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UNCTAD REPORT: PALESTINIAN PREPARATIONS FOR STATEHOOD

SHOULD FOCUS ON PRO-POOR ECONOMIC REFORM

(Reissued as received.)

GENEVA, 25 August (UNCTAD) – Years of economic retrenchment on top of almost four decades of occupation have increased poverty, reduced and distorted production, and heightened dependence on Israel.

Prescriptions for Palestinian economic recovery must take into account the Israeli occupation, protracted conflict since 2000, and the imperatives created by the unilateral Israeli withdrawal from Gaza, an United Nations Conference on Trade and Development (UNCTAD) report warns. It recommends that the focus should be on forming institutions that will serve the needs of an upcoming Palestinian State rather than aiming solely at reforming a transitional government, and that efforts to economic revival should target poverty reduction while expanding production and trade.

UNCTAD's annual report on assistance to the Palestinian people (TD/B/52/2) proposes that the Palestinian Authority (PA) pursue "a development-driven approach to trade rather than a trade-driven approach to development", through a gradual and sequenced framework towards liberalization. The report will be reviewed at the forthcoming meeting of UNCTAD's governing body, the Trade and Development Board, in Geneva this October.

War-Torn Palestinian Economy

In 2004 the economy of the occupied Palestinian territory resumed the sharp deterioration dating from the year 2000, the report states. Gross domestic product (GDP) declined by 1 per cent to a level 15 per cent below that of 1999. Over the five-year period 1999-2004, real per capita gross national income (GNI) contracted by 33 per cent. Unemployment remained high: one third of the labour force was jobless at the end of 2004. Some 61 per cent of households were living below the poverty line of \$350 per month.

Almost four decades of occupation, and five years of conflict and destruction, has caused a sustained contraction in the supply capacity of an already shattered economy, the report notes. The Palestinian trade deficit grew faster than domestic production – from \$1.8 billion in 2001 to \$2.6 billion in 2004, representing 65 per cent of GDP – with two thirds of this deficit arising from the chronic imbalance in trade with Israel. To pay for this deficit over the past four years, the Palestinian economy effectively channelled to Israel the equivalent of all aid received from the international community to provide relief during the ongoing crisis, plus the equivalent of half the remittances of Palestinian workers in Israel.

The economic and physical capital costs of the crisis were even greater. Over the past five years, the estimated opportunity loss of GDP was around \$6.4 billion, equivalent to 140 per cent of the size of the economy prior to 2000. During the same period, capital losses were estimated at some \$3.5 billion, or 30 per cent of pre-2000 West Bank and Gaza capital stock.

The continued construction by Israel of the separation barrier and the consolidation of Israeli settlements on Palestinian land will further erode the productive capacity of the West Bank and Gaza and, in the most basic sense, people's ability to feed themselves, the report contends. The confiscation and levelling of Palestinian lands by Israel has substantially undermined the agricultural sector. By mid-2004, total agricultural land loss in the West Bank and Gaza was around 260 sq. km., representing 15 per cent of Palestine's cultivated area in 2003.

The report recalls that the 1994 Protocol on Economic Relations between Israel and Palestine leaves very little economic policy space to Palestinian economic policy-makers. Under the terms of the Protocol, the Palestinian Authority's economic policy is reduced to a one-sided fiscal policy (expenditure allocation), giving it fewer economic tools than those available to local or regional governments in many countries. The absence of monetary, exchange rate, industrial, trade and other policy options hinders the Palestinian people in carrying out economic recovery or even coping with the consequences of the current crisis, the report maintains.

Reform-for-Statehood Agenda

The economic reform targets that the Palestinian Authority (PA) and the international community have established for the immediate future are highly ambitious, if not unrealistic, the report states. In the economic governance sphere alone, the non-sovereign PA is expected, among other things, to restrict public wage growth; avoid chronic reliance on foreign aid; manage a transparent balanced budget; pursue broad economic liberalization; and establish effective and accountable public institutions. Such challenges call for authorities and capacities that usually can be handled by sovereign States. While addressing these challenges may help create the conditions for the successful emergence of a viable Palestinian State, the question arises as to whether they should be considered as pre-conditions for statehood.

UNCTAD notes that the PA has carried out sustained economic policy reform since 2000 with State formation in mind. But "its current policy is based on the premise that it must reform and renew public institutions and policies intended for a transitional, self-government phase and achieve 'good governance' before the State of Palestine can enter the community of nations". UNCTAD emphasizes that successful pursuit of a Palestinian "reform-for-statehood agenda" requires aligning institutional reform around a set of "pro-poor development objectives". This should be done with wide, grassroots participation to ensure that the poor are actually helped, and should include expanded public-private sector partnerships. Most critically, the PA needs to focus on a Palestinian-designed and owned plan for forming the institutions of national governance instead of only reforming those of transitional self-government, the report argues.

Poverty, Trade, Development

Much of the conventional wisdom on Palestinian economic reform, especially in the area of trade, calls for rapid liberalization and integration into world markets with inadequate regard for the real state of the economy, the report contends. Standard "textbook" solutions have been offered, as if the economy were that of a normal developing country. However, it should be recognised that the Palestinian economy suffers from distortions created by decades of occupation and a path of unbalanced development that mainly supplies cheap manpower and low value added processes to the economy of the occupying power. These distortions have to be corrected before any reformed trade regime can bear fruit. Specifically UNCTAD stresses that the top priority at this stage of the Palestinian economy's development is to focus on poverty reduction while nurturing productive capacity, eliminating occupation-related distortions and laying the ground for sustainable economic recovery. Furthermore, the emphasis should be on the links between trade expansion and poverty reduction, such as commodity prices, availability of public goods, food security, the use and upgrading of productive capacity, innovation, and accumulation of physical, human and organizational capital.

Economic restructuring efforts and plan for statehood (inline with the United Nations Security Council resolution 1397) should revolve around time-bound quantitative objectives, support for viable economic sectors, and especially job creation and poverty reduction, the report recommends. Based on the experiences of East Asian countries and taking into account international trade rules, economic reforms should aim at mutually beneficial trade and industrial policies, a gradual and sequenced approach towards liberalization, and a two-track trade strategy with export-oriented industries operating on laissez-faire principles functioning side-by-side with protected infant or strategic industries.

UNCTAD's Response

UNCTAD is working closely with the PA and international partners to promote a comprehensive, participatory and "pro-poor" approach to Palestinian development. The report updates UNCTAD projects in the occupied territory, including those that establish "irreversible institutional facts on the ground" for a future Palestinian State. Most notable in this respect are the Integrated Framework for Palestinian Macroeconomic, Trade and Labour Policy; the Automated System for Customs Data Analysis (ASYCUDA++); Debt Monitoring and Financial Analysis (DMFAS); and the establishment of a Palestinian Shippers Council.

Meanwhile, in anticipation of Israeli disengagement in the occupied territory, a World Bank review recently highlighted a range of facilitation measures – including customs, seaport and transit arrangements – that should be taken to ensure Palestinian economic revival and enhanced export capacity. UNCTAD has been consulting closely with the World Bank, the International Monetary Fund and the European Commission to ensure that its experience and technical capacities in these areas are utilized as part of this international effort.

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