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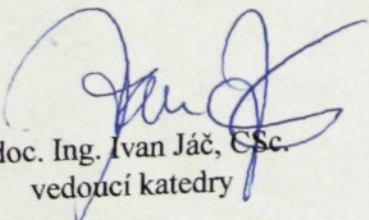
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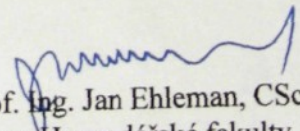
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ANOTACE

Tato bakalářská práce se zabývá politickou a ekonomickou situací na Dálném Východě, konkrétně vzájemnými vztahy mezi Israelem a Palestinou.

Zároveň zkoumá dopad konfliktu v této oblasti, způsobující totální pád sociální infrastruktury.

Summary

This bachelor work aims at the political and economical situation in the Far East, concretely these mutual relations between Israel and Palestine.

At the same time the studies the effect of this conflict in this area causing total deterioration of the social Infrastructure.

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Acronyms and Initials

CG	Consultative Group on the West Bank and Gaza Strip
EU	European Union
FTAs	free trade agreements
GDP	gross domestic product
GIE	Gaza Industrial Estate
GNP	gross national product
ICA	Israeli Civil Administration
ICBS	Israeli Central Bureau of Statistics
IFC	International Finance Corporation
IMF	International Monetary Fund
MENA	Middle East and North Africa region
MIGA	World Bank's Multilateral Investment Guarantee Agency
NGOs	non-governmental organizations
OECD	Organization for Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation
PNA	Palestinian National Authority
PADICO	Palestinian Development International Company
Paltel	Palestinian Telecommunications Company
PCBS	Palestinian Central Bureau of Statistics
PEA	Palestinian Electricity Authority

PLO	Palestinian Liberation Organization
PMA	Palestinian Monetary Authority
PPP	purchasing power parity
RWB	remaining West Bank excluding East Jerusalem
RWBGS	Rest of West Bank and Gaza Strip excluding East Jerusalem
UNRWA	United Nations Relief and Works Agency
US	United States
VAT	value-added tax
WBGS	West Bank and Gaza Strip

Weights and Measures

BCM	billion cubic meters
DWT	deadweight tonnage
Kg	kilogram
km	kilometer
MCM	million cubic meters
Mw	megawatts

Currency

JD	Jordanian dinar
NIS	New Israeli shekel
US\$	United States dollar

Introduction

More than five years have passed since the Oslo Accords were signed on the White House lawn and acclaimed as the harbingers of peace and prosperity to the Middle East. The prospects for peace have been widely discussed. The focus here is on the promise of Middle East prosperity.

The Declaration of Principles (DOP) was followed by numerous Arab-Israeli meetings and multinational economic conferences (notably in Casablanca and Amman), the purposes of which were to forge and to cement Arab-Israeli economic relations, to attract foreign as well as local investors, and to deliver ever-growing prosperity to the region. Various scenarios were depicted for the future of the Middle East, the essentials of which were as follows:

- The peace agreements would be followed by a significant reduction in military spending in the Arab countries as well as in Israel. The reallocation of substantial resources from the military to the civilian economy would stimulate and finance greater investment in infrastructure, as well as in educational and health services.
- Regional infrastructure projects in transportation, communications, water and power, would be supported by foreign aid.
- Joint Arab-Israeli economic ventures would be fostered especially in industry, agriculture, and tourism.
- A large and growing inflow of foreign private investment would ensue, which would give a strong boost to the regional economies, raise personal incomes, and steadily reduce the high levels of unemployment prevailing in the Arab states.

Shimon Peres, first as Israel's Foreign Minister and later as Prime Minister, assured his people that with so important an economic stake in the "peace process" the Arabs surely would favor continuing peaceful relations with the Jewish state. His calls were echoed by other leaders and diplomats, perhaps most recently by US Undersecretary of State Joan Spiro, who said in a speech on 11 October 1996: "Ever since the Camp David accords, the peace process has had

an economic as well as a political dimension, with the goal of giving all the parties an economic stake in its success.

Public statements and wishful thinking aside, the Oslo agreements can contribute little or nothing towards the achievement of economic prosperity. Through the following discussion of the Middle East economies, it will be that economic growth is dependent mainly on the removal of internal social and economic obstacles, and not on international politics.

- **CHAPTER 1: Palestinian National Authority**

1.1 Israel's Economy

For an article on the current state of the Israeli economy, Israel's economic history is varied: a series of major achievements accompanied by serious problems. The 1950s, 1960s and early 1970s were highly successful in terms of economic growth, with the exception of the 1966-67 recession. By the early 1960s the economy had successfully absorbed the mass immigration of earlier years and labor shortages had become the norm. However, balance of payments problems soon became more severe and inflationary pressures grew, although Israel's labor shortages were ameliorated after the 1967 Six Day War. The opening of the pre-war borders brought a growing influx of Arab labor from the areas which came under Israeli control.[1]

The Yom Kippur War of 1973 and the oil shock of 1973-74 greatly aggravated inflationary pressures and balance of payments problems. The second oil shock (1979-80) raised Israel's oil import bill to over \$2 billion per annum, a value that exceeded the grants which Israel received from the United States. The oil shock and the huge revenues acquired by the rich Arab states helped to stimulate the Middle East arms race, further straining the Israeli economy. Hyperinflation, amounting to hundreds of per cent per annum, became the norm, with all of its attendant evils. Economic growth slowed to a crawl, dropping from 9-10% per annum between 1953 and 1973 to 3.2% per annum in the decade from 1975-85, and barely exceeded the population growth rate.

In 1985, a national unity government came to power and adopted important economic measures designed to reduce inflation drastically and to put greater stress on economic efficiency. Increased US aid during a two-year transition period facilitated the implementation of the new program. The results were excellent. Inflation, over 300% per annum in 1984 and 1985, fell to 48% in 1986, and continued at a steady decline to less than 20% per annum from 1987-91 and 10-12% from 1992-95. Initially economic growth rates lagged—as is usually the case when drastic anti-inflationary measures are taken—but these policies laid the groundwork for the favorable economic performance of the Israeli economy during the first half of the 1990s.

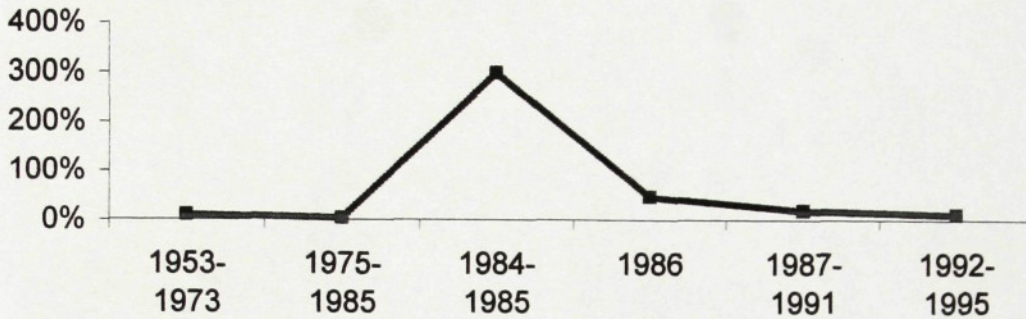
Based on an international comparison, since 1990 Israel has enjoyed a high rate of economic growth, around 6% per annum. This is three years before the signing of the Declaration of Principles. In fact, the growth rate of GDP, 5.7% per annum from 1993-95 was somewhat lower than in the previous three years, 6.4% per annum in 1990-92. The business sector GDP (i.e., excluding government and non-profit institutions), shows a more significant drop in the growth rate in the latter period, from an annual average 7.8% in 1990-92, to 6.6% in 1993-95.

The high rate of economic growth since 1990 was stimulated, in part, by the large-scale immigration from the former Soviet Union. During the period of mass immigration (200 thousand per annum in 1990 and in 1991) the rate of unemployment rose. But in subsequent years, when immigration was back to a more "normal" 75 thousand per annum, the rate of unemployment steadily declined. The improving state of employment was accompanied by moderating inflation, which by 1995 was down to 10%.

But the good news was accompanied by bad news. In particular, since 1993 Israel experienced a sharp deterioration in the balance on current account of the balance of payments, which worsened in 1994, and even more so in 1995. The balance on current account is defined as exports of goods and services, plus unilateral transfers from abroad (US grants, contributions from world Jewry, German restitution, immigrant and other private transfers) minus imports of goods and services. In 1990-92, as a whole, the balance on current account was positive at \$154 million. In the following three years, 1993-95, there was a sharp deterioration with a total deficit of \$7.8 billion, of which \$4.1 billion was incurred in 1995 alone. [2] This deficit was not the result of arms imports, which actually declined. Estimates for the first quarter of 1996 show a continued deterioration with the deficit in the balance on current account 25% higher than in the same period a year earlier.[3] These deficits were covered, for the most part, by loans and a growing external debt.

If the budget submitted to parliament by the new government in mid-1996, which focuses on cutbacks in government expenditures, is implemented, it should reverse the adverse trends in the balance of payments and reverse the recent up-trend in inflation.

ISRAELI ECONOMICS 1950-1995



figure(1) Source: ICB, PCBS, IMF, World Bank and Other International Agencies.

The data do not suggest that the Oslo agreements had any perceptible effect on the Israeli economy. Nor can one "blame" the Oslo accords for the problems which arose since 1993/1994. Israel's recent economic woes are attributable mainly to unwise government economic policies. One example is the unusually large wage increases granted by the government to public sector employees in 1993-96 (soon emulated by other sectors) that stimulated very large increases in private consumption, imports and inflation. A second example is the provision by the government of unusually large subventions to politically-favored groups, aggravating the budgetary deficit and indirectly the deficit in the balance of payments.

What all this tells us is that Israel's economic problems can be addressed only by the adoption and implementation of appropriate economic policies. Israel adopted some important new economic policies in the mid-1980s which fostered efficiency, productivity, and profitability, and the favorable results became very visible in the early 1990s. Wise economic policies underlay Israel's prosperity, and poor economic policies explain the problems that arose in more recent years.

As the rest of this discussion will demonstrate, the same is true of the Arab states where the problems are far more deep-rooted. Wise domestic policies hold out the promise of prosperity. Only basic, fundamental economic changes can significantly improve the performance of the

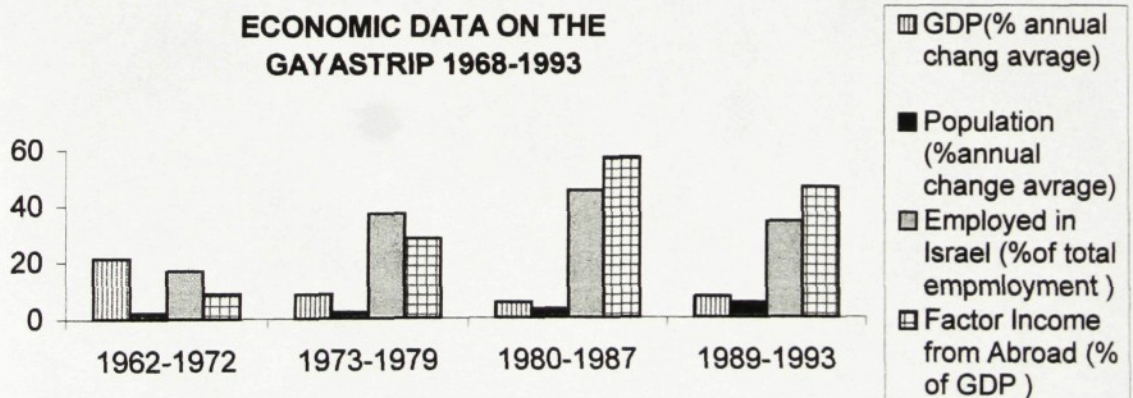
Middle Eastern economies, and provide jobs and decent incomes for the vast army of unemployed and under-employed, the poor and downtrodden—not interstate politics.

1.2 The Palestinian Economy

In the past decade the Palestinians suffered from a series of severe setbacks. The sharp decline in oil prices since the early 1980s, and especially since the mid-1980s, reduced the demand for imported manpower to the rich Gulf states. The Palestinians, as well as others, were adversely affected by the curtailment of job opportunities, and by the depressed wages of those who were fortunate enough to retain their jobs.

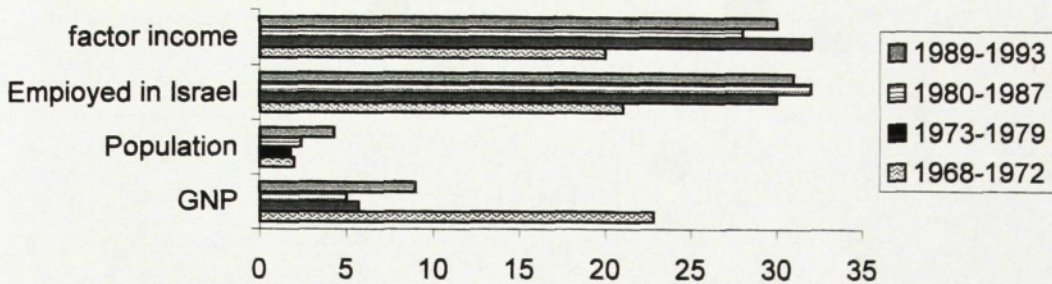
The Intifada, which started in 1987, had a depressing effect on the Palestinian economy. The frequent closures following terrorist attacks disrupted trade and other economic relations between Israelis and Palestinians, and accelerated Israel's replacement of Palestinians by laborers from a number of Eastern European, Asian and African countries.

During the Persian Gulf War of 1990-91, Arafat and other Palestinian leaders sided with Saddam Hussein. Following the liberation of Kuwait by the US and allied forces, Kuwait retaliated with a mass expulsion of about 400 thousand Palestinians, including many who had either been born in Kuwait or lived there for decades. The large majority of refugees went to Jordan. Jobs which had previously been open to Palestinians in Saudi Arabia and Kuwait were now closed. Moreover, the large annual financial contributions from these two states to Arafat also came to an end in 1990.



figure(2) Source: ICB, PCBS, IMF, World Bank and Other International Agencies.

ECONOMIC DATA ON THE WEST BANK 1968-1993



figure(3) Source: ICB, PCBS, IMF, World Bank and Other International Agencies.

The very sharp curtailment in the number of Palestinian workers given Israeli work permits since the series of suicide bombings in February and March of 1996 has made a bad situation even worse. The estimate of the UN coordinator is that one Palestinian worker in Israel directly and indirectly supports ten people in the Autonomy. Closure had been especially tight since the spate of suicide bombings in late-Winter/early-Spring 1996. Before then Israel had been easing its restrictions and the number of Palestinians working in Israel rose from 30 to 70 thousand, though it still remained far below pre-Intifada levels, when 100-130 thousand Palestinians worked in Israel. But as Fouad Ajami notes "Israel got no gratitude" for the security risks it took. In a recent interview, the US Consul General in Jerusalem[4] cited World Bank estimates that the Palestinian economy had declined by a severe 8% in 1995 and would probably drop by an even more calamitous 20% in 1996. Helping to rehabilitate the Palestinian economy is, in his view, "the most urgent task." He urged Israel to rescind or at least ease the closure. The American Under-Secretary of Commerce for International Trade, on a visit to the region, said that: "There's a pressure cooker building up in the territories.[5]

Because of the poor state of the economy, potential Palestinian investors who had come from abroad to examine investment possibilities have left.

There was near-unanimous agreement that the success of the Israel-PLO accords "rested on advancing the economic situation in the Occupied Territories, and doing it quickly." In the spring of 1994 the vice president of the World Bank, the body charged with implementing the

international aid program to the Palestinian autonomy, asserted that: "If the peace process is to have any hope of success, the Palestinians need to see improvements in their living standards quickly.

Arafat's promise of turning Gaza and the West Bank into the "Middle East's Singapore" (other versions spoke of creating the Hong Kong of the Middle East) has left Palestinians feeling cheated. Unemployment in Gaza is variously estimated at a depressing 50-60%. The situation in the West Bank (Judea-Samaria) is less depressing—"only" 24%. According to more conservative estimates, the unemployment rate in Gaza is "only" 40%, but reaches 60% in the refugee camps, where half of the Gaza Strip's population of about one million live. Regardless of the precise figures, it is abundantly clear that the Palestinian economy has deteriorated badly since the Oslo agreements.[6] Despite generous international aid, the two million Palestinians under Palestinian Authority control "have yet to see tangible benefits. For many, living standards have declined.[7]

Notes that the underlying problems stem from gross inefficiency and endemic corruption. One unnamed European diplomat recently described Arafat's administration as, "marked by inefficiency, corruption and cronyism, trying to keep all the power to himself, while juggling various warlords, including half a dozen paramilitary police agencies, the armed Islamic militants, and criminal bands that control their own turf for narcotics and car theft operations.

Because Arafat aims to keep a firm hold on the purse strings, he has set up "three separate economic ministries run competitively by political rivals. [Foreign] donors [of aid to the Palestinians] doubt the PNA's (Arafat's Palestinian National Authority) judgment, suspect that contracts will be given to buddies, and fear that the [aid] money will be swallowed up by running costs." In other words, little of the aid money is available for investment in infrastructure, for developing industry and agriculture . The Oslo B agreement called for a police force of thirty thousand. Recent estimates place the actual figure at least twice that. Here, too, the basic problem stems from very costly duplication and other inefficiencies. "Arafat has more than five separate security bodies . . . each . . . led by a member of Arafat's

entourage competing with each other and sometimes clashing. Arafat established a new security force to contain dissent at Palestinian universities. According to the Jerusalem Post, there are at least ten PA affiliated security forces operating in the Palestinian Autonomy areas.

The highly-inflated security services and the ballooning bureaucracy absorb a large portion of the aid money. The inefficient and often corrupt administration which has emerged in the Palestinian Autonomy often discourages, rather than encourages, productive enterprise and investment.

- **CHAPTER 2: BUILDING A FIRM FOUNDATION FOR GROWTH**

2.1. Policy Guidelines

2.1.1. Fiscal Policy

Consumer Price Index & Inflation Rate by Major Groups of Expenditure

(Base Year 1996=100) TABLE (1)

The stability and transparency of fiscal policy are essential in order to promote economic activity and investment. Fiscal objectives, as outlined by the PNA, aim mainly at maximizing tax revenues and stimulating economic growth under the condition of a more equitable income distribution.

To achieve these objectives, improvements are being made in expenditure management and revenue collection. In particular, all revenues and expenditures are in the near future to be centralized under the control of the Ministry of Finance, with the aim of

Increasing efficiency in the collection and use of budgetary resources. A cadre of some 580 qualified staff has been trained in modern tax gathering techniques.

The fiscal policy of the PNA is to reduce the public deficit and achieve a surplus in the coming years. Thus the Authority will be in a position gradually to phase out external assistance to the recurrent budget. Donor resources will then be focused on financing development projects, especially those related to infrastructure. This will enhance private sector confidence and help to mobilize local and foreign investment. The success of this policy is clearly contingent on lifting the state of siege and closure and on Israel not impeding the development of labor and trade relations.

2.1.1.1 Revenues

Although the PNA has been more successful than anticipated in mobilizing taxes and customs receipts, revenues represent only around 20% of GDP,[8] which is low compared to Israel and many other developed and developing countries. This is attributable mainly to fiscal leakage because customs revenues collected by Israel, on behalf of the PNA, are not fully transferred to the Authority. This problem arises when imports are either transacted through Israeli traders, without specifying Palestine as the final destination, or Palestinian importers fail to use the unified invoice, which entitles the PNA to claim the taxes.

It has been estimated by PEC DAR, using conservative assumptions that some 50% of Palestinian imports from Israel are of non-Israeli origin. This means that, for 1995, a total of some US\$100 million was lost to the Palestinian exchequer. These revenues, had they been collected by the PNA, would have covered the deficit in the recurrent budget for that year. The level of leakage is likely to grow as aggregate import levels increase annually. The tax-clearance arrangements with Israel should provide for a lump sum payment, calculated on the overall value of imports rather than on the current invoice-by-invoice basis.

Palestine has a narrow tax base. Revenues from income tax and VAT, which are the main sources of locally collected income, are limited because of the small corporate sector, the scant amount of taxes collected at source and the large size of exempted agricultural and small-scale sectors. Despite this, tax revenues are likely to grow significantly as the efficiency of the system improves.

2.1.1.2 Expenditure

The total work force of the PNA, including both the civil service and the police, is 81,641, with a wage bill of US\$ 540 million or 60% of total expenditure. In order to contain recurrent expenditure, the Authority will curtail the recruitment of staff for government Ministries and related institutions. Recruitment has expanded rapidly during the past years partly in an effort to help curb the growing unemployment resulting from the border closures. Staff also increased in the security services in response to the deteriorating political situation in the region.[9]

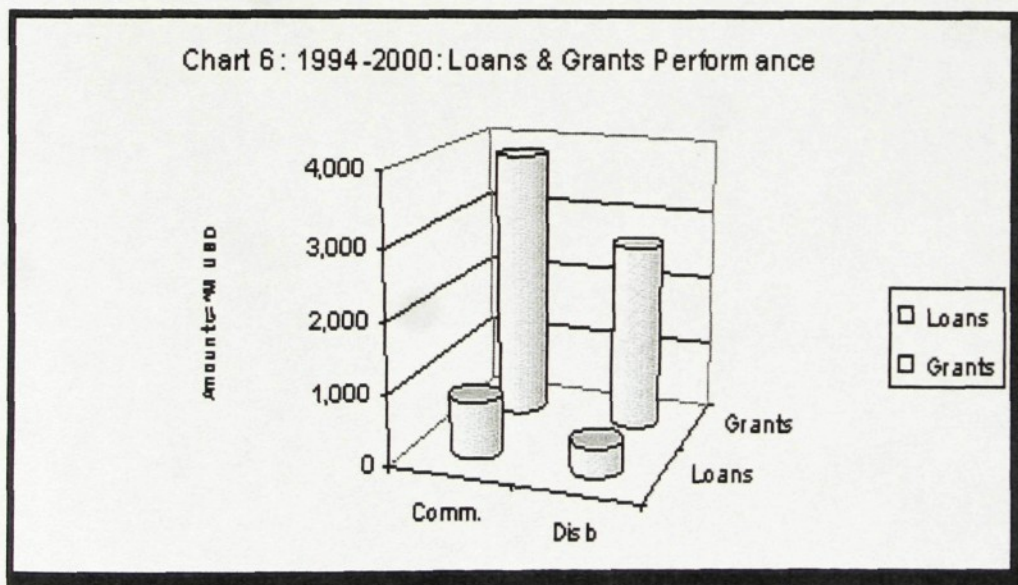
The Authority has directed that emphasis should now be given to the expansion of overall economic activity in order to generate employment in the productive sectors. Using the public service to help address the unemployment crisis can never be more than a short-term palliative. It simply diverts scarce resources from productive investment.

2.1.1.3 Achieving Fiscal Balance

The recurrent deficit for 1996 is estimated at US\$95 million or some US\$20 million more than originally budgeted. This shortfall is attributable to the economic impact of the closure. Internal revenues, at about US\$684 million, exceeded the original estimate by some 23%, in spite of the economic stagnation experienced during the period. This reflects an improvement in tax collection and management. Recurrent expenditure, on the other hand, at about US\$780 million, exceeded the original estimate by some 24%, reflecting the cost of the emergency program aimed at alleviating the suffering resulting from the closure, as well as other operating costs. The salary and wage expenditure remained at its originally estimated level reflecting genuine employment restraint.[10]

Revenues are expected to grow to US\$814 million in 1997, as economic activity picks up and as recent improvements in tax collection, including the opening new tax offices, bear fruit. Expenditure, however, is anticipated to reach US\$866 million, more than half of which is for wages and salaries. As a result, the recurrent budget deficit was estimated at US\$52 million but, given the re-imposition of the comprehensive closure of the border in July and September 1997, this figure has now increased to US\$ 116 million.

figure(4) Type of Donation (LOANS & GRANTS)



Source: MOPIC'S 2000 THIRD QUARTERLY MONITORING REPORT ON DONOR'S ASSISTANCE

2.1.2. Monetary Policy

2.1.2.1 Current Situation

The Palestinian banking sector was effectively destroyed by the occupation. Arab banks were closed in 1967 and replaced by branches of Israeli banks; which failed to provide the services necessary to promote the Palestinian economy. On the contrary, the deposits accumulated from the Occupied Territories were used to strengthen the Israeli economy. As a consequence of the peace process, Jordanian commercial banks have reopened their branches in the West Bank.

The Palestine Monetary Authority (PMA) has been established with authority to issue bank licenses. The number of banks has since grown from two, in March 1994, to seventeen at the end of 1996; and branches, mainly of foreign banks, from thirteen to seventy-one. Deposits, however, continue to be transferred to the bank's respective head offices, rather than being invested in Palestine. This also hinders the development of an inter bank market.

Banks have been successful in attracting savings. Deposits, which grew by 99.5% in 1995 and by 46% in the following year, reached US\$1.7 billion by the end of 1996. The banks have failed, however, to increase their credit facilities, which were estimated at only US\$ 424 million in 1996. The credit/deposit ratio has remained at about 25%, compared to 64% in Jordan and 82% in Israel. Furthermore, 58.1% of this credit was in the form of overdraft facilities to the PNA. Medium and longer - term loans, which help drive economic development remained limited and other credit facilities restricted.[11]

The low credit /deposit ratio is attributable to the following:

- the unstable economic and political environment;
- the scarcity of adequate collateral, normally provided by property, due mainly to a lack of proper registration of land;
- an under-developed judicial system, especially relating to settling commercial disputes;
- inexperience in using the banking system among normal people;
- a lack of acceptable feasibility studies on which banks can depend to evaluate projects;

- the problems experienced by small scale-enterprises in providing adequate financial documentation; and
- The prolonged closure of the Palestinian territories by Israeli authorities which undermines banking activity and discourages banks from making new loans.

Border closures encourage large and unpredictable swings in confidence and seriously disrupt the cash flow of depositors and borrowers. Banks may find that depositors, for no fault of their own, suddenly need extra cash because their income has stopped. Similarly, borrowers may not receive the funds necessary to make a repayment on the due date.

Since the mechanisms for the PMA to act as a lender-of-last resort are still being developed, including the establishment of a national currency, the commercial banks must maintain a higher level of liquidity than in other countries. The banks must continue to borrow -- directly and indirectly -- from the Central Bank of Jordan and the Bank of Israel. However, these institutions restrict the ability of local banks to secure foreign exchange for customers by refusing to swap their own currencies for foreign exchange at the prevailing rates. As a result, the banks are obliged to purchase what they need from local moneychangers.

2.1.2.2 Role of the Palestinian Monetary Authority

The core purpose of the PMA, as set out in the draft legislation, is to secure the stability of Palestine's banking and monetary arrangements. PMA is working to establish a strong banking system where people can entrust their savings with confidence. Such a system will provide the financial infrastructure essential for development.

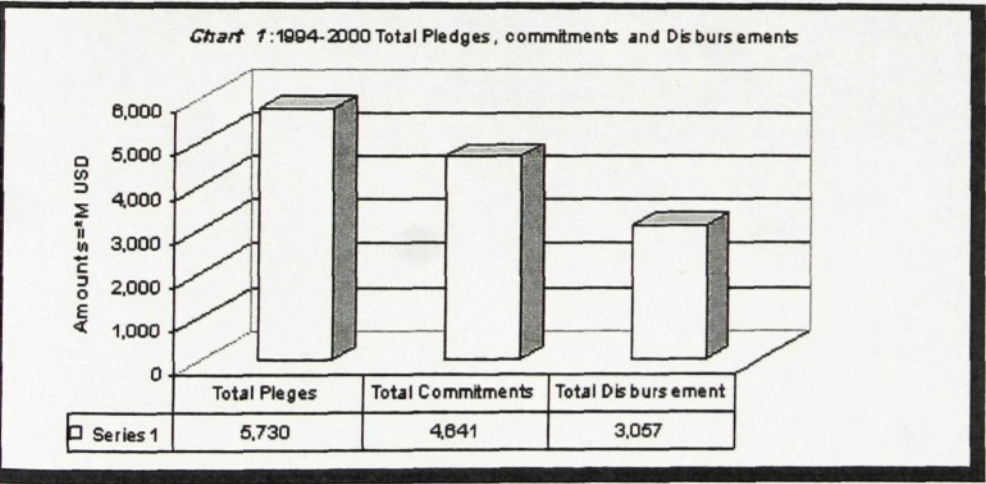
The task of developing a sound banking system is, however, made more difficult because of the unique environment in which the PMA must operate. There are a number of legal problems, which constrain the development of the banking system. For instance, greater clarity is needed over property rights to allow borrowers to enhance their credit worthiness by providing collateral. The more that such legal uncertainties are reduced, the greater will be the confidence with which the banks can take decisions.

Credit judgments are left to the commercial banks. PMA, however, while keen to see an overall increase in lending to the productive sectors, has encouraged caution in credit policy to safeguard depositors' funds. Lending is, at present, constrained by the lack on deposit insurance, by the limited tax base and by the absence of a national currency. These factors would make it impossible for the PMA itself to prevent difficulties experienced by any of the commercial banks from spreading to the rest of the banking system.

The PMA is examining how best to secure long-term credit for the rehabilitation of infrastructure. There is a need for guarantee arrangements to enable banks to lend in the knowledge that they can refinance the credit if they require additional liquidity. Such a scheme could be supplemented by the introduction of other external guarantee arrangements, such as MIGA. Technical assistance and financial support is required to develop these proposals.

The PMA should work to improve the environment in which the banks operate so that they can expand their lending capacity. It should, however, of course, avoid policy interventions likely to put depositors' fund at risk. The Authority's capacity to influence the volume and cost of credit will only be in place once a national currency is established.

Figure(5) 1994 - 2000 Performance Amounts=*1000 USD



Source: MOPIC'S 2000 THIRD QUARTERLY MONITORING REPORT ON DONOR'S ASSISTANCE

2.2. Legal Environment for Investment

PNA has adopted a market economy philosophy in which the State has no direct role in production. Its primary responsibility is to establish a legal and regulatory environment that will encourage private firms and individuals to create wealth. This approach is also essential in order to attract foreign direct investment.

There is, as yet, no integrated legal system for Palestine. The procedures followed in the West Bank are based mainly on Jordanian law whereas in Gaza they are rooted largely in the common law, dating from the time of the British Mandate. To complicate matters further, East Jerusalem, which is part of the West Bank, has been subjected to Israeli law.

Many of the laws in the West Bank and the Gaza Strip, which impinge most directly on the business community, are inconsistent with each other. This complicates the life of business people and, in particular, leads to higher transaction costs. It also contributes to the uneven distribution of industries. The uncertainty and instability, which arises from this situation, discourages long term investment.

There is, therefore, an urgent need to coordinate the two court systems. The longer-term objective is to unify and expand the current arrangements in order to construct a transparent legal system capable of providing a firm foundation for economic activity and investment. The Ministry of Justice is, therefore, working closely with the Ministry of Economy & Trade and the Ministry of Industry to develop laws and regulations supportive of a modern competitive business environment.

Among the laws in urgent need of updating and revision are:

Company Law: The West Bank follows the Jordanian law of 1964, whereas in the Gaza Strip the British mandate laws of 1929 and 1930 are still in force. These laws provide adequate legal regulation but need modernizing and unifying.

Contract Law: There is, at present, no comprehensive law that governs contracts. This situation discourages economic activities in general and investment in particular, and should be dealt with and remedied as a matter of urgency.

Commercial Law: Again, with some modifications, the West Bank follows the Jordanian law. This legislation needs to be elaborated further to provide a healthy environment for business.

Tax Law: A modernization of taxation law is necessary even though the existing legislation is relatively new.

Investment Law. Similarly, the investment law needs updating.

Also, ownership law and banking law should be modified and the procedures for company registration and conflict resolution streamlined. In areas under PNA responsibility, the process of land registration should be accelerated in order to help enhance the collateral base needed for the expansion of credit.

Much has already been done to shape and enact an efficient legal system for Palestine. The PNA, through its Legislative Council, has approved a number of new laws and other initiatives are in the pipeline. The following table shows the recent and proposed legislation under consideration by the Council. Foreign Trade Statistics TABLE (2).

2.3. Capacity Building and Institutional Reform

During almost three decades of Israeli occupation, the economic and social development of the country was severely neglected. As a result, Palestine suffered from a lack of the institutions necessary to support, supervise, and regulate the activities of its population. In the past, these deficiencies were met -- in part at least -- by international and local institutions and by the NGO's, although cooperation among these various bodies was weak. This array of formal and informal structures, although playing a positive role in Palestine's development, lacked a common framework for effective coordinated action.

The April 1994 agreement on the Gaza Strip and Jericho transferred responsibility for civil administration from Israel to the PNA. Systematic efforts have since been made to secure effective control of the basic public sector tasks formerly performed by the Israeli Administration. This involves the establishment, development and coordination of a network of institutions and the mobilization of the resources necessary to finance them. In this process, existing bodies -- where they are shown to function efficiently -- have been maintained. New structures have only been created where a clear need is established. In this way limited resources have been focused on the most urgent needs.

In recent years, the PNA has established a core of ministries and related institutions to carry out the work of government. These institutions are designed to help foster and accelerate economic and social development and to ensure that essential services are provided to the Palestinian people. The main challenge confronting the Authority is to improve the performance and increase the efficiency of these emerging institutions. To this end, every effort is being made to recruit and retain appropriately trained and motivated staff.

Palestine boasts a relatively well-educated population. The Authority has, as a result, been successful in recruiting a core of capable administrators, technicians and experts to staff its new institutions. However, there are, in some areas, serious shortages of appropriately experienced personnel. Furthermore, staff in these relatively young institutions often has only limited training in public administration. Efforts are in hand to improve the quality of existing staff, through in-service training and by other means, and to ensure that new recruits meet the high standards required by the Authority. Priority is also attached to improving management systems. Considerable resources are being focused on capacity building and human resource development for the public sector.

Percent Distribution of Households in the Palestinian Territory by Number of Rooms in Housing Unit 1995-1999

Number of Rooms	Year				
	1995	1996	1997	1998	1999
2	20,9	19,1	21,6	16,6	21,0
3	29,4	26,4	28,8	25,3	31,4
4	24,5	24,9	23,7	26,0	27,6
5+	18,1	21,5	16,0	26,1	12,7
Not Stated	—	—	0,3	—	0,1
Total	100	100	100	100	100

Table(3) Source: Palestinian Central Bureau of Statistics (PCBS)

Building public institutions is difficult in any circumstances. The problems confronting the PNA, which has to operate in conditions of great uncertainty, with overlapping and conflicting responsibilities, make that task even more difficult. The PNA must, therefore, define more clearly the "borders" between Ministries. The Authority requires highly skilled people in order to manage the institutions efficiently. Developing the experience and skills of its staff is, therefore, a paramount priority.

Even given the training programs, which are in place, the shortage of experienced personnel will persist for some time. In order to fill the gap, staff has sometimes been recruited by Palestinian institutions from abroad. Such recruitment, however, is expensive and difficulties are often experienced in securing visas and work permits. The priority, therefore, remains to develop local skills rather than to recruit personnel from overseas. Overseas recruitment should always be last a resort.

- **CHAPTER 3: DEVELOPMENT PRIORITIES AND PROGRAMMES**

3.1. Introduction

The Palestinian National Authority is engaged in a fully comprehensive program of work to rehabilitate the economy and improve public services. The immediate priorities for action are infrastructure; housing; human resources and social development; and employment creation. In implementing this program special consideration is being given to needs of the Gaza Strip.

3.2. Infrastructure

Given the prolonged neglect during the period of occupation, the infrastructure stock in Palestine is inadequate and of poor quality. It compares badly with other countries of the same income group and also with the region as a whole.

The PNA -- recognizing the intimate relationship between infrastructure development, economic growth and the peace process -- attaches high priority in its agenda for national reconstruction to this sector. The 1993 Declaration of Principle (DOP) on interim self government arrangements inspired a major effort by the international community to assist the PNA in this work. The Emergency Assistance Program (EAP), which emerged from this endeavor, has focused predominantly on infrastructure.

The peace process was given further momentum with the signing of the Israeli - Palestinian Interim Agreement on WBGS, Oslo II, in September 1995. This Agreement enlarged the area under Palestinian sovereignty; and consequently the responsibilities of the PNA in the sector. Given the poor condition of this infrastructure, and the understandably limited new investments made possible through the EAP, severe shortages continue to hamper the provision of essential services for businesses and households. In 1995, expenditure on infrastructure was less than 2% of GDP -- or between US\$50 and US\$ 60 million.[12]

Although there is no agreed norm, the level of expenditure on infrastructure in Palestine is low by international standards. Such expenditure has been divided equally between the West Bank and Gaza Strip, which means a lower ratio of investment to GDP for the larger West Bank

economy. The inadequate level of investment in infrastructure, and the uncertain political situation, place severe limits on development.

3.2.1 Current Priorities

Current priorities in infrastructure include environmental protection, energy, roads, and water & waste water. Special attention is being given to the infrastructure needs of the tourism sector and to the development of a number of industrial estates.

3.2.1.1 Environmental Protection

Both the Gaza Strip and the West Bank suffer from the absence of environmental regulations. As a result, there has been a continuous depletion of natural resources, ongoing environmental degradation and increasing pollution. Among the problems experienced are the destruction of vegetation cover to build new settlements and by-pass roads on land confiscated by Israel. Programs are being developed for waste management and pollution control in the West Bank and the Gaza Strip. An initiative is also in hand to improve the environmental management of the Coastal Zone in the Gaza Strip.

3.2.1.2 Energy

The Palestinian power systems are old and inefficient; electricity suppliers are unreliable; generating is highly dependent on Israel; and the institutional framework is weak and highly fragmented. Consumption, which is a good indication of the health of the economy, is considerably below regional levels. Over 130 villages in the West Bank have no electricity or are supplied for only a few hours daily. Priority is being given to rehabilitate existing networks and extend services. The industry will be privatized, leaving the public sector responsible for rural electrification and inter-regional connections.

3.2.1.3 Roads

The West Bank has 2,000 km of roads, the Gaza Strip 168 km. The main network largely constructed prior to 1967, is about 700 km and serves the major population centers; the regional network, which stretches to about 500 km, serves mainly to link Israeli settlements

with the metropolitan centers. Outside the municipal boundaries, roads serving Palestinian towns and villages have been funded largely from Palestinian resources. Much of the local road links have deteriorated badly due to a lack of routine maintenance and regular resurfacing. The PNA is engaged in a major program of rehabilitation, construction and maintenance of inter-urban and village access networks in the West Bank and the Gaza Strip.

Main Indicators of Transportation

1998	1997	Indicator
2,495	2,055 ⁽¹⁾	Road network Length (kilometers)
162,680	160,407	Number of Road Vehicles ⁽²⁾
3,549,481	-	Number of material received by mail
1,693,062	-	Number of material dispatched by mail
167,271	110,893	Number of Main Telephone Lines
19,809,806	-	Monthly average of Calls number
47,629,336	-	Monthly average of Calls length (minutes)

Table(5) **Source:** Palestine in Figures (October, 1999)

3.2.1.4 Tourism

Hotel Activities

1998	1997	1996	Indicator
92	85	72	Number of hotels*
214,220	220,850	229,712	Number of guests
7,986	7,419	6,434	Number of beds*
3,682	3,425	2,926	Number of rooms*
601,085	639,344	736,428	Number of guest nights

Table(6) **Source:** Palestine in Figures (October, 1999) * Represents the end of the year

The tourism industry -- which benefits from Palestine's many unique religious sites, including those in Jerusalem, Bethlehem and Jericho -- is crucial for the development of the economy.

There are, however, a number of obstacles preventing the healthy growth of this sector. In addition to the problems arising from the political and security situation in the region, there is an urgent need to rehabilitate and extend the tourist industry's infrastructure. This is to be undertaken largely by the private sector with the active support and encouragement of the PNA.

Three million tourists are expected to visit Bethlehem at the end of the century to celebrate the 2000th anniversary of the birth of Christ. The *Bethlehem 2000 Project* is preparing for this event by helping to improve the town's infrastructure -- its roads, transportation, sanitation, solid waste and electricity facilities. The project will also strengthen the capacity of local institutions to manage and coordinate this historic event.

3.2.1.5 Industrial Estates

The rationale for establishing industrial estates, derives from the contribution which they can make to employment generation, export and import promotion, infrastructure development, and overall economic growth. The intention is to establish and develop, with the support and involvement of the private sector, a number of such estates in Palestine. The role of the PNA is to guarantee an enabling environment and access to off-site utilities such as water, power and communication. The Industrial Estate will, however, be managed by a "developer" for the use of private industrialists.

The Gaza Industrial Estate (GIE), which is the most advanced, will be located at Carni and has a useable area of about 47 hectares. There is sufficient expansion space adjacent to the site and this area has been zoned for industrial development.[13]

3.2.2 Role of the Private Sector

The performance of the PNA in the area of infrastructure, although hampered by limited resources and by constant closures, has been impressive. The Authority is open to new ideas and has adopted innovative institutional measures.

In line with recent international trends, the PNA recognizes the important role of the private sector in ensuring that infrastructure is provided and managed in a productive and efficient manner. This is particularly important given the limited availability of donor financing and the constraints on budgetary resources. The provision of telecommunications, for example, has already been delegated to the private sector; as have projects to encourage private sector provision of other infrastructure services, such as for the supply of water and sanitation in Gaza. A project is in preparation to secure private participation in the distribution and management of electricity supply. There are many other infrastructure projects which will be implemented by the private sector in the future. In such an approach, the PNA plays a regulatory role, setting the appropriate service standards, and ensuring a competitive process in order to protect the public interest.

In spite of the continuous efforts at rehabilitation and expansion, the state of Palestine's infrastructure is still poor and remains incapable of providing an effective spur to economic growth. A major increase in investment, both public and private, is needed to expand and extend services in order to alleviate the current severe shortages and address the inequalities that presently exist in Palestine.

3.3. Human Resources and Social Development

The ultimate focus and beneficiary of all the PNA's development plans are the Palestinian people themselves. Considerable resources are, therefore, being directed to programs designed to improve national educational facilities and to meet the special needs to the more vulnerable members of society. *Consumer Price Index Numbers in Palestinian Territory for April 2001 Compared with March 2001 by Groups of Expenditure.*

TABLE (7)

3.3.1 Education

The creation and development of a first class educational system will help improve the employability of labor and ensure that the national economy can develop the skills, expertise and flexibility necessary for effective participation in the information age.

3.3.1.1 Primary and Secondary Education

The lack of investment over many years in human resources and physical infrastructure, together with the pressures of Palestine's rapidly growing population, have propelled the school system into crisis. There is, as a result, a serious shortage of classrooms; and school facilities are severely overcrowded or -- in some areas -- non existent.

The facts speak for themselves:

- class sizes, which at present average 36 throughout the system as a whole, are growing as student numbers increase due to rapid population growth and the return of refugees;
- the physical area available per student, which was already low by international standards, is falling;
- over ninety localities lack any educational facilities at all;
- there is a need to provide 1,800 additional classrooms each year to accommodate the increase in numbers;
- many school buildings need rehabilitation and upgrading -- including the 43% which lack water, electricity, or toilets; and
- a high percentage of rented facilities are not appropriate for educational purposes and should be replaced by permanent structures.

The current effort to build new schools is not sufficient to address the backlog and meet the increasing demands of Palestine's growing population.

To meet this crisis, the Palestinian National Authority has established five main objectives:

- to ensure access to education for all, by providing adequate facilities in rural and urban areas and by improving the physical learning environment -- this will require a major program of school building and rehabilitation;
- to improve the quality of education, by developing a unified curriculum for the West Bank and the Gaza Strip designed to prepare students for the social and economic challenges of the 21st century;
- to expand technical and vocational education;

- to improve educational administration by upgrading professional skills; and
- to provide in-service training programs for teachers, establish teacher resources centers, and improve the provision of teaching resources and equipment.

3.3.1.2 Higher Education

Palestine has eight universities; five in the West Bank, two in the Gaza Strip and the Open University which serves both regions. There are also twenty community colleges.

Although the quality of university education is considered high in comparison with neighboring countries, there is a need to increase cooperation among the universities on a range of issues. A common approach to admissions and to enrolment levels is necessary in order to ensure that the system as a whole is producing the right number of graduates educated in the appropriate disciplines. There is, at the same time, a need to broaden the curriculum, especially in the technical and vocational fields. Most universities are, at present, incapable of covering their recurrent costs; and are, therefore, unable to invest in new courses or in the development of their institutions. It is important that the universities develop clear strategies to achieve financial sustainability.

The priorities for this sector are:

- to develop higher education and scientific research institutions in order to provide the specialized and qualified human resources needed to run a dynamic market economy;
- to offer financial stability to higher education and to the research institutions;
- to develop technical and vocation training in order to strengthen the skill base of the economy; and
- to encourage cooperation and coordination among higher education and scientific research institutions with their Arab and other counterparts overseas. [13]

HIGHER EDUCATION INDICATORS. TABLE (8)

3.3.2 Social Welfare

The creation of a dynamic and successful economy is not an end in itself but a means to allow people to live prosperous, dignified and fulfilled lives. Concern for the weaker

members of society, and those who experience difficulty in competing effectively in the market place, is therefore the hallmark of a civilized society.

Within this context, the Palestinian National Authority has established the following objectives in the area of social affairs:

- to strengthen the development of Palestine's human resources;
- to support and reintegrate into society detainees, the wounded, the disabled and individuals with special needs;
- to promote child care;
- to provide assistance for initiatives designed to enhance the status of women and children and to eliminate their exploitation;
- to work for the elimination of homelessness, destitution, and drug abuse; and
- to establish a comprehensive social insurance and security system.

There is a special need to upgrade youth and sports facilities by building clubs and youth centers. Other initiatives, which require support, included the organization of summer camps for both male and female youth, as well as for the disabled. It is also important to re-establish the scout movement which, for political reasons, was ignored during the occupation.

3.4. Employment Creation

Unemployment, with its grave economic, social consequences, is now one of the most pressing problems facing Palestinian policy makers. This was not always the case. Except for the period of the Itifada, the unemployment rate has not exceeded 5% of the labor force. With the advent of the peace process Palestinians were promised a better life but have found themselves trapped in economic stagnation.

Unemployment increased to 18-25% during 1993 and 1994. The policies of closure and siege made the majority of Palestinian laborers working in Israel unemployed. This crisis also had a serious impact on workers in Palestine itself. At the end of 1995 and the beginning of 1996,

the unemployment rate went up to approximately 30%. *Distribution of Employed Persons 15 Years and Over in the Palestinian Territory by Age, Sex and Place of Work* TABLE (9).

Distribution of Unemployed 15 Years and Over in the Palestinian Territory by Years of Schooling, Type of Unemployment and Sex. TABLE (10)

Following the 38 day closure from the end of February to the beginning of April 1996, the unemployment rate reached unprecedented levels, exceeding 50% in March and at the beginning of April. It then dropped to 30% in the middle of the year and fell again to 22% in the autumn. At least one-fifth of the labor force is currently unemployed and, given population growth of 4%, this figure will rise unless strong economic growth is achieved. These figures do not include disguised unemployment or underemployment.[14]

The PNA's strategy to address this crisis calls for an increase in the level of investment from its current rate of 18% - 20% of GDP; and, at the same time, to ensure that these resources are used as efficiently as possible. Increasing public investment beyond the current low levels will provide a boost in the short to medium-term, while in the longer-term private investment must provide the engine for growth.

To deal with the immediate situation, the PNA has adopted emergency measures to create jobs and address the social disruption caused by unemployment. The Authority working with the World Bank, the United Nations, and other donors has developed a series of emergency job creation programs. Such programs have, on a monthly basis, secured employment for more than 8,000 people during the second half of 1996.

The PNA's Industrial Estates programs seeks to develop a longer-term response to the problem of unemployment. The private sector is being encouraged to develop industrial estates, which would, to a large extent, be insulated from the impact of the closures on the movement of goods and labor. The Authority will provide the necessary physical infrastructures for these programs. Planning for Gaza Industrial Estate, with a potential to create up to 20,000 jobs, is already well advanced. US\$30 million has already been allocated

- **CHAPTER 4: Economic Relations between Israel and the Palestinian Authority**

for technical assistance and off-site infrastructure. Similar initiatives are in the pipeline for Jenin and Nablus.[15]

4.1. *The Protocol on Economic Relations (Paris Protocol)*

Economic relations between the Palestinian Authority and the State of Israel are governed by the Protocol on Economic Relations, which was signed in Paris on April 29, 1994 (Paris Protocol). The protocol is based on the premise that building a sound economic base for relations between the Palestinians and the Israelis will increase their interest in achieving peace. Furthermore according to the Preamble the two parties recognize each other's economic ties with other markets and the need to create a better economic environment for their peoples and individuals.

The Paris Protocol establishes the contractual agreement that governs economic relations between the two sides and covers the West Bank and Gaza Strip during the interim period. Implementation, based on stages envisaged in the Declaration of Principles (DOP) on Interim Self Government Arrangements of September 13, 1993, began with the entry into force of the Gaza-Jericho accord in May 1994 and will last for five years to May 4, 1999. [16]

4.2. *Principles underpinning the Paris Protocol*

The protocol's Preamble states that each party views economic matters as one of the key elements in relations between them with a view to enhancing their interest in achieving a "just, lasting and comprehensive peace". This peace is to be based on the concept of mutual respect of each other's economic interests. The sovereignty of the Palestinian side in economic policy and decision making is expressly recognized. Another principle found in Oslo which extends to Paris Protocol is that the parties recognized the "West Bank and Gaza Strip as a single territorial unit, the integrity and status of which will be preserved during the interim period. Following decades of neglect and decline, the Palestinian external trade regime has undergone important developments since 1994 following the signing of the Paris and Cairo accords between the PLO and Israel. The Paris Protocol has several major declared aims with regard to the Palestinian economy, which are set out in its Preamble:

Of serious concern is the steep fall in private investment - from \$ 529 million, or 21% of GDP, in 1993 to an estimated \$ 320 million, a low 8% of GDP, in 1995. Moreover, up to 90% of private-sector investment, mobilized for housing construction, came from personal savings. In short, private-sector investment during the interim period has been negligible despite vast potential investments contemplated by large Palestinian companies such as PADICO.

The fall in private investment is a result of the lack of economic security compounded by the difficulty in securing regular transport for the import of raw material inputs and the export of finished products to their final destination (internal and export markets). The arbitrary nature of security inspections and delays at check points/ports of entry and exit all serve to deter business people from starting new enterprises or expanding existing ones.

The inability of Palestinian businessmen to obtain permits to travel from the West Bank to Gaza and vice-versa is a serious problem faced by inter-Palestinian trade. A Palestinian businessman from the West Bank can obtain a permit to go to Tel Aviv without difficulty, but cannot obtain one to go to the Gaza Strip.

Even when foreign investors and Palestinian expatriates do seek to invest in Palestinian Authority areas they are not issued residence permits, and/or are provided with permits on an arbitrary basis. Application procedures for permits have become so cumbersome that investors are discouraged from investing in the Palestinian economy.

4.5. Revenue sharing

Although the Paris Protocol clearly stipulates a time frame for the transfer of revenues from Israel to the Palestinian Authority, Israel has used the transfer issue to gain political leverage over the PA. On several occasions, Israel has stopped the transfer of funds to the PA, depriving it of revenue, causing liquidity shortages and delaying the import of inputs for major government development projects. The Israeli Government has also resorted to the deduction of certain "unsubstantiated debts" from the transfer of revenues collected on behalf of the PA, without even consulting with the PA.

- **CHAPTER 5: THE FUTUER PROGRAMS FOR
PALESTINIAN ECONOMICS CONSTANCY**

5.1 Introduction

Palestine: Building the Foundation for Economic Growth, and the economic assumptions on which it is based, has been elaborated in the firm conviction that there is a real prospect for peace in the region.

It would be naive, however, not to recognize that after years of conflict the Middle East remains in a state of profound crisis and trauma. The choices are simple. The parties can either follow the path of reconciliation and compromise, which -- by definition -- mean not achieving everything one had hoped for, or be held responsible for a progressive deterioration in the situation; which might, at any time, ignite into a much greater conflagration. The path of negotiation is the only one that offers the prospects of peace. It is the avenue by which the Israeli and the Palestinian people can create the political, social and economic structures through which conflict can be managed and, eventually, reconciliation achieved.

The first requirement is to re-establish a common vision for the peace process. Once it is clear that the two main protagonists are agreed on broad objectives, it will become much easier to deal with the inevitable ups-and-downs in the negotiations. The essence of this common vision is respect: both the Israeli and the Palestinian people wish to be accepted by the world community as sovereign states within clearly defined borders. Normal countries, in a normal region, that can cooperate and compete with each other in economic and social terms to their mutual benefit. This means that both must be able to exercise the substance and the trappings of statehood. One cannot be a chattel of the other.

Israel, with its huge economy, massive defense forces, and close alliance with the United States, must accept the Palestinian right to self determination and independence -- just as the PLO has accepted the State of Israel. Although compromise is required from both sides, the

nature of the compromises involved are not the same. Talk of reciprocity, therefore, often obscures more than it illuminates.

If the two sides stumble in these negotiations the costs will be enormous. Failure will provide a major boost to the enemies of peace and will sow the seeds of destabilization throughout the region. It will also further exacerbate tensions between the Arab world and the United States.

5.2. The Challenge Facing the Palestinians

5.2.1 The Palestinian National Authority

The main tasks confronting the Palestinian National Authority and the PLO are:

- to achieve a successful outcome of the peace negotiations;
- to establish firm basis for the new Palestinian State by putting in place a stable macro-economic policy and appropriate legal and institutional framework;
- to ensure that, even in the present difficult circumstances, the essential services are delivered in an efficient and effective manner;
- to create an economic environment which will support the development of the Palestinian private sector, encourage investment in productive capacity, and encourage exports; and
- to secure resources for the implementation of development projects and programs designed to improve living and working conditions of the population.

Palestine: Building the Foundations for Economic Growth provides clear evidence of the efforts that are in hand to achieve these objectives.

5.2.2 The Private Sector

The PNA is confident that the private sector will respond positively to the new economic and regulatory environment that is being put in place to encourage investment.

The Authority is keen that the private sector should take full advantage of the recent investment legislation and of the new opportunities that are opening up for international trade, especially for products with high value-added. This will help to boost significantly the economy and reduce dependence.

The Authority is working hard to strengthen the country's infrastructures and to improve the public services on which the private sector depends. This all costs money. In the medium and longer term, such public investment must be paid for -- either directly or indirectly -- from the surpluses earned by the private sector. A dynamic private sector is, therefore, the engine of economic growth.

In creating or developing productive capacity it is important that the private sector remain alive to the environmental problems that confront the country. Companies must avoid creating pollution or over exploiting natural resources. They should, on the contrary, adopt practical policies to improve the environment. This is in the long-term self interest of the private sector.

Finally, constraints on government expenditures are unlikely lesson in the coming months and years. The private sector should, therefore, support local and national initiatives in education, health and social welfare. This will help reduce pressure on government budgets and will ensure the availability of a healthy, educated and motivated work force. It is not in the interests of the business community to operate in a society that is racked by the kind of social problems, which arise from ignorance and poverty.

5.3. Israel's Responsibilities

Israel's immediate responsibility must be to implement the Agreements it has signed with the Palestinian National Authority. At the same time, it is necessary to lift the closure and remove the other impediments, which have been placed on the development of the Palestinian economy.

Earlier in this document it was emphasized that Palestinians should learn from international experience. So too, must Israel. A strong Palestinian economy will serve Israel's own political, security and economic interests; by, among other things, allowing Palestinians to buy more goods from its nearest neighbor. It will also, for instance, provide the resources for joint ventures and cooperative export initiatives. Just as the United States recognized the value of strengthening ties with Mexico, so too should Israel see the advantage of having a prosperous Palestinian economy next door. Moreover, such an approach will serve to enhance the image

of the regional economy and thus encourage foreign investment in Israel, in Palestine, and in the other regional economies.

At present, the efforts by the PNA to stimulate investment and to encourage exports, are often obstructed by Israel. The government seems not to recognize that the development of the Palestinian economy is a necessary condition to consolidate the peace process; and, therefore, also to ensure Israel's security. Conversely, economic stagnation poses a potential threat to Israel's security interests, raises questions about the legitimacy of the peace process, and discourages public support for the peace makers.

5.4. Support from the International Community

The international community has a crucial role to play in supporting the Palestinian people and in reviving the peace process.

Without external assistance it will be impossible to place the economy on a higher growth trajectory. Donors should, therefore, as a matter of urgency, take steps to disburse the funds pledged at the January 1996 Paris conference on assistance to the Palestinians (see Annex B). To this end, it will be important to improve procedures in order to accelerate the commitment and disbursement of funds.

They should also help meet the shortfall in the recurrent budgetary caused by the border closures; and should accelerate the implementation of core investment programs. Finally, it is important that donors continue to provide assistance for the PNA's employment generation programs.

Conclusion

Throughout this Project we will discuss the Management of the Palestinian National Authority, which is a Management that was after signing an agreement between the Palestinians and the Israelis under the supervision of the UN. The same agreement resulted in the withdrawal of the Israeli forces from some of the occupied territories, and since then the PNA has been aiming to achieve goals:

Managing the areas lying under the authority, regarding safety, personal affairs.

But during the beginning of applying its authority the P. N. A., faced a lot of obstacles, mainly the economic obstacle, because the fact that the Palestinian economy was totally destroyed after the first Intifada, in the year 1987-90, also the problem with the Infrastructure. Under the umbrella of the first occupation, several areas were sieged and Palestinians were harassed, causing difficulties in entering leaving of the besieged areas, also in communications between villages and cities.

In Palestinian Economy, before the first Intifada 1987-90, was in a good state due to the fact that the Palestinian - Israel Economic relations were at a good level, also before 1987 there were no closed (siege) areas or problems of this type. This earlier situation resulted in connection between both economies resulting in an easy flow of product and labour force. The strength of the Israel Economy, during that period was due to the political stability and foreign support, helped boost the Palestinian economy.

During the Period 1994-2000 of the Peace treaty was a period during which the Palestinian Economy fluctuated because the Peace Process itself was not stable and some of the points of the Peace treaty had not been fulfilled.

This resulted in closing the areas between Gaza strip and west bank by the Israel forces and denying passage of Palestinian products and Labour forces where in Gaza totally relying on the west bank Market.

Since then started deterioration of the Peace treaty respectively the economy had occurred.

When Sharon entered the holy Mosque of Al-Quds, triggered the current Intifada and demonstrations against him entering the Holy Quds. The Israel replied against the demonstrates after wards Sharon became the Prime Minister of Israel the whole Peace treaty and process caused a total Breakdown of the Palestinian Economy and the management of P. N. A. and since then the fate of the P. N. A. is still unknown.

The economic state is very unstable this resulting in difficulties in finding new precise researches, also the fact that there are several point of views and different sources has resulted in confusing anybody who does not know the problem from a close range so as he would not know who is right or who is wrong.

Palestine was an English colony, and since the Promise of Bellfowr to the Jewish in giving them Palestine, and since then the Israel Immigrations to Palestine began, and after ware the declaration of Palestine as Israel.

My personal opinion is that Israel was Palestine and always will be an Arabic country. I am a Palestinian and the village of my Grandfathers is not mentioned or remembered any more as ours, but Tel Aviv is now the capital of Israel and I, a true Palestinian, know as a Palestinian Refugee without a country.

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[16] The Case of Israel and Palestine by A. Arnon* and J. Weinblatt**

Sovereignty and Economic Development

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Attachment

Consumer Price Index & Inflation Rate by Major Groups of Expenditure (Base Year 1996=100)

Major groups	Ave.1997	Ave.1998	Inflation Rate
Food	106.17	113.91	7.29
Beverages and Tobacco	109.62	117.07	6.80
Textiles, clothing and footwear	112.79	121.87	8.05
Housing	105.48	109.40	3.72
Furniture, household goods & services	110.79	117.29	5.87
Transport and communications	106.64	107.85	1.13
Education	104.89	106.57	1.60
Medical care	110.44	116.11	5.13
Recreational, cultural goods & services	106.94	111.16	3.95
Miscellaneous goods and services	106.77	110.68	3.66
All-Items consumer price index	107.62	113.63	5.58

TABLE (1) **Source:** Ministry of Health, Nablus, Gaza, Annual Reports- 1995, 1996, 1997

Value in Million US \$

Exports Imports Indicators	1995	1996	1997
Total Palestinian Exports	394	340	381
National Exports	322	243	259
Re- Exports	72	97	122
Total Palestinian Exports by Country			
Exports to Israel	363	319	358

Exports to Arab Countries	25	19	19
Export to other countries	6	2	4
Total Exports by region			
From West Bank	252	307	338
From Gaza Strip	142	33	43
Total Exports By Land	394	340	381
Total Palestinian Imports	1658	2017	2164
Total Imports by Means of Transportation			
By Land	1,604	1,875	2,052
By Postal Packages	0.076	0.088	0.11
Through Electricity Networks & Petroleum Pipes	54	141	112
Total Imports by Country			
From Israel	1,459	1,743	1,803
From EUCC	104	147	155
From Arab Countries	19	27	54
From American Countries	20	29	28
From other countries	56	71	124
Net Trade Balance	-1264	-1677	-1784

TABLE (2)

Territory for April 2001 Compared with March 2001 by Groups of Expenditure

Base Year 1996=100

Groups of Expenditure	March 2001	April 2001	% Change
Food	121,34	122,03	0,57
Cereals and its products	104,23	103,98	-0,24
Meat, poultry & fish	125,99	130,57	3,64
Meat	124,15	126,46	1,86

Poultry	118,93	125,93	5,89
Fish	178,33	187,44	5,11
Milk products and eggs	130,32	126,83	-2,68
Eggs	115,00	105,65	-8,13
Oils and fats	123,50	121,08	-1,96
Fruits and vegetables	132,50	128,56	-2,97
Fruits	128,88	119,39	-7,36
Nuts	129,70	128,93	-0,59
Tinned fruit and Juice	128,52	140,85	9,59
Vegetables	135,57	136,33	0,56
Sugar and sugar products	99,82	100,35	0,53
Tea, coffee and cocoa	124,76	121,94	-2,26
Spices, salt and other foods	133,00	132,09	-0,68
Beverages & tobacco	131,48	130,91	-0,43
Beverages	109,72	108,13	-1,45
Tobacco & cigarettes	139,13	138,93	-0,14
Housing services group	129,06	129,20	0,11
House rents	127,50	127,50	0,00
Fuel and power	134,00	134,22	0,16
Water charges	121,35	121,35	0,00
Furniture & household goods & services	120,06	119,81	-0,21
Furniture and carpet	129,08	128,96	-0,09
Household textiles and other furnishings	130,12	128,95	-0,90
Transport and communication	134,60	134,77	0,13
Personal transport equipment	130,66	130,63	-0,02
Operation of personal transport equipment	146,32	146,83	0,35
Purchased transport	146,58	146,58	0,00
Communication	50,70	50,70	0,00
Education	116,39	116,98	0,51
Medical care	127,96	127,89	-0,05
Recreation & culture goods and services	94,87	94,12	-0,79

Micallaneous goods and services	127,91	128,40	0,38
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TABLE (7) **SOURCE:** Palestinian Central Bureau of Statistics (PCBS)

Higher Education Indicators

Indicator	Scholastic Years				
	1994/1995	1995/1996	1996/1997	1997/1998	1998/1999
University Students					
Male	16,042	21,190	26,533	29,546	33,548
Female	13,338	15,904	19,643	22,881	27,298
Total	29,380	37,094	46,176	52,427	60,846
University Graduates***					
Male	1,584	1,778	2,838	3,328	3,309
Female	1,448	1,663	2,762	2,995	3,287
Total	3,032	3,441	5,600	6,323	6,596
Teaching Staff at Universities*					
Male	1,051	1,199	1,496	1,489	1,579
Female	169	170	209	235	215
Total	1,220	1,369	1,705	1,724	1,794

* Full Time Only

** Data on community college students for the scholastic year 1997/1998 does not include second year students at An-Najah Community College, nor students at Kalandia Community College

*** Data for the scholastic year 1998/1999 include graduates of first and second semesters only

TABLE (8) **Source:** Palestine in Figures (October, 1999)

Age and Sex	Place of Work					Total	Number
	West Bank	Gaza Strip	Israel	Settlements	Not Stated		
Both Sexes							
24-15	50,4	26,4	19,1	3,2	0,9	100	126008
34-25	49,6	26,3	21,1	2,6	0,4	100	171999
44-35	51,2	24,4	22,4	1,7	0,3	100	102663
54-45	54,2	28,0	16,5	1,0	0,3	100	51995

+55	67,6	22,0	9,1	0,5	0,8	100	31439
Total	51,9	25,8	19,6	2,2	0,5	100	484104
Males							
24-15	48,1	26,9	20,7	3,4	0,9	100	115679
34-25	46,7	26,4	23,6	2,9	0,4	100	152308
44-35	48,4	24,6	24,9	1,9	0,2	100	91202
54-45	52,3	28,2	18,1	1,1	0,3	100	45689
+55	66,4	23,3	9,0	0,5	0,8	100	28258
Total	49,3	26,1	21,6	2,5	0,5	100	433136
Females							
24-15	76,2	20,2	1,9	0,7	1,0	100	10329
34-25	72,8	25,0	1,4	0,3	0,5	100	19691
44-35	73,0	23,2	2,8	0,3	0,7	100	11461
54-45	67,6	26,5	4,9	0,4	0,6	100	6306
+55	78,1	10,8	9,7	0,4	1,0	100	3181
Total	73,2	22,9	2,8	0,4	0,7	100	50968

TABLE (9) Source: Palestinian Central Bureau of Statistics (PCBS)

Years of Schooling and Type of Unemployment	Sex		Total
	Males	Females	
Unemployed Ever Worked			
0	9,4	14,4	9,8
1-6	30,0	12,6	28,6
7-9	24,8	11,1	23,7
10-12	24,4	21,5	24,2
13+	11,3	40,2	13,6
Not Stated	0,1	0,2	0,1
Total	100	100	100
Number	58155	5060	63215
Unemployed Never Worked			
0	2,8	2,7	2,8
1-6	23,2	13,4	21,3
7-9	27,5	19,0	25,8
10-12	31,6	30,8	31,5
13+	14,8	34,1	18,5

Not Stated	0,1	-	0,1
Total	100	100	100
Number	32845	8061	40906

TABLE (10) **Source:** Palestinian Central Bureau of Statistics (PCBS)