



Trade and Exports

Technical Paper III – Export Possibilities Under a Reformed Border Regime¹

Summary

The future of Palestinian economic development lies in moving from an economy based on labor exports to Israel to an economy exporting goods and services to Israel and the rest of the world. Since the outbreak of the *intifada*, Palestinian export performance has deteriorated badly, reflecting a substantial erosion in competitiveness. Transforming the productive structure of the West Bank and Gaza will be a formidable challenge. For now, there are compelling reasons to keep the quasi-Customs Union between Israel and the West Bank and Gaza in place. However, a number of aspects of the current arrangements warrant revision and improvement.

Key measures for Palestinian policy makers to enhance competitiveness include: helping enterprises gain access to markets on favorable terms, through the implementation of trade agreements; addressing issues pertaining to high labor costs, addressing diminishing skills and low productivity; stimulating competitiveness at the firm and sector levels; and building a business-friendly environment which is genuinely supportive of productive activity. This will require a climate of law and order, functioning legal and judicial systems, a more responsive financial sector and better public-private interaction.

I – Introduction

1. **The future of Palestinian economic development lies in moving from an economy based on labor exports to Israel to an economy exporting goods and services to Israel and the rest of the world.** The prostrate condition of the economy and international experience suggest that it could take a decade or more, under favorable conditions, for such a major transformation². Two factors specific to the West Bank and Gaza further complicate this process: restrictions on the movement of people and goods within the West Bank and Gaza and across borders, and the stated intention of the Government of Israel (GOI) to eliminate the permit system for Palestinians workers by the end of 2008.

2. **Transforming the productive structure of the West Bank and Gaza will be a formidable challenge.** For the Palestinian economy to make a successful transition, four factors are required:

- restoration of access and movement;
- the creation of a supportive internal governance environment;
- generous capital financing, which will need to come from additional levels of donor financing; and
- the provision of a transitional “cushion”, in the form of emergency budget support, sustained humanitarian assistance, and the maintenance of labor flows to Israel.

II – Recent Export Performance

3. **Since the outbreak of the *intifada*, Palestinian export performance has deteriorated badly.** Between 1999 and 2003, commodity exports have dropped by 35% (Table 1), and labor exports contracted from over a daily average of 116,000 to around 37,500 workers today. A survey carried out in 2002 found that 17% of businesses had ceased to operate, while over 75% of those still functioning were, on average, operating at under one-third of their previous capacity³. To survive, many enter-

prises have re-oriented their production to serve very localized markets.

4. The decline in exports reflects a substantial erosion in competitiveness.

In a competitive global economy, Palestinian exporters cannot overcome the cumulative impact of added transport costs, damage caused at borders and checkpoints, inability to guarantee time-sensitive deliveries, and constrained access to third country markets⁴. Palestinian importers have also suffered from extra transport costs and the need to build up expensive inventories to compensate for unreliable deliveries. Palestinian goods from the West Bank now find it difficult to even compete with Israeli im-

ports to Gaza because of the problems in getting West Bank products to and through the Karni crossing.

5. In the present environment, foreign investors are hesitant to invest in the West Bank and Gaza. Since most Palestinian businesses are small- or medium-scale and are found in the manufacturing and/or service sectors, investors' concerns have less to do with the traditional risks associated with foreign direct investment⁵, but stem more from the risk of business interruption as a result of closures. Risk insurance cannot readily address these concerns.

Table 1
Commodity Exports by Sector
(US\$ million and percent)

Sector	Exports 2003	Percentage Drop 1999-2003	Projected Exports by end-2007	Percentage Increase 2003-7
Total	443	35	690	56
Stone	220	31	402	83
Agriculture	77	54	120	56
Furniture	17	28	25	47
Metal processing	15	49	20	33
Food/ beverages	14	16	20	43
Footwear/leather	14	45	18	29
Textiles/garments	10	42	20	100

Sources: 2003 data: US\$ values are Paltrade estimates based on PCBS and sector data. Percentage data are from PCBS; 2007 data: Estimates by Paltrade, the European Commission and Bank staff.

III – The Impact of a Reformed Border Regime on Exports

6. Bank projections⁶ suggest that under a reformed border regime, export volumes could return to pre-*intifada* levels by 2007. Considering the high level of commercial risk faced by Palestinian enterprises, many businesses, particularly those operating in Gaza, can be expected to revert to the familiar routes and relationships available prior to September 2000. Both Palestinian and Israeli businessmen believe that the bilateral trading relationships that ex-

isted can be re-invigorated. In the short-term, Israel would remain the primary market for exports, and Israeli companies would continue to act as intermediaries – through sales, purchase or subcontracting arrangements – for a large proportion of Palestinian exports to third country markets⁷.

7. A reformed border regime would also allow Palestinians to take advantage of favorable trade agreement and direct access to export markets outside Israel (see paragraph 17). However, not all sectors are expected to recover at similar rates; see **Table 1**. Enterprises in sectors such as

metal processing may find it difficult to re-establish their markets and supply links, while others, such as shoes and leather, will likely find it difficult to re-establish their competitiveness.

IV – Impediments to Exports

8. **Apart from movement and access problems⁸, various other constraints significantly impact day-to-day operations and competitiveness**, and thus the ability to quickly expand the production needed to fuel an export-led economic recovery. Some of these reflect economy-wide problems, while others are sector- and firm-specific.

9. **Many Palestinian enterprises are isolated from global developments and from information on international shipping and commercial transport⁹**. They are ill-informed about shipping rates, regulations and operating procedures, as well as new rules and regulations relating to standards. This is partially a result of reliance on Israeli middlemen as well as the isolation imposed by the closure policy. Several initiatives are underway to address these difficulties.¹⁰

10. **Palestinian and Israeli standards are not well-synchronized**. Relationships have been established between the Israeli Standards Institute (TAKEN) and the Palestinian Standards Institute (PSI) in order to find ways to address this issue. Progress so far has been modest¹¹. Continued contact and technical exchanges between the two institutions can help improve the operation of the quasi-Custom Union (see paragraph 16). For instance, enabling PSI to check a much wider range of products would be important in helping Palestinian enterprises achieve the standards necessary to access international markets.

11. **Sector and firm specific impediments require targeted actions to increase competitiveness** – by focusing on enhancing market access, building trading relationships, improving product quality and

diversification, and enhancing productivity¹². Because of restrictions on the import of capital equipment, many enterprises, particularly manufacturers of metal products and furniture, have been unable to keep up with recent technological developments. Although a proper value chain and cluster analysis was not possible in the timeframe for this study, the work Paltrade has done in this area provides a useful guide (see **Annex 1**).

V – Market Access and the Transition to Sustained Export Growth

12. **Short-term recovery, while critical, is not an end in itself**. Stability and sustained development require the creation of a competitive, export-based economy linked to diverse markets. This will mean a deepening of the productive base and a widening of markets and marketing channels in order to diversify trading relationships.

13. **Globalization and trade liberalization have greatly sharpened competition in export markets** – and today’s marketplace demands stringent quality and labeling requirements, along with strict adherence to delivery schedules. Palestinian enterprises will need to integrate themselves into global supply chains if they are to succeed in accessing international markets. This will not be easy for the small- to medium-scale enterprises that dominate the Palestinian private sector.

14. **Against this background, the Palestinian Authority (PA) faces a major task in helping enhance competitiveness**; see **Annex 2**. It will need to:

- help enterprises gain access to markets on favorable terms, through the implementation of trade agreements;
- address issues pertaining to low productivity (compared to labor costs) and diminishing skills;
- stimulate competitiveness at the firm and sector levels; and

- build a business enabling environment which is genuinely supportive of productive activity.

The Trade Regime with Israel

15. **It is assumed that the current quasi-Customs Union (qCU) will continue for the time being¹³.** Looking forward, it is very much in the Palestinian interest to amend the qCU to help promote greater economic independence, and to develop new trade opportunities. In time, the qCU should be replaced by a new trade regime¹⁴, but for now there are compelling reasons to keep it in place:

- A change in the trade regime would require the significant upgrading of the Palestinian Customs and Excise Department in order to avoid revenue losses once Israel ceases to collect taxes on the PA's behalf (see also **Technical Paper I**).
- The key to a rapid recovery in exports lies in rebuilding commercial ties with Israel. Dismantling the qCU would drive up the price of Palestinian exports to Israel and would stymie any recovery.
- Trade liberalization and the harmonization of standards undertaken by Israel over the last decade have brought Israel's trade regime into much closer alignment with international norms.

16. **A number of aspects of the current arrangements should be revisited and improved, however¹⁵.** Most importantly:

- Problems arise with export and import licenses when there are quantitative restrictions on the import of a product and/or when imports are permitted only after GOI authorization (applicable, for example, to petroleum and gas, telecommunications equipment, motor vehicles, pharmaceuticals, foodstuffs and agricultural products). Palestinian enter-

prises suffer from the length of time it takes for Israeli authorization, and often from inaccurate certificates which make it difficult to clear goods when they arrive at customs.

- Palestinians can only enter into independent trade agreements with Arab League countries on a restricted range of products (Lists A-1, A-2, and B under the Paris Protocol). Palestinian businessmen consider this list too limited and believe it impairs the PA's ability to negotiate more favorable trade agreements.
- The PA does not capture the import and purchase tax revenues on *indirect* imports into the West Bank and Gaza from Israel. Indirect imports were estimated by the Bank in 2002 at about US\$800 million per year, implying a revenue loss to the PA of some US\$174 million¹⁶.

Trade Agreements with Third Countries

17. **A number of preferential trade agreements exist between the Palestinians and current or potential trading partners** (see **Annex 3**), but these have yet to produce significant benefits for the private sector¹⁷. There are a number of steps that can be taken to help Palestinian businesses take advantage of these agreements:

- Transit arrangements are needed with border countries (Jordan and Egypt) so that the movement of goods can be organized without cumbersome and expensive procedural delays (see also **Technical Paper I**).
- Technical barriers in potential markets need to be dealt with by adopting mutual recognition agreements on standards and on health certification.
- Helping enterprises to access markets and establish trading relationships would boost exports. In a survey carried out in 2002¹⁸, about 55% of companies inter-

viewed indicated that their top priority was assistance in participating in trade missions and trade fairs.

Labor Costs, Skills and Productivity

18. **Relatively high wages compromise the international competitiveness of Palestinian enterprises**¹⁹. Although Palestinian wages are low relative to Israel, average manufacturing wages are higher than in neighboring countries²⁰. The lack of productive investment in the West Bank and Gaza and the upward pressure created by the proximity of the Israeli labor market are factors which underlie the disconnect between wages and labor productivity²¹.

19. **Over time, production can be expected to shift from basic processing (in agriculture and stone), and from simple assembly or single process manufacturing operations, to higher value-added activity and technology- or skill-intensive activities.** There is some evidence of this happening in the IT sector²², and this can be reinforced through education and worker training programs with a strong emphasis on technical and technological skills.

20. **The Palestinian tertiary education system has evolved as a private, not-for-profit system and is better developed than many other tertiary systems in the region.** Palestinian universities and colleges, however, lack focus on the skill needs of the Palestinian private sector. Interaction with the private sector, through industry associations and partnerships with western universities can be used to help formulate a ‘demand driven’ agenda. This might include course structures that reflect the forward needs of key export sectors, applied industrial research and, in time, the provision of expert services to industry.

Competitiveness and Support Measures at the Sector and Firm Level

21. **The Palestinian private sector has proposed a multi-year industrial modernization program.** Such a program would focus on the development of small and medium enterprises with the objective of making them more competitive in the global market place through a wide range of support services – including help with export marketing, the development of trading relationships and accessing business information, the provision of technology support, training and consultancy services, and the development of inter-sectoral links²³.

The Creation of a Supportive Business Environment

22. **Although the PA does not have full autonomy over the local business arena, it should still take action in a number of critical areas which are within its capacity to influence,** and which have been identified by the Palestinian business community as constraints to operations and exacerbating the high risks of doing business in the West Bank and Gaza. These are also discussed in the **Overview Paper**. They include:

- *The Rule of Law and the Judiciary.* An appropriate legal and regulatory framework for commercial activities, and an effective and independent judicial system that will uphold laws, regulations and property rights, are fundamental to the creation of a business environment in which investors have confidence. The shortcomings of the Palestinian judiciary system have been widely acknowledged, and there is broad consensus on what is now needed. The reforms of 2002-3²⁴ laid the foundation for the separation of executive and judicial powers, and empowered the civil courts to adjudicate commercial disputes. The focus should now be on improving the professional competence of judges and providing them with adequate institutional and lo-

gistical support. The PA's failure to develop an effective judiciary is a significant impediment to the prospects for a Palestinian economic recovery.

- *The Financial System.* The PA has facilitated the growth of banking services by allowing the creation of new Palestinian banks and the introduction of foreign banks in the West Bank and Gaza. However, credit availability, particularly long-term credit, remains constrained. Permitting a wider range of assets to be used as collateral, making more extensive use of leasing arrangements and introducing flexible methods of assessing credit risk are all measures that would increase investors' access to formal credit markets. Particular attention needs to be given to registering land, thereby expanding the potential use of land titles as collateral²⁵.
- *Public-private Interaction.* The PA has taken some steps to consult more extensively with the private sector. This tendency needs to be strengthened and the private sector given a much more active and vocal role in determining commercial policy. The Private Sector Institutions Coordinating Council was established in 2000 for this purpose. Member institutions of the Council should be given help in formulating policy positions on macroeconomic and sectoral issues. Pal-trade has begun a process of internal reform to help it become the driving force in export promotion.

Annex 1
Competitiveness Enhancement Measures at Sector and Firm Levels

Industry	Competitiveness Enhancement Measures
Stone and marble	<ul style="list-style-type: none"> - restore value chain between quarries and processing facilities - ensure timely supply of spare parts - improve finishing operations and strengthen design capabilities for finished goods - improve quality control and standards at firm level - strengthen marketing and promotion actions especially for smaller enterprises - develop a sector design and quality training centre - obtain ISO and product certifications - introduce environmental protection measures
Agriculture	<ul style="list-style-type: none"> - improve harvesting practices - develop market and distribution channels - improve packaging and storage facilities - develop/improve infrastructures - develop proper data recording system
Olive oil	<ul style="list-style-type: none"> - improve harvesting, olive collection & storage and press maintenance practices to ensure needed quality in target markets - develop bottling facilities and branding - obtain organic certification and develop quality control structures - develop market and distribution channels targeting higher quality segments also through joint ventures
Furniture	<ul style="list-style-type: none"> - develop design skills and product mix - increase productivity - develop quality control - diversify supply sources - develop market channels and marketing strategies especially for Arab countries
Pharmaceuticals	<ul style="list-style-type: none"> - strengthen ongoing penetration strategies in Central/Eastern Europe - obtain foreign product registration and GNP certification
Processed food	<ul style="list-style-type: none"> - develop product mix and technology innovation - improve packaging technology and systems - improve production management and maintenance - obtain ISO and product certification - establish a food processing and quality training centre
Textile and garments	<ul style="list-style-type: none"> - diversify raw material and fabric supply sources - develop sound marketing and promotion strategies - develop market channels especially in Arab countries - upgrade machinery and production processes - further develop sub-contracting arrangements with Israelis and other foreign organizations
Metal processing	<ul style="list-style-type: none"> - improve quality and upgrade technology for more value added operations - organize training for mechanics and specialized workers - promote local clusters and partnerships with other sectors needing mechanical engineering and metal processing services - restructure workshops and develop product (service) mix - introduce environmental protection measures - strengthen business relations with Israeli clients for sub-contracting arrangements

Industry	Competitiveness Enhancement Measures
Shoes and leather manufactures	<ul style="list-style-type: none"> - increase productivity - develop design skills and improve quality control - develop market channels
Handicraft	<ul style="list-style-type: none"> - develop design and quality control skills - develop market and distribution channels
Information technology	<ul style="list-style-type: none"> - expand ICT diffusion in other sector especially in education and national initiatives such as e-Government - strengthen marketing strategy and develop market channels especially for Arab countries - establish technical cooperation agreements with Israelis and other international specialized companies for third countries.

Source: European Commission and Paltrade.

Annex 2
Measures to Enhance the Competitiveness of Palestinian Exports

Key Intervention Areas	Short-term Measures (2004-7)	Medium- to Long-term Measures (2007-)
Trade and fiscal policy	Establish joint Palestinian-Israeli trade and private sector committees to: review obstacles, ensure full implementation of the Paris Protocol and trade agreements with third countries, and define future final trade arrangements, also through the re-establishment of the Joint Economic Committee.	Finalize and fully implement a revised trade regime with Israel and transit agreements with Jordan and Egypt. Consolidate agreements especially with key target regions (MEDA region, Arab countries, EU etc.).
	Establish a Palestinian Shippers Council to cooperate with Israeli counterparts on improvement of transport, logistic and clearance practices, to disseminate information and to train private sector operators in international trade best practices.	Consolidate the role of the Palestinian Shippers Council and develop relations with other international Shippers Council. Promote joint ventures in transport logistics between Palestinian, Israeli and third country organizations.
	Lift internal closures, facilitate the movement of businessmen, standard clearance and security procedures at ports and airport.	Further consolidate the process.
	Finalize cooperation agreement on standards.	
	Negotiate new and larger quotas for agricultural produce and develop an Agricultural Information System.	Finalize revised and new trade agreements with key trade partner countries and regions.
	Continue and accelerate tax refunds and train Palestinian customs officials.	Establish independent Palestinian tax collection and inspection services at the port and airport.
Competitiveness at the sector/firm level	Prepare a plan for the possible implementation of a Palestinian Industrial Modernization Program, also through pilot initiatives.	Implement a phased and modular Palestinian Industrial Modernization Program addressing the revitalization and development of the entire private sector.
	Enhance the competitiveness of key export sectors and firms (stone and marble, agriculture, furniture, handicraft, etc.).	Continue and expand the competitiveness enhancement process at sector and firm levels.
	Foster Palestinian-Israeli cooperation in tourism and prepare sector revitalization plans and promotional materials.	Promote investments, establish a tourism development fund and promote networking with foreign tour operators.

Key Intervention Areas	Short-term Measures (2004-7)	Medium- to Long-term Measures (2007-)
Business enabling environment	Establish a joint Palestinian-Israeli work group on the revitalization of business relations in manufacturing and trade.	Promote and establish Israeli-Palestinian joint ventures in manufacturing, trade and services, targeting also third country markets.
	Streamline priority private sector legislation and the regulatory framework, completing and reviewing texts, preparing implementation rules, setting up enforcement agencies and improving the legislative management process.	Complete and fully adopt the legislative and regulatory framework.
	Strengthen key private sector institutions (PSCC, Paltrade, PFI, Chambers of Commerce, etc.), develop industrial policies and develop necessary networking infrastructures for international market access.	Strengthen sector institutions. Sustain and foster trade promotion initiatives. Promote twinning arrangements with third country private sector institutions.
	Develop a National Export Strategy and comprehensive sector/firm surveys, diagnosis and restructuring plans.	Establish trade representations in key target markets.
	Strengthen the Palestinian Standards Institute for establishing necessary testing and inspection capabilities and tools.	Develop necessary systems and procedures and implement relevant agreements with Israelis.
	Analyze and define necessary financial services to foster exports and establish a pilot export support fund with proper guarantee schemes.	Introduce necessary financial tools and services, including the establishment of a Palestinian export credit guarantee agency.
	Foster the Euro-Mediterranean partnership process on regional cooperation in trade and private sector development.	Foster Palestinian participation to the establishment of a Free Trade Area in MEDA region).

Source: European Commission.

Annex 3 Palestinian Trade Agreements

Arrangement Title	Preferences Granted	Constraints
US- PLO Free Trade Arrangement	<ul style="list-style-type: none"> • Duty free access for US products to the West Bank and Gaza Strip market. • Duty Free Access for West Bank Gaza Strip products to the US market. 	lack of capacity by Palestinian firms: <ul style="list-style-type: none"> • marketing, • production standards • packaging
EURO - Mediterranean Interim Association Agreement on Trade and Cooperation	<ul style="list-style-type: none"> • Duty free access for European Union industrial products to the West Bank and Gaza Strip • Duty free access fro West Bank and Gaza Strip products to the European Union market • Duty free or reduced tariff quotas for some agricultural exports from the West Bank and Gaza Strip to the European Union's market 	<ul style="list-style-type: none"> • Israeli non-recognition of the Agreement as it pertains to the West Bank and Gaza • Complicated and inapplicable rules of origin (especially for textiles and garments) • Lack of knowledge by exporters of market entry requirements • Non-compliance with EUREPGAP²⁶
EFTA - PLO Interim Free Trade Agreement	<ul style="list-style-type: none"> • Duty free access for EFTA industrial products to the West Bank and Gaza Strip market • Duty free access for West Bank and Gaza Strip Products to the EFTA market 	<ul style="list-style-type: none"> • Israeli non-recognition of the Agreement for the West Bank and Gaza • Complicated and inapplicable rules of origin (especially for textiles and garments) • Lack of knowledge by exporters of market entry requirements
EFTA - PLO Protocols on Trade in Agricultural Products	<p>Norway, Iceland and Switzerland have granted specific Palestinian agricultural exports reduced or duty free access to their markets, up to specific quantities (quotas) -- or, in some cases, for all item exports regardless of the quantity. However, preferences granted by these states to the West Bank and Gaza differ, and reference to the agreements should be made for further details.</p>	<ul style="list-style-type: none"> • Lack of knowledge by exporters of market entry requirements • Non-compliance with EUROGAP

Arrangement Title	Preferences Granted	Constraints
Arab Free Trade Area	<ul style="list-style-type: none"> • Gradual Reduction of Duties by 10% per year to reach 0% by end of 2007 • Ongoing negotiations for agricultural products • Ongoing negotiations to harmonize rules of origin with Euro-Med/pan Europe rules of origin • The West Bank and Gaza is a member in transition, until the establishment of an independent Palestinian state 	<ul style="list-style-type: none"> • Palestinian integration with the Israeli trade regime prevents compliance, due to inability to reduce tariff rates to AFTA members • Some Arab states have not implemented the Arab League commitment to duty free entry for Palestinian products

Endnotes

¹ This paper was prepared by the European Commission and the World Bank; December 1, 2004.

² See *Long-Term Policy Options for the Palestinian Economy*, World Bank, July 2002.

³ *Private Sector Needs Assessment: Industrial Sector Survey*, Palestinian Federation of Industries and Palestinian Trade Center, September 2002.

⁴ See **Technical Paper I**.

⁵ Such as fear of expropriation, breach of contract or asset damage due to war.

⁶ See the **Overview Paper**.

⁷ GOI has proposed establishing market areas in Israel adjacent to the border crossings, in order to facilitate the sale of Palestinian produce in Israel (*Israel's Disengagement Plan – Dialogue with the World Bank*, Israeli National Security Council, August 29, 2004, PowerPoint). Palestinian traders would be issued permits, enabling them to bring their goods through the crossings and to operate in special marketing areas. These traders would be required to comply with Israeli tax regulations. Agricultural goods are most likely to benefit from this initiative.

⁸ These also include restrictions on business travel, which have hampered trade between Gaza and the West Bank and Israel as well as intra-Palestinian trade. GOI has indicated that it will allow a greater number of Palestinian traders and business people, with appropriate permits, to enter Israel and to move between the West Bank and Gaza (*Israel's Disengagement Plan – Dialogue with the World Bank*, op. cit.). This would help facilitate trade, but only if administered transparently and consistently. See also **Technical Paper I**.

⁹ The West Bank and Gaza has been largely excluded from the substantial intra- and inter-regional trade and investment flows in the Middle East of the last few years.

¹⁰ The establishment of a joint Palestinian-Israeli private sector committee was agreed recently. Paltrade and the Palestinian Shippers Council, which is being established, have started to collect information on impediments to trade. The Palestinian Shippers Council also plans to engage in formal dialogue with the Israeli Shippers Council.

¹¹ Such as seeking exemption from labeling in Hebrew and direct testing by PSI for certain products destined for the West Bank and Gaza.

¹² The agriculture sector, for example, suffers from poorly developed post-harvest practices and the lack of extension services, while the furniture sector is constrained by deficiencies in quality control, poor management methods and low product standards.

¹³ GOI has, however, indicated that it intends to abrogate the qCU in Gaza after withdrawal from Philadelphia; see the **Overview Paper**.

¹⁴ Which could take the form of a non-discriminatory trade regime, or a Free Trade Area arrangement with Israel. For a detailed discussion, see *Long-Term Policy Options for the Palestinian Economy*, op. cit. and *Economic Road Map – An Israeli-Palestinian Perspective on Permanent Status*, the Aix Group, January 2004.

¹⁵ For a more detailed discussion, see *Technical Paper on Export Possibilities Under a Reformed Trade Regime*, Paltrade, 2004.

¹⁶ See *Long-Term Policy Options for the Palestinian Economy*, op. cit. With the opening of international gateways under Palestinian control, a similar problem would emerge in relation to indirect imports into Israel.

¹⁷ The only quotas that are close to being fully utilized are those on agricultural exports to the European Union. The EC has, however, been flexible in renegotiating and expanding access for Palestinian produce.

¹⁸ *Private Sector Needs Assessment: Industrial Sector Survey*, op. cit.

¹⁹ The reduction in the number of Palestinian workers in Israel (excluding Israeli-identity card holders, mostly from East Jerusalem) from around 116,000 in the third quarter of 2000 to 37,700 in 2004, coupled with high unemployment rates (23% in the West Bank and 35% in Gaza in 2004), should have helped drive down Palestinian wages – but this has not happened to the extent one might anticipate. While real wages have declined by more than 8%, nominal wages have increased slightly (2%). The travel restrictions associated with internal closures – resulting in mismatches between the supply of and demand for various types of labor in local markets – have contributed to this “stickiness” in nominal wages. Source: World Bank staff calculations based on PCBS data.

²⁰ See *Disengagement, the Palestinian Economy and the Settlements*, the World Bank, June 23, 2004.

²¹ *Long-Term Policy Options for the Palestinian Economy*, World Bank, July 2002.

²² The Palestinian IT sector has entered high-end production, such as circuit boards, control systems and the monitoring of software applications.

²³ For example, between agriculture and processed foods, between handicrafts and textiles, between upholstered furniture and textiles, and between furniture and handicrafts.

²⁴ The enactment of the Judicial Authority Law (2002) and of the amended Basic Law (2003), as well as the inclusion of the judicial sector as a priority area in the PA reform plan.

²⁵ Palestinian enterprises have also cited the lack of trade finance (export credit guarantees) as an important factor hindering them from gaining access to new markets.

²⁶ EUREP – Euro-Retailer Produce Working Group, GAP – Good Agricultural Practices.