Palestinian National Plan 2011-13

Economic Development Sector Strategy

Note: All statistics and figures are quoted from the Palestinian Central Bureau of Statistics (PCBS)

1. Sector Profile

Since its occupation of the Palestinian territory, Israel has used all means and techniques to destroy the Palestinian economy and associated with the Israeli economy. Over the past 10 years, the Palestinian economy has been subject to numerous structural changes and distortions. Having scored the highest growth rate in the world in 1999, economic indicators rapidly deteriorated following the outbreak of the second Intifada in the 2000 fourth quarter. Over 2001-2, GDP dropped dramatically and unemployment attained highest levels, leading to large reduction and deterioration in all components of the Palestinian economy, including on the macro- and micro-performance levels. Damages sustained by agriculture, industry, construction, trade and investment sectors also caused a decline of economic indicators and trade in an unprecedented manner. As a result, negative reliance of the Palestine's economy on Israel's has exacerbated.

Over 2003-5, however, the economic situation started to gradually recover. GDP achieved relatively positive rates, though it remained below the required level. Therefore, unemployment witnessed a gradual reduction. With the advent of 2007, GDP scored a relative recovery and preliminary data showed a continued improvement throughout 2008 and 2009. Late in 2008, GDP amounted to USD 4,639.7 million. During Q1 and Q2 2009, GDP grew by 3.9% and 6.4% respectively. Per capita share of the GDP also rose to USD 1,289.9 at the end of 2008. Still, GDP is below its 1999 levels. Since the Palestinian National Authority (PNA) was established, the trade balance has marked a chronic deficit. Compared to previous years, however, the trade balance deficit has relatively dropped over the past five years. The deficit was USD 1669 million in 2006 and approximately USD 1575 million in 2007, primarily in light of the decreasing value of imports.

Combined, economic factors achieved a real growth of the total GDP of 2% in 2008 (base year is 1997)[1], exceeding USD 4 billion compared to a negative growth of about USD 1.2 billion in 2007. PNA Public Budget also marks an ongoing deficit, reaching a highest level in 2008 with a deficit value of USD 683.1 million. In contrast, financial aid and grants increased, remarkably reducing the budget deficit and achieving a surplus over the past years.

Generally, the industrial activity, market operation and various investments reflected a significant rise. However, the situation declined in the Gaza Strip towards the first half of 2007 after the ongoing blockade imposed was imposed and Rafah Border Crossing was closed, isolating Gaza from the West Bank and from the outside world. Accordingly, poverty rate exceeded 89% amongst the total Gaza population. The situation further deteriorated in the wake of Israel's military offensive on Gaza in late 2008, resulting in economic losses of more than USD 3 billion.

2. Reliance on the Israeli market

[1] Macroeconomic and Fiscal Framework, International Monetary Fund, 3rd Assessment.

The prolonging dependence on the Israeli market, absent political stability, continued expansion of settlements, and severe restrictions imposed on movement have impeded investment in productive sectors as well as obstructed the growth of industrial and productive installations in Palestine.

Paris Protocol

Currently, the only legal framework that regulates the Palestinian-Israeli economic relations is the Paris Protocol and respective annexes, which provide for a customs union between two separate customs areas. Unfortunately, however, this legal framework does not provide the proper canopy of the Palestinian-Israeli relation in light of Israel's short implementation of the Protocol. Multiple Israeli infringements of the Paris Protocol include restrictions on internal and external movement and suspension of the transfer of clearance revenues to the Palestinian National Authority (PNA).

The Paris Protocol establishes a customs semi-union, later known as a joint customs envelope, on grounds of three major principles:

1. Free exchange of goods between both parties without any customs or non-customs barriers.
2. Both parties will adopted a consolidate tariff whilst the PNA preserves the right to set customs and specifications of a limited list of strategic goods (Lists A, B, and C).
3. According to the Revenue Sharing principle in customs clearance, the Israeli Customs Authority will carry out the clearance of goods imported to Palestine based on the joint tariff, and will then transfer the income to the PNA.

Weak Industry Sector and Inadequate Investment

Israel's policies are the major impediment to the economic growth and fiscal stability aspired by the PNA. These include a policy of imposing closure and barriers, which have paralysed the Palestinian economy for years, exerted disastrous consequences and generated high rates of unemployment and poverty. Also, Israel prevents the PNA from accessing natural resources, including land, water and cultural heritage sites. The unstable political and security situation has limited the investment potential, discouraging investors from investing in Palestine. Combined, these factors have distorted the Palestinian economy, including all respective sectors, and isolated it from its internal and external surroundings.

Low investment in the industry sector as well as Israel's policies, which effectively undermined Palestine's industrial capacities over decades, rendered the sector in dire need to a large volume of investments. Added to the long history of stagnation and declined development, the ongoing crisis in Gaza has completely undermined the economic sector, adversely impacting the economy in both the West Bank and Gaza Strip.

Weak Competitiveness of Palestinian Products

Israel's policies of secluding the Palestinian economy and frequent closures have debilitated the competitive capacity of the Palestinian industrial sector. 2000 marked the most prosperous years since the PNA was established. Compared to neighbouring countries, Palestine was in the 8th rank on the industry index, contributing an added value USD 211.66. During the second *Intifada*, however, the added value of the Palestinian industry deteriorated due to the Israeli measures and the industrial development process ceased. In 2007, the industrial sector's added value dropped to USD 174.57 and Palestine receded to the 11th rank on the industry index.

Israeli measures, including the blockade and control over land crossings and seaports, have caused Palestinian exports to fall. Compared to rank 8 on the industry sector in 2000, Palestine occupied the 11th rank in the exportation of industrial products. Still, Palestine has not achieved progress in this area even though the industry's added value rose to USD 81.2 compared to USD 76.7 in 2000.

3. Challenges

- Terminate reliance on Israel, create employment opportunities, and explore trade in alternative markets that support the Palestinian economy.
- Develop a strategy that targets the diversification of trade since the Palestinian economy depends on a large number of small and medium enterprises, which lack competitive factors.
- Develop an economy sector strategy and integrate it with other respective strategies compiled by other ministries.
- Devise integrated, effective, top-down and bottom-up policies that will support restructuring and diversifying trade to avoid a complete reliance on external aid. Recommendations pertinent to all emergency situations will also be developed.

4. Vision

A free, competitive and sovereign economy, which is consistent with principles, laws and agreements of the multiple commercial system. The Palestinian economy will be capable of attaining sustainable economic and social development and contribute to achieving prosperity. It is based on knowledge and scientific research and relies on pioneering, competitive sectors on the local, regional and international level through an enabling business and investment environment.

5. Strategic Objective and Policies

1. Terminate dependence on and hegemony of Israel's economy on Palestine's
   a. Restructure productive sectors
   b. Diversify trade and find alternative markets for Palestinian goods and services

    c. Increase labour capacity
2. Develop an enabling business and investment environment in Palestine
    a. Devise a competitive, legal and regulatory framework
    b. Develop an enabling investment infrastructure
3. Build public and private sector bodies so that they will be capable of management the State economy in line with the best international practice
    a. Enhance institutional performance in accordance with strategic requirements
    b. Institutionalise and improve performance of corporations

	2011		2012		2013	
	Budget	**Performance indicators**	**Budget**	**Performance indicators**	**Budget**	**Performance indicators**
Terminate dependence on and hegemony of Israel's economy on Palestine's						
Restructure productive sectors (industrial modernisation, rehabilitating industry in Gaza, standards and specifications, increasing the productive capacity, etc.)	50,000,000		60,000,000		50,000,000	
Diversify trade and find alternative markets for Palestinian goods and services (develop the local market, develop exports, Export Plan, commercial attaches, etc.)	200,000,000		20,000,000		20,000,000	
Increase labour capacity (rehabilitate the workforce, training programmes, transfer of human resources, expand the productive base, etc.)	45,000,000		45,000,000		45,000,000	
Develop an enabling business and investment environment in Palestine						
Devise a competitive, legal and regulatory framework (laws and regulations, implementing bodies, security agency to be responsible for law enforcement, etc.)	10,000,000		10,000,000		10,000,000	
Develop an enabling investment infrastructure (material infrastructure, such as airports and roads, as well as supportive bodies and facilitating procedures)	200,000,000		120,000,000		120,000,000	
Build public and private sector bodies so that they will be capable of management the State economy in line with the best international practice						
Enhance institutional performance in accordance with strategic requirements (restructure the Ministry of National Economy, relevant agencies, private sector bodies, etc.)	45,000,000		50,000,000		40,000,000	
Institutionalise and improve performance of corporations (institutionalise the Private Sector Coordinating Council, support private sector bodies to perform assigned duties, etc.)	9,000,000		9,000,000		9,000,000	