PRESS RELEASE

For use of information media - Not an official record

Report says 9 per cent Economic Growth in the Occupied Palestinian Territory has not Reduced Structural Impediments to Development

- **Palestinian GDP per capita is still 7 per cent below its level of 10 years ago**
- **Persistently high unemployment, widespread poverty and increased incidence of food insecurity pose a serious threat to the Palestinian human capital**
- **New evidence of significant fiscal loss caused by "indirect imports"**
- **Adverse impact of severing East Jerusalem from Palestinian economy**

Geneva, 23 August 2011 — The economy of the occupied Palestinian territory (oPt) grew by 9.3 per cent in 2010, with growth in Gaza at 15 per cent and in the West Bank at 7.6 per cent, UNCTAD´s annual Report on Assistance to the Palestinian People reveals. The report states, however, that this growth did not reduce the territory´s 30 per cent unemployment rate, a level that has persisted since 2009. And the study says Palestinian GDP per capita in 2010 was still 7 per cent below its 1999 level.

Lost Palestinian revenues : The report stresses that there is considerable fiscal "leakage" as a result of substantial levels of "indirect imports". As stipulated by the Paris Protocol, Palestinian imports from Israel are not taxed. However, a significant portion of such imports is made up of goods produced in the rest of the world and re-exported to the oPt, with import revenues accruing to the Israeli Treasury. A recent study by the Bank of Israel indicates that about 58 per cent of what is officially reported as Israeli exports to the oPt actually comes from abroad through Israel´s trade sector. Customs revenue from these imports is captured by the Israeli authorities and not transferred to the Palestinian Authority (PA). The loss to the Palestinian treasury is estimated to be in the range of $480 million per year, or 25 per cent of Palestinian public revenue.

UNCTAD assessment of the economic and employment cost of this fiscal leakage suggests that were these funds available as fiscal stimulant, the Palestinian GDP could expand by an additional 10 per cent ($500 million per year) and employment could increase by 4 per cent (30,000-40,000 jobs per year). This loss highlights the urgency of reconsidering the revenue clearance arrangement between the PA and Israel, and the need for measures to remedy the negative impacts of information "asymmetry" between the two sides. This new evidence on Palestinian imports confirms that much of Palestinian trade is actually with the rest of the world rather than with Israel.

The report also contends that the growth recorded in 2010 is not a sign of sustainable recovery but rather reflects an economy rebounding from a low base. It says the growth has come after a decade-long economic regression and continuing de-industrialization. Concerns about the sustainability of growth arise from observed technological regression and the fact that the 2010 growth relied on substantial donor aid and public expenditure. Private-sector revival is still constrained by the construction of the "separation barrier", movement and access restrictions, limited access to external markets for the export of goods or the import of production inputs, and a much-reduced productive and natural-resource base.

Separation barrier deepens isolation from global markets : The movement of Palestinian people and goods in the West Bank in 2010 was obstructed by the presence of over 500 obstacles and checkpoints. Palestinian exports to Israel, which account for about 90 per cent of total oPt exports, fell by an alarming 30 per cent during 2008-2009 and have yet to recover. Restrictions on the movement of people and goods to/from/within the West Bank and Gaza have fostered small-scale cost inefficiencies and technological decline and have blocked the emergence of an export sector capable of substantial contributions to economic development. Prohibitive transaction costs, long waiting times, and damage to goods at crossing points undermine existing Palestinian businesses and discourage potential investment, the report says.

Gaza diverges from the West Bank : Despite massive destruction of private and public property during the 24-day military confrontation in the Gaza Strip in December 2008, importation of construction material into Gaza is still banned. The only exception is imports by international organizations. However, in 2010 a modest relaxation of the Israeli blockade resulted in some improvement in economic activity in Gaza, though humanitarian conditions still remain dire, the report notes.

High unemployment, poverty, and food insecurity : 2010 GDP growth was "jobless", with unemployment still hovering around 30 per cent. Prolonged episodes of high unemployment and interruption of production activities carry the risk of "de-skilling" Palestinian workers and inflicting long-term damage on human capital. Poverty also remains a serious problem, with 26 per cent of the Palestinian people in the oPt living in poverty in 2009 and 2010 — 38 per cent in Gaza and 18 per cent in the West Bank. In 2010, half of Palestinian households were food insecure or vulnerable to food insecurity.

Continued economic and trade dependence on Israel : While exports declined from 14 to 13 per cent of GDP between 2008 and 2010, imports remained around 65 per cent and the trade deficit widened to $4 billion, or 52 per cent of GDP. The $2.8 billion Palestinian trade deficit with Israel accounted for more than 70 per cent of the oPt´s total trade deficit in 2010. This was greater than the $2.7 billion of net current transfers which include total donor support to the PA.

Fiscal vulnerability despite reform : As a result of ongoing fiscal reforms by the PA, including reducing subsidies for electricity consumption, the budget deficit declined to 19 per cent of GDP - that is, $1.5 billion — compared to 25 per cent in 2008. UNCTAD has contended over the years that fiscal reforms should be accompanied by measures to protect poor households from negative fallout. A major source of Palestinian fiscal vulnerability and potential volatility is Israel´s control over most Palestinian revenue from the import tax, which accounts for 60-70 per cent of total public revenue. The PA remains dependent upon Israel´s cooperation in releasing Palestinian revenue, which is critical for the PA´s ability to pay private-sector suppliers and the salaries of 150,000 public employees.

The Palestinian economy of East Jerusalem : A significant constraint on the development of the Palestinian national economy is the growing physical

and demographic separation of East Jerusalem from the rest of the oPt. The viability of a future independent Palestinian State depends, among other things, on re-integrating the economy of East Jerusalem within the broader national economy and allowing it to reassume its historic pivotal economic role. Rehabilitating and restructuring the fragmented East Jerusalem economy calls for a significant national effort in the coming years to reconnect it to the Palestinian territory through better integration of trade, labour and financial markets, the report says.

A paramount condition for reintegration of the East Jerusalem economy into the West Bank hinterland is efficient access and freedom of movement of goods and labour. Economic divergence with the rest of the occupied territory has resulted in a high incidence of poverty among Palestinians in Jerusalem as compared to Israelis living in the city. Combating poverty in East Jerusalem is not only an immediate welfare priority but has significant longer-term implications for the economic and social cohesion of the city. Exclusion of East Jerusalem from the rest of the oPt has critical consequences for both the East Jerusalem local economy and the national economy, the report contends. If the East Jerusalem economy were under the jurisdiction of the PA, the 2010 GDP of the Palestinian economy would have increased by a minimum of 9 per cent, from $7.6 billion to $8.3 billion, the report estimates. This implies considerable fiscal (public) revenue and national economic multiplier effects for a future Palestinian State which could further expand the national economy.

UNCTAD´s Response

In 2010, UNCTAD continued to support Palestinian efforts to cope with adverse socio-economic conditions and to build the capacities and an institutional base for the envisioned sovereign Palestinian State as called for by United Nations resolutions.

UNCTAD support to Palestinian Customs was delivered through the technical cooperation project “Programme to Modernize and Strengthen Institutional and Managerial Capacities of Palestinian Authority Customs Administration, Phase III”, funded by the European Commission. Palestinian Customs is now able to implement new customs procedures and interface more effectively with the Israeli customs system. Customs revenue capacities have been enhanced.

UNCTAD´s proposal to expand the work of the United Nations Chief Executives Board (CEB) Cluster on Trade and Productive Capacity to include the oPt was endorsed by the United Nations country team in the oPt in December 2010. The aim of this initiative is to develop the Palestinian trade and productive sectors within a flexible framework of coordinated United Nations interventions capable of fostering dynamic synergies between humanitarian interventions and long-term economic development. The aim is to build a sound Palestinian productive base.

To build on cooperation between UNCTAD and the Palestinian private sector, the UNCTAD secretariat has formulated a project on “Capacity development for facilitating Palestinian trade”, which aims at enhancing the institutional capacity of the Palestinian Shippers Council. Funding for this project has been secured by a grant from the Canadian International Development Agency. Implementation of the project began in May 2011.

Complete document in PDF format (Requires Acrobat Reader)