of $130 to $230 million since 1980. Even allowing for the effect of using factor prices rather than the somewhat higher market price, and despite the agricultural and raw material content of industrial exports (including that which is imported), this means that the recorded value of Palestinian exports is several times larger than measured industrial output. While it is to be expected that the value of industrial exports will exceed that of the industrial output they embody, it is highly improbable that the mark-up would be as high as three or four times.

124. This apparent paradox can only be fully explained in the light of more detailed data on composition of flows than is presently available, but one phenomenon can help to account for the discrepancy, namely the flow of goods between Israel and the territory as part of the subcontracting services performed for Israeli manufacturers. In addition to manufactures of Palestinian origin which are exported to Israel and elsewhere, part of the excess of exports over output is constituted by the value added by the industrial sector in processing domestic agricultural commodities for export, especially olives, dairy products, soap and some leather products. Such goods, however, constitute only a small proportion of industrial exports to Israel, owing to the controls imposed by the latter on such imports from the occupied territory. Thus, it can be inferred that subcontracting-related industrial exports account for a significant proportion of Palestinian exports to Israel, though a precise estimate is not possible owing to lack of data. Nor is it possible to estimate the labour service value-added component of this flow, since existing data does not indicate the value of semi-finished goods imported to the territory from Israel as part of this process.

125. It can thus be inferred that Palestinian industrial trade (in both directions) is highly dependent on an exclusive market involving specific production processes, the scale of which greatly overshadows the production and trade performance of the indigenous industrial sector. The industrial sector of the territory is increasingly devoted to operating as an external enclave of the Israeli economy, providing selected manufactures or finishing Israeli goods through low-wage, labour-intensive tasks that require fewer technical and managerial skills. This has allowed Israeli industries to concentrate on development of the more technology-oriented, capital-intensive activities that provide for higher-value-added industrial processes in which Israel can realize significant foreign exchange gains. The arrangement inhibits the development of domestic inter- or intra-sectoral linkages and discourages entrepreneurial initiative in industry. There are no chances to realize horizontal or vertical integration or market economies of scale, since many of the products involved in the process are consumer expendables (textiles, food products and certain construction materials) which subsequently re-enter the occupied territory in competition with local producers.

(d) Industrial goods: imports

126. The preponderance of merchandise imports and their debilitating effect on the Palestinian balance of payments has been discussed above. Israel has been the source of almost 90 per cent of Palestinian industrial imports during most of the occupation period, with an annual value of more than $500 million annually since 1980 and reaching as high as $665 million in 1986 (see table 11). It has been indicated that a significant proportion of industrial imports from Israel, possibly up to 25 per cent, is constituted by semi-finished goods destined for processing in the occupied territory and re-export to Israel. The balance includes a range of consumer goods not produced domestically or which enter the territory to compete with Palestinian products. This dependency on imports does not provide any prospects for Palestinian industrial growth or economic development in general.

127. The analysis of the performance of Palestinian merchandise trade may be concluded with a brief examination of the levels and composition of industrial imports from sources other than Israel. Jordan is the source of a relatively limited amount of manufactured imports which rose slowly from under $5 million in the 1970s to $11 million by 1986. Jordan's share of Palestinian industrial imports has been slightly above 1 per cent of the total for most years since 1967. The bulk of industrial products imported from Jordan are oils used in soap production and dairy products, though limited amounts of paper, textiles, iron and metal products are also imported, mainly for use in production intended for re-export to Jordan.

128. A fairly steady proportion of 10 per cent of Palestinian industrial imports originate in other countries and enter the territory via Israeli ports. The value of imports from abroad rose from $40 million in 1977 to $81 million in 1986 at a rate of growth exceeding even that of industrial imports from Israel. A fairly wide range of products is included in these imports, though machines and electrical equipment account for the largest share, between 15 and 20 per cent annually. This is followed by a variety of food products (milk powder, coffee, tea, flour, sugar and other processed foods); vegetable and related oils; wood, paper and cardboard; textiles, clothes and leather goods; soap and plastics; and iron and steel products. A significant proportion of industrial imports from abroad appears to be destined for local processing, including oils, plastics, wood and paper, some textiles, iron and steel products and industrial machinery, in addition to those imports which are immediately consumed, such as food products, soap, paper, clothing, and some household equipment and private vehicles.

E. Trade in services

129. The occupied Palestinian territory's ability to maintain a relatively low dependence on external sources for provision of insurance, transport, tourism/travel, labour and other services has been instrumental in maintaining a surplus in services. This low level of service imports, coupled with the proportionately larger share of service exports in the current account (as compared to merchandise), has given the external service sector a paramount position within the Palestinian balance of payments. Though services accounted for under half of total exports until 1980, the share then grew rapidly to over 60 per cent in 1984 and 1985, highlighting the growing marginalization of the Palestinian merchandise trade sector.

1. Labour and "other" services

130. In addition to labour and repair services, the "other services" item of the current services account includes items such as financial services, trade-related services including agents' fees, Israeli-supplied labour services, including management, and various government services provided from outside the territory which are directly charged to Palestinian inhabitants. Imports of these labour and "other" services have accounted for the bulk of payments by the occupied territory for externally provided services, equivalent to between $130 and $170 million since 1980. Despite the continuing high reliance on externally provided services, the services account has carried a regular surplus as a result of the large credit to the services' current account from labour service exports. In fact, within the "other services" item, payments for Palestinian labour exports are the only receipts by the territory for services provided by the territory.

131. Wages paid for the export of Palestinian labour (temporary migrant workers, subcontracting and repair services) since 1980 have been the single most significant source of external credit within the current account of the territory. In 1977 Palestinian merchandise exports earned $10 million more in receipts than did labour services, but by 1980 Palestinian labour was earning some $50 million more than merchandise exports. The gap between these two major Palestinian "export earners" has since widened, peaking at $200 million in 1983 though falling back subsequently to around $100 million.

132. Since 1982, labour service exports, which cover direct labour export abroad and the wage element of subcontracting and repair services, have generated over half of all current account payments to the occupied territory. This compares to a very small annual labour import bill (paid for labour services rendered to Palestinian factors from Israel and in Jordan) of around $10 million in most years. In 1986, $480 million was generated by labour services exports, equivalent to 91 per cent of all service exports and 53 per cent of all current account credits. Payments as wages accruing to the occupied territory for the export of labour have been equivalent in most years to some 54 per cent of the value of Palestinian merchandise imports. An exception is noted in the 1982-1984 expansionary period when wages paid for exported Palestinian labour amounted to 70 per cent of merchandise imports.

133. This again highlights the dependence of the Palestinian economy on employment opportunities abroad to continue to fuel the consumption of imported goods. The experience since 1983, with receipts from the export of labour services registering a record high ($560 million) and subsequently falling by $200 million in 1985, also underlines the problems associated with the present degree of unreliable dependence on external demand for Palestinian labour. The dynamism of the Palestinian external sector is increasingly threatened by the predominance of a single form of service exports within their present structure. The existing balance of payments of the territory is inherently unstable and costly, allowing little room for improvement in present circumstances. Given the chance to develop alternative components of the current account, through, for example, diversification and expansion of merchandise exports, the Palestinian economy could benefit from a reduction in exports of labour and a re-allocation of resources to provide greater domestic opportunities for employment, production and higher-value-adding services than those currently featured in the external sector.

2. Subcontracting and repair services

134. Balance-of-payments statistics classify wages paid to labour involved in subcontracting and repair services under the "services" item of the current account. One indicator of the possible level of wage payments for subcontracting is found in the difference between total service exports to Israel and gross factor income (pre-tax) paid by Israel to Palestinian migrant workers. This difference covers transport, travel, subcontracting and other services. According to Israeli data for 1980-1984, factor income payments (which exclude wages paid in the occupied territory for subcontracting) were equivalent to an average of 94 per cent of total payments for Palestinian service exports. 67/ The remaining balance of 6 per cent of Palestinian services exports covers payments for subcontracting and other services, equivalent to $18-$27 million annually during the 1980-1984 period. While a portion of this consists of payments for non-labour services provided by the territory (especially travel and tourism), payments from Israel for these items are considered relatively small.

135. Alternative data for factor income payments indicate a lower level of factor income accruing from Israel than is reported in official Israeli data series. 68/ Calculations on the basis of this series reveal that total non-factor income payments from Israel to the territory were equivalent to an average of 50 per cent of the value of total Israeli payments for Palestinian services in the 1980-1984 period. This produces a set of figures representing Israeli payments for Palestinian subcontracting, repair and other services at between $150 and $225 million annually until 1984. While figures based on this percentage might overestimate the value of subcontracting, repair and other (non-migrant worker) payments by Israel for Palestinian labour, they illustrate the potentially much greater weight of such services than is indicated by Israeli data.

3. Insurance and transport

136. Most of the other services components of the current account have been in deficit since the beginning of occupation. Almost no change had taken place in the size of the insurance services deficit by 1986, despite the increasing volume of insurance transactions since 1984. Whereas the total value (turnover) of insurance-related payments to and from the occupied territory was around $10 million in the mid-1970s (with a $3-4 million deficit), the value of transactions surpassed $50 million in 1984, receding thereafter to around $35 million, though the deficit remained relatively low. The deficit would have been greater were it not for the proportionately higher rate of growth in exported insurance services (apparently related to insurance coverage for imports from/via Israel and Jordan) than in imported insurance services. Most of the latter are devoted to vehicle insurance (with Israeli agencies), though a proportion of such services are also required to cover merchandise exports (c.i.f.), including those effected to/through Israel and the Arab markets.

137. The transport item in the Palestinian balance of payments includes insurance and freight of goods, as well as transport services related to the movement of Palestinian labour to jobs in Israel and its settlements in the occupied territory. Despite the reliance of Palestinian migrant workers and merchandise trade with/through Israel on Israeli transport, the deficit in this item remained at around $10 million until 1985, reflecting the relative

self-sufficiency of the occupied territory in transport services, including overland export trade-related transport. Since then, increasing movement of Palestinian workers to jobs in Israel using Israeli transportation and the growing integration of transport in the territory with Israeli facilities has encouraged a rise in the deficit in this item. The main payments to the territory for "exported" transport services have been in movement of imported goods via Israel and from Jordan, in addition to the domestic handling of tourist traffic coming from abroad (Palestinian relatives, Israeli and other tourists). It is not clear from existing data whether the substantial transport effected between the West Bank and Gaza Strip is entered within the external account of each area without any apportioning, thus leading to a case of double counting when the two are combined.

4. Travel and tourism

138. Data available from the balance of payments do not provide a promising picture of the Palestine tourist services sector. The travel component of the services account covers, inter alia, payments to and by the occupied territory for international travel and expenditure by foreign tourists on related services in the territory (hotels, restaurants, tour services and guides, etc.), balanced against similar expenditures by the territory's residents when abroad. While this item generally generated a surplus prior to occupation, it has been in constant and growing deficit since then. The deficit increased from $20 million in 1977 to over $35 million 10 years later.

139. Unlike the deficit in some other services, that of travel/tourism has not arisen because the rise in the outflow of payments has been greater than the rise of payments inflow. Rather, the growing deficit has been caused by a relatively constant volume of travel/tourism services purchased by the occupied territory from Israel, Jordan and elsewhere (usually under $50 million) compared to a small fall since 1980 of receipts by the territory for this item. Whereas the tourism and travel sector generated $17 million for the territory in 1980, receipts from this source fell to $13 million in 1986, only slightly better than the 1984 and 1985 low of $11 million. All the indications are that the occupied territory is lagging seriously behind in its ability to maintain and promote tourist services. 69/ This reflects, inter alia, the low level of investment and upkeep of depreciating assets in the Palestinian hotel sector, the increasing domination by Israel of local Palestinian tourist facilities (especially hotels in Jerusalem and tourist guide services) and channels (tour operators), the absence of indigenous Palestinian seaport and airport facilities to cater for tourists to the occupied territory and the general isolation of the territory as a result of physical, legal and administrative constraints posed by Israeli occupation. 70/

140. Since the 1970s, insurance, transport and tourism/travel combined have accounted for between 7 and 10 per cent of all payments to the territory for services and around 40 per cent of payments by the territory for services from abroad. Their significance as generators of export earnings is thus seen to be small, both in proportion to other services provided by the Palestinian economy and when measured against the relatively high dependence on external sources for a large proportion of "other" (including labour) services encountered above. Steady Palestinian demand for "other" services from abroad has kept insurance, transport and travel as a share of payments for total services imported by the territory at under 40 per cent.

F. The capital account of the balance of payments

141. Following the lead of net international transfer payments, the capital account has played an important compensatory role with regard to the current account deficit. While unrequited transfers did not cover the level of the current account deficit, net capital movements to the territory have been generally positive. In the expansionary years of 1980-1983, there were significant capital movements out of the territory as inhabitants presumably favoured savings and investment opportunities outside the occupied territory, primarily in Jordan. In two of these years, 1982 and 1983, there was actually an outward net capital flow, compensated for by the positive net transfer payment flow to the territory. With the growth in the current account deficit since 1983 and the parallel slow-down in net transfer flows (primarily from Arab States), the volume of capital movements to the occupied territory rose significantly to over $170 million in 1986. The significance of the capital account within the Palestinian balance of payments thus can be seen to have appreciated in recent years, especially in terms of its share of the overall volume of financial and trade transactions between the occupied territory and the rest of the world.

142. Available data does not provide greater detail on the source and direction of capital transactions. 71/ In addition to representing further indebtedness to Israeli and other financial sources (including suppliers of credit) and purchases of foreign currency, it is probable that positive net capital movements to the territory exhibit further drawing down on accumulated resources held outside the occupied territory in the form of cash, bank deposits or other assets. This process, rendered necessary by virtue of the incoherent and weak informal financial system which prevails in the occupied territory, has certainly become even more pronounced since the Palestinian uprising. The immediate needs of Palestinian inhabitants of the territory with regard to consumption and subsistence have been covered in part by the continued availability of external financial sources, both private and institutional. The precarious position of the Palestinian balance of payments, including the debit position of the capital account, highlights alarming long-term trends towards the weakening of trading power and the emergence of chronic international indebtedness on a scale not previously experienced by the Palestinian economy.

Chapter III

FACTORS AFFECTING THE EXTERNAL TRADE SECTOR

143. The performance of the external trade sector of the occupied Palestinian territory has been subject to the influence of a host of factors which have constrained its development. Most of these reflect the negligence of the Israeli occupation authorities regarding economic management and development of appropriate infrastructures in the territory since its occupation in 1967, as well as the adverse effects of policies and practices having specific bearing on the trade sector. At the same time, problems noted earlier in the structure and performance of the main productive sectors have restricted the scope for expansion and diversification of Palestinian trade.

144. The legal, administrative and procedural context of Palestinian external trade is largely influenced by the interaction of a range of internal and external factors related to Palestinian trade. The former are represented by structural features of the domestic economy which determine a range of tradeable goods, as well as by institutional and physical aspects of the occupied territory. These domestic considerations, crucial to the shape and performance of any external sector, have been sharply reduced in significance in the territory as a result of two decades of foreign military occupation and the absence of indigenous and autonomous institutions capable of effectively managing the growth and development of the economy. At the same time the environment affecting the external trade of the territory is heavily conditioned by Israeli trading policies and practices *vis-à-vis* the territory, and by conditions in the markets of the territory's other major trading partners, especially the Arab States and new markets in Europe,

145. This chapter discusses the interaction and effect of domestic and external influences on Palestinian trade. The preponderance of constraints need not be seen as constituting the complete picture as regards the context for the future development of Palestinian trade. Other factors, discussed in chapter IV, are also in evidence which constitute potential incentives for the long-term development of Palestinian trade. However, it has not yet been possible for the Palestinian economy to take advantage of such potentials so as to compensate for the disadvantages associated with the occupation and market isolation of the territory.

A. Structural considerations

1. Resource endowment

146. The range of domestic natural resources and raw materials upon which the occupied territory has traditionally relied to help maintain its trading position in export markets is limited. The West Bank and Gaza Strip exhibit few significant advantages in natural resource endowment and have utilized trade and complementarities with neighbouring and regional economies to fulfil requirements in raw materials, commodities and manufactured goods. The present resource endowments of the occupied Palestinian territory impose limits on the prospects for export expansion and diversification while engendering a high level of dependence on imports to satisfy domestic production and consumption needs. This is clearly indicated by the Palestinian economy's high degree of "openness", as discussed earlier.

147. The relatively meagre Palestinian natural resource base is reflected in various indicators, such as the harsh topography of West Bank land, scarcity of water resources and pronounced deficiency in mineral resources. The use of these limited endowments has been further constrained under the severe conditions of 21 years of Israeli occupation through confiscation of land and water resources and numerous restrictive measures. Only a few of the major Palestinian exports traditionally derive from locally available materials, namely the distinctive West Bank building stone and olive-oil-based soap. However, the cyclical nature of the olive crop and its rising costs have led to increased use in recent years of imported vegetable oil substances in soap production. Nevertheless, local climatic conditions have generally benefited the occupied territory in respect of production of certain distinctive commodities with relatively secure external markets, namely citrus fruits, off-season vegetables and fruits and olives. Other aspects of the "historical"/natural resource endowment of the occupied Palestinian territory (i.e. religious sites and tourist attractions) provide a unique basis for development of tourism and travel industries and services. However, Israeli control of the tourism sector has meant that the Palestinian economy has not been able to realize the full benefits of these potentials since occupation in 1967.

148. An important aspect of resource utilization which has been a major obstacle to production and export promotion is the scarcity of water. Diversion of Palestinian water resources by the Israeli authorities, especially in the West Bank, for use in Israel and Israeli settlements in the occupied territory has deprived Palestinian agriculture of the opportunity to optimize allocation of this vital resource. The situation is further aggravated by the high cost of water for irrigation. In most cases, the price of water is too high to allow for production for competitive export markets. For example, the cost of irrigation water in the intensive farming district of Tulkarem in the West Bank is around JD 0.100 per cubic metre. This is almost three times higher than in Israel 72/ and 15 times higher than on the Jordanian side of the Jordan River valley. The problem is further compounded by the fact that drip irrigation techniques are not in common use in orchards, unlike the situation in vegetable plantations. The high cost of water raises production costs and may prompt farmers to irrigate less frequently, at the expense of quality and productivity.

149. Palestinian producers are afforded no compensation for losses incurred due to structural deficiencies or climatic factors. For example, frost spells constitute a common hazard which often results in severe losses, despite widespread use of protected farming techniques. As recently as late 1988, around 10,000 tons of late-maturing grapes (with an estimated wholesale value of $5 million) were destroyed by an early frost in the Hebron district. Also, the alternate bearing of olive crops in the West Bank is volatile, with yields varying from 20,000 tons in one year to up to 180,000 tons in the next. The impact of such phenomena on commercial farming and export is considerable.

150. Despite the deficiencies in Palestinian natural resource endowment, it might be argued that relatively high educational standards and a pronounced aptitude among Palestinians for acquiring new skills provide a sufficient basis for initiating medium and high technology industrial activity in the occupied territory with a view to expanding exports and/or promoting import substitution. However, the wage structure prevailing in the occupied

territory offers mixed opportunities for the growth of export trade in these branches. Wage levels in the territory for male workers are such that manufacturers might be able to derive only limited export advantage by employing such labour in technological branches. The wage situation is different in regards to branches where women comprise a major proportion of the labour outlay, since wage levels for women are noticeably lower than for men. This wage differential has provided a lucrative comparative advantage in some key branches, such as sewing and strawberry cultivation, while mobilization of family labour further increases comparative advantages in other agricultural branches. It is mainly for this reason that labour-intensive crops such as olives, grapes, melons and vegetables under greenhouses have remained reasonably profitable despite price fluctuations.

151. An important factor which has adversely affected the economy of the occupied territory is the growing number of unemployed and underemployed Palestinians who have been obliged to take up low-paid jobs in Israel. With the domination by Israel of Palestinian agriculture and industry, the engagement of close to 40 per cent of the Palestinian labour force in Israel has strengthened Israeli control over Palestinian trade and added to the vulnerability of the Palestinian economy. The absence of a central authority and the restrictions on trade unions and other bodies capable of defending the interest of Palestinian producers and workers 73/ has added to the range of anomalies under which the Palestinian economy struggles.

2. Commodity composition

152. An important relationship exists between the broad lines and direction of structural change in the Palestinian economy since 1967 and the reshaping of the external trade sector. However, this is not immediately apparent if the composition of output is compared with that of export trade. Agriculture's relatively large (though declining) share of domestic output and the absence of growth in industrial output have not been mirrored in export flows. Agricultural exports have concentrated increasingly on commodities with limited and highly specific market appeal, though the range of agricultural goods produced (and produceable) in the territory remains much more varied. Meanwhile, despite industry's relative stagnation and low contribution to domestic economic growth, it accounts for the bulk of Palestinian exports. In this respect, it is difficult to view the composition of output between the two major productive sectors as influencing the composition of exports.

153. The only area in which a relationship might be evident is with respect to intra-sectoral commodity composition, whereby certain production branches (citrus, some vegetables and fruits, olives and processed oil, processed foods and textiles) are equally prominent in output and export composition, owing to the effect of external demand for specific goods in encouraging concentration on their production. An equally important influence on the commodity composition of Palestinian exports is exercised by the range of policies and administrative arrangements which have a direct bearing on Palestinian trade. These factors, discussed below, have distorted and reoriented Palestinian production and export performance in such a way as to effectively neutralize the possible influence of the composition of output on the structure of exports. The concentration of the bulk of Palestinian trade on one market, namely Israel, has resulted in a "restructuring" of Palestinian export flows in line with Israeli demand patterns and commercial interests. In addition, and as discussed in section 3 below, the level and composition of exports to

Arab markets appears to have been shaped in response to domestic and external marketing constraints which have arisen since occupation, as well as to factors related to production. The latter are manifested, for example, in the decline of area in the Gaza Strip devoted to citrus groves from 34,000 dunums in 1979 to 25,000 dunums in 1987. This was due to declining profit margins, Israeli restrictions on replanting, and limited access to water for irrigation. Given the possibilities for export of a wider variety of industrial and agricultural goods to Arab markets, this situation has not encouraged a rational growth of Palestinian production and export sectors.

3. Product characteristics

154. There are numerous problems relating to product characteristics which impede a more vigorous expansion of export trade. As is the case with many of the structural limitations to expansion of Palestinian trade, these problems are perpetuated by the absence of expertise and authority to enforce standards and provide assistance to producers and exporters. With regard to industry, the main problem lies in the lack of adequate quality control, especially in small-scale industries. Palestinian manufacturers have yet to develop the type of labelling and specification of contents, health control and packaging expected in most export markets, regionally and internationally. Furthermore, most products manufactured in the occupied territory have been developed in response to local consumer tastes, while exported manufactured products are mainly oriented to Israeli consumers. Though this has been useful in developing a sense for more sophisticated consumer demand and enhanced competitiveness for some products, it remains insufficient for satisfying the needs of more diversified and distant markets, including Arab markets. The recent experience of one West Bank textile firm in exporting high-quality garments to clients in Europe and North America indicates the painstaking process required to develop appropriate and appealing product lines before a successful export campaign can be attempted. 74/

155. Problems relating to product characteristics are more serious in the case of some agricultural commodities, including those of major export significance. There are a number of cases which require attention before significant export expansion may be contemplated. West Bank citrus fruit, especially Valencia oranges produced in the Qalqilya district, are of poor quality, mostly because groves are fragmented and overcrowded, underirrigated and inadequately protected from pests. The lack of financial resources leaves little room for amelioration of this situation. Existing packaging methods tend to degrade quality. Most of the West Bank grape crop is of a variety which is well adapted to local market demand but is noticeably fragile and unsuitable for shipping. For example, any export of grapes in large quantities to distant markets would require an expansion of vineyards and introduction of new, hardier varieties. Similar problems with regard to standardization, packing, grading, quality and health control affect other export crops.

156. Nevertheless, and despite the absence of facilities to ensure such standards, many crops remain of good quality and could have distinct appeal in international markets. Some of these have already been marketed successfully in European and other markets under Israeli brand names and through Israeli export channels. These include the small West Bank cucumbers, eggplants and

other popular vegetable varieties, as well as the distinctive Gaza Strip Shammouti oranges, Jericho bananas, West Bank and Gaza melons, not to mention the high-quality, low-acid-content olive oil produced throughout the West Bank.

157. As noted earlier, one important factor which has affected the quality of Palestinian agricultural produce is the restriction on access to irrigation water. 75/ The salinity of available irrigation water and limitations on its use have been especially severe in the Gaza Strip, where citrus farmers have been forced to reduce irrigation, leading to the rapid deterioration of groves and output. The Shamouti variety of the Gaza orange crop, which is usually intended for fresh consumption, has in recent years been processed into juice in Israel. In the southern areas of the Jordan river valley of the West Bank, salinity has imposed serious constraints with regard to improving the quality of the export vegetable crops grown there. Though a number of varieties of fruits and vegetables have been developed into high-quality export items, this has been a result of individual, localised and fragmented efforts or commercial contacts, rather than institutionalized quality and market development programmes.

4. Domestic market determinants

158. With a population of some 1.5 million, the small size of markets in the occupied territory has imposed rigid restrictions on the scale of industrial and agricultural production. Effective market size is further reduced by the unrestricted flow into the occupied territory of Israeli subsidized industrial and agricultural goods. This poses a dilemma for Palestinian producers, especially industrialists. If they are to compete with Israeli firms, then they must install larger and more modern machinery, but with a small home market and a restricted export potential, unwarranted expansion of already underutilized production capacity may only worsen their predicament. However small, the domestic market for industrial goods is almost as large as the present Israeli market for Palestinian industrial exports and is of greater significance than Arab and Jordanian shares of total Palestinian industrial output. 76/ Since most exports to Israel are composed of subcontracted semi-finished goods, the existing structure and pattern of Palestinian industrial production appears not to be sufficiently oriented to expanding capacity of finished consumer goods or substituting for imports from Israel, if such a policy were to be pursued. In any case, limited consumer purchasing power and problems of maintaining industrial efficiency, productivity and competitiveness prevent Palestinian industries from relying on the domestic market as a major source of demand for locally produced goods.

159. Penetration of local markets by Israeli industrial goods has been especially pronounced, as noted above. Many kinds of manufactures, especially electrical appliances, are procured by the occupied territory exclusively from or via Israel. 77/ Moreover, imports from Israel account for a significant share of domestic Palestinian markets for goods which are also produced locally, e.g. 41 per cent of chocolates, 40 per cent of soft drinks, 60 per cent of ice-cream, 40 per cent of cigarettes, 53 per cent of clothes and 34 per cent of shoes. In addition to the absence of any form of protection of Palestinian industries from Israeli competition, there are various reasons for the substantial Israeli share of local markets, as compared with domestic produce. These include a widespread consumer perception that Israeli goods are of superior quality, the regularity of supply of Israeli goods in local retail outlets, more effective advertising

campaigns and the attractive wholesale terms offered by Israeli producers to Palestinian retailers in the occupied territory. Until 1987, the unrestricted flow of goods from Israel and the gradual rise in private income had begun to encourage excessive consumerism at the expense of investment, exemplified by the sharp rise in consumer durables, including private cars and electrical appliances, in Palestinian households.

160. While the dependence of the occupied territory on imports from Israel of manufactured goods might be partially explained in terms of an "industrialization gap" with Israel and the lower costs achieved by Israeli producers, the excessive reliance of the territory on agricultural imports from Israel cannot be thus viewed. The relatively high absorption of agricultural imports from Israel became an established pattern soon after occupation. Few significant changes in the overall degree of penetration of local commodity markets have taken place since the mid-1970s. While the size of the local market has increased considerably in line with population growth and rising levels of disposable income, the opportunities for Palestinian agricultural producers in these markets have been limited by the effects of Israeli market domination. The continued possibilities for export to/through Jordan have limited the bottle-necks that might otherwise have arisen, with the volume of exports to Jordan in most years exceeding agricultural imports to local Palestinian markets from Israel. Nevertheless, unmarketable surpluses have continued to occur in some crops, owing to the absence of adequate production planning and the arbitrary circumstances affecting export possibilities.

161. As seen in table 12, of the total supply to Palestinian wholesale markets of vegetables, fruits and melons (which account for the bulk of Palestinian agricultural output), an annual average of 41 per cent or some 100,000 tons was imported from Israel during the period 1980-1986. This proportion was more pronounced with regard to fruits and melons, while imports from Israel in the period supplied an annual average of some 60 per cent of fruits to the territory. The Gaza Strip is more dependent on imports of agricultural produce from Israel, especially vegetables, than is the West Bank. Of the two areas, the West Bank exhibits a somewhat greater degree of self-reliance in agricultural marketing, with an annual average of 52 per cent of marketed vegetables and fruits produced in the West Bank, as compared to only 45 per cent for the Gaza Strip during the period 1980-1986.

162. Trade between the two areas during the period 1980-1986 - though on a relatively small scale - indicates a greater role for Gaza Strip agricultural output in the West Bank markets (an annual average of 12 per cent of products marketed in the West Bank) than vice versa (an average of 4 per cent). This reflects both the different commodity composition and comparative advantages of the two areas, as well as the higher penetration into the Gaza Strip of Israeli goods which edge out West Bank produce. The penetration of markets in occupied East Jerusalem by Israeli agricultural products has been of a generally greater magnitude in most years since the 1970s. This is the result of the annexation of the city by Israel and its administrative separation from the rest of the occupied territory. Consequently, the produce of the West Bank and Gaza Strip enters Jerusalem under the same restrictions which affect exports to Israel.

Table 12. Occupied Palestinian territory (West Bank and Gaza Strip)
Supply of vegetables, fruits and melons to wholesale markets
(Thousand tons)

TO	WEST BANK			GAZA STRIP			EAST JERUSALEM			Occupied Palestinian territory			
	Vegetables	Fruit/melons	TOTAL	Vegetables	Fruit/melons	TOTAL	Vegetables	Fruit/melons	TOTAL	Vegetables	Fruit/melons	TOTAL	Share (%)
FROM													
1977													
West Bank	53.9	25.5	79.4	0.9	1.4	2.3	4.2	1.2	6.4	59.0	28.1	87.1	41%
Gaza Strip	3.9	4.7	8.6	20.6	6.2	26.8	1.8	0.6	2.4	26.3	11.5	37.8	18%
Israel	17.2	25.6	42.8	11.1	20.9	32.0	9.5	5.2	14.7	37.8	51.7	89.5	42%
TOTAL	75.0	55.8	130.8	32.6	28.5	61.1	15.5	7.0	23.5	123.1	91.3	214.4	100%
1980													
West Bank	51.8	22.6	74.4	0.2	3.0	3.2	-	0.1	0.1	52.0	25.7	77.7	35%
Gaza Strip	10.6	3.0	13.6	23.5	6.3	29.8	0.8	0.4	1.2	34.9	9.7	44.6	20%
Israel	21.7	32.8	54.5	14.7	22.0	36.7	3.6	5.6	9.2	40.0	60.4	100.4	45%
TOTAL	84.1	58.4	142.5	38.4	31.3	69.7	4.4	6.1	10.5	126.9	95.8	222.7	100%
1981													
West Bank	49.1	24.1	73.2	0.1	3.3	3.4	0.2	0.2	0.4	49.4	27.6	77.0	33%
Gaza Strip	15.7	5.2	20.9	27.5	7.3	34.8	2.8	1.2	4.0	46.0	13.7	59.7	25%
Israel	22.9	32.9	55.8	16.0	22.9	38.9	2.9	2.5	5.4	41.8	58.3	100.1	42%
TOTAL	87.7	62.2	149.9	43.6	33.5	76.1	5.9	3.9	9.8	137.2	99.6	236.8	100%
1982													
West Bank	54.4	30.1	84.5	0.11	4.4	5.5	0.3	0.4	0.7	54.8	34.9	89.7	36%
Gaza Strip	14.6	2.3	16.9	35.0	8.6	43.6	1.5	0.3	1.8	51.1	11.2	62.3	25%
Israel	24.7	32.6	57.3	11.4	23.5	34.9	2.6	2.4	5.0	38.7	58.5	97.2	39%
TOTAL	93.7	65.0	158.7	46.5	36.5	84.0	4.4	3.1	7.5	144.6	104.6	249.2	100%
1983													
West Bank	59.9	30.4	90.3	0.3	1.9	2.2	0.6	0.3	0.9	60.8	32.6	93.4	41%
Gaza Strip	11.1	4.2	15.3	25.0	5.7	30.7	0.8	0.1	0.9	36.9	10.0	46.9	21%
Israel	22.5	33.7	56.2	9.0	18.4	27.4	2.2	1.1	3.3	33.7	53.2	86.9	38%
TOTAL	93.5	68.3	161.8	34.3	26.0	60.3	3.6	1.5	5.1	131.4	95.8	227.2	100%
1984													
West Bank	62.3	26.4	88.7	0.9	2.1	3.0	0.7	0.4	1.1	63.9	28.9	92.8	35%
Gaza Strip	16.1	2.5	18.6	26.3	5.0	31.3	0.5	-	0.5	42.9	7.5	50.4	19%
Israel	25.4	35.4	60.8	14.7	41.8	56.5	2.3	1.5	3.8	42.4	78.7	121.1	46%
TOTAL	103.8	64.3	168.1	41.9	48.9	90.8	3.5	1.9	5.4	149.2	115.1	264.3	100%
1985													
West Bank	55.2	24.1	79.3	0.7	2.5	3.2	0.3	0.1	0.4	56.2	26.7	82.9	33%
Gaza Strip	20.5	3.6	24.1	29.1	5.6	34.7	0.2	0.1	0.3	49.8	9.3	59.1	24%
Israel	22.1	32.2	54.3	9.7	39.1	48.8	2.5	1.3	3.8	34.3	72.6	106.9	43%
TOTAL	97.8	59.9	157.7	39.5	47.2	86.7	3.0	1.5	4.5	140.3	108.6	248.9	100%
1986													
West Bank	67.9	32.2	100.1	0.3	4.6	4.9	0.9	0.4	1.3	69.1	37.2	106.3	41%
Gaza Strip	17.3	5.9	23.2	28.4	6.5	34.9	0.2	-	0.2	45.9	12.4	58.3	23%
Israel	22.3	29.7	52.0	9.5	26.5	36.0	3.0	1.4	4.4	34.8	57.6	92.4	36%
TOTAL	107.5	67.8	175.3	38.2	37.6	75.8	3.9	1.8	5.7	149.6	107.2	257.0	100%

Source:
(1) Israel, Central Bureau of Statistics, Administered Territories Statistical Quarterly, Vol. VII, No. 2 and Vol XI, No. 2, (Jerusalem, C.B.S., 1978 and 1981), p. 39 and p. 39 for 1977 and 1980 data, respectively.
(2) Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics, Vol. XV, No. 2, and Vol. XVII, No. 2, (Jerusalem, C.B.S., 1985 and 1987), p. 38 and p. 41 for 1981-1983 and 1984-1986 data, respectively.

163. Overall, the significance of the local market for major agricultural commodities in the occupied territory can be best appreciated in terms of the relation of total local consumption to total domestic production. In the period 1980-1986, domestic consumption of vegetables and fruits, as measured in table 12 in terms of supply to domestic markets, was equivalent to an annual average of 36 per cent of the total volume of output of these commodities. 78/ Thus, even if local production could substitute for Israeli agricultural imports in the local market, this still leaves a significant surplus (over 60 per cent of total output) that can either be marketed abroad, consumed locally without actually entering the wholesale market, or else face spoilage. It is difficult to state with precision what proportion of the vegetable/fruit crop is thus spoiled. For example, in 1985, total vegetable and fruit production (excluding olives) was some 720,000 tons, of which 130,000 tons were exported to or through Israel, 220,000 tons were exported to/through Jordan, and 140,000 tons were marketed domestically. The balance of output for that year of some 230,000 tons (with a smaller balance in other years, for example 170,000 tons in 1984) is statistically unaccounted for, implying either consumption at the household/village level (outside market channels) and/or spoilage.

B. Infrastructures

164. The deterioration in local economic conditions and the continuing loss of markets has adversely affected the incentive to invest in physical infrastructures and other prerequisites of modern export marketing. This has had a particularly damaging effect on the bulk of agricultural output that goes to Jordan and beyond to the Arab hinterland. Despite the Israeli "open bridges" policy, trade with Jordan faces numerous obstacles, especially as a result of inadequate and cumbersome transport facilities. The risks of loss from delays in preparing shipments to Jordan and during the crossing of bridges are high. Existing institutions are not adequately equipped with the technical expertise needed for implementation of appropriate export promotion programmes, nor are institutional arrangements well enough developed to allow for co-ordinated and planned export marketing drives. Those facilities that do exist are mostly 'crop-specific' (e.g. geared to citrus fruits) and exhibit a marked lack of integration and articulation.

165. Meanwhile, domestic markets in the territory remain underdeveloped and poorly integrated. The lack of institutional arrangements such as marketing centres and research facilities for improving and maintaining quality and reducing costs, the territory's poor transport facilities, and numerous administrative obstacles dealing with permits, paper work, and payment of various taxes, fines and levies have all rendered domestic trade costly and less attractive. Within the occupied territory, agricultural trade does not benefit from any organized marketing infrastructure other than the traditional roadside, village and town market centres which are served directly by the local farmers or agricultural merchants.

1. Institutional facilities

(a) Chambers of commerce

166. Chambers of commerce were established in the West Bank prior to Israeli occupation in accordance with Jordanian laws. In Gaza city, a chamber of commerce was established in 1954 and registered there according to Egyptian

law, while other major towns in the Gaza Strip soon established their own chambers of commerce. By June 1967, there existed a local chamber of commerce in each city and major town in both areas. These institutions were allowed to continue operating after occupation, though little, if any, assistance has been extended to them by the occupation authorities to encourage their vital role in promoting and facilitating trade. They have also maintained their membership in the Federation of Jordanian Chambers of Commerce which is itself a member of the the Federation of Arab Chambers of Commerce.

167. Since 1967, the role and functions of chambers of commerce have been reduced significantly and are now mainly confined to local administrative and clerical tasks. West Bank chambers of commerce have been empowered by the relevant Jordanian authorities to perform preliminary services related to passport and identity card procurement procedures. They also arrange for the issuance of legal documents to citizens who wish to entrust others with the management of financial or business affairs in Jordan. The chambers are also empowered by the Jordanian authorities with the crucial responsibility of issuance of certificates of origin for industrial goods destined for export to or through Jordan. Their authority in this respect has been recently reconfirmed as a result of the decision of the European Community to accept chambers of commerce as qualified bodies for issuing certificates of origin and ensuring the necessary administrative arrangements for exports to the Community. 79/ The Federation of Jordanian Chambers of Commerce has promoted West Bank products as part of its efforts to promote Jordanian exports in different markets.

168. Gaza Strip chambers of commerce perform similar functions, though primarily with regard to relations with Egypt. They issue and renew refugee travel documents and identity papers on behalf of the Egyptian authorities and are an accepted authority for the issuance of certificates of origin for agricultural exports. However, the potential role of Gaza Strip chambers of commerce is largely ignored by the occupation authorities, which restrict the chambers' activity and have not allowed renewal or expansion of membership. The chambers face serious difficulties in financing their limited activities, with clerical fees as their only source of income. Some efforts have been made by Gaza Strip chambers of commerce in the area of export promotion through missions undertaken to Arab and European countries, especially since 1979. They have also in the past signed trade agreements with overseas trading partners, including barter agreements with traditional East European markets. In Arab markets, they have met with less success, partially because of the presence already established there by West Bank commercial agents.

169. As regards domestic commercial activity and business relations with Israel, Palestinian chambers of commerce primarily act as channels of communication with relevant Israeli authorities. Their main preoccupation, especially in recent years, has focused on taxation matters. Some chambers have also provided a limited form of advisory service to member merchants through short-term consultancy arrangements. The chambers of commerce have been unable to launch any serious efforts to secure more equitable terms of trade between the occupied territory and Israel. In 1977, West Bank chambers of commerce attempted to establish a parallel body specializing in industrial affairs. Despite persistent efforts, repeated applications for a licence from the occupation authorities have been turned down.

170. The failure of Palestinian chambers of commerce to assume a significant role in promoting trade and economic development may be traced to a number of factors. An important problem is the inability of chambers of commerce to establish the contacts and influence needed to help guide the policies and measures of Arab States with regard to trade with the occupied territory. The administrative, technical and procedural arrangements of the chambers of commerce have not been systematically reviewed or renewed for at least 20 years, and modern techniques of business promotion and management have been imparted only in a haphazard and arbitrary manner. In most dealings with Arab countries, the Palestinian chambers of commerce have been passive and lacked sufficient initiative, while their record of dealings with Israeli authorities exhibits more dynamism, though still leaving much to be desired.

(b) Commercial agents and enterprises

171. Direct commercial contacts between the occupied territory and the rest of the world other than with Jordan and other Arab States are maintained largely through Israeli commercial agents. Palestinians are in general not allowed to export or import goods directly to and from outside markets using Israeli ports except for a recent arrangement which was worked out by the EEC for Palestinian producers/exporters. Palestinian commercial agents in the territory or their counterparts in the Arab States handle the balance of export trade to and through Jordan.

172. The marketing of the occupied territory's industrial exports to/through Jordan is performed through individual arrangements between sellers and buyers. Producers in the West Bank, especially those larger enterprises established before 1967 which benefit from licences to operate and export to Jordan, often maintain representative offices or partners in Amman to co-ordinate export marketing and to follow up arrangements for import of raw materials from Jordan to the territory. Samneh (margarine), which is a major domestic industrial product, is channelled through a regional agent in Amman. Likewise, soap manufacturers have their own distribution system. Jordan has extended tangible support to certain industrial firms by relaxing the conditions arising from application of the League of Arab States' boycott regulations on the flow of some products to Amman, such as samneh and soap. Marketing of stones and marble, on the other hand, is left to direct contacts between the large number of producers and different individual buyers, either in the territory or abroad. This has encouraged a degree of unregulated competition which has reduced the profits of quarry owners.

173. The existing marketing system for West Bank (and to a lesser extent, Gaza Strip) agricultural output is very much influenced by prevailing land tenure systems. "There are a variety of land tenure arrangements in the country, including share-cropping, tenancy, owner-cultivation and owner-managed farms where outside labour is employed. Most vegetable production operates on small farming plots in the first three categories." 80/ The link between most small-scale Palestinian tenant and share-cropper farmers and export markets is maintained through seasonal contracts with middlemen known as 'commission agents'. In the West Bank, the agents sell output through three central markets for an average fee of 10 per cent. Poorer farmers often obtain inputs from the agents against the value of the season's crop, resulting in many cases in a permanent state of indebtedness to the agents. In addition, the commission agents, many of whom are also traders in West Bank urban centres (especially Nablus), often own the

trucks which transport goods locally and abroad. By virtue of their small numbers, their control of most stages of the marketing process (and of production, in the case of landowner commission agents) through domestic and external market contacts, and the absence of institutionalized marketing facilities, these agents exercise considerable influence in setting local market prices and obtaining the necessary permits for export to Jordan.

174. In the Gaza Strip as well, the pivotal role of these agents has been recently noted. "The organization of the supply of produce from small-scale producers to the packing stations depends therefore heavily on the so-called middlemen, who are responsible for final price determination, time and organization of harvesting, and settlement of payments at farm level. Middlemen usually have regular and well-established contacts with growers and exporters ... In Gaza a total number of about 200 middlemen are active ..." 81/ Whereas, in the West Bank, the commission agents are mainly landowners and exporters, in the Gaza Strip the situation differs somewhat; commission agents have distinct "middleman" functions and tend not to be involved in either production or subsequent marketing stages. Nevertheless, most fruit and vegetable exporters are also landowners/growers, and some participate directly in the ownership of a packing station (for citrus fruit). In the Gaza Strip, "however, in nearly all cases, exporters generally purchase about 85 per cent of their turnover from other growers; out of this about 30 per cent (25 per cent of total turnover) is obtained through direct contacts with more important growers." 82/ The relative prominence and high degree of activity of other marketing channels in the Gaza Strip has allowed for the emergence of a more varied and flexible institutional environment which is amenable to being further developed.

175. All farm exports over the bridges from the occupied territory are delivered to the Amman central wholesale market, where they are sold through Jordanian commission agents, in the same way that domestic produce is handled. Once the goods reach the central market, they are sorted, graded and packaged along with other produce from Jordan. There are 55 commission agents active in the Amman central market, some 15 of whom handle output from the occupied territory. In most cases West Bank producers send their goods to specific commission agents, who occasionally offer short-term credit facilities to producers (or West Bank commission agents and exporters) with whom they have well-established business links. Gaza Strip produce is treated differently and citrus products are usually destined for storehouses owned by private wholesalers. Citrus fruit is re-exported from Amman to neighbouring Arab markets unless some is needed to supplement local Jordanian supply. Other products from the Gaza Strip (e.g. strawberries, dates and guavas) are sold locally.

(c) Co-operative societies

176. By the end of 1987 some 200 agricultural co-operatives were registered in the West Bank (with Jordanian and/or Israeli authorities), though as few as 30 of them were effectively operating. 83/ Marketing functions are performed by eight co-operatives, each serving one district or subdistrict. In 1987, these marketing co-operatives succeeded in obtaining separate approval from Jordanian and Israeli authorities to form a "Union of Agricultural Co-operatives", which commenced limited export operations by the end of 1988. Industrial co-operative experience is relatively unknown in the occupied territory, though one textile/garment production co-operative in Ramallah,

West Bank, has undertaken pioneering efforts in market development locally, in Israel and most recently in Europe and the United States. 84/ It has succeeded in catering to high-quality consumer tastes while achieving considerable economies through streamlined production processes. Institutionally, this sector remains inadequately covered by co-operative forms of production.

177. Despite considerable technical, management and financial assistance over many years from the Jordan Co-operative Organization (of which the West Bank co-operatives are members) and various international private voluntary organizations, marketing co-operatives have not succeeded in performing actual marketing functions, nor has their credit role been significant. Their services in the area of marketing have been restricted to the issuance of certificates of origin for goods destined to enter Jordan over the bridges. These permits are issued to individual growers/exporters or to commercial agents covering a geographical area and are certified by the Jordanian authorities, first through the regional Jordanian agricultural service officers and at subsequent stages at the Ministry of Agriculture in Amman and at the bridges crossing points. Though some co-operatives have applied for permission to establish a centralized marketing facility, none of the market centre applications have received a permit from Israeli occupation authorities. 85/

178. Agricultural co-operatives have been able to do little to open new markets, improve marketing services, stabilize prices or modify the terms of Palestinian agricultural trade with other countries. "Although some of the co-operatives have made arrangements for credit provision and have set up a system of grading and packing of produce, they have not succeeded in establishing an extensive marketing infrastructure. 86/ Among the most influential reasons for this relatively retarded performance is the dependence of West Bank co-operatives on external funding sources, the weak co-operative experience in the territory, and the lack of technical and human resources important for successful co-operativization. Other reasons that have been cited include farmers' orientation to non-cooperative activity, inadequate management and support services, shortage of finance and Israeli Government interference. 87/

179. In the Gaza Strip, agricultural co-operatives have had greater success. There are only four co-operatives in the region, all of which actively promote producer and marketing co-operative functions. Two of these, in Beit Lahya and Deir al-Balah, have performed vital interfacing functions between their members and AGREXCO (the Israeli-franchised vegetable exporter). This co-operative has been involved mainly in strawberry and, more recently, asparagus marketing. The Deir al-Balah co-operative undertook in 1986 vigorous efforts to arrange direct export shipments to European markets, which included market surveys, contracting with European importers and ensuring the necessary quality control and packing prior to export. Another co-operative, the Agricultural Co-operative Society for Citrus Marketing, whose members produce some 10 per cent of the area's citrus crop, aims at promoting citrus marketing in general, with emphasis on export marketing. It initiated, *inter alia*, the establishment of local packing facilities which it used to prepare its own shipments. The Gaza Fishermen's Co-operative is a producers' organization with its own storage (freezing) and marketing facilities and functions, though the capacity for entering export markets appears almost nil. 88/ The main reasons behind the relative success and vitality of

Gaza Strip co-operatives appear to be related to a greater professional orientation, technical expertise and financial and managerial autonomy and "the advantage of being able to acquire credit on easy terms for the purchase of inputs and the marketing of produce. 89/

(d) Other marketing arrangements

180. One experiment in centralized marketing of Gaza Strip citrus deserves special attention. In response to the drastic consequences of the Gulf war on the markets for Gaza Strip citrus, a marketing corporation was established in 1981 in Amman to help solve problems encountered by Gaza producers. The company, known as the Marketing Development Corporation (MDC) was intended to purchase output at reasonable prices and seek market outlets in neighbouring countries. The company operated for two seasons (1981-83), during which period it channelled around 80 per cent of all exported Gaza Strip citrus. This helped to raise prices and secure an adequate income for growers, much in the manner practised in Israel by the Citrus Marketing Board. The company eventually closed down, owing to administrative problems, financial losses and warnings to growers by the Israeli authorities not to deal with the company.

181. Other organizations in the Gaza Strip have also exerted efforts to promote agricultural export trade. These include the Gaza Strip Charitable Society, which is the body recognized by the Jordanian Government for issuance of certificates of origin for Gaza Strip citrus exports to/through Jordan, though it has few other activities in the area of trade. Indeed, the Gaza Strip chambers of commerce have a secondary role in this respect and their certification is not sufficient for movement of produce over the bridges. The Gaza Citrus Producers Union has also attempted to render marketing and other assistance to members. 90/ Most of the Union's activities relate to production and credit provision, though "the Union has repeatedly approached the Civil Administration with requests for licences that would re-establish citrus exports to Western Europe, thus trying to stimulate the production of citrus, which would be beneficial to the small-scale grower." 91/ The Gaza Strip Federations of Strawberry Growers and Vegetable Growers have also exerted efforts to establish direct export marketing arrangements, though with limited success. A body which has relatively advanced marketing experience is the Gaza Strip Citrus Regulatory Committee, established in 1977 by 11 of the most important growers. Its operating permit, issued by the Israeli authorities, allows it to engage in: "1. organization of citrus export, including: a) distribution of trucks among exporters, and, b) dealing with transit problems related to the crossing of the bridges over the Jordan river and the transport to harbours; 2. the co-ordination of the picking and packaging of the citrus fruit; and, 3. the representation of exporters in authorised institutions in the region." 92/

182. More recently, in an attempt to strengthen domestic markets by building "direct marketing" links between growers and the wholesale market, a non-profit enterprise was established in the West Bank. 93/ While the activities of the new enterprise were complicated by the restrictions which have arisen since the Palestinian uprising, it has been able to engineer several small-scale experiments in direct marketing. Small farmers sell directly to the enterprise for a better price than available in the market, while the new enterprise channels produce to consumer organizations and co-operatives at prices lower than the prevailing retail prices. Operation below prevailing prices is possible owing to the omission of some stages of

the distribution process which add to the price of the crop at the expense of both producers and consumers. In order to expand services and attempt to ease the indebtedness of smaller farmers to commission agents, the enterprise hopes to establish credit facilities, thus helping farmers to deal directly with the market (albeit through the low-cost intermediary of the enterprise). Though still at an experimental stage, this experience deserves further scrutiny and elaboration to ensure that its focus on the domestic market and appropriate low-cost crops is not at the expense of the "marketization" of the economy in general and cultivation of income-generating crops suitable for export trade. It is also important that the effort to reduce poor farmers' credit-dependency on commission agents does not engender a new dependency on the enterprise.

183. Jordanian government departments and agencies have also attempted to make available their resources in support of marketing of West Bank agricultural output locally and abroad. Some 1,500 tons of the West Bank's 1986 bumper olive crop, for example, were purchased in bulk and stored by the Ministry of Supply, while more was purchased by the Jordan Co-operative Organization directly from West Bank olive presses. This helped compensate for the poor 1987 crop, while providing an outlet for the 1986 surplus. In 1986, the Agricultural Marketing and Processing Company (AMPCO), based in Amman with a network of storage, grading and packaging stations in the country, bought a quantity of West Bank vegetables for export marketing, by-passing the Amman central market. AMPCO had also begun to examine European markets for trial shipments of Jordanian produce, as well as West Bank exports. This met with positive initial results, though obstacles reportedly remained regarding market specifications, packaging, air-freight capacity and costs.

2. <u>Technical capabilities - quality/health control, grading, packaging and promotion</u>

184. As a result of the range of factors discussed in this chapter, the quality of much Palestinian agricultural produce has diminished considerably since the onset of occupation. The decreasing ability to penetrate markets and maintain market shares has adversely affected the incentive to invest in physical infrastructures such as storage, cold stores, quality and health control, packing and grading stations, containers and transport, advertising, promotion and other prerequisites that are a necessity for modern export marketing. This has had a particularly damaging effect on the bulk of agricultural output that goes to/through Jordan, while similar weaknesses continue to inhibit expansion of trade in industrial products. Nevertheless, Palestinian agriculture features crops whose quality meets international standards, suggesting a potential for expanded marketing.

185. It has been noted that in the occupied territory "no grading and packaging standards are imposed on produce sold. Furthermore, there is a dearth of market data, with no organized system of collecting information on prices and quality standards, and limited communications. <u>94</u>/ Publicity is restricted mainly to newspapers, since Palestinian producers have no access to radio or television broadcasting. Despite recent improvements, telecommunications remain generally underdeveloped in the occupied territory, especially in the Gaza Strip and the north West Bank. Existing institutional arrangements, especially in the West Bank, have proven incapable of affording the occupied territory the capacity to promote its goods in export markets. "In general, the territories are characterized by limited facilities and the quality of packaging and processing tends to be poor ... Local Palestinian

farmers are consequently left in a weak bargaining position. The underdeveloped infrastructure is seen to place serious constraints on the effective marketing of produce." 95/ While these observations hold true for most marketed crops and manufactures, there is evidence that in some areas and with respect to certain items, varying degrees of "quality control" and processing are applied. However, this remains exceptional, rather than the rule, while integrated and comprehensive facilities and capabilities are urgently required in the occupied territory.

186. In the West Bank, the level of promotional services performed in relation to West Bank export trade with Jordan is noticeably modest. Market research and advertising services are not provided, whether because of lack of specialized institutions or inadequate awareness on the part of local producers and marketing firms. Fruits and vegetables are packed at farms without prior sorting or grading, and the only station equipped for such tasks (in Qalqilya) has never opened, apparently for 'technical reasons'. Farmers are still used to topping boxes with good quality fruits and leaving poorer quality produce underneath. This practice has especially undermined the reputation of products such as citrus and grapes. Agricultural produce is packed in cumbersome wooden boxes, whose size and weight can damage the exported goods, adversely affecting quality and reducing their final volume through spoilage. In order to comply with League of Arab States boycott regulations, styrene or cardboard packaging with Israeli-produced raw materials is not used for exports to those markets, despite the existence of local production capacity for such materials. In addition to their inferior quality, wooden boxes are more expensive, especially since Israeli security restrictions prevent their return to the territory after shipment to Amman.

187. As regards another West Bank export item, namely olive oil, occasional cases of adulteration have been widely publicized, causing serious damage to the product's reputation in Arab markets. Despite the recent establishment, with international assistance, of an olive oil testing laboratory affiliated to the Nablus Marketing Co-operative, organizational difficulties have prevented commencement of operations until now. Aid was also provided for the purpose of establishing two modern olive oil tinning plants, which remain inoperative despite installation several years ago. Generally, olives are pickled using techniques which tend to result in poor and heterogeneous quality. Packaging of olives and olive oil is in large tin containers, which reduce possibilities for successful retail promotion abroad; to date, there have been no efforts aimed at marketing the high-quality Palestinian olive oil in non-Arab markets. Similarly, traditional West Bank olive-oil-based soap, which is a major export item to Jordan and Arab markets, suffers from poor packaging and presentation techniques, such that expanded export marketing requires that serious attention be paid to quality control and processing to improve the appearance and attractiveness of the product. The weakness of the existing trade infrastructure and supporting services has meant that export possibilities for many Palestinian manufactured products have never been explored; thus, prevailing quality levels have rarely "needed" challenging and producers have thus maintained established methods.

188. The level of supportive marketing services in the Gaza Strip is somewhat higher than that of the West Bank. To the extent that citrus lends itself to less costly and simpler grading and packaging procedures, this has encouraged the relatively small number of individual and institutional producers in the Gaza Strip to make the necessary investments in such facilities. Citrus

fruits, especially those destined for export markets, are packed in eight modern stations, with an aggregate capacity of some 1,200 tons/day. By 1987/88, two of these stations had already been idle for several years, while a third had been transformed into a vegetable grading station, the only one of its kind in the occupied territory; accordingly, the aggregate capacity in use during the season was under 70 per cent of total. 96/ Generally, facilities are privately owned and each is used by individual exporters, though the operations of several exporters are sometimes combined at one grading/packing station. Only one of the existing stations, owned by the Arab Citrus Packing Company Ltd. with shareholders representing all sectors of the economy, is generally available to grower/exporters who do not own packing stations.

189. In all stations, quality grading of citrus fruit is done by hand, while size-sorting is mechanized; subsequent processing includes washing, brushing, disinfection, drying, waxing and further quality inspection. Fruits are individually hand-wrapped before being packaged in wire-stitched wooden crates for eventual pallet handling and shipment. Packing materials are produced in the Gaza Strip, using wood imported through barter trade agreements with Eastern European countries, and existing production lines ensure sufficient and regular seasonal supply. Carton packaging, available from producers in Israel, have not been used for Gaza Strip citrus for reasons noted above. Cold-storage facilities for citrus fruit do not exist, though the packing stations allow ample space for temporary pre-shipment storage. "Produce handling is done on the basis of quality consciousness. Producers as well as citrus traders and exporters are well experienced in organizing, grading and packaging for sophisticated export markets ..." 97/ Health controls on all citrus fruits are carried out regularly at groves by the Civil Administration's Agricultural Office and when necessary, protection against pests and disease is offered at a fee. Such inspections allow a chance to establish pre-season production estimates and test fruit quality. "Production estimations and phytosanitary inspections serve the certification activity of the Civil Administration, but they also provide the authorities with a perfect tool to monitor exports ..." 98/

190. Other important Gaza Strip products lack the benefits imparted by quality control and other vital marketing procedures. While Gaza Strip citrus fruit enjoys adequate institutional marketing support (though still lacking in many respects), vegetables are sorely neglected. "Institutional support services and co-ordination of activities are almost non-existent." 99/ The Gaza Strip only has storage facilities for eggplants and strawberries, and they are used by those producers who export strawberries and vegetables through AGREXCO and grade and pack their produce in accordance with strict standards, without the use of sophisticated machinery. Grading and packing is still done at field level, while cold-storage and refrigerated transport facilities, crucial to successful export marketing of perishable vegetables, are completely lacking.

191. Outside the occupied territory, Jordanian marketing authorities have established a network of grading and packing stations in Jordan capable of serving the occupied territory's output. By 1987, three stations in the Jordan river valley were in partial or full operation, each with a grading capacity of 25 tons/hour for tomatoes, peppers, eggplants, marrow, cucumbers and citrus. A wooden box factory was also established nearby. Two other stations were planned, one for the same area and another for the Highlands. A private commercial station was also opened in Amman, with capacity for

processing West Bank output. Until now, the full potential of these facilities has not been realized, since successful grading and packing depends to a great extent on a comprehensive system encompassing all vegetable and fruit output; existing facilities cannot yet absorb such quantities.

192. Quality control poses similar problems for small manufacturing firms, with each exercising unqualified discretion in setting its own standards and specifications. Larger industrial firms seem to be adequately aware of the need for reliable and uniform quality standardization, and most establish their own testing and quality control facilities. There have been local initiatives to promote Palestinian products through advertising and trade exhibitions, while industrialists have attempted to bring quality standards up to levels which permit Palestinian goods to successfully compete in Israel. 100/ Some products, such as chocolates, soft-drinks, industrial scales, plastics and car batteries have been able to secure a share of the Israeli market. While the quality of some major Palestinian manufactured products (especially margarine, soft-drinks, cigarettes and shoes) seems to be acceptable, no external control on quality is provided, which leaves much room for variations in quality. It is hard to see how industrial and farm products can be exported without reliable and autonomous arrangements for quality-control inspection. The absence of independent health control for manufactured goods (especially processed food products and pharmaceuticals), 101/ inadequate product specification labelling and simple packaging techniques severely impede entry of these goods into most export markets, where such standardization is an accepted prerequisite.

3. Human resources and research/development facilities

193. The long-term effects of over two decades of Israeli occupation on Palestinian human-resource development in the occupied territory cannot be dealt with in detail here. Nevertheless, the issue carries a special significance for the development potential of local production and export capacity, especially in light of the absence of an institutionalized marketing infrastructure capable of generating and nurturing necessary skills and techniques. As such, it is worthwhile highlighting some salient features of human-resource development and available research capacity in the territory.

194. A significant challenge posed to the occupied territory is the gradual drain of a major part of domestic manpower through permanent or temporary emigration in search of work outside 102/ and the integration of up to 40 per cent of the Palestinian labour force into the Israeli economy. While such processes could ultimately benefit the territory through re-integration of this experienced "absentee" labour force, there are no indications that such a prospect can soon be realised or that sufficient relevant skill development has taken place as a result of the many years of employment in Israel or abroad. Furthermore, the domestic economy is unable at present to productively re-absorb this labour force, and the territory continues to lack the necessary vocational institutions to retrain workers and provide appropriate employment. Thus, at best it can be hoped to make use of existing human resources and research and training facilities to initiate or implement market development programmes, at least until such time as the requisite institutions can function and, in the process, impart the needed marketing skills to Palestinians in the territory.

195. The level of technical expertise available to industrial firms in the occupied territory poses serious problems. In general, all firms with sophisticated machinery suffer from serious deficiencies in qualified maintenance and repair technicians. Most of these firms are therefore forced to rely heavily on Israeli technicians, who charge high fees ($50-$70 per hour as of leaving office in Israel) and are not always available, especially since the recent uprising. Managers of firms with a relatively high technological component complain of a low level of expertise among production workers. It is often noted that workers have no access to formal pre-service or in-service training and commonly pick up their profession on the job. This is also felt in handicraft industries and repair workshops. An important predisposing factor for the modest level of expertise in the industrial labour force relates to the chronic distortion in the educational system. Higher education institutions do not cater to the kinds of expertise required by industrial or agricultural enterprises. The role of universities and research institutions in promoting agricultural development has been negligible. This is due primarily to the fact that no university or college has been permitted to open its own faculty of agriculture. Paradoxically, impressive Palestinian educational achievements have had little bearing on the level of skilled manpower serving the domestic economy in the occupied territory.

196. Producers in agricultural and industrial sectors have introduced significant improvements in production techniques and facilities over the past two decades. The transfer of technology has been facilitated by intensive exposure to Israeli sources of technology, mostly through business contacts. A major role was played in this regard by the technicians of Israeli firms engaged in the production and distribution of agricultural inputs or industrial machinery and equipment. Intensive farming patterns, particularly for products grown under protected conditions such as vegetables, strawberries and melons, spearheaded the technological development. Productivity and quality of produce on such farms have risen considerably. Similarly, significant improvements have been introduced in certain livestock branches, especially in regard to the widespread dissemination of hybrid sheep strains. Meanwhile, rain-fed horticulture (e.g. olives, almonds, figs, grapes) has not witnessed a pronounced degree of technological change. This has been due to several factors, such as the relative scarcity of applied research in such branches in Israeli institutions and the implicitly hostile policies of the occupation authorities to the expansion of tree culture in the occupied territory.

197. The role played by the Department of Agriculture of the Israeli Civil Administration in technological transfer is minimal. In both the regular and development budgets of the Civil Administration in the West Bank, allocations for agriculture and water are markedly low and account for a decreasing share of the budgets. 103/ "It is clear that, since the early 70s, there was a trend toward reducing the budget for development in general and funds for irrigation and agriculture in particular. However, in contrast to this, the regular budget for agriculture remained more or less stable over the period." 104/ While the share of agriculture and water in the regular budget wavered between 4 and 5 per cent annually until 1980, since then the proportion has been between 2 and 3.5 per cent in all years (except 1986 when it rose to some 7 per cent). Their share in the development budget, which was between 15 and 30 per cent each year until 1980, has been between 7 and 14 per cent since then. Since 1980, development expenditures in agriculture have been devoted to water resource projects, with other agricultural

development projects completely neglected. Research budgets of the Civil Administration have similarly been reduced over time, so that by 1983 and 1984 the research allocation was $1,800 and $1,400 respectively, though in the mid-1970s the annual research budget was over $55,000. "Research has focused upon products that are of high value and do not compete with Israeli equivalents." 105/

198. The role of local research institutions in promoting industrial development is even more negligible than that in agriculture, despite the existence of two faculties of engineering (at Bir Zeit University and An-Najah University). The Hebron Polytechnic, on the other hand, has initiated a number of disciplines that cater to local industrial branches, e.g. glass work and farm machinery. If provided with adequate support, this institution could undertake more intensive and guided forms of training in other technical disciplines. Since its inception in the middle 1970s, Bethlehem University has recognized the great need for training in the tourist industries. As a major step in meeting this need, the University has introduced a specialized programme in hotel management. This programme has helped to supply local hotels with qualified personnel. Future plans along these lines include the establishment of a training and production centre for traditional arts and crafts, also to be based at the University. 106/

4. Financial facilities and regulations

199. Despite recent limited success in opening branches of one indigenous bank in the West Bank, the occupied territory as a whole continues to suffer from the lack of an adequate and efficient banking system. The continued closure by Israel of indigenous banks and other specialized financial institutions has deprived the Palestinians of financial services vital for the growth and development of their economy. 107/ As much as in any other sector, trade has suffered from this institutional financial vacuum, which is characterized by fragmented and informal financial intermediation. The absence of normal credit services for industrial or agricultural purposes represents a serious constraint for those aiming to expand successful operations and deprives producers of the means to modernize production facilities. Consequently, production costs are not easily reduced and product quality cannot be upgraded. In some industries, such as sewing, the lack of adequate credit has been a major factor in perpetuating dependency on larger-scale Israeli corporations that supply raw materials in the context of subcontractual arrangements. Likewise, the lack of normal banking services has deprived manufacturing firms of the financial services needed to cover pre-shipment and post-shipment obligations.

200. In the area of trade, the role of the branches of Israeli banks, operating in the territory as the only financial institutions until 1986, has remained insignificant particularly with regard to export-import needs. Because of the small quantity of imports from abroad to the territory, the role of Israeli banks in facilitating Palestinian international trade is marginal. It is, however, crucial for the few businesses involved, especially owing to the absence of alternative facilities. The use of overdraft facilities from the branches of Israeli commercial banks in the territory is hampered by constraints arising from both government regulations and banking practices. In addition, poor banking services and delays in processing customs formalities have increased the cost of imports and exports to Palestinian merchants.

201. Since the early 1970s, no monetary or fiscal incentives have been available to exporters in the occupied territory in order to reduce the cost of exports and thus add to the competitiveness of Palestinian output and increase gains in international trade. In view of the uncertain political and financial circumstances under occupation, coupled with Israeli measures that restrict the flow of external financial resources into the territory, Jordanian and Arab commercial banks and specialized institutions have not been able to provide their services to Palestinian exporters. Financing of foreign trade is largely through equity sources, with only minor credit facilities provided by local branches of Israeli banks. Because of the monopolistic conditions under which they operate, Israeli banks charge much higher rates for their services in the territory than is common in Israel or than is practised by Jordanian banks. Commissions on letters of credit to Palestinian importers range from 0.5 to 1.5 per cent, sometimes climbing as high as 10 per cent. The re-opening of the Cairo-Amman Bank has not led to improvements in this regard, since the bank has not yet been authorized to engage in foreign exchange transactions. Instead, all foreign currency dealings related to external trade through Israeli ports are effected through Israeli banks at official exchange rates and without any form of Government subsidy. Trade across the bridges (in Jordanian dinars) is not subject to foreign currency restrictions.

202. Mobilizing savings from local and foreign sources has not played a tangible role in financing trade and economic development. The failure of this process at the local level is due to structural deficiencies in the banking system. There are initial indications that the re-opening of the Cairo-Amman Bank may help in attracting cash savings and in directing them to local investment purposes. However, trade finance schemes have yet to feature in the Bank's services. Deficiencies in the banking system, coupled with political instability, also have been major factors in the failure to mobilize foreign investment. This has deprived the Palestinian economy of a major source of funding, especially given that rates of return on domestic investments are much higher than is commonly believed. As a result, the only form of institutional finance available to producers has been through loans, usually intended for small-scale producers and offered by several local and international private voluntary organizations (PVOs). These facilities either take the form of revolving cash funds or provision of production inputs in kind (in agriculture).

203. The inflationary spell that swept through the Israeli economy for over a decade had mixed consequences for Palestinian external trade. The erratic pace of decline in the exchange rate of the Israeli shekel greatly increased the margin of risk to all enterprises, especially those that had to enter into long-term contracts involving deferred financial commitments. Israeli export firms were accorded a number of incentives to compensate for the adverse consequences of inflation. Furthermore, these firms benefited from the sharply declining real wage levels that prevailed during the years of spiralling inflation. By contrast, Palestinian firms were denied access to similar incentives and advantages. Almost all West Bank enterprises pay wages either in Jordanian currency or in shekels converted at the prevailing exchange rate. Nevertheless, that part of the export sector undertaking transactions in stable currencies in Jordanian and Arab markets had a greater capacity to shield itself against losses. In the Gaza Strip, the Bank of Palestine, functioning as the only indigenous credit institution, has played a limited role in promoting foreign trade. Instead, it has focused its

efforts on support of production sectors. This is primarily owing to Israeli regulations which prevent the bank from dealing in foreign currency, coupled with restrictions on contacts between local businesses and external markets. 108/

204. As noted previously, the only indigenous institutional form of credit available in the agricultural sector is that provided mainly for production purposes by the co-operative organizations in the occupied territory. In the absence of an institutionalized source of trade finance, the role of the informal sector, dominated by commercial agents, has become pronounced. Nevertheless, the function of this sector has been geared more to export finance and provision of credit for local marketing purposes than to import-oriented credit. Palestinian importers and exporters have no recourse to specialized financial institutions or arrangements to cover their growing needs.

205. The financial requirements of commercial agents are largely met through the limited existing institutional sources, primarily the Jordanian banking system and, to the extent necessary, the branches of Israeli banks in the occupied territory. The agents, who have been seen to play a major role in marketing agricultural produce to and through Jordan, are the only source of credit for large numbers of individual farmers, especially in the Jordan valley area. Though no interest is charged on loans, lenders earn high rates of return by charging "fees" for provision of production inputs and through the commission obtained on the sale of their clients' produce. The only guarantee required is that borrowers are bound to sell their produce through the commercial agents' facilities in domestic wholesale markets or Amman. Moneychangers constitute another important element in the informal financial sector, but they have played no effective role in trade finance, except to the extent that they may provide short-term credit to clients on an exceptional basis. Their only other function, nevertheless an important one, is the exchanging of currencies and transfer of funds between the territory and Jordan, including export proceeds which are returned to the territory. Part of these activities have recently been adversely affected by Israel authorities' restrictions on the flow of funds to the occupied territory, imposed as an economic measure against the uprising.

5. Transport facilities

206. Another pressing deficiency in the existing domestic infrastructure is the condition of the occupied territory's transport and shipping facilities. This issue has crucial implications for the cost element incurred, the efficiency of the distribution system and the need to maintain quality levels upon delivery of produce. The effect of geographic factors is also relevant, in light of the fact that most of the producing area of the occupied territory is land-locked (i.e. the West Bank). Though the Gaza Strip's coast line is on the Mediterranean Sea, direct and effective access has been prevented by the Israeli occupation authorities since 1967. Despite the potential advantages of the geographic position of the occupied territory as regards development of regional land, sea and air transport networks, the territory remains notably deficient in this regard. The Palestinian transport system remains under the control of the occupation authorities and consequently subject to the prerequisites of Israeli physical planning and security interests.

207. With regard to local transport, the services of main roads have improved tangibly in recent years, as a result of Israeli investment in a new road network to serve Israeli settlements in the occupied territory. This is evidenced by the sharp rise in the number of trucks and commercial cars, which increased from 2,352 in 1970 to 16,431 in 1986. 109/ The condition of main roads in existence in 1967 is generally satisfactory, although no significant improvements have been made to the network since then. The extensive network of roads built by the authorities to serve Israeli settlements is so designed that it is of little use to Palestinians in the occupied territory for purposes of trade or otherwise.

208. Of greater concern is the state of the agricultural roads, especially in the West Bank. Israeli authorities have generally neglected their upkeep and/or improvement, instead delegating this obligation to local communities and private voluntary organizations. Even when funds have been pledged for this purpose, local communities must still seek approval from the Israeli Civil Administration, which is not always forthcoming on projects which are not in line with its interests. Poor road conditions in some intensive farming areas have entailed adverse consequences with regard to additional transport costs and impairing the quality of produce. A prominent example is the poor road system connecting vineyards to main roads in the Hebron district. In the Gaza Strip, transport from citrus groves to packing stations is done with flat bars and tractors, usually provided by the buyer.

209. Technically speaking, foreign transport includes transportation to and from Israel, Jordan, Egypt and overseas. Conditions affecting transport are to a great extent the outcome of policy measures in the respective markets and especially at points of entry to and exit from the territory. However, in order to best comprehend the practical aspects of exporting goods, it is necessary to examine the prevailing arrangements, without detailed reference here to their policy basis and origins.

210. Transportation to and from Israel is, for the time being at least, effectively an extension of the territory's local transport system. No serious problems have been noted regarding transport facilities for delivering produce to Israeli markets, except for those arising from the use of distinctive registration plates on all West Bank and Gaza Strip vehicles, which often leads to unwarranted harassment by Israeli traffic police, tax collectors and customs personnel. The pre-1967 borders between Israel and the occupied territory are not marked, and transport routes are being gradually integrated into comprehensive Israeli physical planning. This aspect of the occupied territory's transport system has grave consequences for the longer-term structural orientation of Palestinian commercial relations.

211. Israeli port facilities (sea and air) are used by Palestinian firms to import goods from overseas. International sea transport for exports is available in air-ventilated boats or refrigerated ships, and the seaport at Ashdod can be used by Palestinian exporters. Access to facilities for citrus exports can be obtained by requesting the services managed at the port by the Citrus Marketing Board of Israel (for citrus) and AGREXCO (for other fruits and vegetables). Goods imported through points of entry, especially sea ports, in the name of Palestinian firms or businessmen are subjected to stringent Israeli security inspection measures. This causes excessive delays in clearance procedures, which in turn entails extra costs and can cause

serious marketing problems for importers. Consequently, most Palestinian firms resort to using Israeli intermediaries for the purpose of expediting their imports, although this entails a commission of 5-10 per cent.

212. The occupied territory's only existing direct outlet to the sea is the seaport at Gaza, which has been closed since the beginning of Israeli occupation in 1967. As noted previously, this port handled all of the Gaza Strip's exports and the bulk of its imports prior to Israeli occupation. Pre-1967 port facilities were simple, with vessels unloaded at sea and produce transferred by smaller boats. Recently, interest has been renewed in the possible construction of harbour facilities to accomodate sea vessels, with a depth of 7.5 metres and a jetty of some 200 metres, requiring an estimated investment of $17 million. The need to reopen the port has been highlighted by Palestinian exporters for many years and has been the subject of several United Nations resolutions. 110/ A number of practical problems have prevented this project from being initiated, including the refusal of the Israeli authorities to permit the reopening and functioning of the commercial port. Notwithstanding the existing facilities at Israeli ports and the still low level of direct Palestinian exports to non-Arab markets, the Gaza Strip seaport remains the most natural outlet for Palestinian exports. Its development is a necessary prerequisite for any long-term expansion of Palestinian external trade, both with traditional and with new markets.

213. Transportation to and from Jordan via the Jordan River bridges is by far the most vital channel for external trade. This constitutes the "lifeline" of the Palestinian external sector's access to its traditional markets. It is in this area that changes in the transportation system affecting trade have been most notable. A range of elaborate measures regulate the flow of passenger and vehicle traffic across the bridges. All traffic and flows of goods are confined to the two bridges of Allenby and Damya. A third new bridge, inaugurated shortly before occupation, has remained closed since 1967. Despite heavy traffic, 111/ movement across the bridges is subject to numerous restrictions which entails grave consequences for trade. The restrictions include, *inter alia*, closure of the bridges on weekends, from 10 a.m. on Fridays till 8 a.m. on Sundays; closure of the bridges on Jewish holidays, a total of 18 days per year; confining passage over the bridges to five hours daily (8 a.m. to 1 p.m.); admission of a maximum of 2,000 passengers into the occupied territory per day, even during the peak visiting seasons, thus impeding commercial traffic, especially imports to the territory; the requirement whereby lorries crossing the bridges must re-enter the West Bank on the day following their departure. This causes undue haste in disposing of farm produce in Amman and provides little time for settling accounts and finalizing paperwork. Because of time constraints, exports in transit to Arab countries are transferred to Jordanian trucks, adding to transport costs and possibly damaging perishable goods.

214. High fees are imposed by the Israeli authorities on traffic across the bridges, so that the viability of trade with Jordan and neighbouring countries is greatly undermined by rising costs. Fees in early 1988 were charged at the following rates:

- Monthly lorry permit (for an average of 5 trips/month)	US$ 154
- Inspection fee on return (per trip)	$ 20
- Customs service fee (per trip)	$ 14
- Personal exit permit (per trip - for owner of goods)	$ 76

At the above rates, a truckload to Amman incurs total fees (excluding the transport fee itself) of approximately $65, climbing to $140 if the shipment is escorted by the owner of the merchandise.

215. Other factors affect transport across the bridges and have added further costs and obstacles to external trade. Because of an Israeli ban on import of new equipment and vehicles from Jordan to the territory, lorries permitted entry to Jordan are only those which were in service on the eve of the Israeli occupation, estimated at about 400 trucks. The open trucks do not provide for sufficient protection of perishable goods, and to satisfy Israeli security requirements they are stripped down to the barest minimum of fittings. One hundred additional trucks from the Gaza Strip are permitted entry in order to cater for the heavy seasonal flow of citrus fruits. The restriction on new trucks has had two notable consequences. Firstly, it has created a monopoly situation that contributes to the unusually high fees for transportation to Amman, ranging from $500 to $1,000 per truckload for a distance of 40-60 miles. Secondly, road hazards have increased as a result of using 20-30 year-old trucks on the narrow, steep and winding roads connecting the West Bank with Amman.

216. Other transport routes are equally costly and risky. Shipping of Palestinian exports to overseas markets via the Jordanian port of Aqaba or Amman airport has not been tried. However, the unduly high costs incurred in transporting goods across the bridges have already undermined the competitiveness of Palestinian exports in those markets. Transportation to Egypt is possible for Gaza Strip residents via the Rafah border crossing. However, this route is not used for commercial traffic because of the requirement that goods be tranferred to Egyptian trucks at the border point. Furthermore, the long distance to Port Said, the nearest Egyptian seaport, entails relatively high transportation costs. With no direct port facility, Gaza citrus exporters are thus obliged to send their goods through the neighbouring Israel port of Ashdod.

C. Israeli policies and practices

217. The preceding discussion has highlighted the complex web of mutually reinforcing blockages and weaknesses in the fabric of the domestic trade infrastructure of the occupied Palestinian territory. Despite these, a nascent external trade sector featuring a range of established procedures and facilities has emerged in the territory. Some of the limitations on the development of Palestinian trade are related to the generally underdeveloped nature of the economy and its institutional framework. Notwithstanding these structural considerations, 21 years of Israeli occupation have had far-reaching consequences, both for the day-to-day functioning of the external sector and for the scope for reform and improved performance. The impact has been so pervasive that it is often difficult to disentangle the effects of Israeli policies and measures from the influences of other factors. However, in most areas the operation of Israeli policies can be clearly perceived and their effects delineated. The following sections examine how Israeli military orders and policy measures relevant to production in general and trade in particular have acted to debilitate the performance of Palestinian trade while seriously restraining the sector's capacity to generate resources for sustained economic growth and development.

1. Measures affecting production and other economic activities

218. More than 52 per cent of the total area of the occupied territory has been gradually brought under direct Israeli control through confiscation and related measures since 1967. 112/ This has sharply reduced the area available to Palestinians for rain-fed and cereal farming. While the irrigated area's productivity has increased through improved inputs and techniques, aggregate production has not increased significantly over the past decade. This has been an important impediment to expanding agricultural output and trade. As noted earlier, a related bottle-neck that has impeded expansion and intensification of irrigated areas concerns restrictions on access to water. Out of total annual supplies of 800 million cubic metres, Palestinians in the occupied territory are allowed the use of only 110 million cubic metres, despite the rapid growth of population, with the balance available for use by Israel and its settlements in the territory. Palestinians are not permitted to exploit their water resources for the development of their economy. Deep wells are only bored for the benefit of Israeli settlers, thus causing the drying-up of shallow tube-wells in nearby Palestinian villages. 113/ On the other hand, as noted, the high cost of water has forced farmers to mix brackish water with fresh water from springs that were already in use before 1967. This has also led to the cultivation of certain crops at the expense of others, especially in the Gaza Strip, where increasing water salinity has impaired the quality of citrus fruits.

219. The crisis facing Palestinian agriculture is rooted in a number of bottle-necks and restrictions which have deprived the territory of the potential benefits offered by restructuring. The most prominent Israeli policies and practices in this respect are: regulation of cropping patterns according to the prerequisites of Israeli agriculture by discouraging the planting of certain crops; rising labour costs transferred through inflationary pressures in the Israeli economy; and the squeeze exerted by Israeli land confiscation policies on rain-fed and marginal land suitable for large-scale field crop farming. Similar factors have affected fruit production, whereby Israeli restrictions on planting new trees in certain branches (citrus especially), limited access to crucial irrigation supplies, highly volatile market conditions aggravated by Israeli control of openings for citrus and fruit exports and its own interests in that area, have combined to discourage any significant long-term expansion in fruit production. Olive cultivation, vulnerable to large biannual swings in output, has suffered less than other branches from Israeli policies and measures, other than those affecting land availability.

220. The continued stagnation of Palestinian industry might have been avoided were it not for the impact of Israeli policies. While the first years of the occupation witnessed a certain degree of Israeli Government support, this was discontinued and gradually replaced by a non-policy which has oscillated between neglect and discouragement. The former is manifested in the absence of policy measures, institutions or regulations favouring the rationalization and development of a local industrial base. This has deprived the Palestinian economy of the opportunity of completing an important stage in structural re-adjustment, namely modernization and re-orientation of manufacturing branches so as to weather the shocks of agricultural instability and decline.

221. Israeli authorities have also applied a range of measures which have acted to curb and regulate industrial development. This has had the effect, *inter alia*, of promoting integration into Israeli industrial strategies, pursued both in Israel itself and in industries in Israeli settlements in the occupied territory. Israeli practices have also aggravated the already existing difficulties inherent in competing with the relatively better-quality and lower-priced Israeli manufactures which benefit from unrestricted penetration into local Palestinian markets. Restrictive practices have included delays or obstacles in issuing building or operating permits for enterprises which are considered to compete with existing Israeli industries, tax rates and assessments which far exceed those applied prior to occupation, and shortages of and obstacles in obtaining needed capital, raw materials, energy and certain skills. The impact of these factors on Palestinian industrial trade is not insignificant. There is no clear industrial development policy to guide and support producers' efforts. New initiative is discouraged, and potentials for maintaining or developing domestic or export markets are threatened by pressures on the productive base over which neither producers nor consumers have any real influence.

2. Israeli policy towards Palestinian trade

222. Israeli domination of the Palestinian external trade sector has been achieved through application of a range of general policy guidelines affecting the flow of goods to and from the occupied territory. These policies have affected Palestinian trade with Israel, Jordan and other Arab States, as well as transit trade to the rest of the world via Israel. Of equal significance is the manner in which policies have been applied and the related practices and measures employed to ensure their effectiveness.

223. Israel has practised a policy of selective opening of the occupied territory's external trade channels in a manner that ensures the greatest possible benefit for Israeli economic interests, with only coincidental regard for Palestinian developmental concerns. This has involved maintaining the flow of goods over the bridges between the occupied territory and their traditional markets in and through Jordan. However, even this process has been characterized by restrictions reflecting various Israeli interests. Israel has since 1967 considered the continuation of the "open bridges" policy a useful mechanism for disposing of domestic Palestinian output (surplus or other), thus increasing openings for Israeli goods in Palestinian markets. 114/ More recently, Israeli officials have suggested using the bridges and overland or sea routes via Jordan for Palestinian agricultural exports to Europe in order to avoid channelling such transit trade through Israeli ports. 115/ This was in response to protests by Israeli farmers that Palestinian exports through Israeli ports would compete directly with Israeli exports.

224. Direct commercial contacts between the occupied territory and the rest of the world other than with Jordan and other Arab States are maintained largely through Israeli commercial agents. Until late 1988, Palestinians were not allowed to export or import goods directly to and from outside markets using Israeli ports (see section E below). Gaza Strip producers alone have been allowed to export citrus fruit directly to Eastern Europe through the Israeli port of Ashdod. While the restriction on direct trade with the rest of the world may have put the experience of Israeli agents at the disposal of Palestinian traders, the cost-benefit aspect of such a policy and its

consequences for the Palestinian economy deserve careful examination. This constraint has prevented the Palestinian entrepreneur from coming into direct contact with external markets, learning the dynamics of supply and demand in these markets, searching for new outlets and concentrating on ways and means of reducing cost and maximizing gains in trade with the rest of the world. In certain markets, such as those in the European Economic Community (EEC) and in North America, products obtained from Palestinian producers in the occupied territory and from Israeli settlements in the territory have been marketed as Israeli produce carrying Israeli brand names. The Commission of the European Communities is reported to have asserted that this practice is not only in violation of international law but also an abuse of the preferential treatment extended to Israeli products. 116/

3. Licensing procedures

225. Foreign trade operations of the occupied territory are supervised by the Department of Trade and Industry in the Civil Administration, headed by an Israeli officer. The latter is vested by the Military Government with the powers of the Israeli Minister of Trade and Industry to implement Jordanian law prevailing in the territory, as amended by Israeli military orders since 1967. This department has district offices in Ramallah, Nablus, Hebron and Gaza to supervise the implementation of trade policy. Until 1984, the Military Government had issued over 50 different military orders regulating Gaza Strip and West Bank trade, over 60 orders dealing with customs and excise duties on all exports and imports to the territory, not to mention several hundred orders directly affecting all aspects of economic activity. These orders include amendments to previously existing Jordanian or Egyptian customs and tariff regulations to bring them into line with Israeli schedules, new regulations affecting the volume, composition and direction of trade, and measures to ensure overall conformity with economic activity in Israel, such as product labelling and specifications, granting of operating licences, and procedures for the entry of export proceeds into the territory.

226. Importers present their applications to the branch of the district office of the Department of Trade and Industry, specifying the type of goods, country of origin, value, and the tariff code if originating in the EEC. Different import licence forms are required for goods imported through Israel and for those imported over the bridges. The Department of Trade and Industry in turn passes on the application to the Civil Administration from where it goes to the Ministry of Trade and Industry, where it is scrutinized according to the overall Israeli trade policy guidelines described above. The importer must also obtain a clearance certificate from the income tax and customs authorities. This can constitute an important obstacle, since importers' need for an import licence can force them into a weak bargaining position with the tax authorities regarding their own taxation situation. This measure, it should be noted, is not applied to Israeli importers, who require no such clearance. The period usually needed to obtain an import licence ranges between 25 and 40 days, and in many cases applications are turned down, especially for goods for which there exist major Israeli import agents. Once approved, local Israeli banks are authorized to expedite import transactions at the official rate for the needed foreign currency. After obtaining a licence, imports enter the occupied territory either via the Jordan River bridges or through Israel. There are clear differences in the procedures followed in each case.

227. All industrial exports to Arab countries, including olive oil, liquid margarine, aluminium, building stone and soap (i.e. the main Palestinian industrial exports) require a licence from the authorities. The main problem is the requirement of obtaining a clearance certificate from the tax and customs authorities. This licence is issued by the Israeli officer in the Civil Administration and usually does not take a long time. Exporting firms can procure permits for large quantities, which they can then use for successive shipments within the period of validity specified in the permit. Export permits are usually issued more expeditiously than import licences.

228. Exporters of industrial or agricultural products to Israel must obtain a licence for each shipment from the Israeli authorities (the Ministry of Trade and Industry and the relevant agricultural Production and Marketing Boards, via the Civil Administration), who act to ensure that Israeli producers' interests are safeguarded. Licence forms are supplied to importing Israeli marketing firms by the respective Marketing Board. The Marketing Board charges importers a fee on all permits delivered to them. Israeli importers provide the form(s) to their agents in the occupied territory, who can expedite shipment only after each form is approved by the local Department of Agriculture. The Department receives instructions from the Israeli Marketing Board on kinds of products which are permitted entry and on the quantities of permitted produce.

229. It is especially difficult to obtain licences for marketing Palestinian agricultural goods in Israel, except for small and insignificant quantities. The authorities have also applied these restrictive guidelines on marketing of agricultural goods from the West Bank and Gaza Strip to occupied East Jerusalem. The transport of products between the West Bank and Gaza Strip is permitted subject to obtaining relevant permits from the Department of Agriculture in the district of origin. The permit specifies kind of produce, quantity, date of entry and route of vehicle.

4. Export-import flows

(a) Industrial imports

230. Industrial goods are imported to the occupied territory from three different sources: from Israel, from abroad via Israel, and from Jordan and other Arab States over the bridges. Israeli industrial products are assured complete protection in the occupied territory's markets. There is no limitation on the amount and type of Israeli goods entering the occupied territory except those with high technology contents and military goods. This free and unlimited entry of Israeli goods, together with forceful marketing campaigns, has confronted local producers with stiff competition. Many of the goods involved are subsidized at the production level. In a captive market where the Israeli producers benefit from a unilaterally imposed division of labour, much of the gains from these subsidies accrue to Israeli producers.

231. There are three entry points for goods imported via Israel: Haifa or Ashdod seaports and Lydda airport. The customs clearance is in most cases effected by Israeli companies. Goods imported directly by Palestinian traders undergo a security search that usually takes about a week. Often, goods are also subject to further checks by the Israeli Institute for Specifications and Measures to ensure they satisfy the required guidelines. This can take

several days and if the Institute is not satisfied with the result of its examination, it refuses to allow the goods to enter Israel. In the end, clearance can take up to several weeks, for which period the importer must pay the storage fees, thus increasing the cost appreciably. The obstacles faced by Palestinian importers have led to an irregular phenonomon whereby they have been forced to commission Israeli importers to import the goods they require so as to avoid the various problems mentioned.

232. Procurement of raw materials needed by local industries remained essentially free until 1988, though with several notable exceptions. One of these is the embargo on selling hatching eggs and hens to Palestinian poultry firms in the occupied territory. The motive behind this embargo was to maintain Israeli control over the development of the Palestinian poultry industry, primarily in order to forestall competition with Israel exports to the territory. More recently, the rationale has been to prevent the emergence of a viable Palestinian household economy as part of the uprising. Likewise, fuel was freely imported into the occupied territory from Israel until early 1988, when the Israeli authorities imposed strict limits on the entry of fuel to the territory. Factories and petrol stations in need of fuel supplies have since had to apply to the local military authorities for special permits. Since the uprising, arbitrary Israeli restrictions have made the movement of goods from and to the occupied territory more problematic than ever.

233. In general, the measures applied to imports through Israel are less strict than those effected on the bridges. Israeli military orders forbid, for example, the entry of a number of major items, such as chemicals and steel sheets or rods of over 3 mm thickness. Certain key industries, like plastics and farm machinery, are thus seriously disadvantaged and forced to rely totally on imports from/through Israel for such materials. Even when some products or raw materials are technically permitted entry over the bridges, prolonged and often damaging inspection measures may render transfer impractical. These necessitate unloading the goods from trucks, then reloading them after thorough search. Required visual inspection of all imported goods makes it impractical to import wool threads and raw textiles from or via Jordan, since they are torn open to check the contents of containers. Due to the excessively hot weather in the Jordan valley and extended clearance delays on the Israeli side of the bridges, import of perishable raw materials needed for the chocolate industry is likewise rendered impractical.

(b) Industrial exports

234. Most industrial goods from the occupied Palestinian territory are permitted entry to Israeli markets, provided they meet prescribed labelling and hygienic specifications. In particular, labels should indicate clearly the origin of produce in a way that designates their identity to Israeli consumers. Furthermore, labels should be written in Hebrew and in letters of at least the same size of those of other languages used (e.g. Arabic). In order to avoid marketing problems on both sides of the border, many Palestinian manufacturing firms prefer to use two types of labels, one for goods destined to Israeli markets and another for local markets (without Hebrew). In certain industries, such as canned drinks, this entails extra costs which competing Israeli imports, for example, do not have to bear. In order to penetrate more forcefully the Israeli market, some food industries have applied for "kosher" certificates. Despite meeting prescribed

eligibility criteria, this has encountered considerable reticence on the part of the Jewish Rabbinate in Israel, which relented only in the face of the possibility of legal action at the level of the Israeli Supreme Court.

235. The status of the pharmaceutical industry with respect to exports to Israel deserves special mention. 117/ No drugs originating in the occupied territory are allowed to be sold in Israel, thus barring a major Palestinian industry from a potential market. The main reason for this is the highly institutionalized nature of the health service system in Israel, which is comprised of three main organizations, namely the national health service, the armed forces health service, and the medical insurance programme. None of these institutions has been willing to purchase medical products of Palestinian origin.

(c) Agricultural imports and exports

236. As with industrial goods, Israeli agricultural exports flow freely into the occupied territory. While an increase in imports of fresh foods from abroad through Israel has taken place since Israeli occupation, a more significant development has occurred with the sharp fall in imports of commodities from Jordan. "The reduction is a reflection of Israel's external trading policy towards Jordan, with Jordanian goods being subject to an Israeli external tariff on entry to the West Bank." 118/ Due to Israeli Government price incentives for Israeli agriculture, this restructuring of the pattern and terms of agricultural imports has been especially disadvantageous to Palestinian farmers in their attempts to maintain domestic market shares. It has also contributed to the decline in farming area, estimated for the West Bank at 20 per cent between 1966 and 1986. 119/

237. In contrast to this situation, Palestinian commodity exports to Israel are subject to quotas, both by type and amount. "Quotas have been lifted when shortages occur and demand outstrips supply. The planning process takes into account the interests of Israeli farmers rather than that of the Palestinians." 120/ Certain of the occupied territory's lucrative cash crops (cucumbers, tomatoes, eggplant, melons, etc.) which are competitive with Israeli produce are subject to a general ban from Israeli markets. "This trend has resulted in unfair competition with local produce and a dependence on Israel for the provision of food." 121/ The complex procedures followed by the Israeli authorities in granting permits for export to Israel are indicative of the problems faced by Palestinian farmers in disposing of domestic surpluses. With respect to Palestinian fruit exports to Israel, for example, the process of establishing quotas commences prior to harvesting when Israeli officials (from the Fruit Marketing Board and the Civil Administration) visit different production areas to determine quality and time of ripening. 122/ According to Israeli market requirements, the Board decides on the quantities required for Israeli markets, on the basis of which weekly quotas are established for the occupied territory. The Civil Administration is responsibile for allocating quotas between producing districts and for issuing the necessary permits for movement of goods. The permits are distributed at the discretion of officials from the local Agricultural Department in the territory.

238. The export permits are printed in five copies (in Hebrew) and specify date, time and duration of entry of trucks carrying produce into Israel, name of farmer and driver, destination of the produce, quantities and the details

of the permit from the wholesale market in Israel to which the produce is directed. The purpose of this second permit is to ensure that the farmer who applies for an export license has a predetermined wholesale marketer in Israel and that the produce will not be retailed. Israeli customs officials ensure strict control of the export process and checking vehicles at entry points to ensure they are not carrying unauthorised goods. If a truck is caught without the proper authorization or carrying a load in excess of the permit, then this is siezed and auctioned by the customs officials. The owner of the produce is fined, and the difference between the selling price and the fine is returned to the farmer. Similar restrictions, fines and punishment apply to Palestinian farmers who attempt to sell produce in occupied East Jerusalem.

5. Fiscal measures

239. No tariffs or non-tariff regulations are applied to the entry of Israeli goods into the occupied Palestinian territory. In sharp contrast, a high customs duty must be paid by Palestinian exporters on agricultural goods that are allowed into Israel. Palestinian importers pay import duties for goods arriving via Israel or those brought across the bridges at the tariff rate applied for the import of the same goods into Israel, in addition to the value added tax (VAT) of 15 per cent. Israeli importers are able to recoup most of the VAT they pay by adhering to the standard invoicing and receipt procedures of the Israeli market. However, most Palestinian importers are not able to regain the VAT since the local market does not generally apply such procedures. Israeli importers benefit from incentives and discounts offered by the taxation authorities according to the volume of imports. Only in the case of raw materials imported by manufacturing firms for purposes of processing and re-export are Palestinian firms exempted from customs duties. Producers are eligible for a rebate on customs and VAT after products are exported. A similar situation prevails with respect to another Israeli tax ("Tamah") which raises the value of imports to/through Israel for the purpose of applying a purchase tax. The "Tamah" rates are much higher in some cases than reductions in import tariffs, thus raising the price of raw materials and equipment imported through Israel by 15 to 25 per cent above world market prices. Consequently, this adds to the effective costs that must be borne by Palestinian importers.

240. The lack of a central Palestinian authority in the occupied territory responsible for enacting appropriate fiscal measures, especially with respect to imports, has resulted in foregone customs revenue to the occupied territory. Calculating on the basis of the overall Jordanian customs tariff of 13.4 per cent which also prevails in the occupied territory, 123/ the total value of potential customs revenue which is foregone by the occupied territory on imports from/via Israel amounts to some $118 million. This figure rises to $176 million if calculated on the basis of the overall tariff rate applicable to imports to Israel for 1986. 124/ In the latter case, the value of foregone customs revenue to the occupied territory exceeds the total value of the Israeli Civil Administration budget in the occupied territory, which amounted to $145 million in the 1986/87 budget year. 125/

241. During the first period of the occupation, the Israeli authorities pursued an export promotion policy aimed at increasing the volume of Palestinian exports from the occupied territory across the bridges or through Israel to other countries. This policy was implemented through payment of a high subsidy to Palestinian exports (reaching an effective rate of some 50 per cent), but it was discontinued in 1975. The authorities now provide

various types of support to Israeli exporters, ranging from direct financial incentives to tax rebates. Equally important are other forms of aid such as export finance on attractive terms, product research and development, publicity, and contacts in foreign markets. 126/ By contrast, Palestinian exporters do not benefit from any of these vital services, especially those related to finance and modern communications.

242. Competition between Israeli and Palestinian producers is characterized by a marked degree of inequality. Israeli producers and consumers enjoy the benefits of a highly regulated market where supply and demand for major farm products are effectively controlled by powerful institutions. Subsidization of Israeli agriculture is an integral component of agricultural development policy. In 1981, the amount of subsidies earmarked for agriculture in the Israeli budget amounted to $1,448 million, nearly twice the value of agricultural output for that year. 127/ Although the level of subsidies has been reduced significantly in recent years, it was still high enough to give Israeli farmers a pronounced advantage vis-à-vis their Palestinian counterparts. Israel's 1987 budget proposal specified the following levels of subsidies for Israeli producers for selected products (based on sales prices): milk - 5 per cent; eggs - 30 per cent; poultry - 25 per cent; irrigation water - 50 per cent.

243. In addition to direct subsidies, the Israeli Government provides indirect forms of support for its agricultural sector, none of which are available to Palestinian producers in the occupied territory. These include, inter alia, a vigorous price stabilization scheme through funds administered by marketing boards; government participation in an insurance fund against natural disasters; support for agricultural exports, including funding, promotion, market research and minimum price guarantees; reduced electricity and energy costs for industrial and some agricultural producers; access to advanced research and extension facilities which help to improve productivity and quality; and credit facilities at concessional terms enabling producers to enlarge and modernize production and hence to enjoy substantial benefits from economies of scale. These measures have allowed forceful entry of Israeli agricultural goods into Palestinian markets, engendering an advanced degree of dependency on Israel for many kinds of food items, with serious strategic implications for the food security of the occupied Palestinian territory. The trend towards dependence on imports of industrial goods from Israel gives rise to similar concerns.

244. Palestinian producers in agriculture and industry are accorded no facilities or measures by the Israeli authorities which might provide incentives for domestic productive activities, especially in those branches which are land-intensive or which might compete with Israeli produce. However, some forms of encouragement are accorded to producers who enter into contractual arrangements with Israeli firms, such as sewing firms and farmers producing onion seeds and strawberries for sale through AGREXCO. In such cases, Israeli firms provide raw materials and production requisites on a credit basis. Relevant departments in the Civil Administration play an active catalytic role in this connection.

245. Palestinian export branches in agriculture and industry receive no form of protection, whether in domestic or external markets. For instance, despite being a major producer of olive oil, the West Bank is fully open to the entry

of olive and seed oils imported from countries where production circumstances and export incentives make it possible to offer such products at prices much lower than could be afforded by local Palestinian producers. The same situation prevails in a number of other branches of Palestinian agriculture and industry, mostly vis-à-vis competing goods which are imported from Israel. Prominent examples include dairy products, citrus, poultry products and chocolates.

6. The Palestinian uprising and Israeli economic measures

246. A recent analysis of Israeli policy towards the economy of the occupied Palestinian territory notes that "for 20 years, Israeli Governments have deliberately not developed those areas and disregarded them as an independent economic unit. Because they feared that economic autonomy might inspire thoughts about political autonomy, they fostered dependency ... When the Bank of Israel in the late 1970s examined the likely implications of West Bank and Gaza self-administration, for Israel a worrying picture emerged. It was therefore proposed that under no circumstances must an iron curtain be allowed to fall between Israel and the territories." 128/ These broad lines influencing Israeli policy have become all the more apparent since the Palestinian uprising. Since then, the policies and practices of the Israeli authorities adversely affecting the Palestinian economy have intensified and escalated. As concern in Israel mounted over "broader acts of civil disobedience aimed at severing ties with the Israeli authorities and establishing alternative services", 129/ the Israeli Minister of Defence decided to follow a dual policy of security measures combined with administrative and economic measures to bring "the level of violence in the areas down to a minimum in a matter of weeks". 130/ It was observed at the time that extended curfews imposed by the Israeli authorities in the territory and the "semi-economic war of attrition" were intended "not only to contain the riots but also to exert economic pressure on the inhabitants". 131/

247. When Israeli economic policies were challenged by the uprising, and after a month of employing security measures to stem the unrest, the authorities began to introduce various economic measures. These have endured for different periods since December 1987, and have included: 132/

- Preventing basic food supplies from entering areas under curfew;
- Comprehensive or selective bans on fuel-oil and petrol deliveries to Palestinian communities in the occupied territory;
- Interruption of electricity and water supplies to Palestinian towns and villages;
- Burning/destruction of industrial premises and equipment;
- Restrictions on movement of people and agricultural and manufactured goods between the West Bank and Gaza Strip;
- Bans on vital exports to Jordanian, other Arab and non-Arab markets of fruits, olives and other agricultural and processed goods;

- Banning the activities of a network of Palestinian institutions and popular committees which provided various local services, including assistance with community efforts to expand the local and household economies, especially within agricultural and cottage industry branches;

- Measures against Palestinian merchants for violation of a military order to remain closed at hours specified by the authorities;

- Withholding identity cards, import/export licences and travel permits pending "security clearance" and proof of payment of outstanding taxes, utility bills and fines;

- Cut-backs in social welfare, health, local authority and other basic expenditure by the Civil Administration, as well as halting of limited welfare and medical treatment payments, supposedly as a response to sharply reduced tax collection; and,

- Increasingly strict limitations on amounts of funds that residents may bring into the territory.

248. A further complication over and above previous procedures, instituted in 1988 as part of Israeli efforts to quell the Palestinian uprising, is that issuance of permits for exports and for movement of goods between the West Bank and Gaza Strip are subject to the prior approval of local military authorities. This step has entailed grave consequences for trade. Recent examples of the punitive withholding of export licences include the bans imposed in April 1988 on the Palestine Marble Factory (Hebron) and on banana and melon producers in the Auja district (near Jericho). 133/ As regards licenses for agricultural export abroad via Israel, until 1988 such exports were forbidden and strict punishments imposed for contravention of this regulation. 134/

249. Despite the dampening and restrictive impact of occupation and Israeli policies, Palestinian potentials for sustaining economic activities under occupation have emerged owing to: the Palestinian people's perseverance under harsh circumstances and the accumulated experience of "surviving" and adapting to a succession of different political and economic circumstances; maintaining a presence on the land and maximizing its utilization under severe conditions of occupation; continuing to learn, acquire skills, innovate and modernize production techniques and attitudes; and through all this, forging a Palestinian vision of a desired and feasible development path.

250. This latter area has found its most recent expression in the economic initiatives and programmes pursued by the Palestinian people in the occupied territory since the beginning of their uprising in December 1987. In addition to acts of defiance and non-recognition of imposed Israeli authority, economic measures adopted by the Palestinian people in the occupied territory have included espousal of specific policy measures designed to disengage the Palestinian economy from Israel and from institutions controlled by the occupation authorities. These steps were intended to increase the Palestinian people's means of "steadfastness" (sumoud) and of "economic resistance" to the occupation. The significance of these advocated policy measures goes beyond their potential for promoting short-term self-reliance throughout the

uprising. Of equal interest is the fact that the Palestinian economic measures promoted since December 1987 can be seen as the beginnings of a conscious Palestinian policy for the revival of the national economy.

251. "A key economic goal of the intifadah is to move toward self-sufficiency, and especially to produce a greater share of the food consumed in the occupied areas. While the Palestinians have been trying to enhance their own agriculture, however, it has also been a target of harsh Israeli repression." 135/ Throughout the various stages of the uprising, new planks of this policy have been introduced and elaborated according to the changing conditions of the conflict with the authorities. 136/ They include: proposals for a boycott of Israeli products and promotion of self-sufficiency; subsequent calls for supporting indigenous industrial production facilities; a "return to the land" and agriculture; and creation of alternative employment opportunities for Palestinians who have ceased to work as migrant labourers in Israel or resigned their posts in the Israeli Civil Administration. A number of these proposals crystallized within the context of programmes and related projects under the general theme of strengthening the Palestinian "household economy" in rural areas, refugee camps and some urban communities by producing meat, vegetables and fruit and increasing local employment. 137/

252. Given the intensification of Israeli occupation practices, the Palestinian "economic uprising" has gone further than elaborating policy goals and programmes. Measures reported since December 1987 include: 138/ a widespread "tax revolt", with Palestinians refusing to pay various illegal taxes imposed by the occupation authorities since 1967; reduction or suspension of rent collection by Palestinian landlords, especially for those social sectors hard hit by Israeli measures; increasing reliance on alternative structures and authorities; distribution of food and relief needs by popular committees to disadvantaged sections of the community; provision of agricultural inputs and seedlings at cost to households and small farmers; solidarity by the commercial sector through related strike calls; and absenteeism by migrant labourers from work in Israel at rates ranging from 20 to 100 per cent during different phases of the uprising.

253. These developments embody significant departures from the trends which have characterized the Palestinian-Israeli economic relationship since 1967. For the first time on a widespread basis, an agenda for the protection and revival of the Palestinian economy is being elaborated and implemented in the occupied territory. This constitutes a unique initiative by the Palestinian people to enhance the range of options for the continued functioning of the economy and mobilize local and international resources to that end. Perhaps of equal significance is the resultant transformation of Israeli-Palestinian economic relations during and since the uprising. By the end of 1988, Israeli officials had reported that imports of Israeli industrial goods into the occupied territory had fallen by 70 per cent, from $850 million to $250 million, reaching a level not known since the early 1970s. 139/ One Israeli observer has noted that, "given the hardening of feelings on both sides, it is likely that every form of joint economic activity, whether involving employer-employee, producer-wholesaler-retailer, contractor-subcontractor, manufacturer-agent, service provider-client or partner-partner relationships will become more difficult in the future". 140/

254. Meanwhile, the Palestinian people have accepted reduced levels of income and living standards and shifted away from consumption of Israeli imports. Initiatives to encourage self-sufficiency and economic activities at the household level were taking hold and a wide network of self-help local popular committees were being activated throughout the territory, participating in the provision of health, education, welfare and economic services to the local population. 141/ Voluntary aid was being made available to disadvantaged or targeted areas and sectors of the population. This groundswell of participatory development activity can be perceived as a new resource generated by the Palestinian uprising which can compensate for some of the short-term losses of disengagement from the Israeli economy and provide a basis for the endogenous development of the Palestinian economy.

D. Trade with Arab countries

255. The historical significance and continuing relevance of Palestinian trade with traditional markets in the neighbouring Arab States has been noted throughout this study. The large changes which have occurred in the size, share and circumstances of these trade flows acquire special significance owing to the increasing domination exercised by Israel over the occupied territory's external sector. The effect of Israeli policies and practices on the territory has been felt not only in terms of transactions with Israel, but also in trade with Arab countries and with the rest of the world. Just as much of the present Palestinian trade infrastructure is conditioned by long-standing trade relations with the Arab hinterland, so is the future development of Palestinian trade dependent on maintaining and expanding those relations within the context of Arab regional co-operation, integration and development. This remains a formidable task facing the Palestinian economy.

256. Prior to the Israeli occupation of the West Bank and Gaza Strip, the League of Arab States had instituted regulations intended to ensure the boycott of all goods produced in Israel or containing Israeli raw materials. These were applied by the different Arab States within the context of relevant national trade legislation and procedures. Since the 1967 war, the only open Arab border with the occupied Palestinian territory has been over the bridges of the Jordan river. Accordingly, the responsibility of ensuring the Arab origin of products from the territory was entrusted by the League of Arab States to Jordan. Those products of the occupied territory which Jordan certifies as being of Arab origin are thus considered as such by Arab States and receive commensurate treatment.

257. Meanwhile, in order to provide specific incentives to Palestinian producers and exports, the League of Arab States Economic and Social Council has adopted resolutions urging member States to facilitate the entry into their markets on a preferential basis of Palestinian agricultural and industrial products and to undertake the necessary steps for the establishment of a marketing centre for Palestinian exports. 142/ Similar resolutions have been adopted by other Arab intergovernmental bodies, including the Council for Arab Economic Unity.

1. Trade with/through Jordan

258. Since the 1967 war and the occupation of the Palestinian territory, the League of Arab States' boycott regulations have acquired added significance. This is especially so for Jordan, owing to the desire and necessity of

maintaining the flow of Palestinian goods over the Jordan River bridges and the movement of Jordanian and Arab products into the occupied territory to the extent permitted by the policies and practices of the Israeli occupation authorities. Developments until 1988 prompted the Jordanian authorities to periodically examine policies vis-à-vis the agricultural and industrial sectors of the occupied territory. The goals of these exercises have been, inter alia: to continue to provide an outlet for the agricultural and industrial output of the occupied territory with a view to ensuring their markets in Jordan and the Arab countries; to strengthen the capabilities of the Palestinian people to cope with discriminatory policies and practices of occupation; to abide by the boycott regulations of the League of Arab States; and to protect domestic Jordanian production sectors from unregulated competition.

259. Accordingly, the Jordanian Government established a series of guidelines 143/ for Palestinian industrial and agricultural exporters that would permit continued movement of goods to traditional markets while ensuring that Israeli origin products did not penetrate Arab markets either directly or indirectly (i.e. through embodiment in Palestinian manufactured goods). Since the 1970s, these arrangements have been implemented and elaborated in such a way as to ensure their relevance and application without prejudice to the interests of Palestinian producers and exporters. The system of certification which has evolved has successfully prevented the penetration of Israeli produce into Arab markets via this channel. Though there are no guidelines affecting the occupied territory's imports from Jordan, this flow remains subject to the prerequisites enforced by the Israeli authorities as stated above.

(a) Guidelines and procedures governing agricultural exports

260. In compliance with the League of Arab States' boycott regulations, the agricultural exports of the occupied territory to and through Jordan are considered as being of Arab origin and thus exempt from boycott. While this has facilitated the exports of the territory to Jordan and other Arab countries in the region, the repacking and handling charges at different stages are likely to increase the final price vis-à-vis similar products in such export markets. This is in addition to the cost of transportation from the territory over the bridges and the various levies and charges imposed by the Israeli authorities.

261. All farm produce exports over the bridges may be effected if accompanied by the necessary permits for movement of goods issued by the Jordanian Ministry of Agriculture and specifying the type, amount and period of entry of goods. Prior to the harvest season, the Ministry specifies the period during which the occupied territory's products may enter Jordan. The entry of farm produce is confined to the intervals specified on each permit. Dates of entry are carefully considered in the light of reports from the certifying officials and projections of local supply in Jordan. The Ministry receives from certifying officials in the occupied territory a list of the names of producers in each exporting town/village and the crops and area cultivated (olives and olive oil are excepted from this condition). The quantities to be exported are determined in the light of output levels (area productivity) and domestic demand (West Bank and Jordan).

262. In principle, an overall maximum of 50 per cent of West Bank agricultural output is accepted as imports into Jordan, on the assumption that the balance of output is to be consumed domestically. In order to ensure the Arab origin of produce, permits are granted after farmers have provided certificates of origin, attested by local certifying officials, the relevant local authority and the chamber of commerce. Representatives of the Ministries of Finance, Agriculture, Trade and Industry and Supply are entrusted with authority to ensure the transit of exports to neighbouring Arab markets while at the same time meeting domestic Jordanian market needs.

263. The entry of citrus products from the Gaza Strip is also permitted, in accordance with basically the same regulations applied to the West Bank, provided the total quantities permitted each year do not exceed 150,000 tons per year. As noted, nearly all Gaza Strip citrus exported to Jordan is re-shipped to neighbouring countries and is subject to these countries' national trade legislation and customs regulations. In cases of domestic Jordanian shortfalls in citrus production, Gaza Strip citrus is exported to/through Jordan. Some other Gaza Strip fruits (quavas, strawberries and dates) also enter Jordan, where they are mainly sold in local markets. On the assumption that Gaza Strip vegetable production is still too small to create problematic surpluses, no vegetables from the Gaza Strip cross the bridges into Jordan.

(b) Guidelines and procedures governing industrial exports

264. To be eligible to export produce across the bridges, manufacturing firms must be registered at the Ministry of Trade and Industry in Amman. Since 1979, more selective criteria have been adopted in registering new firms established in the West Bank since 1967. Firms are licensed if they were established prior to 1979, if their capital and owners were Arab, and if they employed only Arab labour and received no loans or grants from the Israeli occupation authorities. Accordingly, between 1979 and 1985, a total of 36 manufacturing firms (established since 1967) were registered with the Ministry of Trade and Industry. Certain items are not exported to Jordan due to difficulties in ascertaining their origin, namely copper and silver articles, video cassettes, film slides, live animals, liquor, leather products and shoes.

265. An important condition for receiving a permit for export to Jordan is that at least 95 per cent of raw materials used in processing should have been imported from/through Jordan, except in cases where manufacturers use local natural resources and raw materials produced or extracted in the West Bank. This can entail an added cost to producers, since importing raw materials through the Aqaba port is calculated to cost 20 per cent more than importing identical goods through Israeli ports. 144/ Extra costs arise from the need to pay for an additional license fee, trucking from Aqaba to Amman, unloading in Amman to West Bank trucks and unloading again at the bridges for inspection.

266. Another provision is that not more than 65 per cent of the output of each producing/exporting unit can enter Jordan from the West Bank. A standard formula for each product has been established in order to link the final quantity of goods produced to a specific quantity of raw material which should be of Palestinian/Arab origin or imported through Jordan for that purpose. Some exports either fulfil or are exempt from the raw material requirements, namely stones, margarine, olive-oil soap, olive wood products, and

West-Bank-produced wine. Similarly, individual travellers may bring quantities of olive oil and olives, local cheese, honey and soap across the bridges for personal consumption. In 1987, Jordan relaxed requirements applicable to some items with respect to the importation of industrial raw materials and equipment through Jordan.

267. The Ministry of Trade and Industry issues a permit for the movement of goods across the bridges, specifying the name of the exporter, type and quantity of goods being transported and the raw material formula adopted in manufacturing. All applications for permits are accompanied by the certificate of origin for the goods in question, as issued by the local West Bank chambers of commerce, and industrial exports should be packaged without using materials produced in or imported through Israel.

2. Trade with/through Egypt

268. There are no Egyptian laws, regulations or established trading practices which explicitly have a bearing on the entry and transit of Palestinian exports to/through Egypt. In principle, Egypt like Jordan accepts into its markets Palestinian goods which bear a Palestinian certificate of origin. Local Palestinian chambers of commerce have been considered as acceptable authorities to issue such certificates. Imports from the occupied Palestinian territory are subject to the tariffs applicable to similar goods coming from any other source.

269. No trade transactions are presently effected between Egypt and the occupied territory, for a number of reasons. Traffic across the Rafah (Gaza Strip) check-point into Egypt was open to both Gaza Strip and West Bank residents until 1985 but since then has been confined to passage of Gaza Strip residents. As regards imports to the occupied territory from Egypt, none have taken place, mainly as a result of the effect of Israeli security restrictions at the border crossing and the high tariff rates applied by the Israeli authorities on imports. An additional factor has been the high cost of transport between the territory and Egypt due to the long distance involved. This has been a major factor in the non-emergence of any trade flows between the occupied territory and Egypt. Another significant reason is that apart from citrus fruits, the Gaza Strip has very little else to offer in Egyptian markets. Egypt itself is a major exporter of high-quality citrus products, and local production of vegetables is high and price levels too low to offer any opportunity for imports from the Gaza Strip. While at present West Bank goods are not entering Egypt, some of the West Bank's products could find attractive markets in Egypt, including items such as soap, olive oil and late-maturing varieties of grapes.

270. As regards transit arrangements via the duty-free zone at Port Said, several years ago Egypt made available refrigeration capacity which was partially designated to handle Gaza Strip citrus and other perishable exports. This capacity was not utilized by Palestinian exporters at the time, primarily owing to the continuing problems associated with transport to Egypt (handling at the borders, lack of refrigeration in transport, long distance and high cost). Since then, the cold-storage facilities have been diverted to domestic marketing concerns, though Palestinian goods are still welcome to pass in transit there.

3. The Arab trading environment and Palestinian export markets

271. The regulations affecting Palestinian agricultural exports have not in themselves given rise to any tangible problems for producers and exporters in the occupied territory. In fact, until the late 1970s, producers were able to send out across the bridges all surpluses of major products. This process was encouraged by the existence of expanding demand in the Jordanian market and in the neighbouring oil-producing countries. Between 1976 and 1979, an annual average of 50 per cent of citrus exports were destined for the Islamic Republic of Iran and some 20 per cent went to Saudi Arabia. 145/ In the 1970s, vegetable production in the West Bank, and especially in the Gaza Strip, was considerably lower than the levels reached in subsequent years.

272. Nevertheless, as noted in chapter II, since the 1970s the export position of the territory with its traditional trading partners has gradually deteriorated. The emergence of unmarketable surpluses of agricultural output has acted as an effective disincentive to Palestinian growers. The reasons for this development can be traced, *inter alia*, to a fall in demand at traditional export destinations and to Israeli policies and practices which have prevented growers from maintaining their competitiveness, as well as to the continued occupation of the territory, with all its undesirable economic consequences and the uncertainties these carry for the future. Trade with most of the traditional markets of the territory has decreased considerably over time. The Gulf war constituted a major barrier to Palestinian citrus exports. Problems with the quality of some major Palestinian farm products have also resulted in the weakening of their competitive standing in regional markets. This has left Jordan as the most important external market for the agricultural output of the territory, a development which comes at a time when Jordan itself is confronted with growing preoccupations concerning the marketing of its own agricultural output.

273. With a sharply reduced market-size potential, most industrial firms have remained generally small scale, operating at below full capacity. Possibilities for integration of Palestinian industry within Arab regional industrial development schemes and strategies and for achieving production complementarities (including subcontracting and joint ventures) have remained unexplored due to the occupation and its consequences for trade activity. Notwithstanding efforts to assure access for Palestinian products to regional markets, the occupied territory remains isolated from many developments affecting inter-Arab trade. The mounting problems confronting the territory under Israeli occupation continue to prevent the Palestinian economy from undertaking efforts to reintegrate its trade sector into the broader regional framework in which it was historically always an active partner.

274. The Arab States have realized clearly the importance of promoting and facilitating the access of Palestinian products to their traditional markets in the region. Most recently, the League of Arab States Economic and Social Council noted, *inter alia*, the need "to support the steadfastness of the Palestinian Arab people in the occupied Palestinian territories", to assist them in confronting Israeli settlement policies and adverse economic practices, and "to raise the standard of living of the Palestinian people inside the occupied territories". 146/ The Council called for increased efforts to establish a marketing centre for the products of the occupied territory and for use to be made of "Arab and Islamic funds and financial institutions in supporting Palestinian exports according to more favourable

conditions". 147/ It further affirmed "the need for dealing with the law and provisions of the Arab boycott with awareness" in a way that balances the aim of strengthening the steadfastness of the Palestinian people with that of maintaining the economic boycott of Israel. These recommendations have opened the path for restoring Palestinian exports to the position they enjoyed in some of the traditional markets prior to occupation.

E. Trade with other countries

275. All Palestinian trade with countries other than Israel and the Arab States is conducted via Israel due to the high cost of exporting via Jordan and the complex Israeli procedures entailed in movement of goods over the Jordan river bridges. The regulations and procedures which govern these flows are those applicable to Israeli trade, as discussed above. Nevertheless, a number of additional factors influence the present and potential trade of the occupied territory with markets abroad. These relate primarily to prevailing arrangements and procedures affecting imports from and exports to other countries, external market conditions and trade promotion policies adopted in favour of Palestinian exports. Despite the continuing low levels of Palestinian trade transactions with countries other than Israel and the Arab States, policy developments at the international level in the past years have opened up new opportunities for expanding Palestinian trade with developed market economies, socialist countries and developing countries.

276. Prior to 1948, Palestinian Arab exports of citrus fruits and other items were marketed throughout Europe. The distinctive Jaffa orange grown by Palestinian Arabs along the coastal plain had established markets in a number of European countries, and Palestinian entrepreneurs had begun to invest in related marketing infrastructure and facilities in several European countries when the 1948 war erupted. Subsequently West Bank output became part of the overall Jordanian export mix and as such continued to enter Arab and certain non-Arab markets. Meanwhile, a major proportion of the Gaza Strip's citrus output was channelled to European and some South-East Asian markets, with effective support from the Egyptian authorities which administered the territory until 1967. Since then, the Israeli occupation authorities have insisted that all Palestinian exports to Western Europe be conducted through Israeli marketing channels, although Gaza Strip citrus exporters were allowed to maintain direct marketing contacts with the socialist countries of Eastern Europe. Meanwhile, exports to all other markets, including those of developing countries, have been non-existent. It is only since 1986 that fresh marketing opportunities have begun to materialize in a number of countries, and Palestinian producers are just beginning to feel their way back into the international trading environment. However, they need the necessary national institutions and policies to benefit effectively from these opportunities.

277. Except for imports from Israel and from/through Jordan, there are no figures available by country on imports from the rest of the world. The commodity composition of imports from the rest of the world, discussed in chapter II, indicates that they are mainly intermediate goods used in Palestinian manufacturing industries (oils, iron, steel, wood, paper and cardboard), capital goods destined for use in industry, agriculture and construction, and consumer durables (including vehicles) or food imports destined for immediate consumption. In the light of this commodity composition, it is likely that the imports concerned originate mainly in the

developed market economies and the socialist countries of Eastern Europe. Available information indicates the existence of few trade links between the occupied territory and non-Arab developing countries. In general, the potentials for trade between the territory and non-Arab markets either through Jordan or Egypt are hampered by the high cost of transport and the long duration of the journey involved, in addition to the constraints arising from Israeli occupation. This has had an adverse effect on the quality of the goods reaching their final destinations. Obviously, the rise in cost and decline in quality are detrimental to the perishable exports of the territory, especially in the highly competitive markets of Western Europe or North America.

1. Trade with developed market economies

278. The only direct Palestinian trade links with developed market economies are those that have only recently been initiated with the countries of the European Economic Community (EEC). No efforts have been made to develop trade between the occupied territory and other developed market economies, except for flows of certain imports to the territory, at least some of which presumably come from non-European markets. Even as regards trade with EEC countries, had it not been for recent initiatives by the latter, the volume and significance of these flows would still be at the minimal levels which had prevailed since the Israeli occupation.

(a) Trade with the European Economic Community (EEC) countries

279. Until 1988, channelling of certain Palestinian farm products to EEC countries was only permitted through the Israeli Agricultural Export Corporation (AGREXCO) and the Citrus Marketing Board, according to an arrangement worked out with the Civil Administration. Only Gaza Strip citrus enjoyed a substantial level of export in the first years of occupation, equivalent to a third of output in some years. 148/ This flow declined to very low levels as from 1976 and has completely halted since 1983. Otherwise, exports to Europe have been confined to small quantities of onion seeds (60 tons annually), and strawberries from the Gaza Strip (300 tons), equivalent to approximately one third of Gaza's output of this fruit. Recently, AGREXCO expanded its business in the territory by purchasing some 1,100 tons of vegetables from Jordan valley producers and from an agricultural co-operative in the Gaza Strip.

280. Export arrangements via AGREXCO are usually made with individual farmers on a quota basis after AGREXCO has signed contracts with suppliers in Europe within the context of an Israeli seasonal production and marketing plan. 149/ Quotas reflected primarily the Israeli interest in controlling the volume of Palestinian produce which might directly compete with Israeli exports, in addition to serving as a way of encouraging producers to maintain quality standards. AGREXCO's marketing strategy includes Palestinian producers only as complementary elements to the Israeli plan, and Palestinian products were, until recently marketed under Israeli brand names.

281. Since the only access that Palestinian producers used to have to European markets was through AGREXCO and other Israeli agencies, producers were in general obliged to work through these channels. Yet they objected to attempts by these agencies to extend the monopolistic rights they enjoy in Israel to cover the occupied Palestinian territory. In addition to the political and

legal implications of such a move, Palestinian exporters object to entrusting the export of their goods to alien institutions which have different interests and priorities. Intrinsic conflicts of interest found expression over issues such as quotas for export, price levels and marketing costs and overheads, rates of rejection, mode and speed of payment for produce sold, and exclusion from participating in the decisions and activities of an organization which is supposed to represent Palestinian exporters' commercial interests.

282. The volume of AGREXCO's purchases from the occupied territory was clearly too small to affect the prices of major crops or provide viable and reliable outlets for domestic Palestinian surpluses. The arrangements governing these purchases were such that Palestinian exports abroad through Israel were primarily destined to fill certain gaps in the Israeli export mix which might arise as a result of production or other constraints affecting Israeli exports. They offered little stimulant to Palestinian production and export capacity. Furthermore, exclusion of Palestinians from the different export functions which are monopolized by AGREXCO put Palestinian producers and exporters at a serious disadvantage in efforts to obtain the experience needed for independent marketing activity and/or to benefit from the gains of international trade.

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

284. In a move to enable the occupied territory to benefit directly from trade with the EEC, the Council of the European Communities, upon the proposal of the Commission in October 1986, extended to the territory trade concessions similar to those enjoyed by other countries of the region in their trade with the Community. 150/ The Community has adopted autonomous tariff arrangements applicable to imports into the Community of products originating in the occupied territory. The products covered by these arrangements include some of the territory's most lucrative cash crops, such as onions, tomatoes, peppers, courgettes, aubergines, citrus fruits and melons. Customs duties on these products are reduced for specified periods of entry to the Community at rates ranging from 40 to 80 per cent. A range of Palestinian industrial goods can be imported to the EEC free of customs duties or quantitative restrictions.

285. The Community has accepted chambers of commerce in the occupied territory as authorities qualified for issuing certificates of origin and for ensuring the necessary administrative co-operation. 151/ Throughout 1987 and most of 1988, there were numerous contacts between the Community and the Israeli authorities in order to enable exports to pass through Israeli territory, the most economic export route to Europe. Some trial shipments of manufactured goods from the territory by this route have recently been effected. However, the Israeli authorities did not immediately yield to requests to allow Palestinian agricultural producers direct access to EEC markets. It is only

very recently that the Israeli authorities accepted that Palestinian producers export their agricultural produce directly to Europe through Israel, without necessarily using the Israeli marketing monopolies. The Community repeatedly stressed to Israel the importance it attaches to the effective implementation of its trade measures, without any administative or other obstacles to Palestinian exporters.

286. Israeli authorities have argued that they should be able to co-ordinate Palestinian exports to Europe so as to ensure that their own exports to these markets are not subject to competition from similar Palestinian products. The original agreement between Israel and the EEC Commission in December 1987 provided for direct Palestinian exports transiting through Israel in accordance with arrangements to be made for certificates of origin, labelling, phytosanitary checks, quality control and customs procedures. Palestinian producers and exporters would have "a free choice to negotiate and establish direct links with buyers in the EEC market for the advancement of the commercial interests of the Arab producers ...". 152/ However, developments in early 1988 indicated that Israeli authorities were not granting export licenses within an acceptable period, and Palestinian growers and exporters were reported to have complained about continuing Israeli intervention in transport and marketing. 153/ These administrative complications were subsequently ironed out, as confirmed in a memorandum by the Israeli authorities in March 1988 which specified the conditions for effecting exports to Europe. 154/ The Israeli inter-ministerial committee which had been established in order to resolve the issues affecting direct export to Europe clarified the arrangements that would be followed. In October 1988, an agreement was signed by this committee and two Palestinian institutions for direct exports of Palestinian fruits and vegetables to the EEC countries.

287. It was accordingly arranged that, prior to each growing season, a seasonal plan for projected export crops would be prepared by Palestinian growers, to be agreed upon with the Israeli Ministry of Agriculture. This co-ordination within the framework of a seasonal plan was explained as being necessary so as to "take into account marketing outlets for all of the produce"; "crop areas must be planned in accordance with local demand, as well as opportunities for exports to Arab countries and to local European markets". 155/ On the basis of this agreement, growers would request an export permit from the Civil Administration prior to the export season for each shipment of agricultural produce. The request should include information on type of produce, quantity, destination and buyer. The October 1988 agreement states that "the export permit will be granted expeditiously (1-2 days) without delay or rejection if the request is in accordance with the seasonal plan". In addition to the possibility of contracting with AGREXCO or the Citrus Marketing Board, Palestinian farmers "may, on a commercial basis, utilize the services of the marketing organizations subject to the mutual agreement on the manner of the transaction". 156/ Other aspects of the export procedure are also covered, namely plant health inspection, phytosanitary control (to be carried out by Israel and the EEC Commission), and security inspection. All other technical arrangements, including commercial agreements and transport, are the responsibility of growers. Commercial marks and labels are to include the name of the place from where the produce comes (i.e. town or region of the occupied territory). These arrangements are due to be reviewed after the first export season "with the intention of continuing to insure free trade and preventing market disturbances for all exporters".

288. Gaza Strip citrus exporters were the first to take advantage of this important breakthrough in Palestinian export prospects. In the summer of 1988, the first direct export agreement between Palestinian producers and European importers was concluded, followed in October 1988 by an agreement between growers and the Israeli authorities. 157/ The export agreement included five major Gaza Strip exporters and five importers from the Netherlands, the United Kingdom, Denmark and the Federal Republic of Germany. It covers a total quantity of 16,000 tons of grapefruit and oranges to be transported in three shipments between 15 October 1988 and April 1989 via the Israeli port of Ashdod. The citrus is to be marketed under the brand name GAZA TOP. The agreement stipulates that the growers will deliver f.o.b. at Ashdod, while the importers would arrange for port handling and loading operations, as well as chartering of vessels. It was also agreed that the European importers would finance and supply the cartons needed for the agreed delivery, the cost to be deducted from the sales account. Subsequently, the Citrus Export Regulatory Committee in the Gaza Strip submitted a formal request to the Civil Administration for issuance of an export licence. This was subsequently granted 158/ and the first shipment for over 20 years of Gaza Strip grapefruits marketed directly in EEC countries under a Palestinian brand name left Gaza late in 1988. Since the first export licence was issued, other Palestinian exporters negotiated a similar contract for Jordan valley vegetables to be exported by the Union of Agricultural Co-operatives and applied for the relevant export licenses. 159/

(b) Trade with other developed market economies

289. The occupied territory at present does not benefit from any significant trade links with other developed market economies. There are no aspects of trade policy or market conditions in these countries which might mitigate in favour of or against the promotion of Palestinian exports to these markets, but certain factors have a potential bearing on Palestinian export trade with the United States of America.

290. The Free Trade Area agreement recently concluded between Israel and the United States does not cover the occupied Palestinian territory. Israeli settlements in the occupied territory are able to benefit from the provisions of the Free Trade Area, as the exports of these settlements are regarded as being of Israeli origin. Consequently, Palestinian exporters have to pay tariffs on their exports up to 50 per cent higher than those imposed on Israeli goods, putting Palestinian producers at a disadvantage. Another aspect of this agreement which could have an indirect effect on Palestinian production patterns is the possible restructuring of Israeli industry and trade patterns according to the new conditions posed by the Free Trade Area. Given the existing linkages between Israeli and Palestinian productive sectors, the latter might face problems in re-orienting accordingly.

291. However, there are indications that new openings might exist in trade relations between the United States and the occupied territory. It was reported that, in September 1987, the United States Customs Service recognized the occupied territory as a legitimate export source. 160/ If a Palestinian exporter wishes to export to the United States now, "he theoretically can sell his goods there, though that may prove problematic since as of last year U.S. Customs requires all such goods to carry the label 'Made in the Israeli-Occupied West Bank' (or 'Gaza'). It's not clear whether Israel will permit exports to carry what it considers an inaccurate label." 161/

Recently, the United States Export-Import Bank was reported to have approved the principle of financing of trade flows between the United States and the occupied territory, assuming the necessary political clearance is obtained. 162/ Such developments raise important and real possibilities for considering Palestinian export promotion in the United States and other developed market economies. The operational and practical aspects of this, including transport and competitiveness, need to be carefully examined with respect both to agricultural and industrial goods.

2. Trade with socialist countries

292. As noted, one traditional, non-Arab market for Palestinian exports has been the socialist countries of Eastern Europe. Gaza Strip exports, mainly citrus fruits, have been going to these markets since 1948. Total agricultural commodity exports from Gaza to the socialist countries of Eastern Europe have fallen over the period of occupation, dropping from 62,000 tons in 1976 to 19,400 tons in 1986. 163/ Citrus exports alone fell from 52,500 tons in 1974/75 to 9,900 tons in 1986/87, with further falls probable for the 1987/88 season as a result of factors connected with the Palestinian uprising. 164/ Whereas the market share of Eastern European countries for Gaza Strip exports was some 56 per cent in 1967/68, by 1986 this share had fallen to below 15 per cent. 165/

293. Most explanations for this diminishing share of East European markets in exports of Gaza Strip citrus (and other fruits and vegetables) centre on the conditions of barter trade that prevail in most of these trade flows. In return for exports of citrus fruits and other commodities to Eastern European countries, Palestinian exporters usually receive payment in kind on a barter basis. In the past, these payments in kind have included farm machinery, vehicles and implements, certain fresh food and livestock, as well as other consumer and capital goods. While this has made certain desirable imports available to the occupied territory, such arrangements do not favour any special improvment in the Palestinian balance-of-payments position. The fact that these imports must enter the occupied territory via Israeli ports automatically disqualifies them for use (as raw materials or industrial processing equipment) in eventual exporting to Arab markets. Nor are the goods in question always suitable or in demand locally, not to mention the possibility that these conditions of trade could actually incur certain losses, given the availability of other sources (including Israel) for such goods at lower prices.

3. Trade with developing countries

294. To date, there are few active trading relations between the occupied Palestinian territory and non-Arab developing countries. The only exception to this is longstanding Palestinian citrus and other fruit exports to the Islamic Republic of Iran and to Yugoslavia. The flow of products to the former market has been interrupted since 1980. In order to encourage an improvement in the trading relations of the occupied territory with the developing countries, a significant move of support was made recently at the Ministerial Meeting on the Global System of Trade Preferences (GSTP) among developing countries members of the Group of 77. 166/ The resolution adopted at the Meeting calls for granting trade concessions and concrete preferential measures to Palestinian exports, as a special measure of assistance to the

Palestinian people, on a non-reciprocal basis pending the elimination of the Israeli occupation. It also calls for treating Palestinian exports and imports through neighbouring ports and points of exit and entry on a transit basis.

4. Action by the international community

295. Conscious of the deteriorating economic conditions in the occupied Palestinian territory in general and the trade sector in particular, the United Nations Conference on Trade and Development, at its seventh session, adopted resolution 169 (VII). 167/ In the resolution, the Conference, *inter alia*, welcomed the decision of the European Economic Community to give Palestinian goods and products preferential access to its market on the basis of Palestinian certificates of origin. It urged all States to facilitate the access of Palestinian goods and products to their markets and to continue providing assistance to the Palestinian people to enable them to develop their economy, including the trade sector, free of occupation. 168/

296. The United Nations General Assembly recently adopted a resolution on "Assistance to the Palestinian people" 169/ which, *inter alia*, calls for treating on a transit basis Palestinian exports and imports passing through neighbouring ports and points of exit and entry. It calls for the granting of trade concessions and concrete preferential measures for Palestinian exports on the basis of certificates of origin issued by Palestinian bodies designated by the Palestine Liberation Organisation. The General Assembly also decided to extend to the occupied Palestinian territory the same preferential treatment accorded the least developed countries pending the elimination of the Israeli occupation and the assumption of full control by the Palestinian people over their national economy without external interference.

Chapter IV

POTENTIALS FOR DEVELOPING THE PALESTINIAN EXTERNAL TRADE SECTOR

A. Prospects for the development of Palestinian trade

297. The preceding chapters have examined in detail the features and functioning of the Palestinian external trade sector under Israeli occupation and the influences exercised by various elements within the context of regional economic environment. This chapter explores some of the aspects of growth potential exhibited in the major Palestinian production branches, the encouragement of which could enhance the opportunities for realizing improvement in the performance of external trade.

1. The potential for improvement in problem areas

298. It is apparent that the ability of the occupied Palestinian territory to sustain its own growth and to trade fruitfully with other countries is increasingly threatened by the predominance of a range of institutional, physical, procedural and other constraints, most associated with over 21 years of military occupation. Though in some productive branches the economy of the occupied Palestinian territory has exhibited some growth, this has often been achieved in a haphazard manner and under severe constraints. These constraints must be faced up to if the Palestinian external trade sector is to have a chance to perform its pivotal role in generating and channelling the economy's potential for growth. Some of the major areas and issues with which trade support policies must contend include:

- The narrow and increasingly threatened resource base of the occupied territory;

- The weaknesses and inconsistencies in major productive branches;

- Underdeveloped trade and related infrastructures and inadequate management and planning facilities;

- Enforced dependency exercised by Israel, which has an all-pervasive influence on trade performance and the structure and direction of the territory's balance of payments;

- The absence of indigenous trade régimes and the consequent over-exposure of the domestic economy; and,

- The general effects on the economy of the volatility and unpredictability associated with prolonged and arbitrary foreign military occupation.

299. In dealing with such issues, it is desirable that the trade sector of the occupied Palestinian territory be able to depart from the reactive and residual status that has characterized its past performance into a more forceful and dynamic pattern. This is required in view of the significance of trade as a "lifeline" of the occupied territory, which is effectively besieged by the yolk of occupation, geophysical realities and policies of neglect and enforced subservience. It is equally important for the sector to emerge as an active element at the forefront of efforts to develop the Palestinian economy,

thus fulfilling its potential role as a stimulator of growth. While expansion of trade cannot be viewed as an all-embracing solution to the ills besetting the Palestinian economy, it is an indispendable component of any broader effort to advance Palestinian economic development.

300. Improved performance of the Palestinian external trade sector is therefore predicated, inter alia, on alleviation of problems particular to the sector itself, as well as elimination of related constraints elsewhere in the economy. At the same time, policies and measures geared to the development of the external trade sector must be rooted in the explicit and untapped potentials of that sector. This dual-faceted approach, of eliminating obstacles while emphasizing and elaborating potentials, is as relevant a treatment for improved trade performance as it is for development of the economy as a whole. Indeed, the integrated, co-ordinated and simultaneous elaboration of both sectoral and economy-wide goals and methods is a necessary and overdue element of efforts to realize Palestinian economic potentials.

301. The process of identifying "economic growth potential" with reference to trade is simultaneously part of immediate efforts to tackle problem areas which have blocked the realization of such potentials and a prelude to defining policies to aid longer-term development of the sector and the economy. The overall frame of reference for a trade-oriented growth path for the occupied territory would seek to elaborate and exploit the economy's potential for realizing a number of specific policy preferences. These include, inter alia, production rationalization and restructuring, export trade expansion and diversification, import rationalization and substitution, and effective and empowered indigenous economic management. There is also an important potential for what could be termed "export market substitution", involving a reorientation of Palestinian export trade to traditional and new markets. Adoption of such a path could have a favourable effect in supporting production rationalization and improving the precarious balance-of-payments position. Concomitant with the required restructuring of the composition and sources of imports and the stimulation of domestic production and markets (with the subsequent reduction of the relative importance of economic transactions with Israel), export trade expansion could stimulate the economy in general, particularly through domestic absorption of labour in productive sectors.

302. However, while merchandise trade expansion and diversification appear as a logical and feasible approach in the light of natural endowments and the need to strengthen domestic productive capacity, it is not necessarily the only available means of improving economic performance through trade. Other avenues can and should be contemplated, including the different areas of potential in import rationalization and substitution, as well as openings for increased trade in services. Accordingly, efforts to revive and restructure the languishing Palestinian tourist sector, in its broadest sense covering both tourist services and handicraft/tourist goods, should receive the same attention as merchandise production and export. Both areas incorporate real, viable resources and, in the case of some items, have proven themselves as attractive and lucrative sources of Palestinian exportables. Prima facie, they would both appear to present beneficial linkages in terms of employment generation, balance-of-payments advantages, skill and technological development, investment opportunities and so forth. Nevertheless, successful development of a service sector such as tourism, even in less adverse circumstances than those prevailing presently, requires great attention to an

intricate range of associated services (transport, communications, restaurants, entertainment and financial services), as well as handicraft industries, in which the occupied territory has an especially clear advantage. It further calls for skills and resources which are less tangible and probably more scarce than those presently available in the occupied territory with respect to agricultural production and export.

303. In another area of services, namely labour, the Palestinian people boast an impressive array of human resources, embodied in the huge expatriate labour force, a pool of domestic manpower (including the untapped elements of the female labour force and growing numbers of university graduates and professionals) and in the tens of thousands of Palestinians already employed in Israel. The pitfalls of further dependence on export of labour services have been fully elaborated above, and in this case there is a strong argument for reorienting this resource to the domestic economy and decreasing reliance on it as an exportable income generator. Accordingly, while the potentials of non-merchandise export sectors should not be neglected, this need not be at the expense of the merchandise export branches. And, to the extent permitted by considerations of foreign exchange savings, free trade, resource endowments and comparative advantage, exploiting domestic potentials for import substitution can supplement a merchandise export-led development drive.

2. Potentials for realizing regional complementarities and better utilization of resource endowments through trade

304. There is little doubt that, despite the restrictions and bottle-necks that have arisen through occupation, the occupied Palestinian territory has always been part of a regional economic environment which offers significant potential opportunities for the expansion of trade. Even though they have yet to be fully explored or exploited, it is precisely such complementarities and established trade routes and procedures that provide a solid basis on which to develop Palestinian production/trade potentials.

305. Complementarities bestowing mutual advantages have been noted with respect to Palestinian merchandise exports to Jordan and other Arab and regional markets. An important factor influencing these trade relations concerns the similarities between neighbouring Arab and Palestinian economies with respect to the structure and composition of domestic output, income levels, consumption and savings patterns, and trade potential. Unlike the dynamics of present Palestinian-Israeli economic relations, these features provide strong incentives to identifying and establishing regional complementarities along with the requisite policy measures to achieve co-ordination.

306. At present, complementarity arises to the extent that some Palestinian exports take precedence over others in the export mix because of production shortages in the regional markets (for commodities such as olives, citrus and other fruits), Palestinian specialization in their production (especially olive oil, soap and certain citrus fruits) and a historical niche for Palestinian exports in traditional markets. Other potential complementarities have been difficult to establish since 1967 due to the effects of occupation and physical or administrative constraints, or because of the similarity in resource endowments between the territory and Arab economies which has led to similar production and trade patterns. This has been especially the case with respect to possible Palestinian-Arab joint ventures and/or sub-contracting

enterprises in the areas of services (tourism, insurance, transport and trade) and certain light industries, as well as construction materials. In agriculture, farmers have usually been able to count on existing complementarities to make plans for the future, notwithstanding changes in demand conditions in Arab markets. Prices are often better than in either local or Israeli markets and can act as an important incentive to export across the bridges.

307. Certain aspects of resource endowment which offer a relatively large potential for export growth have yet to be fully exploited. For instance, the relatively high temperatures in the Jordan River valley during the winter months have made that region suitable for the production of off-season vegetables and fruits. Diverse climatic conditions, large areas of suitable land and the accumulation of a marked degree of technical expertise in grape culture has made it possible to produce large quantities of grapes for local processing or export. The fairly large supply of olives and citrus fruits provides an attractive opportunity to initiate agro-industries with market potential both locally and abroad. Recently, new sources of building stones and marble rocks of good quality have been identified in large quantities and a number of locations, also with great potential for local and export marketing. In the mid-1970s, geological and feasibility studies for the establishment of a West Bank cement factory established the presence of good-quality and relatively abundant rock and soil, suitable for cement production. The West Bank has a 45 kilometer coastline on the Dead Sea, and Palestinian industrialists so far have been denied the opportunity of exploiting the region's significant phosphate, chemical and mineral resources for possible expansion of plastics and chemical industries.

308. The differences in resource endowments and economic structure between the West Bank and the Gaza Strip provide a potentially fruitful area for combined efforts towards enhancing internal and external trade patterns. Similarities in certain productive sectors indicate a potential for realization of comparative advantages of the occupied territory as a whole through specialization by the two component areas in different items (e.g. West Bank vegetables, Gaza Strip citrus, etc.). While such a division of labour already exists to an extent, it has not been encouraged or rationalized to the maximum. Greater exchange of goods and services between the two areas, coupled with complementary export specialization, could encourage a more rational allocation of resources and achieve useful economies of scale in production and consumption. However, owing to geographical and administrative obstacles under conditions of occupation, there is minimal exchange of agricultural commodities, and external trading links are oriented separately towards Israel and Arab markets.

B. Expansion of trade in farm products

309. The loss and disruption of markets for Palestinian farm produce has resulted in a reduction in the area under cultivation and a drop in the agricultural labour force, as well as the accentuation of dependence on Israel for food supplies. Development of agricultural trade requires a major reorientation in production patterns and the restructuring of the present terms of trade between the occupied territory and its major trading partners, especially Israel. Furthermore, a more vigorous effort could be made in the area of agro-industries.

1. Diversification in cropping patterns and export expansion

310. Reliance on export-oriented cash crops also poses serious potential hazards for the food-security of the occupied territory, considering the continued relian¢e on food imported from Israel. Recent punitive measures (e.g. food and supply blockades of villages, towns and camps) taken by the Israeli authorities since the Palestinian uprising highlight the adverse consequences of over-dependence on Israel for strategic and basic food items. It is thus valid to consider embarking on a process of gradual and balanced diversification of farming patterns. Such a path might also encourage a significant drop in the volume of many products which are currently imported in substantial quantities, including items such as wheat, potatoes, carrots, apples and persimmons.

311. The following paragraphs outline some feasible modifications in farming patterns. It is important to emphasize that the final evaluation of an optimal cropping mix will have to be based on a solid testing scheme conducted by qualified researchers. Furthermore, conversion to new farming patterns may entail significant capital outlays which are not readily available. International assistance is needed to provide the technological inputs and funding which are essential for an effective cropping diversification scheme.

312. As regards cereals and staples, which are currently supplied mainly through imports, wheat production can be expanded both on marginal land and in some areas now cultivated with crops such as melons which face growing domestic surpluses and marketing bottle-necks. It is likely that wheat cultivation in the West Bank could be more remunerative than some of the alternative crops currently cultivated on a large scale. Similarly, the occupied territory could benefit from increased production of such staple legumes as lentils and chickpeas, both of which boast relatively large domestic demand. The production of these basic commodities has been constrained by the shift to cash crops coupled with the pressure posed on suitable marginal rainfed lands as a result of Israeli confiscation. Such expansion of output can be facilitated by the introduction of appropriate new technologies at different stages of the planting, cultivation and harvesting processes. Availability of land and manpower pose no problems in this regard.

313. At the same time, there is scope for continued expansion in olive culture in the West Bank. Olive oil and pickles remain among the most important staple items, and surpluses in both products are manageable, with storage for long periods both feasible and highly attractive in order to guard against contingencies such as the food blockades imposed during the uprising. The expansion of olive cultivation, especially on hilly land with marginal alternate productivity, also constitutes a practical and effective way of maintaining a stake on land in face of continued expropriation measures and threats. Nevertheless, any expansion in this crop must be carefully implemented so that identification and securing of new market opportunities go hand-in-hand with expansion of output.

314. An annual average of 8,000-10,000 tons of the olive crop is pickled (see below, 2(c)). The balance of output, which in some years is equivalent to well over 100,000 tons, is used for the purpose of oil extraction. Local oil output has been steadily increasing due to expanded area of orchards despite limited improvement in productivity. Domestic demand for olive oil has dropped somewhat due to the uncontrolled influx into the occupied

territory through Israel of seed oils (mainly corn oil), which are considerably cheaper than olive oil. It is estimated that local consumption of these seed oils presently accounts for nearly 50 per cent of total domestic consumption of vegetable oils. Surpluses have tended to build up about once every three years, increasing the pressure for export of the surplus, which ranges in most years from 10,000 to 15,000 tons. In 1987/88, this surplus reached 25,000 tons. In the past, while some of the surplus has been disposed of in the Gaza Strip, the bulk has crossed the bridges for Jordanian and other Arab markets.

315. However, poor quality control and labelling/packaging techniques, coupled with stiff competition in traditional markets from other vegetable oils, has posed increasingly serious problems for the export of this vital crop. Improved techniques in processing, filling and marketing could greatly benefit the export prospects of this crop. In principle, oil is available for export in tin cans of various sizes throughout the year. The average wholesale price of oil in a good year ranges from $3,000 to $3,500 per ton (exclusive of freight costs).

316. Expanded cultivation in some other fruit tree branches is also desirable. For example, almond trees can be grown on vast areas of marginal land, and the market potential of almonds is reasonably good, both at home and in export markets. Early varieties of grapes could also be introduced on a wide scale in the Jordan River valley, possibly replacing some of the tomato and eggplant cultivation there which is facing increasingly difficult marketing conditions. On the other hand, intensive efforts are needed over wide areas to replace the highly perishable local (Dabouki) variety of grapes with more solid and later maturing varieties. A number of varieties of plums are also available in the West Bank in moderate quantities (5,000-8,000 tons) for export to new markets at a production cost of some $220 per ton.

317. Citriculture faces a particularly sensitive situation. Annual surpluses are estimated at around 30,000 tons, though in effect the surplus is larger since some of the disposed quantities are sometimes sold below actual cost. New markets for citrus, including those in EEC countries, might be able to absorb a portion of that surplus, assuming the availability of sufficiently attractive prices. Prices of oranges range from $100 to $150 per ton (depending on the brand and region), while for clementines they are around $130 per ton and for lemons around $160 per ton (exclusive of packaging and freight). While much could be done to solve chronic problems of surpluses if a citrus-based processing facility were to be established, it would still be necessary to uproot those groves with hopelessly low productivity and poor quality of produce. Some of those orchards might be replanted with citrus, but most of them could be put under alternative fruit trees and vegetable crops. In addition to funding requirements, the rejuvenation of old orchards and the planting of new citrus trees requires Israeli approval, which is not readily forthcoming.

318. Palestinian vegetable growers and exporters are faced with a modest surplus in domestic production, which is more than doubled by the unrestricted imports of produce from Israel. In view of stagnant export opportunities in traditional markets for these commodities, the recent agreement signed with the EEC has opened new markets for surplus vegetables. The quality of produce and the dates of marketing seem to produce important advantages in European markets, but relatively high production costs, mainly due to the high cost of

water, are a constraining factor, especially when competing with countries such as Egypt and Turkey. Furthermore, the present mix of major vegetables, whereby tomatoes are by far the largest component, is not in line with demand in the EEC, since Palestinian tomatoes stand little chance of competing with cheaper sources of supply available to European markets.

319. Certain vegetables under irrigation have expanded at a very high rate in recent years, many in response to transitory market conditions in Israel or regional markets. Tomato growing has become especially problematic as the relatively low cost of production (ranging between $100 and $150 per ton depending on the growing region and season) has encouraged over-cultivation, thus yielding large annual surpluses. Similarly, though cucumbers are produced in the West Bank in sufficient quantities to satisfy domestic demand without creating surpluses, most of the Gaza Strip's cucumber crop, up to 7,000 tons annually, is available for sale outside the Strip. The production costs of the local smooth-skinned Dallila variety of cucumbers are around $250 and $270 per ton in the West Bank and Gaza Strip respectively.

320. Other vegetable crops exhibit equal potential for expanded export, being reasonably priced and of good quality. Some 500 tons of strawberries are available annually at $9,000 per ton for early shipments and $1,200 per ton during the peak season. Production of green peppers, though for local consumption at present, could also be increased throughout the winter season if external demand was identified. Eggplant, which is a speciality of Jordan valley growers, shows growing surpluses available for export - as much as 8,000 tons annually at a production cost of some $170 per ton. Marrow is also available for export in quantities of up to 9,000 tons annually at a cost of some $140 per ton. Melons of high quality are produced in the West Bank, but chronic surpluses have developed in this branch, as only 30 per cent of the crop is presently exported, with the rest being disposed of locally, often at very low prices. Production costs range from $130 to $160 per ton according to the season and district of production. While exploring possibilities for expanded export of domestic surpluses in these crops, important modifications should be considered with regard to the kinds of vegetables grown under irrigation in light of domestic demand requirements and changing external market conditions. Greater emphasis could be placed on staples such as potatoes and the introduction of new crops which are in strong demand in Arab and European markets, such as iceberg lettuce, celery and strawberries.

321. Expansion of certain livestock patterns is essential in order to reduce dependence on Israel for poultry, red meats and dairy products. This involves numerous measures which are discussed below. A major development in this connection is the introduction and widespread dissemination of forage crops and pastures in those areas where the amount of rainfall and prevailing topography do not permit more intensive forms of cultivation.

2. <u>Encouragement of agro-industries</u>

322. Vigorous development of agro-industries is generally recognized as an urgent priority in the occupied territory, and even more so recently in light of the serious disruptions in trade flows between the territory and Israel since the uprising began. Agro-industries will help alleviate problems of surpluses in agriculture, reduce the huge deficit in the occupied territory's balance of trade, and offer greater security in food supply. Because of their wide intersectoral linkages, agro-industries can help create more employment

opportunities and initiate strong multiplier effects in a range of economic sectors. This applies more clearly to food-processing agro-industries, but there also exists some potential for non-food agro-industries.

323. The raw material base for an agro-food industry consists of a number of vegetables and fruits in good supply in the occupied territory. Olives can be either pressed for oil (approximately 85 per cent of the crop) and/or processed into pickles. Of the average annual output of citrus of some 230,000 tons, only half is sold fresh and at reasonable prices. The average annual output of grapes is estimated at around the disposal figure of 80,000 tons. Because of poor shipping qualities, disposal of West Bank grapes in export markets poses problems which cannot be overcome in the short run. Chronic surpluses are recorded with regard to a number of vegetables, in particular tomatoes, eggplants and cucumbers. Increased exports of these vegetables in their fresh form is not anticipated in the foreseeable future. Of the 1,500 ton average annual strawberry crop in the Gaza Strip, only a third is sold to AGREXCO through contractual arrangements. Most of the remaining output is potentially available for processing purposes. Palestinian farmers produce about 20,000 tons annually of plums and 1,000 tons of apricots. It is estimated that 5,000 tons of plums and 300 tons of apricots could be processed annually. Total annual milk output in the occupied territory is estimated at 50 million litres, of which only around 15 per cent is consumed in the fresh form; the balance is used in the dairy industries (yoghourt, cheese, etc.).

324. The range of raw materials available for non-food agro-industries is relatively narrow, but it is far from being fully exploited at present, and there are several prominent examples of available materials. The vast majority of animal hides produced in slaughter-houses in the occupied territory are collected and channelled to Israeli tanneries. The relatively small-scale tanning operations in the Hebron district offer a great potential for growth. Though not of a superior quality, the wool from local sheep strains is used extensively in manufacturing certain types of winter clothing items and inexpensive carpets. Much could be done to expand and modernize these industries. Olive oil extracted from olive pulp is used in making soap and detergents. The amount of oil produced and the quantity of pulp are so large that their utilization requires greater scrutiny. The livestock feed industry is one of the largest in the West Bank, but most raw inputs are imported. A greater effort is needed to localize the input base of this industry.

(a) <u>Grape juice extraction</u>

325. Grape production is among the most important types of farming in the West Bank. Its share of gross agricultural income is estimated at about 7 per cent. The total area of vineyards in 1986 amounted to almost 82,000 dunums in the West Bank and 7,500 dunums in the Gaza Strip. Output is estimated at about 62,000 tons, of which 80 per cent is produced in the Hebron-Bethlehem region. 170/

326. Local consumption of grapes is estimated at 30,000-35000 tons, which amounts to only approximately 50 per cent of all output. Export to Jordan is subject to transportation problems and tough market competition. On average, exports to/through Jordan have accounted for 6,000-10,000 tons of grapes annually, and with increasing production in those countries, Palestinian

exports of this item may drop. Exporting to Israel, on the other hand, is under the strict control of the Fruit Board, but large quantities are reported to be channelled unlicensed into Israel. It is estimated that about 4,000 tons are sold in Israel, one third for table use and the rest to wineries. 171/ Europe is not viewed as a major outlet, again because of the poor shipping quality of the variety in common use. Consequently, it can be expected that the occupied territory will have to cope with an annual surplus of between 15,000-25,000 tons. The prospect of establishing a grape juice factory has been thoroughly investigated by local experts. A particularly encouraging factor is the high level of carbonated soft-drink consumption, at relatively high prices, which prevails in the occupied territory. A feasibility analysis has demonstrated that even if the fresh grape juice is sold at prices which are 10 per cent lower than those of soft-drinks, a grape-juice facility could still earn an exceptionally high rate of return, estimated at 59 per cent. 172/ Furthermore, the project would fulfil a high import substitution function and help to sustain active farming on wide areas of hilly land.

327. The proposed juice plant could start out by absorbing some 15,000 tons of fresh grapes per year, but it might deal with double that quantity in the future. Requirements in terms of initial fixed capital are estimated at $1.7 million, whereas operational capital outlay is estimated at $6.7 million. 173/ As far as organizational structure is concerned, the grape juice firm could be either a co-operative society or a private enterprise. A co-operative society has already been registered for this purpose, but it has not succeeded so far in procuring a permit from the Israeli authorities for the proposed plant. No practical steps have therefore been taken to implement the project. The success of the co-operative in establishing and running the project is heavily contingent on obtaining adequate technical and managerial expertise.

(b) Poultry hatchery

328. Poultry production occupies a prominent role in the Palestinian economy, as evidenced by its high share of total agricultural income and relatively large labour force. The industry provides Palestinian inhabitants with nutritionally important chicken meat and eggs. Local production of these two items amounts to around 65 per cent of domestic consumption. The deficit in these items is all procured from Israel.

329. In an effort to strengthen Israeli poultry products' share of the Palestinian market, the Israeli authorities resorted recently to such drastic measures as refusing to license new Palestinian poultry farms while imposing a rigid ceiling on the total size of replacement flocks available to farmers. These controls have been intensified in recent months as part of new Israeli measures to quell the Palestinian uprising. As all chicks raised in the occupied territory are obtained from Israeli hatcheries, Israeli poultry authorities have acquired effective control over the volume of production in the territory. Many complaints are voiced regarding the quality of chicks sold to Palestinian farmers from the Israeli supply monopolies.

330. In order to expand the volume of production in this branch and bring it closer to fulfilling market needs, as well as to avoid irregularities in the supply and quality of chicks, consideration could be given to the establishment of a poultry hatchery. The start-up capacity of the proposed

hatchery would be 200,000 chicks per month, equivalent to 16 per cent of current placement capacity of the occupied territory's broiler farms. 174/ Preliminary cost estimates indicate a capital outlay of some $1 million, half of which could be provided by shareholders and the balance procured as a loan. Local institutions and businessmen have expressed interest in sponsoring the project. These include the Ramallah Poultry Co-operative, which runs the largest feedmill and poultry marketing operations in the West Bank. Such an institutional base will help in disposing of output and ensuring acceptable prices, terms of payment and quality of chicks. Implementation of the hatchery project has been delayed because of funding problems, the lack of adequate technical and managerial expertise and overriding Israeli objection to the project, apparently motivated by vested interests.

(c) Pickling operations

331. Palestinians in the occupied territory maintain high consumption levels of such pickles as olives, cucumbers, peppers and eggplants. Of all these kinds of pickles, only olive pickles are of local origin, whereas the rest are procured largely from Israeli sources. No estimates are available on the volume of pickles imported from Israel, but as with other food items, these are assumed to be significant.

332. Development of local pickling operations represents a standard case of import substitution while providing a partial leeway for agricultural surpluses. At the same time, and unlike most other agro-industries, it is possible to secure sizeable markets for pickles produced in the occupied territory. By improving the quality of olive pickles, most importantly, it is possible to regain those markets in neighbouring Arab countries which have been easing off gradually in recent years because, inter alia, of unstandardized and often poor quality. As for other kinds of pickles, there is still considerable scope for satisfying local consumption, after which efforts could be directed to different export markets. Already, the occupied territory exports some 6,000-8,000 tons of pickled olives annually to Jordan and neighbouring Arab countries. However, inferior processing and marketing techniques have been the major factor behind recent stagnation in exports of this product.

333. Pickling of olives and some vegetables has been conceived of as a product line in a multi-purpose food-processing operation catering for all West Bank surpluses of fruits and vegetables, at an estimated cost of $3 million. 175/ Other proposals focus on the establishment of a number of smaller, relatively specialized operations, spread through different regions of the West Bank and Gaza Strip. The capital requirements for a medium-sized pickling plant are approximately $200,000, and establishing a pilot project would certainly help ensure the feasibility of a wider network of such plants.

(d) Processing of citrus products

334. Citrus production is by far the most important type of farming in the Gaza Strip and the second most significant (after olives) in the West Bank. Citrus exports are the largest of all agricultural commodities, with a portion of output consumed locally and another share (estimated in most years at 25,000-35,000 tons) going to Israeli juice factories. A fluctuating, though not insignificant, surplus has been witnessed in most years. The export

marketing of citrus, for reasons described earlier, has faced increasing problems recently, and there is little likelihood of tangible improvement in the prospects for export marketing in the coming years.

335. The future of the citrus sector of the occupied territory depends heavily on the prospect of setting up a local juice factory capable of absorbing 35,000 to 50,000 tons of citrus annually, somewhat more than is presently being channelled to Israeli factories. The output could be aimed at local markets, as well as possible entry into the upper levels of the frozen orange juice market (stressing the use of quality oranges). The feasibility of the project was confirmed in a 1986 study, and the project is suggested for the Gaza Strip. Implementation of the project was obstructed for many years by Israeli refusal to grant a permit, but in 1988 a licence was finally issued, on condition that no more than 20 per cent of output is disposed of in domestic markets. A number of international funding sources have become involved in actual implementation of the project, slated for completion in 1989. The capacity of the plant, estimated to cost some $US 15 million, is 20 tons/hour of fresh fruit.

(e) Dairy production

336. The dairy industry has for a long time been noticeably underdeveloped, both in size and technological orientation. Per capita consumption of milk and dairy products has undergone a sharp rise. Development of the dairy industry should aim at the twin objectives of expanding local production and improving production techniques in common use. Total production of milk in 1986 was estimated at about 50,000 tons, 176/ of which some 15 per cent was consumed fresh and the rest was processed into other forms. The deficit in the supply of fresh milk and processed products is supplemented through imports from Israel. By raising local production of milk and dairy products, Palestinian farmers could enhance food security and help reduce imports from Israel.

337. The local dairy processing techniques are still traditional in nature and often do not meet acceptable hygiene standards, especially in the case of owners of sheep flocks. Earlier trials to modernize techniques used in the processing of sheep and goat milk were impeded by the widely scattered distribution of flocks which made the collection of milk from production sites exceedingly difficult and expensive. So, instead of establishing large and centralized processing plants, local experts recommended the dissemination of less sophisticated technologies which can be conveniently adopted, in terms of capital and know-how prerequisites, by the bulk of medium- to large-scale sheep raisers.

338. Cow-milk processing faces more problems than traditional Palestinian dairy farming, which is based on sheep and goat milk. Unlike the latter, where competition from Israeli sources is minimal, cow-milk dairy farming is faced with inequitable competition from Israeli products. Israeli cattle raisers are eligible for a particularly generous subsidization and price stabilization scheme. This, together with the economies of scale that the larger Israeli industries enjoy, is an important factor behind the setbacks suffered by most Palestinian cattle farms, both in terms of their number and size of herds.

339. Despite unfavourable circumstances, a small number of local dairy plants have recently been established in the occupied territory and have succeeded in entering neighbouring markets on a small scale. In order to compensate for incentives accruing to giant Israeli dairy manufacturers, Palestinian dairy plants have capitalized on comparative advantages arising from lower labour costs and overheads, proximity to markets and lower profit expectations. The success achieved by these plants could stimulate research aimed at realizing the value added in such operations.

C. Expansion of trade in industrial products

340. A careful review of recent patterns of industrial development points to a fairly diversified range of industries where one or more comparative advantage is being exploited. As can be inferred from the following list, Palestinian manufacturers have capitalized on advantages that go beyond cheap labour, which for a long time had been considered as the key factor for the viability of their industries:

- Tourist industries include such products as mother of pearl, coloured glass, ceramics, wooden handicrafts, and folkloric dresses and embroidery. With proper supporting services, exports of these items could be increased.

- Although not too many local raw materials of economic significance have been identified, more could be done to exploit those which already exist, such as marble and building stones, bamboo, hides, wool and surplus farm products.

- Relatively inexpensive labour costs of certain sections of the labour force provide an important comparative advantage, especially since the skill level of Palestinian workers is noticeably high. A combination of low wages and high vocational skills stands behind such successful branches as sewing, shoe-making, chocolates and agricultural machinery.

- The innovative and highly motivated spirit of Palestinian entrepreneurs provides a crucial comparative advantage, as it is the key factor which can harness scanty resources into viable enterprises. This has been clearly demonstrated in almost all successful industrial firms, especially those established over the past 10 years.

- Some industries have prospered as a result of privileges obtained under special circumstances, for example the vegetable oil corporation and major soap manufacturers in Nablus.

341. Analysing the supply and demand aspects of all those industries with promising potential is beyond the scope of this study. However, a few major branches are reviewed as illustrative case studies.

1. Stone and marble industries

342. Stone-based industries are of special prominence in the West Bank economy. It is estimated that there are around 200 quarries and 350 stone and marble cutting plants. The labour force employed in this industry is estimated at about 2,000 workers, which is noticeably high when measured against a total industrial labour force of about 18,000 workers. Though no quantitative data is available, the branch's share in GDP is one of the highest among all industrial activities, and the real value added is relatively higher than other major industries, such as cloth manufacturing. Stone and marble are particularly significant to the West Bank's external trade, since they account for approximately 15 per cent of the total value of exports to Jordan.

343. Stone quarries provide building stones which are in strong demand in domestic and foreign markets. No competition is envisaged from Israel in this connection, but West Bank producers face some competition in Jordan where local quarries produce similar products. Its quality allows West Bank stone to compete favourably in export markets, but production machinery and transportation facilities suffer from significant shortages and constraints. Quarries are in need of credit facilities in order to be able to modernize their relatively costly equipment. Similarly, the quality and scope of transportation to export markets need to be greatly improved, fees for crossing the bridges should be reduced and more time should be allowed for transporting goods to regional markets.

344. Recent exploratory mining operations have also demonstrated the availability of a vast supply of marble rocks in several parts of the West Bank. Though the quality is inferior to marble imported from abroad, the price differential is so large that it offers a distinctive advantage to local producers, especially for those uses where elaborate quality is not demanded. A substantial expansion in output is therefore conceivable, whether to meet local demand or that of export markets. As with building stones, the main constraints hindering rapid growth in this industry are those relating to scarcity of credit and the impediments imposed on transportation across the bridges. A substantial rise in marble exports is contingent not only on the easing of such restrictions, but also on the use of modern promotional techniques.

2. Sewing and textiles

345. Sewing and related industries (e.g. knitting and weaving) are among the most important industrial activities in the occupied Palestinian territory, both in terms of numbers of establishments and persons employed. Nearly 95 per cent of all workers in this industry are women, most of whom have little or no employment prospects in other sectors. In fact, it is estimated that the sewing industry accounts for nearly 65 per cent of all female wage-earners. 177/

346. The sewing industry in its present form has mushroomed as a consequence of widespread development of subcontractual arrangements between Israeli textile firms and entrepreneurs in the occupied territory. By providing work opportunities to women in or close to their place of residence, sewing

workshops have tapped a vast reservoir of labour which consists of women who are willing to work for low wages because of their reluctance to seek employment in Israel.

347. By virtue of their subcontractual affiliations, sewing firms channel 85 per cent of their output to counterpart Israeli firms, and the remaining part is sold in domestic markets. 178/ About half of all goods delivered to Israeli firms are disposed of in Israel, and some are syphoned back to retail outlets in the territory but carrying Israeli trademarks. The balance of consignments delivered to Israeli firms is re-exported to European and United States markets under international trade marks. Export to regional markets has been unsuccessful due to prevailing regulations regarding Israeli raw material content of exports from the occupied territory.

348. The potential for further expansion in the clothing industry is particularly good. After having acquired extensive expertise in production and marketing operations, sewing firms at present enjoy the advantage of know-how and efficient management, in addition to their inherent advantage of relatively low wage levels and modest profit expectations. It is therefore likely that Palestinian manufacturers are now able to achieve breakthroughs, both in local markets and abroad. Doing without Israeli middlemen has already been tried with encouraging results. Direct export of clothes to European and United States markets is now legally permissible, but, as indicated earlier, a vigorous marketing thrust in that direction will only be possible after a number of supporting services have become operational.

3. Pharmaceuticals

349. There are eight pharmaceutical firms in the occupied Palestinian territory, all of which have been established since 1967. The total labour force employed in this industry is estimated at about 300 workers. Drug manufacturing firms have in general been licensed without great difficulty, thus paving the way for the establishment of a relatively large number of such firms.

350. Technical standards at local pharmaceutical firms are believed to be satisfactory. Each drug has to be licensed individually and only after it is satisfactorily tested by the Civil Administration. Quality control is monitored by each firm through its own laboratory testing facilities, but additional control is exercised by specialized governmental bodies.

351. Palestinian pharmaceutical firms sell all their produce in local markets, of which they have a share of only 30-35 per cent. Their low share of the local market is attributed to their relatively narrow range of products, as it is considered unfeasible to produce a wide range of auxiliary products such as cotton, bandages and saline solution. Manufacture of such products is so competitive that mass-scale production is essential if local firms are to compete with the much larger Israeli and foreign manufacturers already in the market.

352. Palestinian pharmaceutical firms cannot sell their products in Israel, and neighbouring Arab markets are inaccessible for medicines produced in the occupied territory using raw materials imported from/through Israel. Exporting to other countries, presumably through Israeli air and seaports, does not offer any great potential. Competition among major drug producers is

too keen to leave much room for small producers, who are further disadvantaged by having to procure all their supplies from distant locations. Furthermore, this industry is not labour-intensive enough to provide a tangible advantage to local Palestinian manufacturers. Given the strategic nature of pharmaceuticals, the potential for their increased output and trade appears to lie mainly in trying to expand sales in the domestic markets. Much could still be done in this respect by consolidating production and marketing efforts, as well as by maintaining higher quality standards aimed at competing with similar imports.

4. Soft-drinks

353. Palestinian residents of the occupied territory exhibit noticeably high levels of consumption of soft-drinks. Until recently, there existed two small firms in the Gaza Strip which were so affected by a number of capitalization and managerial problems that they could not meet more than 30 per cent of local demand in both the West Bank and Gaza Strip. However, the soft-drink industry has witnessed important changes since 1985 following the establishment of a large and modern bottling plant in the West Bank which was franchized by a multinational corporation.

354. The new soft-drink firm was able to produce high-quality products which it offered at competitive prices. Its marketing strategy was thoroughly planned and aggressively implemented. In less than two years its share of domestic demand jumped up to 65 per cent, largely at the expense of Israeli brands. Encouraged by its performance, the West Bank bottling firm entered the Israeli market after it had qualified for and obtained a "kosher" certificate from the Jewish Rabbinate in Israel. The firm also had to abide by the labelling regulations which required using Hebrew on containers in a script of acceptable size, with the ingredients and other specifications accurately listed. The plant is at present able to sell about 30 per cent of its output in Israel.

355. The Palestinian experience acquired over the past three years indicates that soft-drink manufacturers can expand the scope of their operations still further. Their targeted markets at present are only two, those of the occupied territory and Israel. The latter market in particular offers great potential in the prevailing circumstances, as long as Israeli authorities refrain from imposing arbitrary restrictions on the entry of Palestinian industrial products. Access to Arab markets is not possible on account of regulations regarding raw material prerequisites, but even if these were to be eased, Palestinian soft-drink producers do not enjoy significant comparative advantages to compensate for the high cost which would be incurred on goods sent to Arab markets, where competition is already stiff.

356. Further expansion in this industry could be accompanied by establishment of a local plant for the production of bottles and other containers. Dependence on Israeli suppliers for these materials proved in the past to be especially precarious. The major constraint on the construction of such a plant is the lack of adequate finance. Another fundamental prerequisite for a more forceful penetration of domestic markets would be vigorous promotional campaigns which emphasize the self-reliance aspects of buying domestically produced Palestinian goods.

5. Cigarettes

357. There are two cigarette-manufacturing firms in the West Bank with a labour force of about 200 workers. These firms produce high-quality cigarettes which compete favourably with Israeli and imported brands. It is estimated that the two local firms account for 65 per cent of the domestic market. Sales in Israeli markets, on the other hand, are negligible.

358. Increased production and sales of cigarettes are conceivable at present only for the home market and Israel. Unlike the case of soft-drinks, the marketing strategy of Palestinian cigarette manufacturers reflects a less imaginative and aggressive approach. West Bank cigarette manufacturers might win greater acceptance on account of their quality and relatively low prices in comparison to Israeli and imported cigarettes. Furthermore, there are no specific restrictions or quotas imposed on the entry of Palestinian cigarettes to Israel. Arab markets remain closed to these products due to the procurement of most raw materials (paper, packaging material and much of the tobacco) through Israeli ports. Export of cigarettes to certain European countries is under consideration, though it appears a remote possibility.

359. About 85-90 per cent of all raw tobacco used by local cigarette firms is imported from countries such as Zimbabwe, Turkey and the United States. The quantity of tobacco purchased from local sources does not amount to more than 50 per cent of local output. This has been the main reason for the chronically strained relations between Palestinian tobacco farmers and cigarette manufacturers. The latter argue that local tobacco is of an inferior quality and is offered at relatively high prices. On the other hand, local cigarette firms have been reluctant to initiate extension programmes aimed at raising productivity and improving quality of locally produced tobacco, despite the fact that the profitability of these firms is reportedly among the highest in the area. By buying more local tobacco, cigarette companies would not only generate greater value added for their operations, but they might also help the 200 tobacco growers in the territory to improve their income opportunities and sustain active cultivation of the some 4,600 dunums of land devoted to this crop.

6. Samneh (margarine)

360. Samneh is the major cooking fat in use in the occupied Palestinian territory and neighbouring Arab countries. It is made up of vegetable oils, mainly coconut and palm oils imported from South East Asia. After the crude oil is refined, its melting point is adjusted and then flavours and vitamin additives are incorporated. The end product is packed in tin cans of 5 lb or 10 lb each.

361. Realizing the staple nature of samneh in local cooking, the Government of Jordan helped in 1953 to establish a firm in Nablus by the name of Vegetable Oil Corporation (VOC), subscribing to 41 per cent of its capital and granting it a monopoly in domestic markets. Since then, VOC has greatly expanded its production facilities and scale of operation, and has become by far the largest industrial plant in the occupied Palestinian territory. Total assets at the end of 1986 were estimated at $11 million, and sales for that year amounted to $20 million. The value of exports by the firm during the

period 1981-1985 averaged some $18 million, equivalent to 50 per cent of the value of all Palestinian industrial exports to/through Jordan and nearly 18 per cent of total exports to/through Jordan.

362. VOC procures the crude vegetable oils it uses in the processing of its output destined for export to Jordan via the port of Aqaba, and benefits from flexible transport arrangements over the bridges. However, the crude oil used in producing samneh sold in local markets is imported via Israeli ports. This way, VOC saves 10-15 per cent in cost as compared to imports through Aqaba. This permits a certain degree of economies of scale, since it is possible to plan simultaneously for domestic and export markets. VOC sells 90 per cent of its output to/through Jordan and only 9 per cent in the West Bank and Gaza Strip markets, while exports to Israel amount to about 1 per cent of total output.

363. VOC is faced with a very different marketing structure in the territory and in Israel. In the latter, it has to compete with similar products produced by large Israeli firms which, unlike VOC, are not burdened by costly restrictions concerning the origin or route of needed raw materials. Nevertheless, the innovative arrangements from which VOC benefits regarding the raw material content of its exports have allowed it to realize significant progress. To the extent possible, such flexible arrangements may be emulated and further developed to allow yet wider penetration by these and other Palestinian industrial exports in regional markets.

7. Cement

364. The West Bank and Gaza Strip procure all their cement supply from Nesher, which is Israel's monopoly cement manufacturer. A recent survey indicated that the territory's consumption of cement in 1985 amounted to some 460,000 tons. 179/ Because of inadequate local supply in Israel, the quantity of cement channelled to the territory is sometimes considerably less than the volume of effective demand.

365. In 1978, a group of entrepreneurs from the West Bank and Gaza Strip launched efforts aimed at establishing a local cement factory. Economic evaluation of the project demonstrated its clear viability, but it was also clear that the cement project is justified on account of other fundamental objectives, such as the following:

- It could reduce dependence on Israel for a strategic commodity which Israeli authorities may decide to withhold from the occupied territory;
- It could help reduce the value of imports from Israel by approximately $55 million per annum, which is equivalent to about 10 per cent of the territory's trade deficit with Israel;
- By making cement more readily available and possibly at lower prices, Palestinians may expand construction activity and alleviate population congestion.

366. In early 1979, the founding committee of the cement project succeeded in having the firm registered under the name of the Arab Cement Company (ACC). The Board of ACC commissioned a European firm to conduct exploratory surveys and formulate implementation plans. The initial results were very

encouraging, as raw materials were found in abundant quantities in a number of locations. Production capacity of the plant was estimated at 1,500 tons a day. Capital requirements for the plant were set at some $50 million, 180/ with around $23 million of the outlay to be raised from shareholders and the balance through credit arrangements with suppliers and international institutions.

367. Although the Israeli authorities agreed to the registration of ACC, they subsequently obstructed the implementation of the project itself. This was done by rejecting ACC's request for prescribed mining permits, claiming that the project was not economically viable, but it appeared that Israeli opposition was underlaid by protectionist motives. Notwithstanding specific General Assembly resolutions calling on Israel to allow this and similar projects to go through, 181/ implementation of this priority development project remains contingent upon securing Israeli approval and raising adequate funds. This is yet another example of how the different potentials for the development of Palestinian productive and commercial capacities remain under the restrictive control of the occupation authorities.

Chapter V

CONCLUSIONS

368. Over the past 21 years, the economy of the occupied Palestinian territory has performed without a strategy and has been governed by ad hoc impulses that were often alien to its own interests. More than at any other time, the occupied territory needs to be provided with appropriate indigenous institutions to establish its own economic identity, reflecting its needs and providing prospects for its future development. Understandably, the realization of the objective of setting the economy on a path for sustained growth and development and providing a sound basis for external trade of the occupied territory is a relatively long-term process. Short of a comprehensive development strategy, immediate efforts need to concentrate on certain policy measures primarily aimed at reviving productive sectors with a view to reducing the mounting pressure on the balance of payments. Such measures would also be geared to increasing employment opportunities, through small-scale, labour-intensive projects, in order to gradually absorb part of the Palestinian labour force which functions under precarious circumstances outside the local economy. This means restructuring the economy, with the reorientation of production towards the domestic market, including the "household economy", and expanding exports by developing complementarities with regional Arab economies and exploiting opportunities in other markets.

369. In parallel with efforts to increase and diversify output, immediate attention needs to be directed to the marketing of the surpluses that accumulate in the agricultural sector and exploiting its potential in those products that enjoy comparative advantages (such as olives and olive oil, citrus fruits, plums, tomatoes, cucumbers, strawberries, egg-plants, marrow and others). Similarly, in the industrial sector, the prospects for expanding exports would initially lie in the revival and development of the traditional industrial branches that have proven themselves in both domestic and external markets. These include food processing, textiles and clothing, leather goods, quarrying and other branches that involve fewer technical and managerial skills, low labour costs, and raw materials that have a low opportunity cost. Certain branches could enter a complete cycle of production, with all phases vertically and horizontally integrated, in contrast to the present sub-contracting arrangements. Success in these and other areas would necessitate meeting a number of prerequisites to be fulfilled primarily by the Israeli occupation authorities, as well as by the Palestinian people and their institutions in the territory.

370. Any attempt at promoting the external trade of the occupied territory ought to be conceived within the legal framework that governs the status of this territory as one having a separate entity with distinct economic interests. Israeli economic policies over the past 21 years have forced on the Palestinian economy an advanced degree of dependency on Israel in many areas. In the area of trade, the duty-free and unregulated entry of highly subsidized Israeli agricultural and industrial goods into the occupied territory has confronted local Palestinian producers with strong and unfair competition throughout the occupation period. On the other hand, the import of Palestinian products into Israel is restricted to selected items under strict quotas. The situation has further deteriorated recently in the wake of intensified measures imposed by the Israeli authorities during the uprising. Given the rapidly deteriorating economic situation in the occupied territory,

serious efforts are called for at this crucial juncture to initiate measures aimed at rectifying anomalies resulting from 21 years of occupation and at revitalizing the economy.

371. As an initial step, the Israeli military orders and related measures which have been introduced in the territory since 1967 and which have stifled economic activities at all levels need to be rescinded. The recent harsh economic measures introduced since the beginning of the uprising and which have contributed to the rapid deterioration of Palestinian trade require urgent reconsideration. The authority of local Palestinian institutions in directing and managing vital economic activities in the territory could fruitfully be restored.

A. Technical considerations

372. Shortage of water is one of the most limiting factors in the development of agriculture. While there is need for the conservation of scarce resources, Palestinian farmers are entitled to a fair share of their water supply. As efforts continue to reinstate farmers' rights with regard to boring deep wells, drip irrigation techniques could fruitfully be introduced on a wider scale, being applied also to a variety of fruit orchards and vegetable plantations.

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

374. Despite the efforts of producers to maintain good quality standards, quality control poses a significant challenge in both agriculture and industry. This is largely due to a general lack of specialized institutions geared to establishing standards and specifications and conducting laboratory research on improving the quality of products. It is hard to see how exports of agricultural and industrial products could be promoted without introducing reliable and autonomous forms of quality control schemes.

375. In view of the keen competition in export markets, improvement of the quality of exportable commodities should remain one of the foremost preoccupations of Palestinian producers and their various associations in the occupied territory. Given the relatively limited size of the territory's exportable output compared with that of its competitors, its position in international markets will be determined primarily by the quality and prices of what it can offer. This is very important, as most of the competing countries either enjoy a modern and efficient agricultural sector or are modernizing and improving the efficiency of their agriculture. In the light of the new prospects for direct trade with the European countries, emphasis on

quality and competitive prices will become even more crucial when the EEC evolves into a "single market" with the abolition of all internal tariffs and customs duties by 1992. The occupied territory must be technically able to meet expectations in such a competitive environment.

376. Palestinian producers' organizations, universities and research centres could play a significant role by mobilizing resources and co-ordinating efforts on research aimed at improving the quality of agricultural and industrial output. This could be accompanied by strong sales promotion campaigns on behalf of small producers using various channels aimed at increasing the share of markets for the territory's output. Promotional activities are equally crucial for exports to Arab markets, as competition in these markets has become more intense than what Palestinian exporters were accustomed to until recently.

377. An important factor affecting the quality of output is the level of technical expertise among production workers. It is often noted that most workers have no access to "formal" or "informal" pre-service or in-service training. The educational achievements of the Palestinian people have had insufficient impact on the level of technically skilled manpower serving the domestic economic base. Similarly, there is a growing shortage of qualified maintenance and repair technicians to meet the requirements of establishments with advanced machinery. There is therefore a need for formal and informal vocational training programmes at various levels.

378. Another critical area of concern in respect of quality control is storage and packing facilities. Lack of such facilities, whether to cater to domestic or external markets, has invariably resulted in high costs to Palestinian farmers due to spoilage of output and the need to use expensive packing material. Cold storage facilities are needed as part of an overall marketing programme to ensure the timely delivery of output. This should also be accompanied by the employment of refrigerated trucks or containers for long-distance delivery, especially for exports to nearby and distant Arab markets.

379. Similarly, while the wooden crates presently in use are strong and provide good protection, they are weighty, costly and not greatly preferred to corrugated cardboard boxes, particularly for exports to Western European markets. Therefore, parallel with the production of wooden crates, there is also a growing need to increase the local production and/or assembling of cardboard boxes. In addition to reducing the cost of packing, local production of such cartons could also provide job opportunities for unemployed Palestinians. Efforts should be intensified to establish an adequate capacity within the occupied territory for the production of cardboard boxes for various uses.

380. The marketing problems of one key commodity, namely olive oil, deserve special consideration. The present slump in the olive oil market is only an indication of what may become a regular outcome of adverse transformations in supply and demand for olive oil. Halting further deterioration in this regard requires intensive efforts in a number of directions. More vigorous efforts should be made to replace imported seed oils with local olive oil. In addition to more effective quality control and packaging measures, it is vital to embark on a dynamic promotional policy which, among other things, would emphasize the national ramifications of olive farming. Counting on the

sensitivity of consumers to such issues, it is likely that consumption of olive oil would increase (at the expense of imported oils), reducing surpluses by around 50 per cent of their present level. Meanwhile, all exported oil should be subjected to vigorous quality control tests to be conducted by the Nablus Olive Oil Laboratory. Filling techniques could be greatly improved. More than one size of can should be used (at present only 18 litre cans are used), and wholesalers should be asked to attach labels to individual cans indicating basic information (name of supplier, weight, quality specifications and date). At present, no labels are attached to cans, which leaves consumers confused about the quality and other specifications of the oil in the cans they purchase.

B. Access to markets

381. While the occupied territory has gradually lost its traditional export markets, no new outlets have been found to absorb the surpluses that have been accumulating, particularly in the agricultural sector. A serious marketing campaign is called for to enable Palestinian producers to achieve greater penetration of both domestic and external markets. Such a campaign should, *inter alia*, concentrate on the following objectives:

- Improvement of quality and establishment of reliable quality control measures, as stated above;

- Initiating a strong sales and promotional programme aimed at reaching prospective customers through the effective use of audio-visual media;

- Organizing training programmes aimed at providing professional advice to Palestinian producers and merchants and improving their capabilities in all aspects of business management practices;

- Reconsidering regulations pertaining to the licensing of new factories and their trade with Jordan and other Arab countries;

- Providing transit facilities to ensure a smooth flow of an enlarged variety of Palestinian goods through neighbouring countries to their markets and those beyond;

- Initiating efforts for the preparation of integrated production programmes involving existing commodities and commodities that provide potential for diversifying Palestinian agriculture and industry and promoting exports;

- Modifying the present export mix of farm products, placing more emphasis on quality control standards and on those products which are not in common production in neighbouring Arab countries. This obviously calls for considerable improvement in the present marketing infrastructures and the launching of an effective export diversification scheme.

382. Access to Israeli markets particularly is in urgent need of serious reconsideration as a matter of principle. As an initial step under present circumstances, it is imperative that the occupied territory's trade with Israel be based and structured on equitable grounds with a view to ending the unbalanced policies that have governed trading relations. In addition to

aiming at improving access of Palestinian goods to Israeli markets, policy reform should better enable the occupied territory to protect domestic productive sectors from the harmful effects of unregulated entry of Israeli goods. Moreover, Israel's retention of the subsidy scheme for its own producers, covering Israeli products that are exported to the territory without any tariffs, necessitates introducing some balancing measures in order to maintain fair competition between Palestinian and Israeli producers.

383. A fresh attempt is needed to revive traditional Arab markets for the agricultural and industrial products of the occupied territory. The Arab markets in the region provide one of the most satisfactory outlets for the products of the territory given the complementarity that exists in several areas of production between most of them and the occupied territory. Any attempt to benefit from existing and/or new Arab markets would necessitate better co-ordination of policies and practices that affect agricultural and industrial production, as well as streamlined procedures for efficient delivery of Palestinian goods to Arab markets. As noted, another vital prerequisite for the success of such efforts is improvement of the quality of goods exportable to these markets.

384. Bearing in mind the provisions of the League of Arab States regulations, the Arab Economic and Social Council and the Council for Arab Economic Unity (CAEU) have adopted resolutions urging member States to facilitate the entry into their markets of Palestinian agricultural and industrial products. One aspect which needs to be pursued urgently, especially in view of the latest Israeli restrictions imposed since the Palestinian uprising, is to ensure implementation of the League of Arab States regulations and their provisions in a manner that provides increased impetus to Palestinian export capacity and performance. Furthermore, the Council of Arab Economic Unity and the Federation of Arab Chambers of Commerce and Industry, within the framework of efforts aimed at achieving regional food security, increased trade and greater economic integration among the Arab countries of the region, could play a significant role in promoting and expanding markets for the products of the occupied territory.

385. The expertise of some of the United Nations organizations in export promotion programmes, especially the International Trade Centre UNCTAD/GATT, could also provide Palestinian producers and institutions with a source of much-needed technical assistance. The Centre's vast knowledge and experience in the establishment of export promotion facilities in many developing countries could benefit the territory in the design of a comprehensive export promotion programme, including the establishment of a Palestinian marketing organization.

386. As for access to other markets, even where new markets have opened, the territory has not been allowed to take full advantage of the opportunities offered. A clear example was Israel's objection until 1988 to allowing Palestinian producers to benefit from the trade concessions extended by the European Economic Community (EEC) to the occupied Palestinian territory. Only recently was a breakthrough achieved as a result of the Community's insistence on the application of its concessions to the occupied territory. Adherence to these and other concessions is vital for the growth and development of Palestinian trade and economy. The aforementioned General Assembly resolution (43/178) called for granting of trade concessions and concrete

preferential measures for Palestinian exports and UNCTAD resolution (169 (VII)) urged all States to facilitate the access of Palestinian goods and products to their markets. In a similar move of support for the economy of the territory, the Ministerial Meeting on the Global System of Trade Preferences (GSTP) among developing countries members of the Group of 77 adopted a resolution which calls for granting trade concessions and concrete preferential measures to Palestinian exports.

387. The recent developments reviewed above with respect to preferential trade treatment for Palestinian exports present new and challenging options for trade with non-traditional markets. Concessions can greatly enhance the role of the Palestinian private sector in the expansion of output and promotion of exports, thus strengthening the occupied territory's position in external markets. Despite the operational difficulties which will continue to hamper direct Palestinian export procedures, the recent developments provide an important basis for expansion of production and the promotion of trade. 182/ By growing more crops destined for European markets, Palestinian producers may gradually grow fewer of the major surplus crops, such as tomatoes and egg-plants. It is unlikely, however, that the volume of vegetable exports will soon reach a level such that might lead to a fall in exports to/through Jordan.

388. There remains a range of formidable obstacles to be overcome before the impact of the concessions offered by the EEC can be fully appreciated. These include the effects of Israeli supervision of the direct marketing arrangements, including the continued use of transit facilities at Ashdod. The flow of Palestinian products to EEC markets may eventually also be impeded by deficiencies related to institutional and physical marketing infrastructure. None of the existing institutions engaged in marketing is able at present to interface between Palestinian producers and European importers. It is not surprising that the first Palestinian exporters who were able to respond to the EEC initiative were those whose crops (i.e. citrus) boast the most developed marketing support facilities in the occupied territory. Marketing middlemen in the West Bank have acquired vast experience in exporting to Jordan and Arab markets, but they lack the expertise, facilities and experience needed in the highly competitive markets of Europe.

389. Needless to say, the concessions offered represent major multilateral and bilateral measures aimed at assisting the Palestinian people in their efforts to develop their economy. In order for these concessions to have a positive impact in the present circumstances, action is needed by the Israeli occupation authorities and the international community in support of Palestinian efforts. The Israeli occupation authorities have the responsibility to facilitate international assistance to enable it to reach the Palestinian people in the occupied territory. The international community, through multilateral and bilateral arrangements, could maintain the momentum of its assistance to the territory in order to enable the Palestinian people to build up the foundation of a sound economy and foster its independent growth and development.

390. Direct access to external markets responds to the urgent need to optimize the gains of external trade and ensure their equitable distribution among contributors. The past position of the Israeli authorities, whereby part of the territory's output should be marketed by Israeli agencies and the rest sent through "open bridges" to Jordan, placed unjustifiable constraints on

Palestinian producers. To deny Palestinian producers the right of direct export while granting this right to Israeli settlers in the occupied territory is a clear penalization of Palestinian producers vis-à-vis Israeli settlers/producers, who furthermore enjoy the benefits of concessions, subsidies and services denied to the indigenous inhabitants of the territory.

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

392. Recent endeavours by Palestinian industrialists have demonstrated that the potential for exporting industrial products is probably much greater than commonly believed. However, a number of issues may have to be dealt with effectively in order to allow industry to benefit from such potentials. These include: identifying areas where Palestinian manufactures have distinct comparative advantage; meeting machinery and raw material needs, especially in textiles where working capital needs are to some extent met at present by Israeli firms under sub-contracting arrangements; complying with labelling requirements of exportable goods; providing technical training in production operations and in the maintenance of machinery; and ensuring prompt clearance and delivery of goods to export markets.

393. Whether in agriculture or industry, it is necessary for Palestinian products to be easily identifiable in export markets. This will not only help establish the Palestinian identity of these products but will also draw the attention of producers to the necessity of adhering to quality standards and specifications in order to retain their share in these markets. Palestinian producers should therefore be allowed to export their products using their own appropriate brand names and trade marks.

C. Transport services

394. Despite improvements in transport services on main roads, secondary and feeder roads are almost totally neglected in Palestinian towns and villages. Their inadequate and poor state and the increasing orientation of the transport system to Israeli prerequisites means that transportation has become a serious bottle-neck for the expansion of trade. While local institutions, including municipalities, can contribute to the improvement of the present transport system, the building up of much of the physical infrastructure would need considerable external assistance. Moreover, in addition to improvement in customs and security formalities and installation of more modern equipment for monitoring of goods, the Israeli authorities could also encourage investment aimed at increasing the existing fleet of trucks and introducing refrigerated containers.

395. The level and quality of exports from the occupied territory to non-Arab markets, either through Jordan or Egypt, is equally hampered by the high cost of transport and the long duration of the journey involved. Obviously, the rise in cost and decline in quality are detrimental to the perishable exports of the territory, especially in the highly competitive markets of Western Europe or North America. The most natural outlet for such exports would be port facilities in the Gaza Strip. In addition to the existing fishing port, which is specifically designed to meet the requirements of the Gaza fishing community, the commercial port that existed prior to 1967 also needs to be reopened and developed to accommodate the future trading requirements of the occupied territory. The Israeli authorities and relevant multilateral and bilateral sources could contribute to the reopening and development of the commercial port in the Gaza Strip and its related infrastructural facilities. Pending that, consideration could be given to possibilities for instituting transit arrangements for Palestinian exports to regional and international markets, including those of the EEC countries. These anticipated arrangements would represent a potential breakthrough for the expansion of agricultural and industrial production and promotion of Palestinian trade.

D. Chambers of commerce, research facilities and co-operatives

396. In the absence of national institutions, the Palestinian chambers of commerce could greatly expand and diversify their services. During the past 21 years of occupation, the work of the chambers of commerce has been gradually confined to clerical services. This has left the Palestinian trade sector in need of many technical and professional services vital for the promotion of trade, e.g. for negotiating better terms and arrangements with external suppliers and buyers competing in the domestic market of the territory, for reviving trade links with many traditional markets in the Arab countries, for opening new markets in other parts of the world, and for meeting Palestinian exporters' needs in various areas, including arrangements for export financing, transport, concessions and other requisites.

397. The nature and scope of the functions of the Palestinian chambers of commerce, along with their structures, are in urgent need of re-examination in line with modern business management principles and techniques in order to revive their crucial role in promoting trade and enhancing its contribution to economic growth and development. This re-examination should include an assessment of technical and managerial needs, especially of small businesses, and of programmes for training at various levels. The chambers of commerce could also actively participate in the formulation of policies, regulations and procedures governing inter-Arab trading relations, especially trade relations with the occupied Palestinian territory, within the context of membership of the Federation of Arab Chambers of Commerce.

398. With the support of research bodies and other technical institutions in the occupied territory, the chambers of commerce could assume a central role in the efforts to establish effective quality control standards and compliance measures. Both Palestinian and international NGOs, as well as major trading partners, particularly those in Europe, could fruitfully contribute to these efforts. Similarly, co-operatives could also re-examine their objectives and functions with a view to assisting in opening new markets, improving marketing services, stabilizing prices, and modifying the territory's terms of agricultural trade with other countries.

399. Although significant progress has been made in introducing improvements to production techniques and facilities, there is little, if any, adequately qualified capacity to systematically undertake applied research in critical areas of agriculture and industry. More resources are needed in order to initiate and intensify research activities at various levels, including the compilation and dissemination of reliable information on production and marketing of competing products in external markets, as well as on other relevant issues of interest to Palestinian producers and traders.

400. Palestinian exporters/importers are in dire need of appropriate communication facilities to be able to have direct contacts at minimal cost with their counterparts in external markets. The market information network of ITC and the facilities of the International Chamber of Commerce (ICC) could assist by providing Palestinian exporters/importers with information on what, where, when, how much and at what price to sell and/or buy. The chambers of commerce in the territory could play a vital role in serving as the focal point for establishing a consolidated capacity to compile such quantitative and qualitative information and to analyse the results and disseminate them to Palestinian producers and traders in order to facilitate their decisions regarding production and trade.

401. The efforts of Palestinian agricultural committees with regard to research into locally adaptable crop varieties deserve strong support. However, parallel measures should also be taken by the Palestinian people and their institutions to develop and strengthen applied research capabilities in national Palestinian universities and research centres. Foreign universities and research centres, both in developed and developing countries, could make significant contributions to the achievement of this vital objective, thus helping in the creation of a self-reliant technical and scientific capacity for development in the occupied territory.

E. Trade promotion facilities

402. In order to take full advantage of the opportunities that trade offers for the growth and development of the Palestinian economy, independent local facilities ought to be created. The establishment of a Palestinian trade promotion and marketing facility/centre in the occupied territory would be a first step in this direction, especially with respect to expansion of agricultural exports. Such a facility could be the nucleus of an independent Palestinian trade promotion and marketing organization building upon existing institutional and human resources in place in the occupied territory.

403. The proposed marketing facility could collaborate with existing local institutions regarding all technical and administrative tasks involved in the identification, production and marketing (including grading, packing, cold storage and processing) of exportable goods from the territory. The same facility could also be entrusted with authority to deal with local marketing needs and could operate a branch in both the West Bank and the Gaza Strip. Action needs to be initiated urgently to investigate the technical, administrative, financial and other requirements of such a facility and to obtain the necessary authority for its operation. The EEC offer to provide technical and, if necessary, financial assistance for the establishment of export structures is a welcome move in this direction. 183/ Here too, the UNCTAD/GATT International Trade Centre, with its vast experience in the

establishment of marketing facilities in many developing countries, could be called upon to provide the necessary help in the establishment of a marketing centre in the occupied Palestinian territory.

404. Pending the establishment of a Palestinian marketing centre, international marketing facilities could also extend their assistance to Palestinian producers in the occupied territory by promoting the sale and marketing of their products. Such immediate measures could include providing short-term credit facilities, supplying inputs, including cartons and packing facilities, and undertaking sales promotion activities. Joint venture arrangements for the processing of primary produce could also contribute much to this process.

405. Marketing middlemen in the occupied Palestinian territory in general lack the expertise and the facilities to enter Europe's highly competitive markets. European importers could assist in overcoming this shortcoming by organizing training programmes for Palestinian producers and salesmen. The EEC marketing and packing experts, currently stationed in the West Bank and Gaza Strip to supervise the smooth implementation of the EEC concessions, could fruitfully contribute to meeting this rapidly growing need by organizing training workshops for local Palestinian producers and marketing personnel. These tasks could subsequently be assumed by Palestinian institutions as part of an integrated marketing programme aimed at promoting exports.

F. Financial facilities

406. The lack of an indigenous financial system has continued to deprive the vital sectors of the Palestinian economy of the means necessary to achieve growth and development. 184/ External trade is particularly constrained and is largely financed through private means. Only minor credit facilities are made available at high cost and on severe terms by branches of Israeli banks operating in the occupied territory. The Bank of Palestine and the recently opened branches of the Cairo-Amman Bank are not allowed to engage in foreign exchange transactions, and all foreign exchange proceeds of exports have to be surrendered at the unfavourable official rate of exchange. Coupled with deficiencies in the banking system, recent Israeli restrictions on entry of funds to the territory have deprived the trade sector of a major source of funding.

407. In the fiscal area, not only does the territory forgo annually sizeable amounts of customs revenues on imports from Israel, but the imports embody inherent subsidies to Israeli producers. Moreover, the territory's import of raw materials through Israel is subject to Israeli tariffs rather than the customs duties prevailing in the occupied territory, thus rendering the occupied territory's produce less competitive despite lower labour costs. The elimination of these and other anomalies in the fiscal system of the occupied territory is an urgent requirement. The wide range of measures introduced by the occupation authorities in the Palestinian monetary and fiscal systems of the territory since 1967 are in urgent need of being re-examined in the wake of the rapidly deteriorating economic situation.

408. The severe shortages of financial resources at all levels in the territory and the inadequacy of financial institutions deserve serious attention. Given this unique problem, a more imaginative approach to the monetary and fiscal aspects of economic policy may have to be pursued in order

to revive the economy and expand trade. The implementation of UNCTAD's previous suggestions in this respect 185/ could go a long way to contributing to such an approach. Emphasis needs to be specifically concentrated on areas that can contribute to the expansion and development of trade. Regional and international monetary and development finance institutions can also play a leading role in meeting the needs of the territory. The Palestinian trade sector could benefit from the financial arrangements that exist, especially through the Arab Monetary Fund, once exports are effected directly under Palestinian brand names and supervision.

409. Establishing two credit institutions, one specialized in agricultural credit and another in industrial credit, assumes top priority in order to meet the growing credit needs of expanding and diversifying production. The proposed credit facilities might be sponsored at the initial stage under the umbrella of existing indigenous institutions, such as the Cairo-Amman Bank and the Bank of Palestine. It is essential that their loan programmes be administered on a purely business-like basis, but with considerable flexibility in respect of collateral, rate of interest and repayment schedules.

410. With respect to export earnings, it is necessary to assure the purchasing power of these earnings for Palestinian exporters who export through Israel. The conversion of export proceeds into the Israeli shekel could be pegged to a stable currency, such as the United States dollar, which enjoys relatively wide circulation in the territory, in order to avoid losses that may arise from wide exchange-rate fluctuations and the continuously falling market value of the Israeli currency.

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

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

413. Similar incentives need to be instituted in the form of exemption from customs duties on imported inputs used in the production of small and non-traditional exports. This could cover the import of raw material and equipment essential for such exports. The incentive could be introduced on a selective basis through a "drawback" arrangement which would ensure its appropriate use, preferably to be managed by the Palestinian chambers of commerce and the branches of the Cairo-Amman Bank. In view of financial constraints, exemption from advance import deposits could further strengthen

the position of small exporters. The amount of revenue forgone through such monetary and/or fiscal measures could be adequately compensated for by the contribution these measures will make to the overall volume of business activities.

414. The case for the abolition of the value added tax (VAT) on Palestinian business activities in the territory has already been made in earlier reports and studies by the UNCTAD secretariat. 186/ This tax puts Palestinian producers and exporters at a disadvantage compared to Israelis, who are compensated by numerous subsidies. The same is true of an Israeli tax on imports ("Tamah") which raises the value of imports to/through Israel for the purpose of purchase tax. Despite the claimed reduction of import tariffs, the "Tamah" rates are much higher in some cases than the reduction in tariffs. As a result, the price of imported raw material and equipment through Israel is 15 to 25 per cent higher than in the world market. As the external trade of the territory is largely handled through Israeli middlemen, the Palestinian importer has to bear the tax as a cost item. The existence of this tax further adds to the argument for abolishing all the tariff and non-tariff barriers that have constrained Palestinian external trade and prevented its contribution to the economic development of the occupied Palestinian territory.

Notes

1/ Unless otherwise stated, the designations "the territory" and "occupied territory" in this study refer to the occupied Palestinian territory (West Bank and Gaza Strip). Due to the exclusion of occupied East Jerusalem from Israeli statistical series on the West Bank and Gaza Strip, it is not included in the data presented in this study, unless otherwise indicated.

2/ For a detailed examination of these and other anomolies characterizing the Palestinian economy at present, reference may be made to "The Palestinian financial sector under Israeli occupation" (UNCTAD/ST/SEU/3 and Corr.1 and 2), 1987, chap. I.

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

4/ Israel Economist, July 1988; Filasteen al Thawra, 5/6/88, 17/7/88 (in Arabic); Jerusalem Post, 11/7/88; 13/7/88, 11/8/88, 23/9/88.

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

6/ ILO, "Report of the Director-General - Appendices (Vol. 2)" (Geneva, 1988), para. 25.

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

8/ For the purpose of this study, the analysis of the economy, with emphasis on the trade sector, largely concentrates on the period 1980-1986. In some cases, and in order to be able to make the longest possible time series comparison, the year 1968 and certain intermediate years in the 1970s have been used as reference points. This is notwithstanding the fact that Israeli statistical sources are believed to be generally more unrealiable and less precise for the early period.

9/ The expression in this study of statistical indicators in terms of current United States dollars is intended to establish a relatively consistent standard for comparison as against figures expressed in current Israeli shekels, the value of which has declined consistently during the past decade. However, there has been a significant decline since 1985 in the value of the United States dollar as against SDRs. The increase in various economic indicators measured in this study in terms of United States dollars during 1985-1986 thus signifies smaller increases in real terms than is shown by current United States dollar values. Expressing the relevant aggregates in constant prices would not alter the trends noted.

10/ Jordanian Palestinian Joint Committee, Horizons of agricultural and food processing in the occupied homeland (Amman, The Committee, 1987), p. 23, (in Arabic).

11/ See, "The Palestinian financial..." (UNCTAD/ST/SEU/3), chap. I.

12/ Jerusalem Post, 7/3/88.

13/ Ibid., 23/3/88.

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

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

16/ Jerusalem Post, 2/6/88.

17/ See, "The Palestinian financial..." (UNCTAD/ST/SEU/3), chap. II.

18/ See, e.g., World Bank, World Development Report (New York, Oxford University Press, 1985), p. 151.

19/ Figures for 1978-1983 are calculated from Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, CBS, 1985), vol. XV, Nos. 1 and 2, tables 4 and 11, pp. 70, 77, 166 and 173; figures for 1984-1986 are from Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, CBS, 1987), p. 708.

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

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

22/ See Jaffa Press, "The economic...".

23/ Jerusalem Post, 15/7/88, 19/8/88.

24/ Calculated from sources in note 19.

25/ See Israel, Central Bureau of Statistics, "Statistical..." (1987), p. 708; and Israel, Central Bureau of Statistics, "Judea, Samaria...", vol. XV, No. 1, pp. 163-176.

26/ Jerusalem Post, 2/6/88.

27/ See Jaffa Press, "The economic...".

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

29/ That is, the rate of labour force participation in relation to the working age population. See ILO, "Report...", pp. 8-11.

30/ Ibid., p. 13.

31/ UNCTAD, "Recent economic developments in the occupied Palestinian territories, with special reference to the financial sector" (TD/B/1142), and "The Palestinian financial..." (UNCTAD/ST/SEU/3).

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

33/ Al-Fajr, 30/10/88.

34/ Pinhas Landau in Jerusalem Post, 23/2/88.

35/ Israel Economist, April 1988; Financial Times, 10/1/89.

36/ Jerusalem Post, 5/2/88.

37/ Ibid., 18/2/88, 23/3/88, 23/2/88, 15/8/88, 19/12/88; Al-Fajr, 21/7/88.

38/ Israel Economist, May 1988.

39/ See Israel Economist, May 1988, Al-Fajr, 28/2/88 and 5/6/88, and Jerusalem Post, 7/3/88, 14/3/88, 30/3/88.

40/ Jerusalem Post, 18/2/88, 26/4/88; Al-Fajr, 15/5/88, 21/7/88.

41/ Jerusalem Post, 2/6/88.

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

43/ Israel, Economic Planning Authority, Economic Survey of the West Bank (Jerusalem, 1967), table 1, p. 9.

44/ Brian Van Arkadie, Benefits and burdens: A report on the West Bank and Gaza Strip economies since 1967 (New York, Carnegie Endowment, 1977), pp. 26-27.

45/ Israel, Economic Planning Authority, "Economic Survey...", table 4, p. 21.

46/ Ibid., table II, p. 20.

47/ Official Israeli figures quoted in Sara Roy, The Gaza Strip Survey (Jerusalem, WBDBP, 1986), p. 22. Other figures quoted in the same source for 1966 indicate a lower GDP.

48/ Van Arkadie, "Benefits...", p. 30.

49/ Depending on which estimates are used - see note 47.

50/ Israel, Economic Planning Authority, "Economic Survey...", table III, p. 20.

51/ See figures in table 2.

52/ The Israeli Minister of Defence, quoted in Jerusalem Post, 15/2/85.

53/ Jerusalem Post, 6/5/86

54/ The occupied Palestinian territory's external sector may be viewed from several angles. At the highest level of aggregation, trade, transport and private services combined under national accounts constitute one of the five sectors contributing to gross domestic product. In this respect, the trade sector refers to all internal and external trade in goods and services and represents the value of sectoral product attributable to resident Palestinians in the occupied territory for trade and related services rendered. When viewed from the position of flows of payments to and from the territory, trade is analysed according to transactions on the current account of goods and services between the occupied territory and the rest of the world. It is also possible to examine the merchandise/goods portion of the external sector according to the flow of exports and imports between the territory and the rest of the world. Disaggregation is also observed in terms of agricultural and industrial goods, with further subdivisions of exports and imports according to specific commodities. The value of merchandise transactions on the current account differs from data on exports and imports owing to recording the latter on a c.i.f. basis and the former on an f.o.b. basis. That difference (equivalent to expenditure on transport and insurance) is included in the data on services transactions, covering several items: transport, insurance, travel (including tourism), investment income and other transactions (including wages for labour).

55/ M. Benvenisti, The West Bank Data Base Project - a Survey of Israel's Policies (Washington D.C., American Enterprise Institute, 1984), p. 10.

56/ Calculated in "The Palestinian financial...", (UNCTAD/ST/SEU/3), pp. 124-130.

57/ This issue is not to be confused with economic "openness", i.e., the significance of trade to the economy as a whole (in terms of trade's share of GDP).

58/ Van Arkadie, "Benefits and Burdens...", pp. 89-90.

59/ Figures are calculated according to values of imports and exports in table 8 below and GDP and GNP data (at market prices) in table 2.

60/ Calculated from UNCTAD, Handbook of international trade and development statistics - 1987 supplement (United Nations publication, Sales No. E/F.87.II.D.10), tables 1.1 and 6.1.

61/ Israel, Ministry of Finance, "Main Economic Indicators, 1972-1987" (Jerusalem, The Ministry, March 1988).

62/ Ibid.

63/ Some figures quoted here on merchandise trade differ from those discussed under balance of payments. This is due to different calculating procedures used in each series with respect to calculating figures in United States dollars and use of different f.o.b. and c.i.f. valuations.

64/ Estimated by two different sources, as shown in table 10. There are wide divergences in estimates between the two sources for a number of items. This appears to be the result of differences in reporting methods and definitions. The discussion here relies primarily on Jordanian sources (column 2 in table 10) for ease of analysis.

65/ Israeli estimates shown in table 10 put these shares slightly higher, reaching as much as 40 per cent of output in one year.

66/ Israeli estimates in table 10 put the percentage at higher levels, i.e. near 40 per cent for most years since 1980.

67/ Calculated from figures for factor income in UNCTAD, "The Palestinian financial..." (UNCTAD/ST/SEU/3), pp. 125-7 and services data in table 7.

68/ Ibid.

69/ See the special issue of Samed al Iqtisadi, No. 71, January-February-March 1988 (in Arabic) on problems facing Palestinian tourism.

70/ For recent reports on some of the problems afflicting this sector, see: Al-Fajr, 24/1/86, 27/6/86, 14/8/86, 5/12/86, 17/5/87, 25/10/87; Jerusalem Post, 15/12/86; Sawt al Bilad, 28/5/86, 25/6/86, 11/3/87, 17/6/87 (in Arabic); Filasteen al Thawra, 17/5/86, 19/7/86 (in Arabic).

71/ See UNCTAD, "The Palestinian financial...", (UNCTAD/ST/SEU/3), chap. 4., for an in-depth discussion of external financial resources in the Palestinian economy, including transfers and remittances.

72/ M. Benvenisti, West Bank Water Resources (unpublished study).

73/ See ILO, "Report of the Director General...".

74/ Edgar Harrell, "West Bank's potential peacemakers", The Wall Street Journal, 29/1/88.

75/ M. van den Top et al., "Export of agricultural produce from the West Bank and the Gaza Strip - difficulties and opportunities", Report of a mission sent by the Netherlands Government, June 1987, (Part 1.), pp. 10-11.

76/ Simcha Bahiri, Industrialisation in the West Bank and Gaza (Jerusalem, West Bank Data Base Project, 1987), p. 26.

77/ H. Awartani, Problems and prospects of marketing industrial products in the occupied territories, a study submitted to the Arab Organisation for Industrial Development, Baghdad, 1986, p. 11. Also see, Samed al Iqtisadi, "The problem of marketing industrial products in the occupied territories", Samed al Iqtisadi, No. 72, April-June 1988, pp. 109-24 (in Arabic).

78/ Calculated from figures for volume of output in table 5 and consumption (supply to local markets) in table 12.

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

80/ Palestinian Agricultural Relief Committees, "Marketing to the EEC", in Al-Fajr, 6/12/87.

81/ M. van den Top et al, "Export of agricultural produce from the West Bank and the Gaza Strip; Part 2, Direct exports to Western Europe from the Gaza Strip", Report of a second mission sent by the Netherlands Government, July 1988, p. 11.

82/ Ibid.

83/ According to local and international PVO sources in David Kahan, Agriculture and Water Resources in the West Bank and Gaza (1967-1987) (Jerusalem, West Bank Data Base Project, 1987), p. 55. Other sources quote higher figures for active co-operatives, apparently on the basis of different criteria of "effective operation" - see, e.g., Adnan Obeidat, "Cooperatives in the Occupied West Bank of Jordan", (unpublished), 1982.

84/ See Harold Dick, "Towards a strategy for development: Empowerment and entrepreneurship" in G.T. Abed (ed.) The Palestinian Economy (London, Routledge, 1988), p. 324.

85/ Len B. Wooton, "Consultation report - Marketing component", Agricultural Cooperative Development International, Wash. D.C., September 1986, p. 7 (unpublished).

86/ Ibid.

87/ Kahan, "Agriculture...", p. 56.

88/ See Al-Fajr, 12/4/87.

89/ Kahan, "Agriculture...", p. 54.

90/ See interview with the Chairman of the Federation in Al-Fajr, 13/2/1987.

91/ Van den Top et al, "Export... Part 2", p. 16.

92/ In van den Top et al, "Export... Part 2", annex VI.

93/ Ghassan al-Khateeb, "Agricultural development and marketing in the occupied territories", paper presented to 5th United Nations International NGO Meeting on the Question of Palestine, August 1988, IMPQ/NGO(V)/32.

94/ Kahan, "Agriculture...", p. 58.

95/ Kahan, "Agriculture...", p. 59.

96/ Van den Top et al., "Export... Part 2", p. 19.

97/ Ibid., p. 34.

98/ Ibid., p. 27.

99/ Ibid., p. 6.

100/ See, e.g., Jerusalem Post, 26/8/87.

101/ See Jerusalem Post, 13/5/87.

102/ See UNCTAD, "The Palestinian financial..." (UNCTAD/ST/SEU/3), chap. 1, for an analysis of migration from the territory since 1967.

103/ Kahan, "Agriculture...", tables 8.2 and 8.3, p. 150.

104/ Ibid., p. 53.

105/ Ibid. p. 62.

106/ United Nations, "Living conditions of the Palestinian people in the occupied Palestinian territories", Report of the Secretary-General (A/42/183), 1987, p. 12.

107/ See UNCTAD "The Palestinian financial..." (UNCTAD/ST/SEU/3), chap. 1.

108/ For more detailed analysis of this point, reference may be made to Ibid., paras 136-153.

109/ Israel, Central Bureau of Statistics, "Statistical Abstract...", 1987, p. 743.

110/ For example, General Assembly resolution 39/223, of 18 December 1984 and more recently General Assembly resolution 43/178 of 20 December 1988, as well as UNCTAD Conference resolution 169 (VII) of 3 August 1987.

111/ In 1986, 699,000 persons arrived or departed via the two bridges, according to figures in Israel, Central Bureau of Statistics, Judea, Samaria and Gaza Area Statistics (Jerusalem, CBS, 1988), vol. XIII, No. 1, p. 2.

112/ See, UNCTAD, "The Palestinian financial..." (UNCTAD/ST/SEU/3), chap. 1.

113/ A recent example of Israeli policy intentions in this regard was the approval by the Ministry of Agriculture in 1987 to drill a deep-bore well in the Bethlehem area to tap some 18 million cu.m. of water annually for use mainly by Israel. The plan was only dropped after protests caused the international company charged with the scheme to cancel its bid for the contract. See Jerusalem Post, 27/8/87, 20/10/87; Al Fajr 30/8/87.

114/ Jerusalem Post, 8/12/86.

115/ Jerusalem Post, 6/10/87.

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

117/ See Jerusalem Post, 13/5/87.

118/ Kahan, "Agriculture...", p. 78.

119/ Jordan, Ministry of Agriculture, Agricultural Atlas (The Ministry, Amman, 1973); An-Najah University, Statistical Bulletin for the West Bank and Gaza Strip (Nablus, An-Najah University, 1986).

120/ Kahan, "Agriculture...", p. 71.

121/ Ibid., p. 87.

122/ Ibrahim Matar, "Restrictions on West Bank and Gaza Exports to Israel" (unpublished, September 1979).

123/ Central Bank of Jordan, 23rd Annual Report (Amman, The Bank, 1986), p. 23.

124/ Israel, Central Bureau of Statistics, "Statistical Abstract..." (1987), p. 189.

125/ Israel, Ministry of Finance, Budget for 1986-1987 (Jerusalem, The Ministry, 1986), pp. 46-58.

126/ See Jerusalem Post, 31/7/87, for an account of Israeli promotion and advertising strategies aimed at the Palestinian market in the territory.

127/ Israel, Ministry of Finance, Budget Proposal for the 1987 Financial Year (Jerusalem, The Ministry, 1987).

128/ Yediot Aharanot, 15/1/88 (in Hebrew).

129/ Jerusalem Post, 16/3/88.

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

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

132/ Jerusalem Post, 18/2/88, 14/3/88, 16/3/88, 26/4/88, 27/4/88, 3/5/88, 2/6/88, 13/6/88, 7/7/88, 15/7/88, 15/8/88, 25/8/88; Financial Times, 28/3/88; Sawt al Bilad, 1/4/88 (in Arabic); Filasteen al Thawra, 26/6/88 (in Arabic); Le Monde, 1/7/88 (in French).

133/ Al Quds, 2/5/88 (in Arabic)

134/ Haaretz, 15/1/1986 (in Hebrew).

135/ Sheila Ryan, "Economic dimensions of the uprising", MERIP, November-December 1988, No. 155, p. 40.

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

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

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

139/ Jerusalem Post, 21/12/88.

140/ Israel Economist, March 1988.

141/ Jerusalem Post, 2/6/88.

142/ League of Arab States, Economic and Social Council, resolutions 912/33/ of 27/11/1982; 939/35/C.2 of 7/9/1983; and 1024/41/C.2 of 10/9/1986.

143/ Mostly governed by Higher Committee Decision No. 48 of 9/8/1972 and subsequently Decision No. 164 of 15/4/1979.

144/ H. Awartani, "Problems and Prospects...", p. 11; see also Samed al Iqtisadi, "Problems ...", pp. 129-130.

145/ Jordan, Ministry of Agriculture, Agricultural Statistics, 1974-80 (Amman, 1987) (in Arabic).

146/ Proceedings of the Forty-second Session of the Economic and Social Council, League of Arab States, Riyad, 12-19/2/1987 (in Arabic).

147/ Ibid.

148/ Data in Kahan, "Agriculture...", table 10.4.

149/ Ibid., pp. 72-74.

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

151/ Information on EEC policy action provided in a note dated 17 May 1988 from the Commission of the European Communities in reply to the UNCTAD secretariat's note TDO/140 (PAL) of 6 April 1988.

152/ "Joint European Commission/Israel Conclusions on Exports from the Territories", Brussels, 7 December 1987.

153/ See Jerusalem Post, 5/2/1988.

154/ "Memorandum regarding procedures for the export of agricultural produce by growers in the administered areas", Jerusalem, 31 March 1988, in van den Top et al., "Export...", Part 2, annex II. See also "Agreement between the Agricultural Co-operative Union and the Benevolent Society of Gaza, and the Israeli Interministerial Commitee", 10 October 1988.

155/ "Memorandum... (background explanation)", p. 3.

156/ Ibid.

157/ "Agreement on direct exports of citrus from the Gaza Strip to the EEC", 3/7/88, and related correspondence, in van den Top et al., "Export ... Part 2, annexes VII and VIII.

158/ Jerusalem Post, 31/7/88.

159/ See Al-Fajr, 16/10/88.

160/ John Tarpey, "Amid the rock-thrower and riot police, an industry", Business Week, 21/3/88.

161/ Edgar Harrell, "West Bank's potential peacemakers", The Wall Street Journal, 29/1/88.

162/ Jerusalem Post, 26/10/87.

163/ Department of Agriculture, Annual Report 1986 (Gaza, Department of Agriculture, 1986), p. 1.

164/ Kahan, "Agriculture ...", table 10.4., and van den Top et al., "Export... Part 2", p. 12.

165/ Ibid.

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

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

168/ In response to action initiated by the UNCTAD secretariat on this resolution, information was requested from States members of UNCTAD, in a note (TDO 410 (PAL)) of 6 April 1988, on progress made in implementing paragraphs 7 and 8 of Conference resolution 169 (VII). Responses were received from the Federal Republic of Germany, the German Democratic Republic, Greece (on behalf of the States members of the European Communities), Hungary, Iraq, Mauritania, the Netherlands, Niger, Nigeria, the Yemen Arab Republic and the Commission of the European Communities.

169/ General Assembly resolution 43/178 of 20 December 1988.

170/ An-Najah University, Rural Studies Centre, Statistical Bulletin for the West Bank and Gaza Strip (Nablus, The Centre, 1986).

171/ Hisham Awartani, Grape Production in the West Bank - An Analytical Outlook (Nablus: An-Najah University, 1984), pp. 19-24.

172/ M. Awad et al., Grape Juice Extraction Project - An Economic and Technical Feasibility Study (Nablus, An-Najah University, 1986), p. 37.

173/ Ibid.

174/ Hisham Awartani, "Establishing a poultry hatchery in the West Bank" a project presented to a UNHCS (HABITAT) seminar on living conditions of the Palestinian people (Vienna 1987).

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176/ Israel, Central Bureau of Statistics, "Statistical ..." (1987), p. 731.

177/ P.G. Sadler et al., Survey of the Manufacturing Industries in the West Bank and Gaza Strip (Vienna, UNIDO, 1984), pp. 22-23.

178/ Hisham Awartani, Case Studies in Export Trade (Nablus, An-Najah University, 1986,) p. 23.

179/ Said Haifa, "Establishment of an Arab cement company in the West Bank", a project proposal presented to the UNCHS (HABITAT) seminar on living conditions of the Palestinian people, Vienna, March 1987, p. 17.

180/ Ibid., p. 5.

181/ Most recently in General Assembly resolutions 39/223 and 43/178.

182/ See, for example, H. Awartani, "European markets: new prospects for Palestinian farmers", unpublished report, 1988.

183/ Jerusalem Post, 2/12/87; van den Top et al., "Export ..." Part 2.

184/ For a detailed examination of this issue, see UNCTAD, "The Palestinian financial ...", (UNCTAD/ST/SEU/3).

185/ See, for example, "Recent economic..." (TD/B/1142), Part II.

186/ Ibid.

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