REPORT
on the
PALESTINIAN
ECONOMY

Special Report:
Palestinian Foreign Trade

Spring 2000

Office of the
United Nations
Special Co-ordinator

Notes to the User

The geographic designations used in this report refer to the areas where economic activity of various sorts is conducted by Palestinians. The designations do not imply any judgement on the legal status of current jurisdictional boundaries.

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EXECUTIVE SUMMARY

The Office of the United Nations Special Co-ordinator Report on the Palestinian Economy (Spring 2000) covers developments in 1999 as compared to 1998. The Report provides updated data and information from Palestinian, Israeli and multilateral sources on trends in three main areas: macroeconomics, the labour market and living levels. The Report, dated July 2000, also contains a special report on Palestinian foreign trade.

I. MACROECONOMIC TRENDS

The Palestinian economy performed better than expected in 1999. As a result, the initial estimates of the Palestinian Ministry of Finance and the IMF for real GDP and GNP growth for 1999--4.5 and 4.6 per cent respectively--were revised to 6 and 7 per cent respectively. Most macroeconomic indicators showed progress. These include a 15 per cent increase in labour flows to Israel; a 9 per cent increase in the value of registered Israeli-Palestinian trade; a 14 per cent increase in planned construction; significant growth in new company registrations; a 32 per cent increase in outstanding bank credit to private businesses; a 12 per cent increase in donor assistance and the fewest number of border closures since 1993.

Two key macroeconomic indicators, however, showed mixed results or were stagnant. First, while the value of approved large investment projects increased significantly, the growth was due mainly to one large electricity plant in the Gaza Strip. More generally, the value of approved investment projects declined in both the West Bank and Gaza. Second, the value of registered Palestinian exports to Israel, the main export market for Palestinian goods, declined in real terms in 1999. Thus, there was little if any improvement in the areas vital to economic development: private investment and exports.

Nonetheless, progress overall resulted in a 7 per cent increase in private sector employment (including underemployment) in 1999 as unemployment rates continued to decline. Improvement in the labour market led to a 2.8 per cent increase in the average real daily wage for Palestinian workers. Moreover, consumer price inflation continued at a moderate rate of 5.5 per cent.

The estimated economic growth rates raised 1999 Palestinian GDP to approximately USD 4,750 million and raised GNP to about USD 5,850 million. This implies a per capita GDP of about USD 1,575 (1.7 per cent higher than 1998) and per capita GNP of USD 1,940 (2.6 per cent greater relative to 1998).

II. LABOUR MARKET TRENDS

Population growth and higher labour force participation resulted in a 5.7 per cent increase in the size of the Palestinian labour force, which reached an estimated average of 629,500 persons in 1999. Total employment (including that in Israel) is estimated to have grown 9.3 per cent, with the full-employment rate rising from 77.8 to 81.7 per cent and the underemployment rate declining from 6.5 to 5.5 per cent.

The standard unemployment rate declined from an average of 15.6 per cent in 1998 to 12.7 per cent in 1999. The standard unemployment rate in the West Bank (10.1 per cent) remained substantially lower than in Gaza Strip (18.8 per cent). The more broadly defined adjusted unemployment rate—which includes "discouraged" workers—declined from about 25 to 22 per cent. The adjusted unemployment rate in the West Bank averaged about 19.7 per cent in 1999 as compared to 27.3 per cent in the Gaza Strip.

There was an average of 47,000 more employed Palestinians in 1999 relative to 1998. Employers in Israel hired about 16,200 more Palestinians, about 34.4 per cent of the new jobs. Average Palestinian employment in Israel, Israeli settlements and industrial zones grew 14.8 per cent from about 108,950 in 1998 to 125,150 in 1999 (including East Jerusalem Palestinians employed in Israel). Construction remained the dominant employer of Palestinians, accounting for over 56 per cent of all jobs in 1999.

There were about 30,725 new jobs in the domestic Palestinian economy, about 65.6 per cent of all employment growth in 1999. Domestic employment grew 7.8 per cent from about 393,700 in 1998 to 424,450 in 1999. Except for commerce, there was employment growth in every economic branch, with particularly large increases in services, agriculture and the public sector.

Labour market trends in 1999 were noteworthy for several reasons. First, the rate of growth of Palestinian employment in Israel was considerably lower in 1999 (14.8 per cent) relative to 1998 (44.2 per cent), indicating that the Israeli labour market has become relatively saturated. At the same time, the domestic economy continued to generate jobs at more or less the same pace in 1999 (7.8 per cent) as in 1998 (8.1 per cent). The result was the expansion of the domestic economy's contribution to total employment creation from 43.6 per cent of new jobs in 1998 to 65.6 per cent in 1999.

Second, a high share of domestic employment creation was accounted for by the Palestinian private sector in 1999 as in 1998. In both years, about 70 per cent of new jobs in the domestic economy were generated in the private sector. In absolute terms, the Palestinian private sector added about 23,100 jobs in 1998 versus about 21,700 jobs in 1999. The Palestinian Authority, on the other hand, added an average of about 9,250 persons to its payrolls in 1998 and about 9,000 in 1999. This reversed the experience of the 1995-1997 when the public sector accounted for most employment growth.

Third, *within* the private sector, the sources of employment growth have shifted. In 1998 construction, manufacturing and commerce accounted for more than 93 per cent of private employment growth. By comparison, in 1999 services, agriculture and construction accounted for over 86 per cent of private job growth. Over the two year period 1998-1999, construction generated 48.1 per cent of all new private employment while service activities accounted for 22.3 per cent such employment. The importance of other branches has fluctuated with manufacturing and transport also contributing to job growth during this period.

Women's labour force participation rate increased in 1999, reversing the trend of the previous year-to-year period. There was a 14 per cent increase in the number of women engaged in the labour force, rising to an average of some 93,200 persons, exceeding the growth rate for men. Total employment for women also increased more rapidly than for men, rising by about 11,700 from 67,900 to 79,600—an increase of 17.2 per cent—while employment growth for men was about 10 per cent. Since the number of Palestinian women employed in Israel is very small, female employment growth accounted for more than 35 per cent of total domestic job growth in 1999. This is probably the result of the particularly rapid employment expansion in the economic branches where women are disproportionately represented—agriculture and services (including public services).

However, the number of underemployed women increased while the number of underemployed men declined. Furthermore, the number of unemployed women was nearly unchanged, while the number of unemployed men fell significantly. While both men's and women's unemployment rates declined, that for men declined more rapidly, widening the gap in unemployment rates in favour of men. The rise in women's underemployment, a reversal of the trend of past years, may be the result of at least two factors. First, the growth of employment in agriculture includes unpaid family labour, many of whom are women employed on a casual basis. Second, it may indicate that married women, perhaps even those with children, are seeking employment to augment family incomes on a part-time basis.

III. TRENDS in LIVING LEVELS

The work month of Palestinian workers—both in terms of the number of days and number of hours--was slightly shorter in 1999 relative to 1998, reversing the trend of the previous year. Despite this, average real daily and monthly wages increased by 2.8 and 4.2 per cent respectively. The average monthly wage for a fully-employed worker averaged NIS 1,413 in 1999, about USD 340.

The main factor in the general increase in real wages was the estimated 8 per cent increase in daily wages for West Bank workers. The better wage performance in the West Bank labour market is due to the significant level of unpermitted labour flow from the West Bank to Israel which has led to considerably reduced unemployment there. Higher labour flow to Israel has also produced secondary employment effects due to higher consumer spending from higher wages in Israel. The combination of these effects has tended to raise real daily wage rates in the West Bank more rapidly than in Gaza where this phenomenon is less pronounced.

One result of the different dynamics in the regional labour markets was an increase in the disparity in daily wages as between the West Bank and Gaza. In 1999, West Bank daily wage rates were an average of 28 per cent higher than those in Gaza compared to 23.9 per cent difference in 1998. On the other hand, since real daily wages earned in Israel grew only 0.7 per cent, the gap between wages earned in Israel and the Palestinian territory declined. The differential between the West Bank and Israel declined from 72.4 per cent to 60.7 per cent while the gap between Gaza and Israel declined from 113.8 per cent to 105.4 per cent. Thus relative geographical isolation, and differences in access to the Israeli labour market, remain sources of lower wages and higher poverty rates in Gaza.

Average consumer prices in the Palestinian economy rose about 5.5 per cent in 1999 relative to 1998. Consumer prices in the West Bank rose by 6.5 per cent while those in Gaza increased by 3.9 per cent. Inflation rates for specific groups of commodities varied. Thus prices for beverages, housing, household goods, transportation, medical care and miscellaneous goods (e.g. personal care and restaurant meals) rose more rapidly than the average price level during this period. At the same time, the prices of food, clothing, education and recreational goods and services either rose more slowly or declined during the same period.

IV. LOOKING AHEAD

Evidence from first-quarter 2000 suggests slower growth in comparison to first-quarter 1999. Despite the absence of comprehensive border closures of the Occupied Palestinian Territory, the average number of permitted Palestinian workers employed in Israel during the first three months of 2000 was 47,300, a 1.3 per cent decline in comparison to first-quarter 1999 and 4.4 per cent below the fourth-quarter 1999 average. The volume of commercial truck movement through monitored border crossings was about the same in first-quarter 2000 as first-quarter 1999, although the number of exported truckloads from the Palestinian territory continued the decline which manifested itself in 1999. This may suggest weakness in export capacity, as well the Israeli policy which aims to reduce truck convoys through the Erez/Beit Hanoun crossing in Gaza and to transfer these to the off-loading/on- loading procedures at Karni/Muntar.

The PCBS labour force survey for first-quarter 2000 indicates that the labour force participation rate and the proportion of Palestinian workers employed in Israel both declined relative to fourth-quarter 1999. Some of this decline may be due to the major Muslim holidays—Eid al Fitr and Eid al Adha—which fell during the first quarter. The full-employment rate continued to grow in the first quarter, probably the result of a significant increase in public sector hiring. Nonetheless, the narrowly defined unemployment rate edged upward to 10.9 per cent as compared to 10 per cent in the last quarter of 1999. As noted above, the rate of growth of employment in 1999 was lower than in 1998; the evidence from the first quarter of 2000 seems to confirm the downward trend.

Given somewhat slower growth in the private economy, future progress will depend to a higher degree on a more rapid pace of institutional and fiscal reforms on the part of the Palestinian Authority, assisted by the donor community and the multilateral agencies. In order to sustain and reinforce the significant economic progress in the Palestinian economy over the past three years, serious reforms in the judiciary and sufficient public investment will be required. Such reforms, combined with freer access of people and commodities, would have a positive effect on private investment and exports in particular, the two key elements for sustained growth and development of the Palestinian economy.

I. MACROECONOMIC TRENDS

A. An Overview of Macroeconomic Performance in 1999

Palestinian Ministry of Finance (MOF) and IMF estimates suggest that the Palestinian economy witnessed a significant recovery in 1998. Revised estimates indicate that real Gross Domestic Product (GDP) and real Gross National Product (GNP) grew by about 7 and 8 per cent respectively. This was based on strong growth in employment in Israel, the resulting higher domestic consumer demand, continued growth in domestic employment and a reduction in the rate of unemployment, a modest increase in the value of Palestinian trade but, also, a decline in donor disbursements and, therefore, in public investment.

The MOF and IMF initially projected real GDP and GNP growth of 4.5 and 4.6 per cent for 1999. As evidence showed that economic trends were better than expected, growth estimates were revised upward to 6 and 7 per cent respectively.[1]

Most indicators for the Palestinian macro-economy showed progress in 1999. These include a 15 per cent increase in labour flows to Israel; a 9 per cent increase in the value of official Israeli-Palestinian trade; some positive developments in private investment; a 32 per cent increase in credit extended by banks; a 12 per cent increase in donor assistance; the fewest number of border closures since 1993; robust private sector employment growth; a modest increase in real wages; and moderate consumer inflation. One area of concern remains the weak performance of exports.

The estimated economic growth would raise 1999 Palestinian GDP to approximately USD 4,750 million and raise GNP to about USD 5,850 million. This implies a per capita GDP of about USD 1,575 (up about 1.7 per cent from 1998) and per capita GNP of USD 1,940 (up 2.6 per cent relative to 1998).[2] Nonetheless, per capita income would remain about 10 per cent below its level in 1993.

B. Labour Flows to Israel, Israeli Settlements and Industrial Zones

Estimates indicate that there was an average of 50,100 permit-holding Palestinian workers employed on a daily basis in Israel, Israeli settlements and industrial zones (ISI) during 1999, an increase of 7.9 per cent relative to 1998. By comparison, the permitted labour flow to ISI increased by about 19 per cent in the 1997-1998 period. **Thus the rate of growth of permitted labour flows has decelerated in the last year.**

Table 1

Permits Issued to Palestinian Workers for Employment in ISI and Estimates of Average Permitted Daily Labour Flows, 1999[3]

Month	Total Number of Permits Issued to Work in Israel	Total Permits Issued to Work in Settlements and Industrial Zones	Total Number of Permits Issued to Work in ISI	Estimated Permitted Labour Flows to ISI
January	44,348	12,514	56,862	47,775
February	44,589	12,627	57,216	51,359
March	44,201	10,238	54,439	45,710
April	43,243	12,725	55,968	47,288
May	43,954	13,057	57,011	49,591
June	44,027	13,243	57,270	53,218
July	44,323	13,322	57,645	50,159
August	43,559	13,366	56,925	52,097
September	42,677	13,729	56,406	49,203
October	42,618	13,327	55,945	47,332
November	44,272	13,799	58,071	53,742
December	43,789	13,471	57,260	53,750
Averages 1999	**43,800**	**12,952**	**56,752**	**50,102**
Averages 1998	**41,935**	**12,709**	**54,644**	**46,395**
Changes	**4.45%**	**1.91%**	**3.86%**	**7.99%**

The average number of permits issued for work inside the pre-1967 borders of Israel increased by about 4.4 per cent while those issued for work in Israeli settlements and industrial zones in the Palestinian territories grew less than 2 per cent during this period. Overall, the average number of work permits issued by Israeli authorities to Palestinians grew by 3.8 per cent as between the two periods. **The average proportion of permits used rose from about 85 per cent in 1998 to nearly 90 per cent in 1999, probably the result of the reduced number of comprehensive closures imposed on the Occupied Palestinian Territory in 1999.**

Average informal labour flows to Israel from the Palestinian territory, i.e. those without work permits, are estimated at about 61,000 per day in 1999 as compared to about 51,000 in 1998, an increase of 20 per cent.[4] **Therefore, total Palestinian labour flows to ISI, excluding those from East Jerusalem, have risen from an estimated average of about 97,100 in 1998 to an average of 111,700 in 1999, an increase of 15 per cent.** On average, 22.8 per cent of the employed Palestinian labour force (excluding East Jerusalem) was employed in ISI in 1999 as compared to 21.6 per cent in 1998.

C. Trade Flows

1. Registered Trade with Israel

Based on value-added tax (VAT) clearances, there was a 9.1 per cent increase in the total value of registered bilateral trade (exports plus imports) in 1999 in comparison to 1998. While the value of Palestinian exports recovered from their decline in the first half of the year,[5] they rose only 0.33 per cent in nominal NIS terms in 1999 (refer to Table 2). Israeli exports to Palestinians increased 11.6 per cent in nominal NIS value terms. **In inflation-adjusted terms, assuming each side's exports are subject to the respective consumer inflation rates, there was a real decline in the value of Palestinian exports and a real increase in the value of Israeli exports.** In nominal USD terms, registered Israeli exports amounted to about USD 1,759.3 million, while Palestinian exports were about USD 454.2 million.[6] This suggests a registered Palestinian trade deficit with Israel of about USD 1,305.1 million for 1999.[7]

Table 2
Estimates of the Value of Registered Palestinian–Israeli Non–Agricultural Trade on the Basis of VAT Clearances, 1999[8]
(in nominal NIS)

Month	Registered Palestinian Exports to Israel	Registered Palestinian Imports from Israel
January	156,443,388	562,482,924
February	136,924,218	540,300,065
March	133,607,406	572,174,382
April	158,567,782	524,364,135
May	170,644,141	622,114,276
June	152,200,894	620,671,794
July	177,533,176	656,126,565
August	136,035,612	626,056,735
September	147,829,147	654,699,706
October	199,429,018	583,613,682
November	169,763,212	639,009,129

December	142,731,629	688,967,682
Total 1999	**1,881,709,624**	**7,290,581,076**
Monthly Average 1999	**156,809,135**	**607,548,423**
Monthly Average 1998	**156,290,877**	**544,240,055**
Changes	**0.33%**	**11.63%**

On the other hand, there is a significant amount of Palestinian-Israeli trade that is unregistered. While most of this trade is presumably Israeli exports to the Palestinian territory, there are also sales of Palestinian goods and services to Israelis who visit markets in West Bank border towns.[9] This phenomenon is not significant in Gaza where Israelis are not allowed to enter without special permits that are difficult to obtain.

2. Registered Direct Imports from Abroad

While Israel remains the source for most Palestinian imports, in the past several years the value and proportion of imports coming from the rest of the world have been on the rise. **Available data for the last two years—shown in Table 3--indicate that the nominal value of Palestinian imports from countries other than Israel increased 23.8 per cent from USD 703.55 million in 1998 to USD 871.11 million in 1999.**

Table 3
Estimates of Average Monthly Value of
Palestinian Direct Imports by Port of Entry, 1999[10]
(in nominal USD)

Month	West Bank Direct Imports via Israeli Ports	Gaza Strip Direct Imports Via Israeli Ports	West Bank Direct Imports via Allenby	Gaza Strip Direct Imports via Rafah	Total Palestinian Direct Imports
January	33,797,946	6,622,212	2,183,758	772,081	43,375,997
February	62,133,810	8,504,124	2,114,705	1,148,613	73,901,252
March	55,496,676	10,887,748	3,021,717	1,127,921	70,534,063
April	62,788,683	13,862,467	2,931,255	1,230,458	80,812,863
May	51,792,365	13,450,455	3,168,223	1,391,135	69,802,178
June	68,245,878	11,112,280	2,956,451	915,715	83,230,324
July	49,688,345	12,293,482	3,944,038	1,498,830	67,424,694
August	70,889,178	13,747,960	3,109,151	1,238,347	88,984,637
September	41,466,236	8,311,901	3,044,121	1,264,628	54,086,885
October	50,178,346	12,681,019	3,213,216	1,120,974	67,193,555
November	69,525,264	12,452,502	4,153,907	1,526,795	87,658,468
December	64,048,819	14,778,333	3,413,587	1,872,249	84,112,988
Total 1999	**680,051,547**	**138,704,482**	**37,254,130**	**15,107,746**	**871,117,905**
Monthly Average 1999	**56,670,962**	**11,558,707**	**3,104,511**	**1,258,979**	**72,593,159**
Monthly Average 1998	**46,706,313**	**8,652,557**	**2,182,400**	**1,088,169**	**58,629,438**
Change	**21.33%**	**33.59%**	**42.25%**	**15.70%**	**23.82%**

Some portion of this increase is due to PA efforts to discourage indirect imports (i.e. goods imported from abroad by Israeli merchants and resold to Palestinians) and to encourage direct imports.[11] Thus, for any given amount of actual imports from non-Israeli sources, direct imports will be higher—and indirect imports lower—to the extent that the PA can control and register trade flows.

Since imports related to donor-funded projects are included in these flows, part of the increase in direct imports may be due to the higher physical infrastructure content (including materials and equipment) of such assistance in the last few years.[12] Another part of the increase may be due to the cost and/or quality competitiveness of imported commodities relative to those available in the Israeli or local markets. Finally, part of the increase may be due to higher levels of income due to improved economic conditions in the last few years.

As indicated in Table 3, the nominal USD value of registered direct Palestinian imports entering the West Bank from Jordan through the Allenby/ Karameh Bridge grew by 42.25 per cent in 1999 relative to 1998, while imports entering the Gaza Strip from Egypt through the Rafah crossing rose by 15.7 per cent. The value of imports entering the Gaza Strip from abroad through Israeli ports increased by 33.6 per cent while direct imports to the West Bank grew by 21.3 per cent during this period.[13] Most of the imports entering the Palestinian territory through Israeli ports are from Europe and North America.

D. Private Investment

1. Trends in Private Construction Activity

Construction activity is the main component of private investment in the Palestinian economy. The principal measure of *planned* investment activity is the new surface area licensed by Palestinian local authorities for private residential and non-residential (i.e. business) construction. While data for the last quarter of 1999 are as yet unavailable, comparing the first three-quarters of 1999 with the same period in 1998 suggests that planned construction rose significantly, as indicated in Table 4

Table 4
Total New Licensed Construction Area by Project Type,
QI-QIII 1998 and QI-QIII 1999[14]
(in square meters)

Type of Licensed Construction Project	QI-QIII 1998	QI-QIII 1999	Total Change
Residential	1,479,403	1,712,451	15.75%
Non-Residential	288,108	307,761	6.82%
Total	**1,767,511**	**2,020,212**	**14.30%**

Overall, there was a 14.3 per cent increase in the total new surface area licensed for construction during this period. Planned residential construction—which accounted for about 85 per cent of total planned construction in 1999--grew by 15.7 per cent. Planned business construction grew only 6.8 per cent. Nonetheless, the aggregate trend was one of acceleration. By comparison, total planned construction grew only 4.6 per cent in the QI-QIII 1997—QI-QIII 1998 period. However, in the earlier period, planned residential construction grew only 0.1 per cent while planned business construction rose 36.2 per cent. Thus in 1999, planned residential construction has accelerated while planned business construction has decelerated as compared to the previous year. **The recovery of residential construction may be the result of improved economic conditions and higher incomes, the typical determinants of planned private housing construction in the Palestinian territory.** The fact that this comes some two years after the beginning of the economic recovery suggests that households may have delayed construction plans until they were more confident about the sustainability of that recovery.15

2. New Company Registrations

New company registrations do not always reflect an improvement in private investment activities since registering a company does not necessarily result in real capital expenditures or expanded employment and output. Rather, new company registrations are only an indicator of planned investment. **As shown in Table 5, there were 1,860 new companies registered with Palestinian authorities[16] in 1999, about half of which were registered in Gaza and about half in the West Bank.**

Table 5

Registration of New Companies by Legal Type, 1998-1999[17]

Legal Type	1998	1999	Total Change
Private	790	1,014	28.35%
Private Limited	550	831	51.09%
Public Limited	2	4	100.00%
Foreign Companies	4	11	175.00%
Total	**1,346**	**1,860**	**38.19%**

Table 5 indicates that about 54.5 per cent of new companies registered in 1999 were of the private type,[18] characterised by minimal capital investment and employment. Of the 1,014 new private companies registered, about 75 per cent were located in Gaza in 1999.[19] The registration of private limited companies is a somewhat better measure of trends in private investment activities as the cost of registering such a business, and the implied level of capital investment, are higher. The registration of such companies rose over 50 per cent to 831 in 1999. About 80 per cent of new private limited companies were registered in the West Bank. **This is a continuation of the trend witnessed in past years: private companies are the preferred form of new business in Gaza while private limited companies are predominant in the West Bank.** This reflects regional differences regarding the type and size of new businesses.[20]

The number of newly registered public companies in 1999 doubled to 4 (2 in the West Bank and 2 in Gaza) as compared to 2 in 1998. However, there was a surge in the registration of foreign companies with 11 companies registered as compared to 4 in 1998. **This may suggest that foreign investors have become more optimistic about prospects for the Palestinian economy in the past year.** Yet by comparison to 1994 and 1995, when there were 39 and 40 foreign companies registered, respectively, the performance in 1999 appears more modest.

3. Approved Investment Projects

The Ministry of Economy and Trade, subject to the Law for the Encouragement of Investment, offers tax incentives to investors.[21] **The value of projects approved by the Ministry under the Law increased by 85.1 per cent in 1999 relative to 1998 from USD 161.0 million to USD 298.1 million, as indicated in Table 6.** The aggregate value of approved projects in the West Bank fell 31.2 per cent to USD 70.6 million in the West Bank and rose almost threefold to USD 227.5 million in Gaza. The growth in Gaza—and the increase in the value of projects generally in 1999--was due mainly to the approval of a major private electricity generation plant project in Gaza City, ownership of which is divided between foreign and local investors (a joint project).

It is noteworthy that the value of locally owned approved projects in the Palestinian economy actually declined 44.7 per cent during this period. This was accounted for mainly by a precipitous 84.8 per cent decline in local projects in Gaza. Moreover, it is significant that the value of approved foreign-owned (which includes joint) projects increased by more than ten-fold in Gaza (to USD 221.4 million) but declined by 56.5 per cent in the West Bank (to USD 8.2 million).[22] This suggests increased interest among foreigners in investment opportunities in the Gaza Strip.[23]

Table 6

Value of Approved Investment Projects Qualifying for Exemptions According to the Palestinian Law for the Encouragement of Investment by Region and Residence of Investor, 1998-1999[24]
(in nominal USD)

	West Bank	Gaza Strip	PT Total
Local			
1998	83,786,940	40,203,340	123,990,280
1999	62,358,025	6,102,843	68,460,868
Changes	**-25.58%**	**-84.82%**	**-44.79%**
Foreign			
1998	18,972,750	18,105,000	37,077,750
1999	8,243,350	221,439,199	229,682,549
Changes	**-56.55%**	**1,123.08%**	**519.46%**
Total			
1998	102,759,690	58,308,340	161,068,030
1999	70,601,375	227,542,042	298,143,417
Changes	**-31.29%**	**290.24%**	**85.10%**

Table 7 indicates that manufacturing and tourism dominated the economic branch distribution of approved projects in 1998 where over 70 per cent of the value of projects were concentrated. Due to the large electricity project in Gaza, however, services accounted for 55.1 per cent of the value of projects in 1999 with manufacturing accounting for about one-fifth of the value. **Based on the available data, the total approved projects in 1999, once executed, would employ about 3,000 persons.**

Table 7
Economic Branch Distribution of Approved Investment Projects by Value, 1998-1999[25]
(in USD)

Economic Branch	Approved Projects 1998	Approved Projects 1999	Branch Share 1998	Branch Share 1999
Agriculture	2,906,983	5,295,400	1.80%	1.78%
Manufacturing	79,572,257	57,794,370	49.40%	19.38%
Construction	23,790,000	51,826,000	14.77%	17.38%
Services	20,068,107	164,426,007	12.46%	55.15%
Tourism	34,730,683	18,801,640	21.56%	6.31%
Total	**161,068,030**	**298,143,417**	**100.00%**	**100.00%**

4. Trends in Private Sector Finance

a. Bank Activity in General

The banking system continued to expand in 1999 although at a slower rate than seen in recent years. The total number of banks remained unchanged at 22, while the number of branches increased by 8 to 106 as compared to end-1998. Of the new branches, 6 were for Palestinian banks and 2 for foreign banks a reversal of the trend in 1998 when all new branches were established for foreign banks. This may indicate the marginal strengthening of Palestinian banks in the local market.

Deposits in the banking system grew at a rate of about 19 per cent between December 1998 and December 1999 reaching USD 2,875.14 million as compared to 15.5 per cent growth rate between December 1997 and December 1998. **The acceleration in deposits—which reversed the trend in the previous year-to-year period—may be the combined result of increasing intermediation and higher levels of household income caused by the economic recovery.** Total outstanding credit grew by about 20.7 per cent between December 1998 and December 1999 reaching USD 1,005.47 million—**the first time that bank lending in the Palestinian territory has exceeded USD1,000 million.** However, the 20.7 per cent growth rate of total credit extension in 1999 was well below the 35.9 per cent level achieved in 1999.

b. Bank Credit to Businesses

While overall bank credit decelerated in 1999, credit to businesses accelerated. The estimated growth rate of such credit, as indicated in Table 8, was 32.1 per cent in 1999, reaching USD 613.8 million, compared to a growth rate of only about 9.4 per cent in 1998. **Thus business credit grew faster than credit growth in general, which may suggest an improvement in the number and credit worthiness of private business borrowers.** This in turn may reflect generally improved business conditions in the last year.

c. Economic Branch Distribution of Bank Credit

The distribution of the increased level of credit among various economic branches is indicative of the relative expansion of those branches. **Thus credit extended to service branches, i.e. tourism, transportation and financial services, rose by 561.8 per cent between December 1998 and December 1999 reaching USD 103.97 million.** This raised the share of services in total outstanding credit to the private sector from about 11 to 16.7 per cent, a relative increase of about 52 per cent. Credit to financial services (e.g. insurance companies, brokerages) expanded by about 442.5 per cent from USD 5.46 million in December 1998 to USD 29.61 million during this period. Active credit to the transportation branch grew 59.8 per cent reaching USD 38 million. The continued expansion in the credit for the transportation branch could be due to the opening of car dealerships which provide loan packages for public transport through the banks. Credit to the tourism, hotels and restaurants branch increased by about 59.4 per cent in 1999 reaching USD 35 million, a continuation of the trend seen in 1998, and probably reflects millennium celebrations and activities.

Table 8

Value and Relative Distribution of Outstanding Bank Credit to Private Businesses by Economic Branch, December 1998, June 1999 and December 1999[26]
(in millions of nominal USD)

Value of Credit				Total Change	Total Change
Economic Branch	December 1998	June 1999	December 1999	June 1999- December 1999	December 1998 December 1999
Agriculture	12.38	13.16	15.87	20.65%	28.22%
Manufacturing and Mining	90.51	97.83	105.92	8.27%	17.02%
Construction	104.61	107.57	124.02	15.30%	18.56%
Commerce	205.83	245.38	265.33	8.13%	28.91%
Transportation	23.78	31.07	38.01	22.35%	59.88%
Tourism, Hotels & Restaurants	21.96	25.85	35.00	35.42%	59.40%
Financial Services	5.46	22.61	29.61	30.96%	442.52%
Total	**464.53**	**543.45**	**613.77**	**12.94%**	**32.13%**
Distribution of Credit				Relative Change	Relative Change
Economic Branch	December 1998	June 1999	December 1999	June 1999- December 1999	December 1998 December 1999
Agriculture	2.67%	2.42%	2.59%	6.83%	-2.96%
Manufacturing and Mining	19.49%	18.00%	17.26%	-4.13%	-11.43%
Construction	22.52%	19.79%	20.21%	2.09%	-10.27%
Commerce	44.31%	45.15%	43.23%	-4.26%	-2.44%
Transportation	5.12%	5.72%	6.19%	8.33%	21.00%
Tourism, Hotels & Restaurants	4.73%	4.76%	5.70%	19.90%	20.64%
Financial Services	1.17%	4.16%	4.82%	15.96%	310.60%
Total	**100.00%**	**100.00%**	**100.00%**	--	--

The nominal value of credit in circulation in the commerce branch (wholesale, retail and foreign trade) increased by about 28.9 per cent in 1999, reaching USD 265.3 million. Furthermore, the share of commerce financing from total lending remains at about 43.2 per cent—more than services or productive branches. Credit for foreign trade grew faster than overall commerce finance--53.1 per cent—and accounted for about 22 per cent of all commerce lending at end-year 1999. **Within foreign trade financing, credit growth for export activities outpaced that for import activities,** even though import financing still accounted for 86.1 per cent of total trade financing in December 1999. In nominal terms, export financing increased by about 468 per cent from USD 1.43 million in December 1998 to about USD 8.14 million in December 1999. This suggests increased attention on the part of banks to exporters.

Credit to the productive branches of the economy, i.e. agriculture, manufacturing and construction, increased by about 18.4 per to USD 245.8 million in December 1999. The share of productive sector financing from total lending remained at its December 1998 level of about 40 per cent. **Loans to the agriculture branch increased between December 1998 and December 1999 by about 28.2 per cent, reversing the trend in 1998 when the value of loans declined by about 45.1 per cent.** Lending to the manufacturing and construction branches increased by about 17 and 18.5 per cent respectively. After a decline in the first half of the year, lending for construction activities expanded briskly in the second half of 1999.

d. Bank Lending Ratio and Credit Repayment Period[27]

The overall lending-to-deposit ratio, a measure of the degree of financial intermediation on the part of the banking system, increased slightly in December 1999 to 34.9 per cent up from 34.5 per cent in December 1998. This ratio means that banks were lending USD 34.5 for each USD 100 deposit, a relatively small ratio by regional and international standards. This reflects continuing high levels of political risk perception on the part of banks. **The lack of a clear set of commercial laws and a strong judiciary in the Palestinian territories raises the level of political risk.**

A high level of political risk is also responsible for the relatively short-term credit structure of the Palestinian banking system. The longest-term loans have a three-year repayment period. Overdrafts, which have a repayment period of less than one year, decreased from 53.8 per cent to 52.8 per cent of total value of outstanding credit between December 1998 and December 1999. At the same time, the share of loans—with a repayment period of 1-3 years—in total bank credit increased from 39.3 per cent to 43.3 per cent. This marginal improvement may be due to increased lending to the service and productive branches where most of credit growth has taken place in the last year.

e. NGO and UNRWA Credit Programmes

The lending programmes administered by the different NGOs and UNRWA extended about USD 31.7 million in 1999 as compared to USD 30 million in 1998, an increase of 5.5 per cent.28 By comparison, the growth of such lending increased by 18.7 per cent in 1998 relative to 1997. Five of the 9 NGOs registered declines in lending in 1999 due to the ending of programmes, while 4 few expanded their lending activities. In particular, FATEN increased lending by 0.7 per cent, UNRWA's various programmes—the largest of their kind—disbursed 14.9 per cent more in loans, Oxfam-Quebec lent 15.7 per cent more and the Co-operative Housing Foundation expanded lending by 67.2 per cent.

E. Donor Disbursements and Public Investment

Since the Conference to Support Middle East Peace, convened in Washington DC in October 1993, total donor financial commitments to the development of the Palestinian economy and society has amounted to USD 4,064 million. As of the end of 1999, a total of USD 2,751 million had been disbursed (67.7 per cent of commitments). Of total disbursements, some USD 2,462 million (89.4 per cent) were in the form of grants and about USD 289 million were loans.[29]

In 1999, total donor commitments amounted to USD 714.2 million as compared to USD 655 million in 1998, a 9 per cent reduction. However, actual donor disbursements increased from USD 400.4 million in 1998 to USD 448.9 million in 1999, an increase of about 12.1 per cent. The rate of disbursements from commitments, therefore, also rose slightly from 61.1 per cent to 62.8 per cent disbursements.

Nearly 60 per cent of donor disbursements in 1999 were accounted for by five *sectors* or types of activities: water and sanitation (26.8 per cent), institution building (9 per cent); health (8.3 per cent); education (8.3 per cent) and infrastructure (7.3 per cent). From the perspective of the most important general *categories*—donor disbursements were concentrated in public investment (44.7 per cent) and technical assistance (24.7 per cent).

G. General and Comprehensive Closures

In general, there was no reduction in the severity of the general closure and separation policy applied by Israel to the Occupied Palestinian Territory during 1999. Personal mobility has remained severely restricted as Palestinians could not travel between the West Bank and Gaza Strip, or enter East Jerusalem without permits from the Israeli authorities. The opening of the southern route of the safe passage in October 1999, in a limited way, allowed for some additional mobility, mainly for residents of Gaza.[30] Palestinian public agencies, private businesses, NGOs and international agencies continued to experience higher transactions costs, time delays and lost productivity due to restrictions on personnel and goods at border crossings.

However, comprehensive closure—which entail nearly complete obstruction of personal and commodity movement—**were imposed on fewer days in 1999 than in any year since the closure, separation and permit policies were formalised in 1993.** In all there were 16 such days in 1999 as compared to 26 in 1998. Excluding weekends and Muslim and Jewish holidays, as shown in Table 9, this resulted in a loss of 2.5 per cent of potential workdays in 1999 as compared to 5.2 per cent in 1998 and nearly 32 per cent in 1996—the worst year since 1993. (About 17 per cent of normal working days have been disrupted by comprehensive border closures since 1993.) The higher labour and commodity flows in 1999 were partly due to the lower number of comprehensive closures.

Table 9
Potential Work Days, Comprehensive Border Closures and Lost Work Days in the Occupied Palestinian Territory, 1993-1999[31]

	1993	1994	1995	1996	1997	1998	1999	Totals
Calendar Days	365	365	365	366	365	365	365	2,556
- Weekends	77.5	78	77	77.5	77.5	76.5	77.5	541.5
- Jewish and Muslim Holidays	10	10	9	8	10	10	11	68
= Potential Annual Work Days	277.5	277	279	280.5	277.5	278.5	276.5	1,946.5
- Comprehensive Closure Days	26	89	112	121	79	26	16	469
= Effective Closure Days	17	64	83.5	89.5	57	14.5	7	332.5
Portion of Work Days Lost	**6.13%**	**23.10%**	**29.93%**	**31.91%**	**20.54%**	**5.21%**	**2.53%**	**17.08%**

II. LABOUR MARKET TRENDS

A. Labour Force Growth

The average size of the Palestinian working-age population is estimated to have grown by 5.4 per cent to an average of 1,464,868 persons in 1999 while the labour force participation rate—the proportion of the working-age population working or seeking work—increased slightly to 42.9 per cent. **The combined effect of population growth and higher labour force participation was an increase of about 5.7 per cent in the absolute size of the labour force, to an estimated average of 629,532 persons.**

Table 10
Estimates of the Average Palestinian Labour Force, Full Employment, Unemployment and Underemployment, 1998-1999[32]

Ratios	Average 1998	Average 1999	Relative Change
Labour Force Participation Rates	42.83%	42.97%	0.33%
Full Employment Rates	77.88%	81.78%	5.00%

Underemployment Rates	6.51%	5.50%	-15.48%
Unemployment Rates	15.60%	12.72%	-18.48%
Unemployment Rates Adjusted	25.00%	22.05%	-11.79%
			Total
Totals			Change
Total Working-Age Population	1,389,208	1,464,868	5.45%
Total Labour Force	595,252	629,532	5.76%
Total Fully Employed	463,905	514,999	11.01%
Total Underemployed	38,637	34,614	-10.41%
Total Unemployed	92,699	79,920	-13.79%
Total Unemployed (Adjusted)	167,398	155,309	-7.22%

B. Employment, Underemployment and Unemployment

There was significant improvement in labour market conditions in 1999, as indicated in Table 10, a continuation of the general trend since 1997. **Overall employment grew by an estimated 9.3 per cent in 1999 relative to 1998.** The average full-employment rate—defined as the proportion of the labour force working at least 35 hours per week—increased from 77.8 per cent to 81.7 per cent, the highest such rate since PCBS labour force surveys began in 1995. **The absolute number of fully-employed persons increased by 11 per cent to an estimated average of 515,000 persons in 1999.** The underemployment rate—the proportion of the labour force working less than 35 hours per week—fell from an average of 6.5 per cent in 1998 to 5.5 per cent in 1999, a relative decline of about 15.4 per cent while the number of the underemployed declined by 10.4 per cent to an estimated 34,614 persons.

Over the same period, the average standard unemployment rate fell from 15.6 per cent to 12.7 per cent, a relative decline of about 18.4 per cent and the lowest annual rate registered since 1995. **Despite the relatively rapid growth of the labour force, the absolute number of the unemployed declined by about 13.7 per cent to an average of about 79,920.** On a regional basis, the standard unemployment rate in the West Bank remained substantially lower than in the Gaza Strip--10.1 per cent versus 18.8 per cent respectively.

The more broadly defined adjusted unemployment rate—defined as the standard unemployment rate plus those in the working-age population who did not seek work due to their belief that no work could be found—declined by about 11.7 per cent in relative terms from about 25 to 22 per cent. Using this broader definition, the absolute number of unemployed decreased by about 7.2 per cent to an average of 155,309 persons in 1999, continuing the trend seen in the previous two years. **The adjusted unemployment rate in the West Bank averaged about 19.7 per cent in 1999 as compared to 27.3 per cent in the Gaza Strip.**

C. Underlying Labour Market Dynamics

1. Social Composition of Employment

While overall employment rose by an estimated 9.3 per cent between 1998 and 1999, the relative social composition of employment underwent a shift. The share of the employed who were employers, unpaid family labourers and the self-employed all declined, while the share who were wage workers increased. **In absolute terms, about 90.8 per cent of net new Palestinian employment was wage-work, 4.9 per cent was unpaid family labour and 4.3 were employers.** There was a net decline in the number of self-employed during this period as shown in Table 11.

Table 11

Average Social Composition of the Employed Palestinian Labour Force, 1998-1999[33]

	Average	Average	Relative
Ratios	1998	1999	Change
Employers	5.64%	5.58%	-1.21%
Unpaid Family Labour	8.15%	7.88%	-3.34%
Self-employed	20.88%	18.88%	-9.61%
Wage-workers	65.32%	67.68%	3.60%
Total Employed	**100.00%**	**100.00%**	
			Total
Total			Change
Employers	28,472	30,560	7.33%
Unpaid Family Labour	41,020	43,356	5.70%
Self-employed	104,700	103,715	-0.94%
Wage-workers	328,340	371,982	13.29%
Total Employed	**502,552**	**549,613**	**9.36%**

Growth in the number of employers is suggestive of improved economic conditions, partly a secondary effect of income generated by workers in Israel. Higher labour flows to Israel and continued domestic employment growth explains the 13.2 per cent growth rate in wage-employment. The absolute increase in unpaid family labour is consistent with the growth in agricultural employment (see below) in the last year. The decline in self-employment—which is characteristic of the informal economy—may be due to higher labour flows to Israel (both formal and informal), as well as more formal employment opportunities in the domestic private economy and the public sector.[34]

2. Employment by Economic Branch and Place of Work

There were an average of 46,935 more Palestinians working in 1999 relative to 1998--a 9.3 per cent increase in employment (including employment growth in Israel). This compares to about 66,814 more jobs in the 1997-1998 period—a growth rate of 15.3 per cent. **Employment in Israel and Israeli settlements and industrial zones (ISI) increased by about 16,200 or 14.8 per cent.** Average Palestinian employment in ISI, including Palestinians from East Jerusalem, grew from about 108,950 to 125,150. Except for agriculture, there was Palestinian employment growth in every economic branch in ISI with particularly rapid growth in manufacturing and transport branches (refer to lower left panel of Table 12). Construction remained the dominant employer of Palestinians in ISI, accounting for over 56 per cent of all jobs in 1999.

By contrast, there were about 30,725 new jobs in the domestic Palestinian economy, a 7.8 per cent increase as average employment grew to 424,450 persons in 1999. Except for commerce, there was employment growth in every economic branch with particularly large increases in services, agriculture and the public sector (refer to lower right panel of Table 12).

Table 12

Estimates of Average Palestinian Employment by Place of Employment and Economic Branch, 1998-1999[35]

	Palestinians Working in ISI			Palestinians Working in PT		
	Average	Average	Relative	Average	Average	Relative Change
Ratios	1998	1999	Change	1998	1999	Change
Agriculture, Fishing	10.55%	8.65%	- 17.95%	12.77%	13.88%	+ 8.62%
Manufacturing, Quarrying	11.58%	13.46%	+ 16.17%	17.11%	16.14%	- 5.64%
Construction	56.51%	56.17%	- 0.61%	12.43%	12.28%	- 1.18%
Commerce, Hotels, Restaurants	12.73%	13.08%	+ 2.77%	19.85%	17.91%	- 9.79%
Transport, Communication	1.43%	1.62%	+ 12.96%	5.51%	5.55%	- 0.82%
Services and Other	7.20%	7.02%	- 2.43%	9.60%	11.04%	+ 15.02%
Palestinian Authority	--	--	--	22.73%	23.20%	+ 2.05%
Total	**100.00%**	**100.00%**	**--**	**100.00%**	**100.00%**	**--**
	Average	Average	Total	Average	Average	Total
Totals	1998	1999	Change	1998	1999	Change
Agriculture, Fishing	11,484	10,816	- 5.82%	50,377	58,889	+ 16.90%
Manufacturing, Quarrying	12,621	16,845	+ 33.47%	67,324	68,564	+ 1.84%
Construction	61,517	70,311	+ 14.30%	49,067	52,202	+ 6.39%
Commerce, Hotels, Restaurants	13,919	16,376	+ 17.65%	78,089	75,969	- 2.71%
Transport, Communication	1,550	2,032	+ 31.12%	21,682	23,628	+ 8.97%
Services and Other	7,866	8,775	+ 11.55%	37,770	46,773	+ 23.84%
Palestinian Authority	--	--	--	89,411	98,432	+ 10.09%
Total Employed Persons	**108,957**	**125,155**	**+ 14.87%**	**393,721**	**424,458**	**+ 7.81%**

These trends are noteworthy for several reasons. First, the rate of growth of Palestinian employment in ISI was considerably lower in 1999 (14.8 per cent) as compared to 1998 (44.2 per cent) indicating that the Israeli labour market has become relatively saturated. At the same time, the domestic economy continued to generate jobs at more or less the same pace in 1999 (7.8 per cent) relative to 1998 (8.1 per cent). **The result is that the domestic economy's contribution to total employment creation grew from 43.6 per cent of new jobs in 1998 to 65.4 per cent in 1999 while the ISI share declined from 56.4 to 34.6 per cent.** The domestic economy added about 32,400 jobs in 1998 and another 30,700 jobs in 1999. While some of the domestically-generated employment is a secondary effect of greater levels of employment in Israel, this nonetheless constitutes a significant increase in the labour-absorbing capacity of the Palestinian economy.

Second, a high share of domestic employment creation was accounted for by the private sector in 1999 as in 1998. In both years, as shown in Table 13, over 70 per cent of new jobs in the domestic economy were generated in the private sector. In absolute terms, the Palestinian private sector added about 23,100 jobs in 1998 versus about 21,700 jobs in 1999. The Palestinian Authority, on the other hand, added an average of about 9,250 persons to its payrolls in 1998 and about 9,000 in 1999.[36] This reversed the experience of the 1995-1997 when public employment accounted for most of the employment growth.

Table 13
Estimates of Average Domestic Employment, Domestic Employment Growth and Branch Contributions to Domestic Employment Growth in the Palestinian Territory, 1998-1999[37]

	Average Employment	Absolute Growth	Growth	Average Employment	Absolute Growth	Growth
Economic Branch	1998	1997-1998	Contribution	1999	1998-1999	Contribution
Agriculture, Fishing	50,377	(4,563)	--	58,889	8,511	27.69%
Manufacturing, Quarrying	67,324	4,363	13.46%	68,564	1,241	4.04%
Construction	49,067	18,452	56.91%	52,202	3,135	10.20%

Commerce, Hotels, Restaurants	78,089	3,050	9.41%	75,969	(2,120)	--
Transport, Communication	21,682	771	2.38%	23,628	1,946	6.33%
Services and Other	37,770	1,073	3.31%	46,773	9,003	29.29%
Palestinian Authority	89,411	9,279	28.62%	98,432	9,021	29.35%
Totals	**393,721**	**32,424**	**100.00%**	**424,458**	**30,737**	**100.00%**

Third, *within* the private sector, the sources of employment growth have shifted. In 1998 (and in descending order of importance) construction, manufacturing and commerce accounted for more than 93 per cent of private employment growth while employment in agriculture declined in absolute terms. By comparison, in 1999 services, agriculture and construction accounted for over 86 per cent of private job growth (with agriculture more than offsetting its losses in 1998), while employment in commerce, hotels and restaurants declined. **Over the two year period 1998-1999, the construction branch generated about 21,500 new jobs or 48.1 per cent of all new private employment**[38] **while service activities**[39] **added some 10,000 new jobs, or 22.3 per cent of all new private sector employment.** The importance of other branches has fluctuated with manufacturing and transport and communications also contributing to job growth during this period.

3. Women in the Labour Market

Women's labour force participation, as measured by the labour force participation rate (LFPR) increased by one full percentage point to 12.7 per cent in 1999, reversing the trend witnessed in the previous year-to-year period.[40] The higher LFPR, combined with the growth in the working-age population, resulted in a 14 per cent increase in the size of the women's labour force, which rose to an average of some 93,200 persons. Women's labour force growth exceeded that of men as indicated in Table 14.

Total women's employment (full employment and underemployment) increased more rapidly than that for men, rising by 11,700 from about 67,900 to 79,600—an increase of 17.2 per cent—while employment growth for men was 10 per cent. Since the number of Palestinian women employed in Israel is very small, the growth in women's employment accounted for more than 35 per cent of total domestic job growth in 1999. **In an expanding job market, women's labour force participation and employment have grown faster than for men.** This is probably the result of the particularly rapid expansion in employment in the economic branches where women are disproportionately represented—agriculture and services (including public services).[41]

Both the number of fully-employed women and the number of underemployed women rose faster than for men as indicated in the bottom panel of Table 14 (the number of underemployed men actually declined). At the same time, the number of unemployed women was nearly unchanged, while the number of unemployed men fell significantly. While both men's and women's unemployment rates declined, that for men declined more rapidly, widening the gap in unemployment rates in favour of men.

Table 14
Comparative Estimates of Women's and Men's Average Labour Force Profiles, 1998-1999[42]

Ratios			
	1998	1999	Relative
LFPR	Average	Average	Change
Men	72.20%	72.55%	0.49%
Women	11.75%	12.75%	8.48%
Full Employment			
Men	77.34%	81.57%	5.48%
Women	80.14%	81.85%	2.13%
Underemployment			
Men	7.11%	5.90%	-17.00%
Women Females	2.97%	3.52%	18.54%
Unemployment			
Men	15.55%	12.53%	-19.46%
Women	16.90%	14.64%	-13.37%
Totals			
			Total
Labour Force			Change
Men	501,344	532,611	6.24%
Women	81,738	93,223	14.05%
Full Employment			
Men	387,900	434,571	12.03%
Women	65,467	76,359	16.64%
Underemployment			
Men	35,573	31,426	-11.66%
Women	2,423	3,265	34.76%
Unemployment			
Men	77,871	66,615	-14.45%
Women	13,848	13,598	-1.80%

The rise in the underemployment rate of women—the portion of working women employed for less than 35 hours per week—and in the number of underemployed women is a clear reversal of the trend seen in earlier years. This may be the result of at least two factors. First, the growth of employment in agriculture includes unpaid family labour, many of whom are women. Such labour is often employed on a casual or supplementary basis. Thus women involved in this activity outside of the home may also have home-making responsibilities. Second, it may indicate that married women, perhaps even those with children, are seeking employment to augment family incomes. But due to child-rearing and home responsibilities, they are unable to work on a full-time basis or only have offers of part-time work due to the perception by employers.

III. TRENDS in LIVING LEVELS

A. Working Time and Wages

As indicated in Table 15, the work month of Palestinian workers—both in terms of the number of days and number of hours--was slightly shorter in 1999 relative to 1998, a reversal of the trend witnessed in the previous year-to-year period. Despite this, and on average, real daily and monthly wages increased by 2.8 and 4.2 per cent respectively. The average monthly wage was about NIS 1,413 daily wage in 1999.[43]

Table 15
Estimates of Average Monthly Days Worked and
Real Daily and Monthly Wages for Employed Palestinian Workers
by Place of Work, 1998-1999[44]
(wages expressed in real NIS with 1996 base year)

	Average 1998	Average 1999	Total Change
All Palestinian Workers			
Monthly Days	22.63	22.53	-0.44%
Monthly Hours	179.30	176.50	-1.56%
Real Daily Wage (NIS)	59.94	61.65	2.86%
Real Monthly Wage (NIS)	1,356.45	1,413.42	4.20%
Palestinian Workers in West Bank			
Monthly Days	23.33	23.55	0.96%
Monthly Hours	180.20	178.00	-1.22%
Real Daily Wage (NIS)	50.71	54.81	8.08%
Real Monthly Wage (NIS)	1,182.91	1,291.11	9.15%
Palestinian Workers in Gaza Strip			
Monthly Days	24.08	24.05	-0.10%
Monthly Hours	174.60	171.90	-1.55%
Real Daily Wage (NIS)	40.90	42.88	4.85%
Real Monthly Wage (NIS)	984.59	1,031.26	4.74%
Palestinian Workers in Israel			
Monthly Days	20.33	20.15	-0.86%
Monthly Hours	182.60	177.60	-2.74%
Real Daily Wage (NIS)	87.45	88.11	0.75%
Real Monthly Wage (NIS)	1,778.15	1,775.85	-0.13%

The main factor in the general increase in real wages was the estimated 8 per cent increase in daily wages for West Bank workers. The better wage performance in the West Bank labour market is due to the significant level of unpermitted labour flow from the West Bank to Israel in the past few years which has served to considerably reduce unemployment there. The higher labour flows to Israel has also produced secondary employment effects due to higher consumer spending from higher wages in Israel. The combination of these effects has tended to raise real daily wage rates in the West Bank more rapidly than in Gaza where this phenomenon is less pronounced.

Despite higher unemployment rates, real daily and monthly wages in Gaza rose by over 4.5 per cent in 1999. This was partly the result of somewhat higher labour flows to Israel (about 13.5 per cent higher) in 1999 relative to 1998. Furthermore, the bulk of public sector employment growth was concentrated in Gaza in 1999. In addition, the recruitment by UNRWA and donor-funded projects have augmented the demand for labour there, as have some private investment projects. Nonetheless, the more rapid natural population growth in Gaza, as well as the severe restrictions on movement of people and goods, continues to produce a considerably higher unemployment rate in comparison to the West Bank.

One result of the different dynamics of the regional labour markets was an increase in the disparity in daily wages as between the West Bank and Gaza in the last year. In 1999, West Bank daily wage rates were, on average, 28 per cent higher than those in Gaza compared to a 23.9 per cent difference in 1998. On the other hand, since real daily wages earned in Israel grew only 0.7 per cent, the gap between wages earned in Israel and the Palestinian territory declined. The differential between the West Bank and Israel declined from 72.4 per cent to 60.7 per cent while the gap between Gaza and Israel declined from 113.8 per cent and 105.4 per cent. Thus the relative geographical isolation of Gaza on the one hand, and differential access to the Israeli labour market, remain sources of wage and income disparities within the Palestinian territory, as well as a factor in the different rates of poverty.

B. Consumer Price Inflation

Average consumer prices in the Palestinian economy rose about 5.5 per cent in 1999 relative to 1998. Consumer prices in the West Bank rose by 6.5 per cent while those in Gaza increased by 3.9 per cent as indicated in Table 16. Inflation rates for particular groups of commodities varied as prices for beverages, housing, household goods, transportation, medical care and miscellaneous goods (e.g. personal care and restaurant meals) grew faster than average over this period. At the same time, the prices of food, clothing, education and recreational goods and services either grew more slowly or declined during the same period.

Table 16

Average Consumer Inflation Rates for Major Commodity Groups in the Palestinian Territory by Region, 1998-1999[45]
(1996 base period)

Major Commodity Groups	PT	West Bank	Gaza Strip
Food	4.71%	5.58%	2.93%
Beverages and Tobacco	8.35%	8.05%	7.98%
Textiles, Clothing, Footwear	1.09%	5.60%	1.30%
Housing	6.69%	7.38%	5.73%
Furniture, Household Goods and Services	6.95%	4.55%	3.94%
Transport and Communications	9.01%	10.11%	7.56%
Education	3.65%	6.10%	1.66%
Medical Care	6.86%	6.59%	9.33%
Recreation and Cultural Goods, Services	-6.43%	-7.73%	-7.76%
Miscellaneous Goods and Services	8.79%	10.06%	3.86%
All-Item CPI	**5.54%**	**6.50%**	**3.99%**

It is noteworthy that consumer inflation was more pronounced in the West Bank as compared to Gaza. In general the inflation rate in a particular region--or for a particular group of commodities--reflects the relative changes in market supply and demand. Higher inflation in the West Bank seems to be due to the more rapid growth in consumer demand fueled by faster income growth there relative to Gaza. This, in turn, is due to higher labour flows to Israel, lower unemployment rates and faster wage increases (see above).

IV. LOOKING AHEAD

Evidence from first-quarter 2000 suggests slower growth in comparison to first-quarter 1999. Despite the absence of comprehensive border closures, the average number of permitted Palestinian workers employed in Israel during the first three months of 2000 was 47,300, a 1.3 per cent decline in comparison to first-quarter 1999 and 4.4 per cent below the fourth-quarter 1999 average. The volume of commercial truck movement through monitored border crossings was about the same in first-quarter 2000 as first-quarter 1999, although the number of exported truckloads from the Palestinian territory continued the decline which manifested itself in 1999. This may suggest weakness in export capacity, as well the Israeli policy which aims to reduce truck convoys through the Erez/Beit Hanoun crossing in Gaza and to transfer these to the off-loading/on- loading procedures at Karni/Muntar.

The PCBS labour force survey for first-quarter 2000 indicates that the labour force participation rate and the proportion of Palestinian workers employed in Israel both declined relative to fourth-quarter 1999. Some of this decline may be due to the major Muslim holidays—Eid al Fitr and Eid al Adha—which fell during the first quarter. The full-employment rate continued to grow in the first quarter, probably the result of the significant increase in public sector hiring. Nonetheless, the narrowly defined unemployment rate edged upward to 10.9 per cent as compared to 10 per cent in the last quarter of 1999.[46] As noted above, the rate of growth of employment in 1999 was lower than in 1998; the evidence from the first quarter of 2000 seems to confirm the downward trend.

Given somewhat slower growth in the private economy, future progress will depend to a higher degree on a more rapid pace of institutional and fiscal reforms on the part of the Palestinian Authority, assisted by the donor community and the multilateral agencies. In order to sustain and reinforce the significant economic progress in the Palestinian economy over the past three years, serious reforms in the judiciary and sufficient public investment will be required. Such reforms, combined with freer mobility of people and commodities, would have a positive effect on private investment and exports in particular, the two key elements for sustained growth and development of the Palestinian economy.

V. SPECIAL REPORT: Palestinian Foreign Trade

A. Introduction

A major challenge for the Palestinian economy, which is small, resource-scarce and has a rapidly growing labour force, is to harness external trade so as to sustain employment and income growth. Since 1997, the economy has managed to recover from the 1995-1996 recession, substantially increase employment, reduce unemployment and raise average incomes. **But foreign trade—especially exports-- did not contribute significantly to this growth.** In fact, exports were stagnant while higher incomes (and donor assistance) led to import growth, increasing the degree of import bias in the economy.[47]

In order to sustain employment and income growth, it is vitally important to create conditions such that export activity can contribute to growth. This special report utilises the most current merchandise trade data from the Palestinian Central Bureau of Statistics (PCBS) to: 1) present some basic indicators on Palestinian external merchandise trade; 2) analyse the character of Palestinian trade and; 3) to indicate possible short to medium term opportunities for expanding merchandise exports.

B. The Palestinian Territory: A Small Open Economy

Recently released foreign trade statistics for 1998[48] indicate that the total value of registered Palestinian merchandise trade (exports plus imports) was USD 2,766 million of which about USD 394 million was exports and USD 2,373 million was imports. The registered trade deficit was therefore about USD 1,979 million. For various reasons, the actual level of Palestinian merchandise trade is significantly higher than indicated by these estimates.[49] According to the PA Ministry of Finance, unregistered trade amounts to at least 20 per cent of registered trade. This suggests that the actual value of Palestinian external merchandise trade transactions was—at minimum—about USD 3,320 million.[50]

Combining trade and national income data reveals two fundamental characteristics of the Palestinian economy: **1) a high degree of exposure to external trade; 2) a considerable import bias.** Exposure to external trade and the extent of the import bias can be measured by comparing the Palestinian economy to others in the region and with similar levels of per capita income. The relative degree of exposure or openness can be defined as the ratio of the value of trade (exports *plus* imports) to GDP, i.e. the weight of external trade in relation to domestic economic activity.

Applying this formula indicates that **the Palestinian economy has above average exposure to foreign trade in comparison to other countries in the region.** At 80.4 per cent of GDP, the degree of openness of the Palestinian economy was almost identical to Jordan's (refer to the fifth column of Table S1). (Jordan's *export* to GDP ratio, however, was about 2.5 times as high as that of the Palestinian territory.) Excluding the Palestinian territory, the average ratio was 53.4 per cent for the region. Moreover, the Palestinian economy was considerably more open than that of Israel, the principal trading partner.

Palestinian exports were only about 9.5 per cent of the GDP, the third lowest ratio after Egypt and Lebanon. The low export ratio reflects, among other things, the lack of natural resources; relatively weak productive capacity and productivity; relatively high wage levels; high transactions costs resulting from Israeli-imposed movement restrictions; and the lack of an export infrastructure.

Table S1

Estimates of Per Capita Income and Merchandise Trade as a Portion of GDP for Selected Countries and the Palestinian Territory, 1998[51]
(per capita income in nominal USD)

Country	Per Capita GNP (USD)	Merchandise Exports/GDP	Merchandise Imports/GDP	Merchandise Trade/GDP	Imports/ Exports
Syria	1,020	36.29%	32.64%	60.08%	89.95%
Egypt	1,290	4.93%	17.17%	22.42%	348.00%
Jordan	1,520	25.36%	56.67%	80.68%	223.43%
PT	**1,850**	**9.52%**	**57.48%**	**80.44%**	**603.82%**
Tunisia	2,050	29.93%	43.40%	63.88%	145.02%
Turkey	3,160	13.04%	23.14%	38.20%	177.51%
Lebanon	3,560	10.38%	53.69%	56.29%	517.21%
Israel	15,940	24.46%	30.60%	52.40%	125.12%

Palestinian imports were 57.4 per cent of GDP, the highest ratio in the group. With relatively low exports and high imports, the import/export ratio for the Palestinian economy was about 603 per cent (see last column of Table S1), indicating that **the Palestinian economy had the highest import bias in the region in 1998.** Excluding the Palestinian territory, the average import/export ratio was about 230 per cent for other countries in the region. The Palestinian ratio was also four times higher than Israel's.

Trade openness and import bias are, in themselves, not problems. Many successful economies, e.g. those of East and Southeast Asia, are both relatively open and some have an import bias. Some of the import bias in the Palestinian economy is accounted for by high levels of donor assistance, most of which is grants and much of which is used to import goods used to develop the public infrastructure and institutional capacity. Such imports have been and are being used for public investment and capacity-building which should serve to increase the efficiency and performance of the public and private sectors.

Likewise the import of raw materials and capital equipment (investment goods) which are unavailable in the domestic economy is necessary to supply and develop private productive capacity (and the public infrastructure). As indicated in Table S2, about two-thirds of the value of Palestinian merchandise imports in 1998 were raw materials or manufactured investment goods (including those imported for donor-funded projects). These imports are used in the production of goods consumed in the home market, as well as to produce exports.

Table S2

Value of Registered Palestinian Merchandise Imports by Main Types, 1998[52]
(values in USD '000s)

Main Types	Absolute Values	Shares
Raw Materials	697,209	29%
Agricultural Products	228,883	10%
Processed Food	237,750	10%
Manufactured Consumption Goods	344,238	15%
Manufactured Investment Goods	865,024	36%
Total Imports	**2,373,104**	**100%**

However, in addition to natural resource scarcity, **the import bias reflects the relatively weak productive capacity** that renders Palestinian businesses and consumers more dependent on imports of intermediate inputs and finished products.[53] In other words, the import bias is a problem because it implies underlying deficiencies in the ability of the Palestinian economy to produce a greater share of what it consumes, as well as to export more.[54] **This requires focusing more attention on Palestinian trading partners and exports—both actual and potential—so as to determine opportunities to expand production and exports.**

C. Main Trade Partners

As indicated in Table S3, Israel accounted for about 80 per cent of total Palestinian registered merchandise transactions (exports plus imports). Besides the resource and technical limitations of the Palestinian economy, more than 30 years of occupation have fundamentally oriented Palestinian trade toward Israel. Since 1994, the trade relationship has been formalised—at least for the interim period—by the customs union arrangement defined in the Paris Protocol. This gives Israeli producers preferential access to the Palestinian market vis-à-vis producers from other countries, except for a limited range and quantity of goods as specified by the agreement. Likewise, Palestinian exporters, under current arrangements, have easier access to the relatively large and proximate Israeli market than to others. These factors account for the high degree of Palestinian-Israeli trade intensity.

Table S3

Main Trade Partners of the Palestinian Territory by Total Value of Registered Merchandise Transactions, 1998[55]

(values in USD '000s)

Country	Total Value of Trade Transactions	Share of Total Trade Transactions
Israel	2,214,638	79.98%
Jordan	66,124	2.39%
Italy	57,812	2.09%
Turkey	48,399	1.75%
Spain	36,422	1.32%
Germany	34,126	1.23%
China	33,789	1.22%
United States	33,430	1.21%
Egypt	27,728	1.00%
United Kingdom	25,357	0.92%
Main Partners' Trade	**2,577,825**	**93.10%**
Total Trade	**2,768,948**	**100.00%**

Apart from Israel, the bulk of Palestinian external trade was with a few Arab countries (most notably Jordan and Egypt), Turkey and Western European countries, the most important being Italy, Spain, Germany and the United Kingdom.[56] The U.S. and China were also among the ten most important trading partners. Other significant partners include Asian countries: South Korea, Taiwan, Hong Kong, India, Japan, Thailand and Sri Lanka.

Thus, excluding Israel, Palestinian trade was concentrated in the European Union, Turkey, South and East Asia and the U.S. Noticeably absent from the list are other Arab countries, especially the higher income Gulf countries. Total registered trade transactions with Arab countries were about USD 97 million in 1998. About 97 per cent of this trade was accounted for by Jordan and Egypt.

D. Main Export Markets

The 1998 foreign trade data indicate that 10 countries accounted for nearly all of the USD 394.8 million in registered Palestinian merchandise exports (refer to Table S4). **Israel's market alone absorbed 96.6 per cent of such exports.** While Israel's share may be overestimated,[57] the extremely high concentration of Palestinian exports is a result of more than three decades during which the Palestinian producers were largely isolated from other economies—especially Arab economies--due to the occupation. The imposed economic integration allowed Palestinian businesses to develop markets in Israel either alone, or as part of sub-contracting arrangements in such industries as textiles, garments, leather goods and agricultural products.5[8]

Table S4

Main Markets for Palestinian Merchandise Exports by Value and Share of Exports, 1998[59]

(values in USD '000s)

Country	Value of Exports (USD)	Share of Total Exports
Israel	381,515	96.62%
Jordan	9,120	2.31%
United Arab Emirates	1,498	0.38%
Saudi Arabia	697	0.18%
Italy	627	0.16%
United Kingdom	530	0.13%
Netherlands	245	0.06%
Yemen	128	0.03%
Germany	91	0.02%
United States	75	0.02%
Main Markets Total	**394,526**	**99.92%**
Total Merchandise Exports	**394,846**	**100.00%**

The second most important market for Palestinian exports was Jordan which absorbed about 2.3 per cent of the total while nearly all remaining exports were accounted for by three Gulf Arab countries, four European countries and the U.S. The geographic distribution of Palestinian exports leads to several important observations regarding short- and medium-term export promotion.

First, the very high share dependency on the Israeli market has positive and negative consequences. On the one hand, Palestinian exporters are more familiar with the Israeli market and, through the present customs union, can take advantage of opportunities in a relatively high-income market. This is especially true regarding the Arab population in Israel, whose tastes and consumption patterns are similar. Furthermore, while movement restrictions and transactions costs on Palestinian merchandise are generally high, they are especially high for markets outside of Israel. The negative side is that the lack of diversification renders export promotion dependent on conditions in Israel; a recession there will severely curtail Palestinian exports.

Second, except for the U.A.E., Saudi Arabia and Yemen, the Palestinian Authority has concluded trade agreements with all countries in Table S4, either bi-laterally or as part of a larger trading bloc (e.g. the European Union). In addition to the Paris Protocol (1994) with Israel, the PLO (on behalf of the Palestinian Authority) has concluded trade agreements with Jordan (1995), the U.S. (1996) and the EU (1997).[60] While these agreements have had a limited effect thus far, they suggest the possibility for both a higher level and a more diversified pattern of merchandise exports.

Third, it is noteworthy that the U.A.E., Saudi Arabia, the Netherlands and Yemen were not among the top ten partners in total trade (refer to Table S3). This suggests that these countries were net importers of Palestinian merchandise in 1998. The implication is that these markets—in addition to Israel--may be good candidates for Palestinian export expansion in the short term.[61]

E. Comparative and Competitive Advantage in Palestinian Exports

Traditionally, the basis for international trade has been explained by the theory of **comparative advantage**. In brief, the theory suggests that countries will export goods which can be produced with relative cost efficiency (this being dependent on a country's physical endowments and the proficiency of its work force) and will import goods for which domestic production is inefficient and, therefore, relatively costly.[62] A more modern theory, which rejects the assumptions of the comparative advantage theory,[63] suggests that the pattern of international trade could better be understood on the basis of **competitive advantage**. Such an advantage may derive from economic, cultural, natural, and/or institutional attributes of a country. Export development, in this view, is based on the ability of industries to produce better quality goods, provide better services, new features, and constantly innovate and adapt business operations to changing environments. A country's physical endowments are of relatively minor importance in determining these advantages.[64]

During 1997-1998 the Palestinian Ministry of Planning and International Cooperation (MOPIC), in conjunction with the Middle East Competitive Strategy Center, conducted a study to identify the sources of competitive advantage in the Palestinian economy. The study identified nine industries *based on their contribution to GDP and share of total employment*: cut-flowers, food products and beverages, furniture, olive oil, pharmaceuticals, plastics, stone-cutting, textiles and wearing apparel and tourism.[65]

Using different criteria confirms the importance of the industries identified by MOPIC but also points to others. Table S5 lists the 50 most important groups of *merchandise* exports in value terms for 1998. These groups--ranked according to their absolute value and share of exports--accounted for nearly 90 per cent of all registered Palestinian exports. For example, fabricated construction materials (SITC code 661)[66] accounted for USD 86.4 million in exports or 22 per cent of total exports.

The list, suggestive of the current state of Palestinian comparative or competitive advantages, indicates that 37 of the 50 main export groups were manufactured goods, while the remainder were fresh or processed agricultural products.[67] Of the manufactured exports, **a high proportion is related to the construction industry** (mainly in Israel) including products made of cement, stone, metal, wood, clay and plastic. Another key characteristic is that--excluding vegetables and fruits, vegetable oil and stone products--**most exports are produced with imported raw materials, machinery and equipment.** As the theory of competitive advantage suggests, abundant natural resources are not a prerequisite for developing competitive exports. Rather, export development can occur on the basis of value-added operations applied to imported raw materials. (Table S2 indicates that over half of the value of Palestinian imports were raw materials and other inputs.)

Table S5 provides other information relevant to comparative or competitive advantage. **Trade intensity** is defined as the proportion of trade volume (the value of imports *plus* exports) accounted for by the merchandise group. As such, trade intensity indicates the relative importance of the group in overall trade transactions. For example, the SITC code 661 merchandise group accounted for nearly 8 per cent of the total value of Palestinian trade in 1998. Except for petroleum oils (SITC code 334), this was the most important group of traded goods in value terms.

The **export/import ratio** (the last column in Table S5) is defined as the value of exports to that of imports for each merchandise group. Since Palestinians both export and import goods in all 50 main groups, a higher ratio is suggestive of the relative competitiveness of the Palestinian industries in each group (keeping in mind that each group contains many different goods).

In the aggregate, the value of Palestinian exports was 26.8 per cent of the value of imports. However, for 24 of the 50 groups, the export/import ratio exceeds the average. For 6 of the groups, the ratio is above 100 per cent, indicating that the value of exports exceeds the value of imports (e.g. vegetables, footwear, furniture, other wood products and mineral and metal products). These groups are also concentrated in the upper rankings of the list indicating their relative importance in overall Palestinian exports.

Table S5

Merchandise Exports for the Palestinian Territory by Main Groups, 1998[68]
(values in USD '000s)

Rank	SITC Code	Main Groups	Export Value	Export Share	Trade Volume	Trade Intensity	Export/ Import

1	661	Fabricated Construction Materials of Cement, Ceramic, Stone	86,409	22.00%	221,000	7.99%	64.20%
2	054	Fresh, Chilled, Frozen or Simply Preserved Vegetables	26,634	6.78%	40,968	1.48%	185.81%
3	821	Furniture and Furniture Parts	23,448	5.97%	44,891	1.62%	109.35%
4	122	Manufactured Tobacco	22,112	5.63%	62,422	2.26%	54.85%
5	851	Footwear	19,122	4.87%	36,878	1.33%	107.69%
6	676	Iron and Steel Bars, Rods and Sections (for construction)	16,279	4.14%	93,186	3.37%	21.17%
7	663	Mineral Manufactures n.e.s. (floor tiles and cement blocks)	11,521	2.93%	18,937	0.68%	155.35%
8	273	Stones, Sand and Marble	8,365	2.13%	28,861	1.04%	40.81%
9	542	Pharmaceuticals (including veterinary medicaments)	7,710	1.96%	48,514	1.75%	18.90%
10	635	Wood Manufactures n.e.s.	6,881	1.75%	12,606	0.46%	120.19%
11	893	Plastic Articles n.e.s.	6,847	1.74%	29,446	1.06%	30.30%
12	784	Motor Vehicle Parts and Accessories	6,650	1.69%	41,431	1.50%	19.12%
13	691	Iron, Steel of Aluminum Structures and Parts of Structures n.e.s.	5,784	1.47%	10,027	0.36%	136.32%
14	421	Vegetable Fats and Oils (crude, refined or fractionated)	5,237	1.33%	22,184	0.80%	30.90%
15	057	Fresh or Dried Fruits and Nuts (excluding oil nuts)	5,077	1.29%	32,367	1.17%	18.60%
16	554	Soap and Cleaning and Polishing Preparations	4,698	1.20%	29,491	1.07%	18.95%
17	642	Paper and Paperboard and Articles of Paper or Paperboard	4,298	1.09%	24,237	0.88%	21.56%
18	634	Veneers, Plywood, Particle Board and other Worked Wood n.e.s.	4,236	1.08%	39,187	1.42%	12.12%
19	684	Aluminum	4,173	1.06%	35,407	1.28%	13.36%
20	335	Residual Petroleum Products n.e.s. (petroleum jelly, paraffin)	4,011	1.02%	9,448	0.34%	73.77%
21	011	Meat of Bovine Animals (fresh, chilled or frozen)	3,737	0.95%	23,693	0.86%	18.73%
22	581	Plastic Tubes, Pipes, Hoses and Fittings	3,681	0.94%	11,289	0.41%	48.38%
23	699	Manufactures of Base Metal n.e.s. (welding bars)	3,392	0.86%	13,921	0.50%	32.22%
24	653	Man-made Woven Textile Materials	3,175	0.81%	37,618	1.36%	9.22%
25	812	Sanitary, Plumbing and Heating Fixtures and Fittings n.e.s.	3,111	0.79%	18,479	0.67%	20.24%
26	334	Petroleum Oils and Oils obtained from Bituminous Minerals	2,996	0.76%	248,555	8.99%	1.22%
27	048	Cereal Preparations, Preparation of Flour and Starch	2,891	0.74%	16,705	0.60%	20.93%
28	664	Glass	2,871	0.73%	11,883	0.43%	31.86%
29	022	Milk, Cream and Milk Products other than Butter and Cheese	2,828	0.72%	35,769	1.29%	8.59%
30	778	Electrical Machinery and Apparatus n.e.s.	2,761	0.70%	24,969	0.90%	12.43%
31	741	Heating and Cooling Equipment and Parts n.e.s.	2,616	0.67%	18,496	0.67%	16.47%
32	071	Coffee and Coffee Substitutes	2,615	0.67%	6,687	0.24%	64.22%
33	062	Sugar Confectionery	2,609	0.66%	21,188	0.77%	14.04%
34	248	Wood and Primary Sleepers of Wood	2,535	0.65%	21,822	0.79%	13.14%
35	662	Clay Construction Materials (clay pipes)	2,495	0.64%	29,137	1.05%	9.36%
36	292	Crude Vegetable Materials n.e.s.	2,469	0.63%	9,188	0.33%	36.75%
37	625	Rubber Tires, Interchangeable Tire Treads and Inner Tubes	2,402	0.61%	9,074	0.33%	36.00%
38	582	Plastic Plates, Sheet Film and Foils	2,351	0.60%	11,073	0.40%	26.95%
39	533	Pigments, Paints, Varnishes and Related Materials	2,188	0.56%	24,982	0.90%	9.60%
40	111	Non-Alcoholic Beverages n.e.s.	2,093	0.53%	52,331	1.89%	4.17%
41	772	Electric Apparatus for Protecting Electric Circuits and Parts	2,012	0.51%	12,463	0.45%	19.25%
42	034	Fresh Fish (chilled or frozen)	1,894	0.48%	6,405	0.23%	41.99%
43	058	Preserved Fruit and Fruit Preparations (excluding Fruit Juices)	1,807	0.46%	4,466	0.16%	67.96%
44	845	Articles of Apparel of Textile Fabrics n.e.s.	1,673	0.43%	4,461	0.16%	60.01%
45	075	Spices	1,517	0.39%	4,152	0.15%	57.57%
46	611	Leather	1,371	0.35%	9,148	0.33%	17.63%
47	017	Meat and Edible Meat Offal (fresh, chilled or frozen) n.e.s.	1,330	0.34%	5,064	0.18%	35.62%
48	892	Printed Matter	1,271	0.32%	7,242	0.26%	21.29%
49	056	Vegetables, Roots and Tubers (prepared or preserved) n.e.s.	1,243	0.32%	8,274	0.30%	17.68%
50	781	Motor Cars and Other Motor Vehicles designed for Transport	1,229	0.31%	66,593	2.41%	1.88%
		Totals and Averages for Main Export Groups	**350,655**	**89.26%**	**1,656,615**	**59.89%**	**26.85%**

F. Promoting Exports

In the short to medium term, increasing exports means finding and taking advantage of export opportunities with already established trade partners--especially those with trade agreements with the PLO--who possess relatively large domestic markets (refer to Table S3). To effectively promote exports, more effort by the private sector, NGOs and the PA might be focused on industries in merchandise groups that have above average export/import ratios *and* higher levels of trade intensity (refer to Table S5). These industries seem to have established comparative or competitive advantages, at least in the Israeli market.[69]

A complementary approach might be to direct efforts to merchandise groups with high export/import ratios *and* the greatest labour absorbing potential (e.g. activities with low capital to labour ratios in production). This would maximise the employment impact of export activity, perhaps the most important consideration. Increasing demand for Palestinian products in the short to medium term will also require more attention to consumer tastes and preferences in the main markets.

Greater demand for Palestinian exports would generate strong incentives for building productive capacity, especially in export-oriented industries. It must be emphasised that, in the long term, export-led employment expansion depends on improvements in the general levels of productivity and efficiency in the Palestinian economy. Such improvements depend on greater levels of investment in better production methods, in higher levels of human resource development and utilisation, higher quality standards and better management techniques. Building productive capacity, in other words, will create the supply-side conditions for exports although doing so will require much time and effort **on the part of the private sector**.[70]

Whether the Palestinian economy remains in a modified customs union with Israel, or whether it develops as a more independent trading entity, it will progressively be exposed to global market forces. Higher levels of competition will almost surely result in productive dislocations and disemployment.[71] Furthermore, globalisation will alter the relative and competitive advantages of the Palestinian economy. To be able to cope with such disruptions, and to strengthen export capacity, **the public sector will have to more effectively intervene**.

In particular, whatever the threats posed by globalisation, public policies and strategies must create a more conducive operating environment for business in general. This means continued improvement in physical infrastructure and support services for exporters (e.g. the sea port and air cargo facilities, improved border crossing facilities, industrial zones, market information and trade-related services); producing a modern and efficient legal and regulatory environment; and investing in the development of human resources. The point is to maximise productive private investment through strategic investment in the public sector. Such policies would reduce business transactions and other costs and would enhance competitiveness whatever the degree of globalisation.

Furthermore, and just as important, serious attention must be directed to, and solutions found for, the crippling effects of movement restrictions on Palestinian businesses. A study conducted in 1998 found that, on average, Palestinian businesses seeking to export or import goods through Israeli ports faced transactions costs that are, on average, 35 per cent higher than for Israeli firms in the same industry. Moreover, the study found that time delays at ports were about 45 per cent higher for Palestinian firms compared to their Israeli counterparts.[72] Another study conducted in 1995 concluded that the removal of non-tariff barriers would result in trade diversion from Israel to other countries and would significantly improve the Palestinian merchandise trade balance.[73] Such barriers to trade, even under the present modified customs union arrangement with Israel, not only discourage exports to third countries, but make inter-regional trade and integration of the Palestinian economy more difficult and costly.

Everything must be done to ensure that Israeli authorities do not continue to impede the free movement of Palestinian people and merchandise locally, regionally and globally. Freedom of movement would instil more confidence in investors (both domestic and foreign) and allow for a more rational allocation of resources between various economic activities in the Palestinian economy. It would simultaneously allow the Palestinian economy to take better advantage of trade agreements and increase investment and employment in export-oriented activities.

Notes

1. See Ministry of Finance, "Minister of Finance Statement on the Fiscal Situation," 5 April 2000.
2. Real GDP and GNP estimates are based on PCBS "National Accounts in Current Prices 1998," December 1999 (in Arabic), including East Jerusalem, and PA Ministry of Finance and IMF growth estimates for 1999. Per capita figures are derived using mid-year population estimates from PCBS. National and per capita income figures are estimated in constant 1998 USD.
3. Labour flow estimates assume that the per cent difference between issued permits and actual labour flows in the West Bank was equal to that in Gaza, for which more accurate data exist. Due to a lack of data on actual labour flows to Israeli settlements and industrial zones in the West Bank, the assumption is made that all permits issued were used. This may overestimate labour flows. Since Palestinians in East Jerusalem are not required to obtain permits to work in Israel, they are not included in the estimated labour flows. This underestimates total Palestinian labour flows to Israel. Labour flow averages are calculated exclusive of weekends and officially celebrated holidays. Data for both 1998 and 1999 include revised numbers. Data and assistance provided by the PA Ministry of Labour, the PA National Security Service-Northern Command Area, Gaza and the Co-ordinator of Government Activities in the Territories (COGAT), Israeli Ministry of Defence, Tel Aviv.
4. Based on PCBS Labour Force Survey: Main Findings, nos. 8-15 and middle-series population estimates as given in PCBS Demography of the Palestinian Population, 1994. Palestinians from East Jerusalem working in Israel are not required to obtain permits to do so and are therefore excluded from these calculations.
5. See UNSCO Report, Autumn 1999, p. 4.
6. USD values for registered trade were calculated using the average monthly NIS/USD exchange rates from the PCBS website at: www.pcbs.org.
7. Palestinian exports to Israel include all goods and services--other than the labour services of Palestinians working in Israel—but exclude agricultural products (which are exempted from VAT). Israeli exports to the Palestinian market *exclude* sales of electricity, water, cellular telephone services and agricultural products. Therefore, the volume of Israeli-Palestinian trade--and the size of the Palestinian trade deficit—are underestimated by use of the VAT clearance method. Information and assistance provided by MOF.
8. Data in this table were provided by MOF, February 2000.
9. See Haggay Etkes "Forget Separation, Long Live Trade," Israel's Business Arena 17 February, 2000. Etkes cites Israeli military sources who point to a significant number of Israelis—both Jewish and Arab—attracted by considerably lower prices, who purchase goods and services in Palestinian towns in the northern West Bank.
10. Data on direct West Bank imports through Israeli ports was not previously available and was, therefore, not reported in the UNSCO Report. Recent improvements in the institutional capacity of the Ministry of Finance have resulted in this new data being made available. Data and assistance provided by MOF, February 2000.
11. MOF has instructed its district offices and controllers, who monitor local markets, to confiscate imported non-Israeli commodities for which there is no proper documentation of customs duties payments to the Palestinian treasury. Indirect imports result in millions of dollars in lost revenue—or tax leakage--for the PA each year. Information and assistance provided by the Palestinian Ministry of Finance, February 2000.
12. See special focus in UNSCO Report, Autumn 1999.
13. Some quantity of goods entering the West Bank may eventually be sold in Gaza and vice versa. Original values for West Bank imports through Israeli ports are in USD, while original values for other crossing points are given in NIS and calculated in USD using average monthly exchange rates from PCBS.
14. See PCBS Construction Statistics: Building Licenses vol 3, issues 1-3, 1998 and vol 4, issues 1-3, 1999. Data exclude the retroactive licensing of already existing buildings or parts of existing buildings. Data also exclude unlicensed construction activities.
15. Palestinian cement imports from all sources, a measure of actual construction activity, increased about 7 per cent from approximately 1,822,888 tonnes in 1998 to 1,951,747 tonnes in 1999 according to COGAT, May 2000.
16. In the West Bank new companies are registered with the Ministry of Economy and Trade while in the Gaza Strip new companies are registered with the Ministry of Justice.
17. Information in this table and assistance provided by the Companies Controller, Ministry of Economy and Trade in the West Bank and the Companies Registrar, Ministry of Justice in Gaza, February 2000.
18. For definitions of the legal types of companies, see UNSCO Report, Spring 1999, p. 8.
19. Because border closure and movement restrictions are so severe in the Gaza Strip, the surge in new company registrations may be related to the fact that owning a company facilitates Gaza businessmen obtaining permits to enter Israel and the West Bank. This view is reinforced by the minimal costs for registering private unlimited and limited companies. Because of this phenomenon, the trends in the registration of public limited and foreign companies--for which registration is far more costly--may be a better reflection of planned investment.
20. See UNSCO Report, Spring 1999, p. 9. The preference for private unlimited companies among businessmen in Gaza seems to be that it is relatively low-cost method to fulfil a requirement in applying for businessmen's permits from the Israeli authorities which allows entry into Israel.
21. The first such law was promulgated in 1995. The new (revised) law was published in the Official Gazette in June 1998. To qualify for exemptions under the Law, investment projects must be submitted to the Ministry for approval. Projects must have a minimum of USD 100,000 in fixed assets and employ a minimum number of Palestinians. Fixed capital assets and spare parts are exempted from customs duties and taxes. Projects are also exempted from net profit taxes for the first five years after the commencement of activities. After this period, net profits are taxed at the low rate of 10 per cent for a period ranging from 8-16 years, depending on the value of fixed assets invested; the greater the value of declared fixed assets, the longer the duration of the reduced profits tax. Benefits from the Law accrue to resident and foreign investors equally. See PA Ministry of Economy and Trade "Law for the Encouragement of Investment," No. 1, 1998 .
22. In 1999, 73.6 per cent of the value of approved projects were jointly owned by residents and non-residents of the Occupied Palestinian Territory, 22.9 per cent were owned by residents and 3.3 per cent were owned wholly by non-residents.
23. The value of foreign and joint projects *submitted for approval* in the West Bank in 1999 was about USD 40 million while projects with a total value of USD 8.2 million were given approval.
24. The (unpublished) data used in this section was provided by the Investment Department, PA Ministry of Economy and Trade, March-April 2000. Foreign investment in this table includes approved joint projects, i.e. those for which the owners are both residents and non-residents of the Occupied Palestinian Territory. It is important to note that project approval does not ensure project execution. Thus the data provided should be interpreted as a measure of planned investment based on investor expectations, rather than actual investment spending.
25. Services include privately produced health, education, social and personal services including electricity and telecommunications.
26. Data in this table exclude consumer loans, loans to public sector entities and purchases of financial assets by the banking system. Data include loans provided by donor-assisted lending programs (e.g. the IFC and the French and German programmes) via the banking system. Unpublished data and assistance

provided by the Palestine Monetary Authority (PMA), January 2000.
27. Based on unpublished data provided by the PMA, January 2000.
28. Lending data and assistance were provided by UNRWA, the Palestinian Development Fund, FATEN (previously Save the Children), American Near East Refugee Aid, Culture and Free Thought Society, the Arab Centre for Agricultural Development, Oxfam-Quebec, Care International, the Business Support Centre of the Palestinian Agricultural Relief Committees and the Co-operative Housing Foundation (CHF), February-April 2000. In addition, Catholic Relief Services launched a micro-lending programme in July 1999. Data from this programme are not yet available. The YMCA maintains a lending programme but no data were made available.
29. Data are from MOPIC 1999 Fourth Quarterly Monitoring Report of Donors' Assistance, 31 December 1999.
30. Data from the PA Crossing Authorities indicate that during the first six months of operation of the safe passage (October 1999-March 2000), less than 500 Gaza residents per day have used the passage to travel to the West Bank. Fewer than 50 West Bank residents per day have used the passage in the opposite direction.
31. UNSCO estimates based on information from the PA Ministry of Labour. Effective closure days are defined as days of comprehensive border closure which do not fall on a weekend or holiday.
32. Estimates based on PCBS Labour Force Survey: Main Findings, Nos. 8-15. Labour force participation, full-employment, underemployment and unemployment rates for 1998 are weighted by age group for persons 15-64 years of age but are not weighted for 1999. The adjusted unemployment rate includes discouraged workers. Population data used to calculate absolute magnitudes are middle-series estimates as given in PCBS Demography of the Palestinian Population, 1994.
33. Estimates based on PCBS Labour Force Surveys: Main Findings, Nos. 8-15
34. See discussion in UNSCO Report, Autumn 1999, p. 22.
35. Estimates based on PCBS Labour Force Survey: Main Findings, Nos. 8-15 and population estimates in PCBS Demography of the Palestinian Population, 1994. Palestinian Authority employment estimates are from MOF "Report on Fiscal Developments," various issues. Employment in UNRWA, included in the "services and other" category, averaged 9,386 persons in 1998 and 9,185 persons in 1999. With information and assistance from UNRWA, June 2000.
36. Employment in non-governmental and international institutions—such as UNRWA–is included in the private sector in these calculations.
37. Based on PCBS Labour Force Survey: Main Findings, Nos. 5-15 (1997-1999) and population estimates in PCBS Demography of the Palestinian Population, 1994 for persons 15-64 years of age.
38. As most private construction activity involves the building or expansion of private residences, and is financed from personal savings, such activity has historically been related to improved economic conditions and higher household incomes. To this must be added the private construction activity related to donor-assisted infrastructure development.
39. Services include finance, real estate and business services, community, social and personal services (provided by NGOs) and private education and health services.
40. See UNSCO Report, Spring 1999, p. 23.
41. See PCBS Labour Force Survey, various issues.
42. Based on PCBS Labour Force Survey: Main Findings, Nos. 8-15. Labour force participation, full employment, underemployment and unemployment rates are weighted by age group for persons 15-64 years of age.
43. At the average NIS/USD exchange rate of 4.15 in 1999, the average monthly wage of a fully-employed Palestinian was about USD 340 or about USD 15 per day. Exchange rate is taken from the PCBS website.
44. Data are from PCBS Labour Force Survey: Main Findings, Nos. 8-15. Average monthly wages are calculated as the product of average daily wages and average number of work days per month. Nominal wages are deflated by the consumer price index from PCBS with 1996 base period.
45. Data in this table are based on PCBS Consumer Price Index, Revised Series, various issues, covering the period December 1998-December 1999. PCBS notes that the CPI for the Palestinian territory is a separate composite index–not the average of East Jerusalem, the West Bank and the Gaza Strip.

46. See labour force statistics (round 16) on the PCBS website: www.pcbs.org.
47. In general, the growth in trade—especially exports---has lagged behind growth in most other macroeconomic indicators. See current and previous editions of the UNSCO Report.
48. PCBS Foreign Trade Statistics, 1998: Main Results, Ramallah, March 2000. Except for water, electricity and telecommunications services purchased from Israel, these estimates exclude trade in services. PCBS is in the process of preparing estimates of the value of service trade. Despite the present customs union arrangement, Israel is treated as an external market in this report.
49. The most important source of the discrepancy is the significant amount of unregistered trade between the West Bank and Israel. See UNSCO Report, Autumn 1999, p. 3. Another problem is the considerable amount of trade—mainly imports—conducted through the passenger terminals, especially from Egypt and Jordan, which are not included in the PCBS data. See UNSCO Report, Autumn 1998, p. 6. A third reason for the underestimation of trade is insufficient documentation by some Palestinian agencies that supplied PCBS with data on which their estimates are based.
50. The Ministry of Finance and the IMF estimate the total value of trade in merchandise and services (including tourism) at USD 3,900 million in 1998. See "West Bank and Gaza: Economic Policy Framework—Progress Report," 31 May 2000, Table 1.
51. Data for selected countries, other than the Palestinian territory, are derived from World Bank World Development Report 1999/2000, Washington, 2000, pp. 230-31, 268-69. Estimates for Palestinian income are from PCBS National Income Accounts, 1998; Preliminary Estimates (in Arabic) and exclude East Jerusalem. Per capita income estimates are not adjusted for purchasing power parity. Palestinian trade data are from PCBS Foreign Trade Statistics, 1998: Main Results, March, 2000, exclude East Jerusalem and are adjusted upward by 20 per cent to account for non-registered trade.
52. UNSCO estimates based on PCBS Foreign Trade Statistics 1998, Table 17.
53. Due to capacity weakness in the local economy, the additional purchasing power of Palestinian consumers earned by employment in Israel and received as transfers from relatives living abroad also raises the import ratio and import bias.
54. See UNCTAD Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges, Geneva, United Nations, 1998, chapter 3.
55. PCBS Foreign Trade Statistics, 1998: Main Results, March, 2000. Data exclude the value of unregistered trade between Palestinians and Israelis. This underestimates Israel's share in Palestinian trade. On the other hand, Palestinian imports include Israeli re-exports (indirect imports) from other countries which, if properly registered, would reduce Israel's share in total Palestinian trade. Data also exclude trade conducted through passenger terminals—mainly imports from third countries—which, if documented, would reduce Israel's share in Palestinian trade.
56. Other main European trading partners, in order of importance, were France, the Netherlands, Switzerland, Belgium, Greece and Austria. Registered trade transactions with Europe as a whole accounted for about 10 per cent of total Palestinian trade in 1998. If indirect imports were accounted for, Europe's share in Palestinian trade would be substantially greater.
57. PCBS has indicated that some registered Palestinian exports to Israel, such as agricultural products from Gaza, are re-exported to other countries via Israeli marketing channels. Furthermore, due to incomplete reporting from some Palestinian agencies results in an underestimation of Palestinian exports abroad. These factors overestimate Israel's share of Palestinian exports. On the other hand, including unregistered Palestinian exports to Israel would raise Israel's share.
58. See UNCTAD Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges, Geneva, United Nations, 1998, pp. 46-47.
59. Based on PCBS Foreign Trade Statistics 1998: Main Results, Table 3.

60. The PA also has trade agreements with the European Free Trade Association (1998), Egypt (1998), Canada (1999) and Russia. For further information refer to the PALTRADE website at: www.paltrade.org.
61. It is relevant to point out that the U.A.E. and Yemen figure prominently because of Palestinian participation in trade exhibits in those countries in 1998. With assistance from PCBS.
62. See Paul Krugman and Maurice Obstfeld, International Economics: Theory and Policy, 3rd Edition, New York: Harper Collins, 1994.
63. For example, the standard theory assumed that all countries had access to the same technology; that products produced in different countries were basically the same in quality (no product differentiation); that a country's resources were fixed in quantity and; that neither labour nor capital were mobile between countries. See Michael E. Porter, The Competitive Advantage of Nations, New York: The Free Press, 1990.
64. See Porter The Competitive Advantage of Nations. In the competitive advantage theory, countries develop from factor-driven advantages to investment-driven ones, to innovation-driven advantages and then to wealth-driven ones as economies become more sophisticated.

65. See MOPIC, Building Competitive Advantage in the Palestinian Economy, August 1998. MOPIC suggests that the Palestinian territory is at the factor-driven stage of development, meaning that the resource base of the country remains the principal source of export activities.
66. SITC refers to the Standard International Trade Classification. See United Nations Standard International Trade Classification, Revision 3, New York, 1986. Main merchandise groups represent a number of related industries. The SITC main group description may obscure the particular product(s) produced in the Palestinian territory. Using the five-digit SITC code would be necessary to determine these.
67. Agricultural and agro-industrial products are included in SITC code groups 054, 421, 057, 011, 048, 022, 071, 292, 034, 058, 075, 017 and 056.
68. Export value and trade volume are taken from PCBS Foreign Trade Statistics, 1998.
69. A competitive advantage in the Israeli market may be a stepping stone to the much larger western European market where consumer tastes and incomes are similar. See Ishac Diwan and Radwan Shaban, eds. Development Under Adversity: The Palestinian Economy in Transition, Washington: MAS and the World Bank, 1999, pp. 92-93.
70. See UNCTAD Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges, Geneva, United Nations, 1998, chapter 3.
71. The process has already begun, most notably with regard to inexpensive and relatively high quality East Asian garments and leather products. See *Palestine Business Report* Vol. 5, No. 4, April 2000, pp. 10-11; Vol. 4, No. 12, December 1999, p. 11; Vol. 4, No. 11, November 1999, p. 14.
72. The study concluded that extra costs and delays put Palestinian businesses at a 'serious competitive disadvantage' in the international market. See Federation of Palestinian Chambers of Commerce, Industry and Agriculture and the Center for Middle East Competitive Strategy "The Transaction Costs Study: An Examination of the Costs of International Trade in the West Bank," August 1998. It is important to note that businesses from Gaza—which face more serious transactions costs and time delays--were not included in the study.
73. See Mahmud Ja'fari and Radwan Sha'ban West Bank and Gaza External Merchandise Trade: Possibilities and Prospects, Jerusalem: Palestine Economic Policy Research Institute, November 1995 (in Arabic).