

The Reality of the Palestine Economy: Challenges and Opportunities

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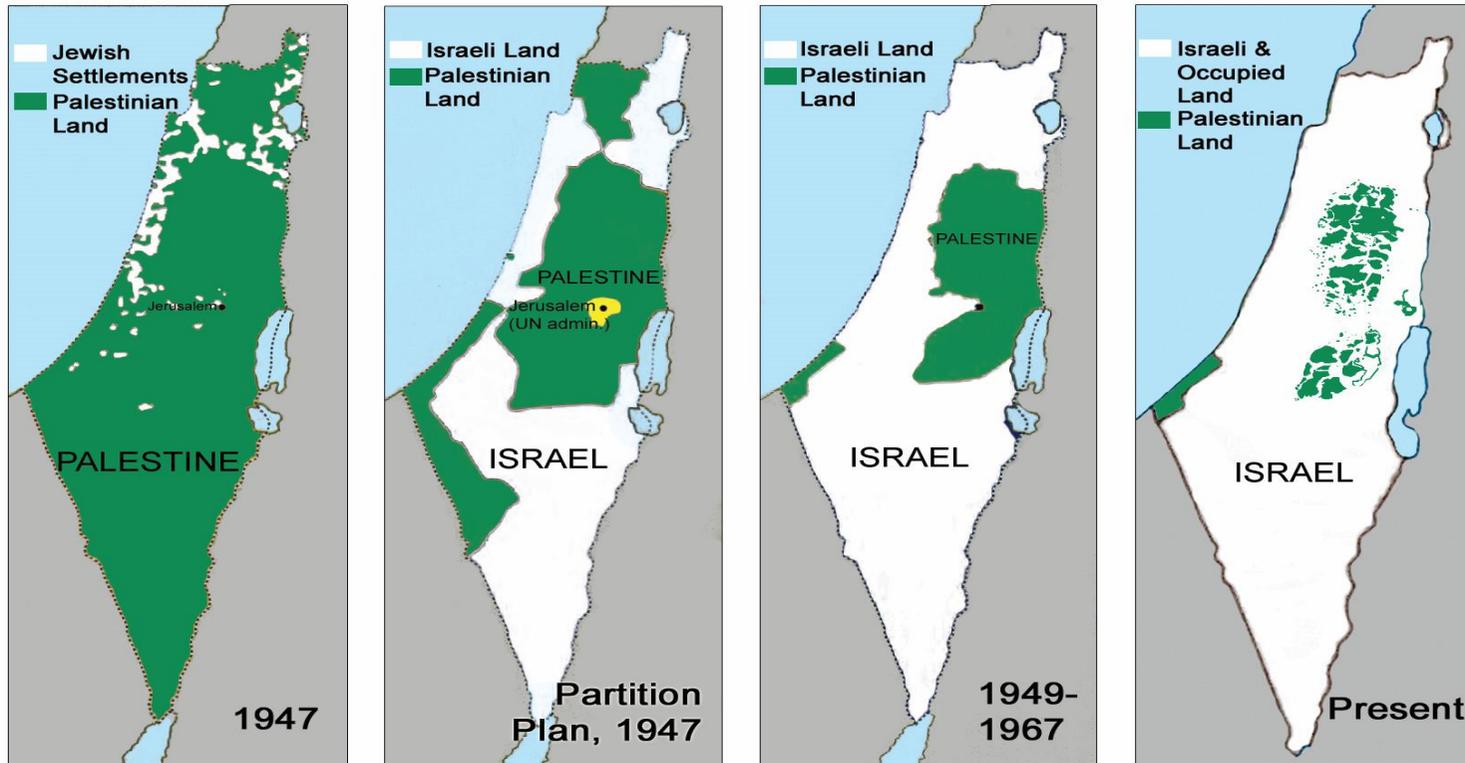
Number of Population

- Number of Palestinian in the world are estimated by 12.7 million, 4.88 million only lives in the Palestinian state (38%) (PCBS, 2016).
- 2.97 million lives in West Bank (60.8%)
- 1.91 million in Gaza strip (39.2%)
- 41.2% of Palestinians in the state of Palestine lives in refugee camps.



Historical Background

Palestinian Loss of Land 1947 to Present



Settlements

- Settlements are essentially large housing projects built illegally by Israel on land confiscated from Palestinians within the West Bank and Jerusalem.
- These settlements are joined to each other and to Israel through "by-pass" roads, build on Palestinian land confiscated by the Israeli government.
- Doubled in the last 5 years.



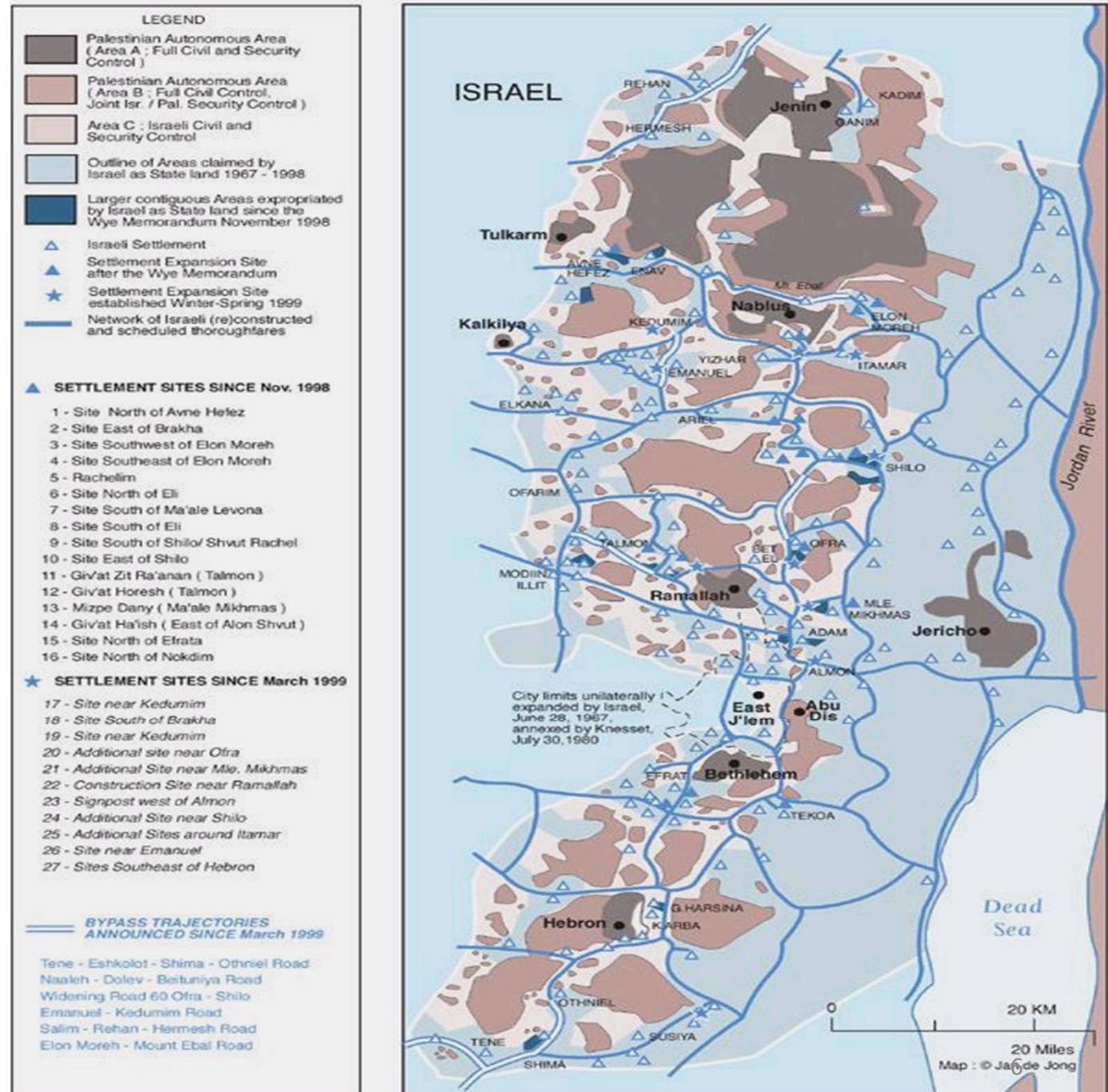
* Abu Gneim Forest – Abu Gneim Settlement

**Around 195
Settlements
In West Bank,
and
East
Jerusalem**



The effect of the Settlements on the Geography of the West Bank

West Bank Hilltop Settlements and Land Confiscations - June 1999



Palestinian agriculture Land is very limited

- Israel confiscated 3,250 km² Palestinian owned land out of 5,800 km² in West Bank for settlements, by-pass roads and the Wall.
- Around 4.5 million Palestinians live on less than 10% of land.
- Agriculture sector and food security is in danger.

Old women protects olive tree....





Settlers consume six times more water per capita than Palestinians, mainly from the domestic and Inner water.

Settlers

750, 000 Settlers making the daily life of Palestinian people miserable



The Separation Wall

- Length 709km
- 85% of the separation wall is within the West Bank itself, not along the Green Line
- More than **160,000** of Palestinians are isolated in cantons behind the wall
- About **200,000** are separated from the cultivated land.
- 115,000 Palestinians have been displaced as a result of the wall.
- Destruction of thousands of olive trees.



Checkpoints



3/2/2017



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Destruction of Infrastructure



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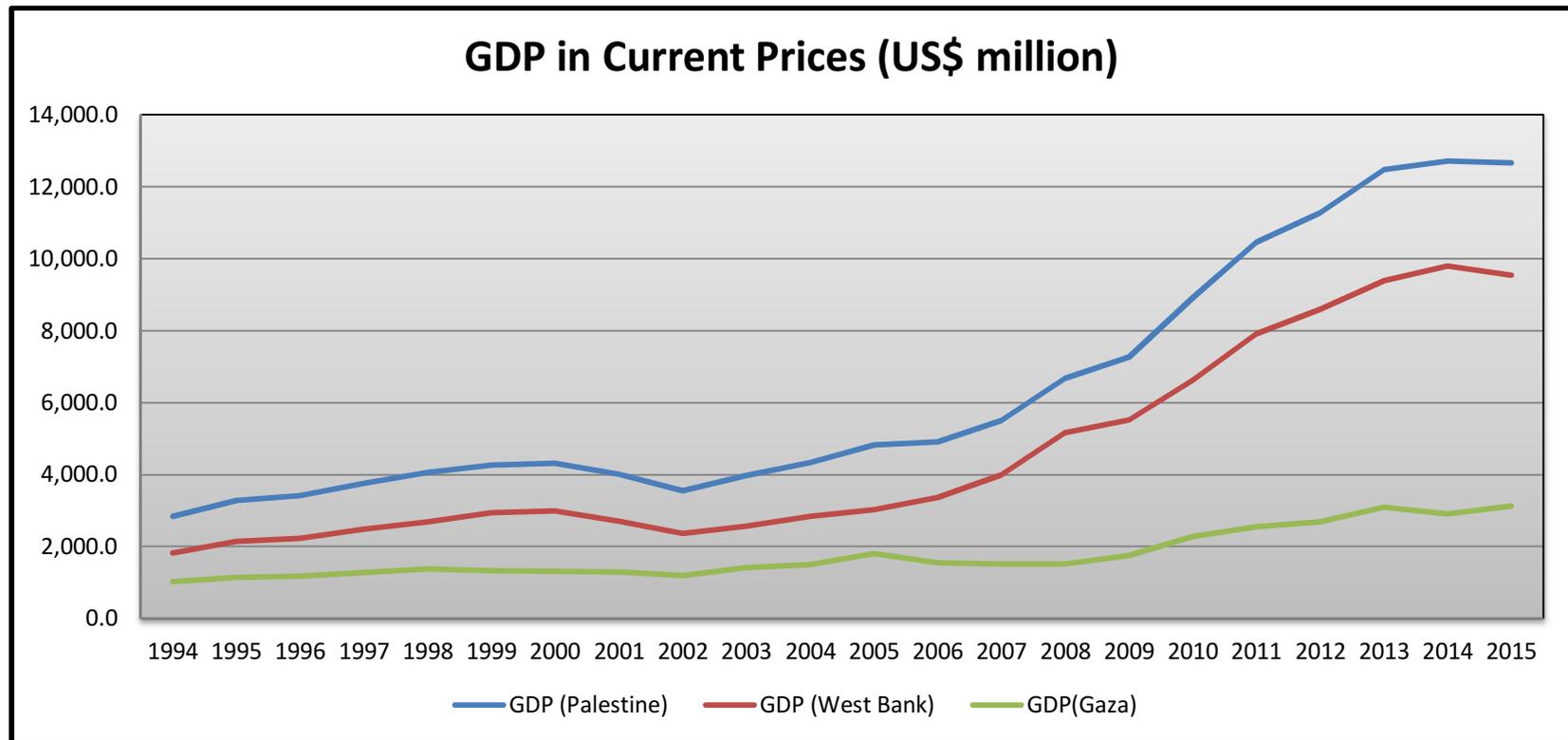
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Some Facts about the Palestinian Economy

Key Indicators of the Palestinian Economy

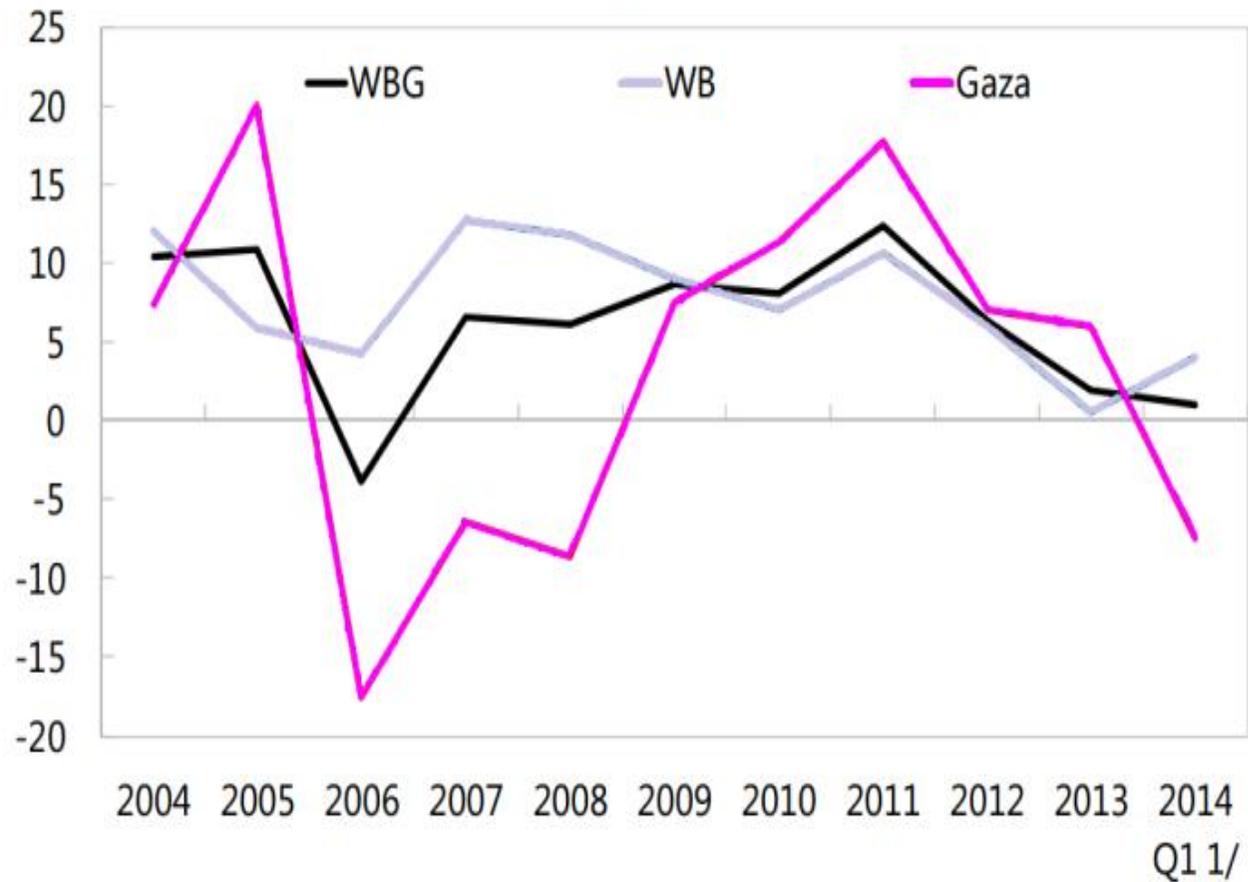
Year	1995	1999	2002	2006	2009	2011	2012	2013	2014	2015
GDP (US\$ million) West Bank	2,138.1	2,935.7	2,370.2	3,357.8	5,520.1	7,917.8	8,596.8	9,383.9	9,803.5	9,538.9
GDP(US\$ million) Gaza	1,144.7	1,335.5	1,185.6	1,552.3	1,748.1	2,547.6	2,682.6	3,092.1	2,912.1	3,134.1
GDP (US\$ million) Palestine	3,282.8	4,271.2	3,555.8	4,910.1	7,268.2	10,465.4	11,279.4	12,476	12,715.6	12,673.0
GDP per capita (US\$) West Bank	1508.4	1747.9	1298.1	1,646.20	2,491.7	3386	3578.1	3802.1	3866.2	3661.7
GDP per capita (US\$) Gaza	1296.5	1246.9	1002.3	1,150.50	1,175.7	1603.6	1631.4	1817.3	1654.6	1722
GDP per capita (US\$) Palestine	1427.1	1552.9	1181.8	1448.8	1963.2	2664.9	2787.2	2992.2	2960.1	2863.9
GDP growth (%) West Bank	17.7%	9.2%	-12.4%	10.8%	6.8%	19.4%	8.6%	9.2%	4.5%	-2.7%
GDP growth (%) Gaza	11.6%	-3.2%	-8.6%	-13.9%	16.0%	11.6%	5.3%	15.3%	-5.8%	7.6%
GDP growth (%) Palestine	15.5%	5.0%	-11.2%	1.6%	8.9%	17.4%	7.8%	10.6%	1.9%	-0.3%

GDP (Gross Domestic product), 1994-2015 (PCBS, 2016)



Real GDP Growth, 2004-2015 (%)

- Growth GDP in Palestine slow-down sharply in the last 5 years (from 17.4% in 2011 to -0.3% in 2015).
- Economic growth decreased from 19.4% in 2011 to -2.7% in 2015 in Wes Bank due to reduced donor support, fiscal problems of the PA, continued political uncertainty and Israeli restrictions, especially in Area C.
- The growth rate of GDP in Gaza slowed from 15.3% in 2013 to -5.8% in 2014, then increased by 7.6% in 2015 due to the flow of reconstruction fund.



Poverty in Palestine

- 25.8% of the Palestinians were living below the **poverty line** (WB: 17.8%, GS: 38.8%) (PCBS, 2012)
- 12.9% below the **deep poverty line** (WB: 7.8%, GS: 21.1%) (PCBS, 2012).

Measures of Poverty (PCBS, since 2011):

- Deep poverty line (budget for food, clothing and housing for a family of two adults and three children): **NIS 1,832** (US\$509).
- Poverty line (as above plus spending for education, health, transportation, personal care and housekeeping supplies): **NIS 2,293** (US\$637).

Unemployment Rate

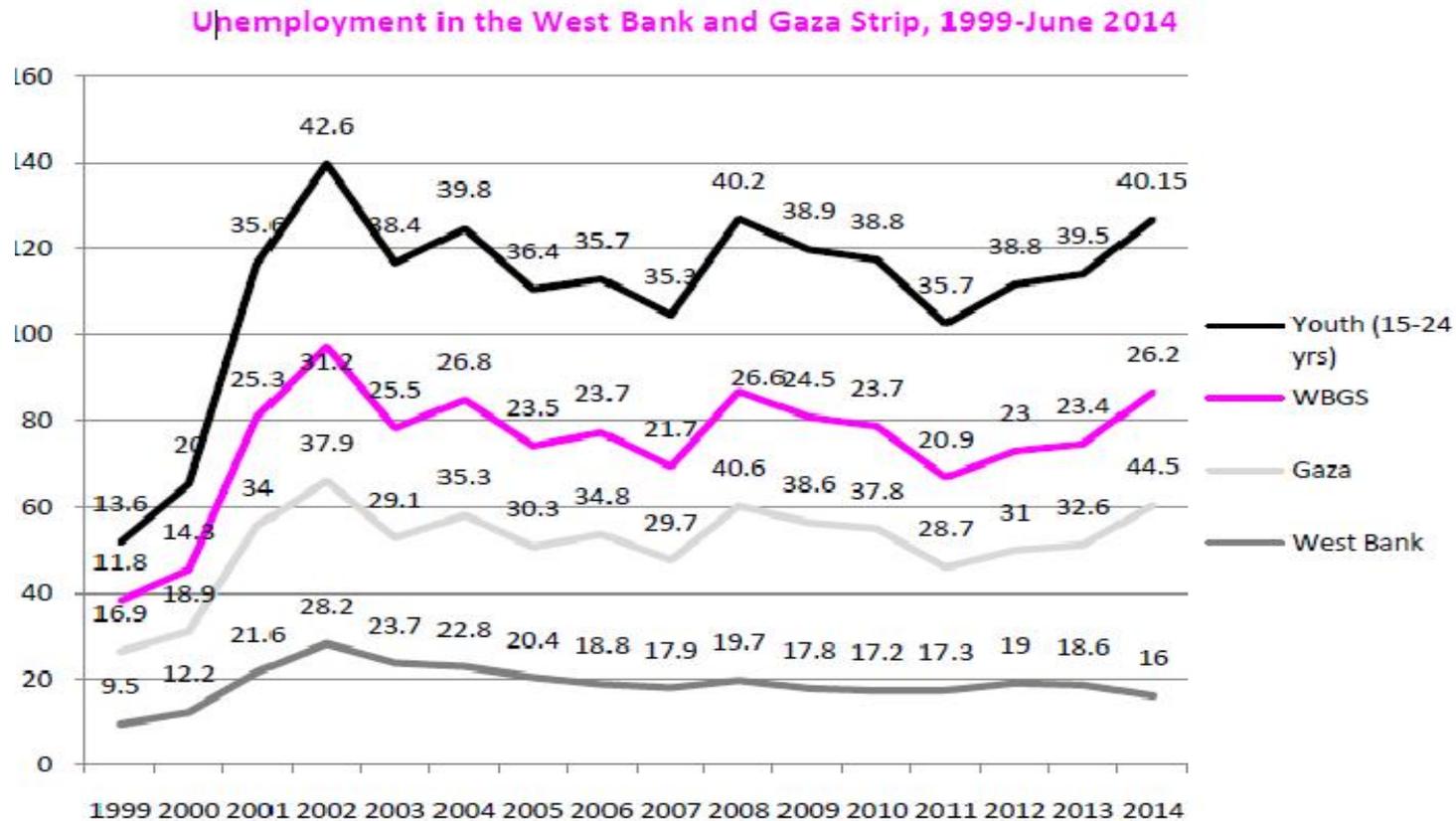
In 2015 (PCBS, 2016)

Total unemployment rate:

- 25.9 % in Palestine
- 40.7% for people 14-24 year
- 30.2% for people 24-34 year
- 39.2% in Gaza
- 18.7% in West Bank
- Low participation rate (45.8% in Palestine, 71.9% male and 19.1% female in 2015), a large number of “discouraged workers”.

Gaza	West Bank	Palestine	Year
16.9	9.5	11.8	1999
18.9	12.2	14.3	2000
34.5	21.6	25.3	2001
37.9	28.2	31.2	2002
29.1	23.7	25.5	2003
35.3	22.8	26.6	2004
30.3	20.4	23.5	2005
34.8	18.8	23.7	2006
29.7	17.9	21.7	2007
40.6	19.7	26.6	2008
38.6	17.8	24.5	2009
37.8	17.2	23.7	2010
28.7	17.3	24.8	2011
31.0	19.0	23.0	2012
32.5	19.1	23.7	2013
43.9	17.7	26.9	2014
39.2	18.7	25.9	2015

Unemployment in WB&G



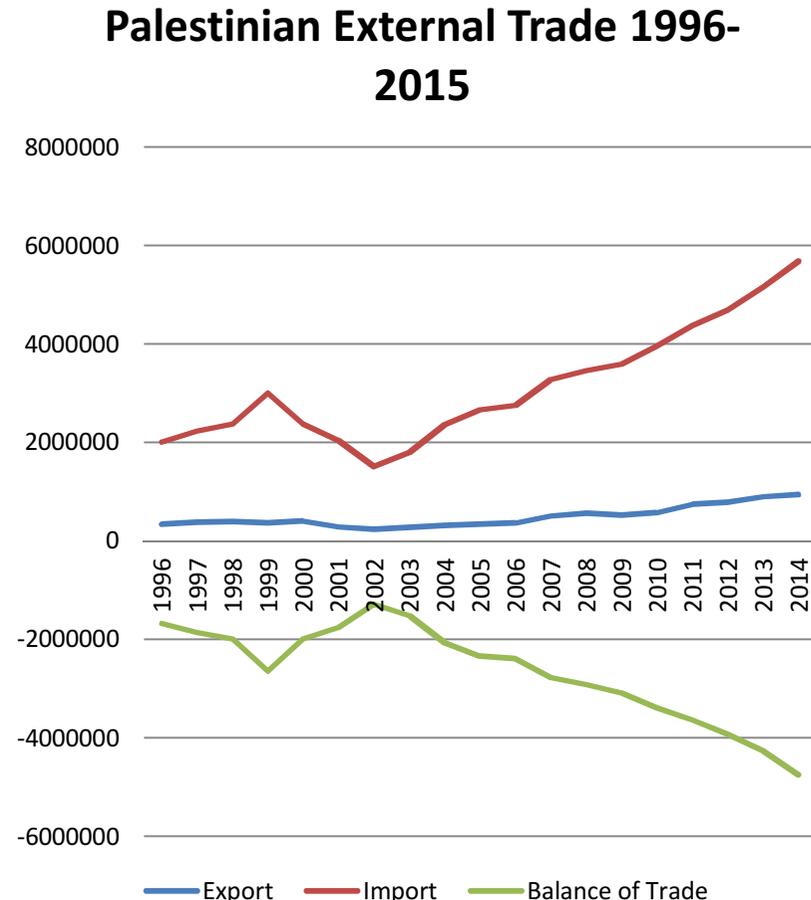
External trade

The main challenges are:

- Relative stagnation of the tradable sector: industrial and agricultural production which reflects the donor-driven nature of the economy.
- Diseconomies of scale.
- Limited access to the natural resources.
- Unclear investment horizon due to the uncertain political situation.
- Israel's permit and closure policy (with over 500 closure obstacles in the West Bank alone).
- The steady increase in the non-tradable sectors: Services and Construction

External Trade

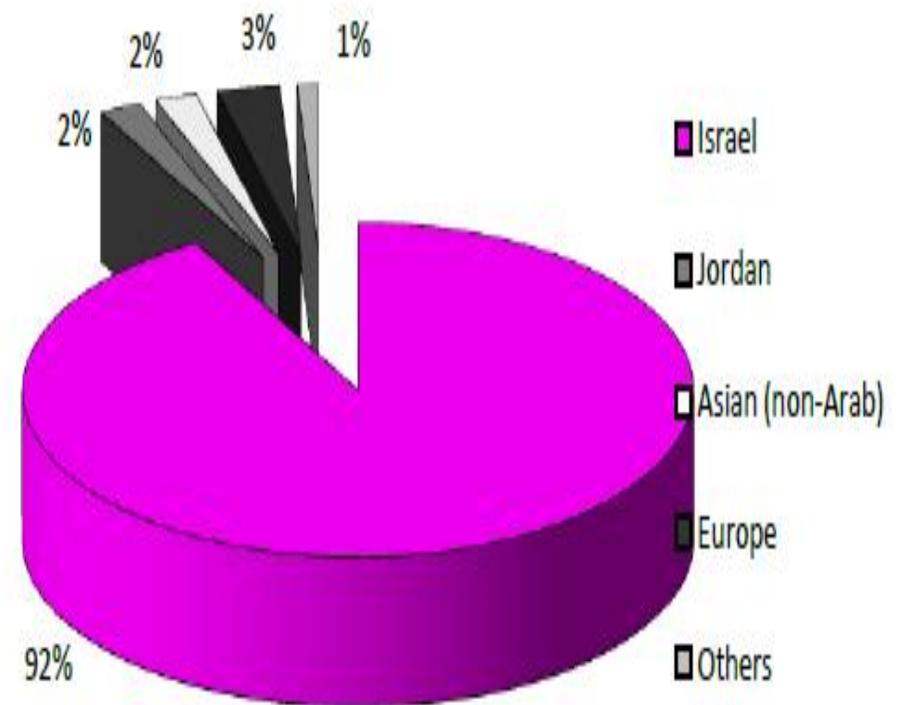
- The trade deficit is increasing from \$3,383 million in 2010 to \$ 4,267 million in 2015 (PCBS, 2016).
- This is due to the big gap between export and import from Israel.
- Main exports: Stones, agriculture products, furniture, textile, leathers.



Main trade Partners

- In 2014, exports to Israel represented **90.4%** of total exports and imports from Israel **63.6%** of total imports (PCBS, 2015).
- **Trade dependence on Israel** persists. Restrictions and the high cost of trade with the rest of the world.

Palestinian Exports – Main Trade Partners



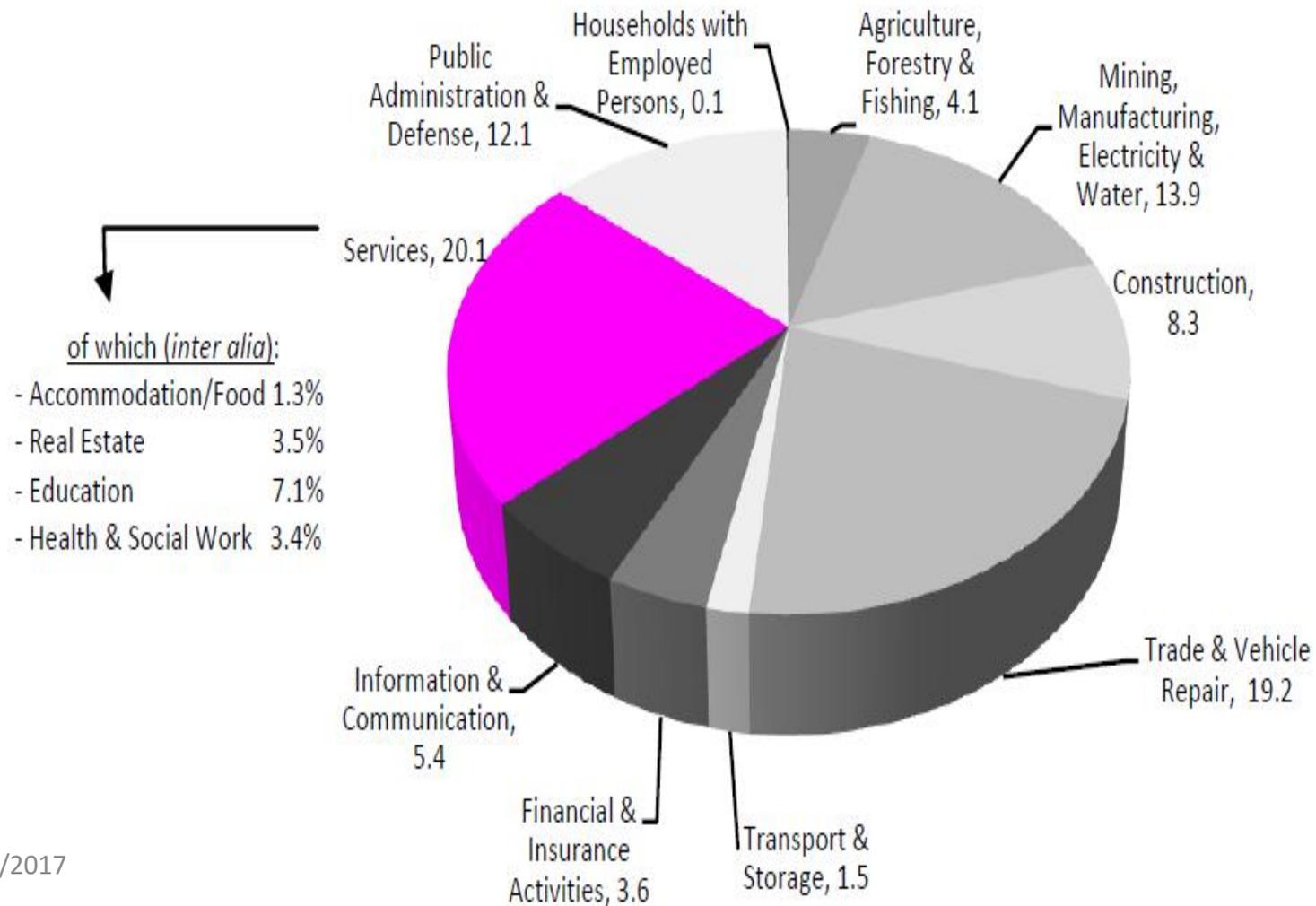
External Trade with South Korea in 2015 (US\$ Thousands)

- Total Import=US\$ 39.93 million

- Total Export= US\$ 154 thousand

Description	Export	Import
Oil Products	0	547
Chemical Products	7	3,828
Motors	0	426
Vehicles and Related Products	0	20,778
Others	0	5,717

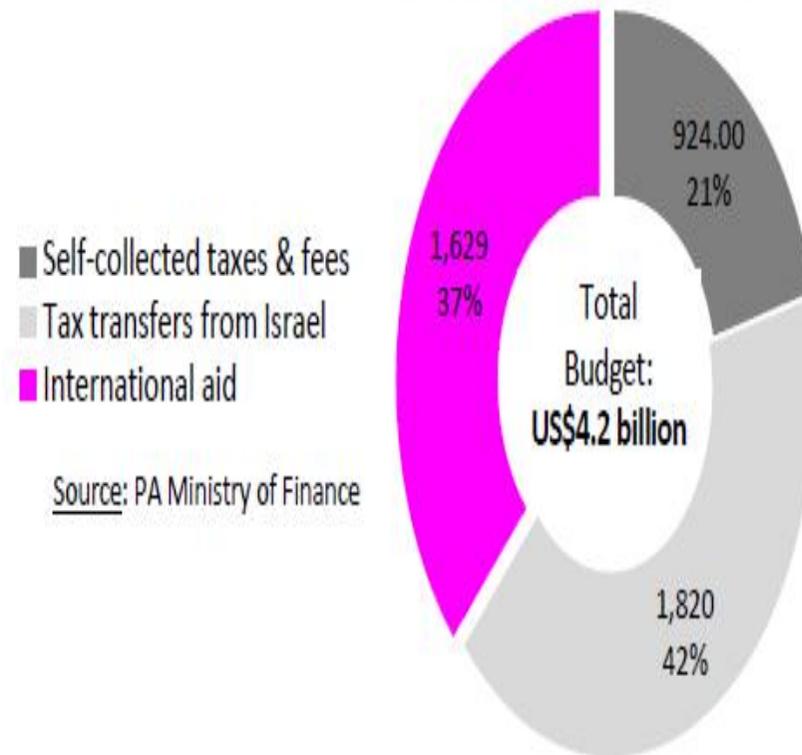
WBGS Economic Structure, 2014 (% of GDP)



Budget and Fiscal Accounts

- The PA's **budget** consists of 3 sources of revenue – self-collected taxes and fees, tax transfers from Israel and inter-national aid.
- The PA's fiscal position remains highly vulnerable and instable.
- In 2015, the PA's total **public debt** amounted to US\$ 2,537.3 million, of which US\$ 1,466.5 were total domestic and US\$ 1,070.8 million total international debt (PA Ministry of Finance).
- In 2015, the external financing expected by US\$ 1,970 million where US\$ 829.78 (42%) as budget support, and US\$ 1,140.9 (58%) development financing.

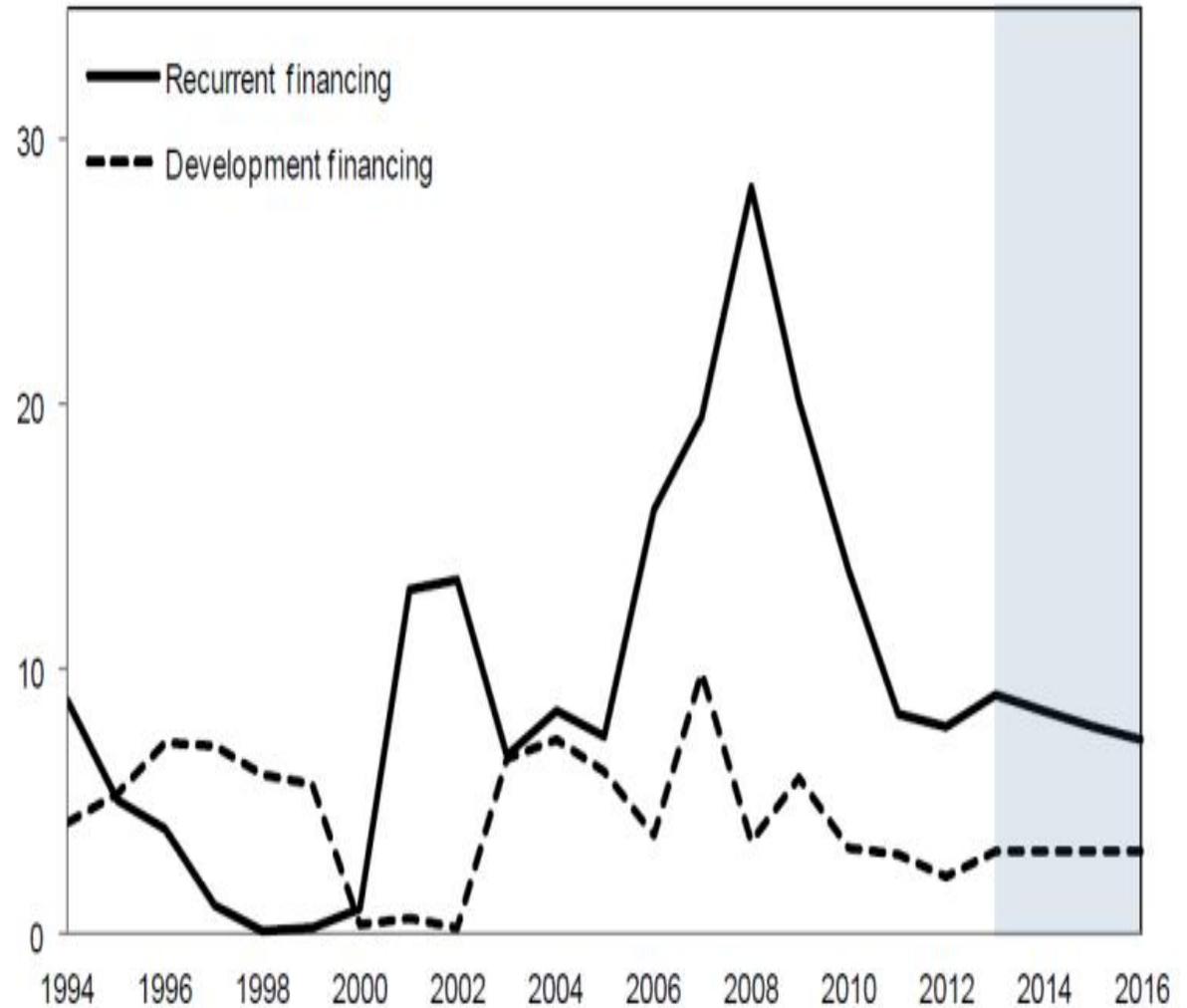
PA Budget 2014 (in US\$ million)



Development Expenditure by Source of Fund (MOF, 2015)

Resources	Budget (US\$ million)
Qatar Government Funding	79.6
External financing (multi-countries)	71.5
Japan	31.4
World Bank	46.9
France	13.6
KFW	13.4
GIZ	11.3
International fund for Agricultural Development	11.38

Donors Assistance (% of GDP)



Challenges

Israeli Occupation and restrictions

- GDP growth and economic development is largely due to Israeli government policies.

These policies include:

- The illegal seizure of Palestinian land for Israeli settlements and businesses.
- Siege against Gaza.
- Movement restrictions that hamper Palestinians from conducting trade internationally.
- Paris protocol
- It makes investment climate very weak.

What is the negative influences of these policies?

- It makes economic investment in Palestine a great risk.
- Diminishing access to natural and economic resources and the effects of Israel's general closure and separation policy.
- Siege against Gaza make the flow of human resources, money, business men in great difficult.
- Foreign donors have built and rebuilt schools, hospitals, flour mills, and other facilities which cyclically get destroyed in Israel's military operations, such as the 2008-2009 Operation Cast Lead.
- FDI in innovative projects is rarely flow in Palestine.
- This vacuum is then filled by Israeli companies, which force their goods on a market that has virtually no other alternative.

Distorted Economic and structural imbalances

- Since 1994, most of economic and development projects were initiated but the WBGS are still totally dependent on support from outside.
- Unsustainable growth rate. Despite increase economic growth between 2007 to 2013, but failed to sustain this growth.
- The Palestinian economy is aid-driven.
- GDP growth has been driven largely by public-sector spending (23% of GDP), which is increasingly financed by donor assistance.
- High growth rate but high employment. For example, in 2013 GDP grew by 10.6% but unemployment increased by 0.7% (23.7%).

- Economic dominated by services, while industry remains underdeveloped at a low level, and agriculture is further declining.
- The contribution of industrial sector to GDP declined from 21% in 1994 to 14% of GDP in 2015, and agriculture is declined from 14% in 1994 to 4% of GDP in 2015.
- Un fulfilled promises by donors. Also, External fund has been unpredictable and insufficient. In many times, it is connected with the political stands of PA
- Gaza reconstruction: according to estimates, some \$6 billion are needed for Gaza's reconstruction. Even without the task of rebuilding Gaza, the PA faced a funding shortfall of about \$350 million in 2014.

Political instability in the region

- Political instability in the region cease the Israeli hands toward more restrictions and sanctions toward Palestine and Palestinians, building settlements, etc.
- The political instability in Egypt influence a lot the social and economic situation in Gaza (destruction of tunnels between Gaza and Egypt, shout down the only crossing point between Gaza and the world (Rafah crossing point)).
- disruption of external trade with Arab countries, for example the trade with African Arabic countries slew by -11% in 2011 then grew very slow in the following years (PCBS, 2015).
- Less FDI from Arab countries to Palestine. FDI in Palestine slew by -5% in 2011, and -4.6% in 2012 (PCBS, 2015).

Opportunities

Business opportunity in Palestine, why do you invest in Palestine?

- **Regardless of Israeli constraints, there is a positive business and investment environment:**

1. Investment promotion law.

It is very competitive when compared with similar law in the region or the world. A new company can benefit from up to 100% exemption of income taxes for a period of 5 years, with an additional 2-12 years at a nominal tax rate depending on the type and size of investment.

- Unrestricted movement of all financial resources (capital, profit, dividends, benefits, etc).
- The project's fixed assets are exempted from taxes and customs.
- An investment between US\$ 100,000 and US\$ 1,000,000 is granted an income tax exemption for 5 years.
- An investment between US\$ 1,000,000 and US\$ 5,000,000 is granted an income tax exemption for 5 years started from the time of production, and a maximum of 10% tax for the following 12 years.

2. Free trade agreements with Global Economic Players.

- Arab countries (GAFTA).
- EU (Interim Agreement on Trade and Cooperation (IAA), European Neighborhoods Policy).
- Turkey
- USA and Canada
- Egypt, Morocco, Tunis, Jordan

3. Numerous incentive programs.

Local and foreign investors can benefit from further loans and grants:

- French Loan/grants: facilitate the financing of SMEs in the field of tourism, industry and agriculture
- Italian Loan: soft loans for Palestinian SMEs to finance purchasing of equipment and services for industry and agricultural sector.
- The European Palestinian Credit Guarantee Fund
- The loan Guarantee Facility of SMEs
- GIZ program
- Investment Guarantee fund/MIGA with the World Bank: it Provides guarantees for local and foreign investors for Political risk and related hazard in WB and Gaza.

4. Huge investment opportunities in many sectors

- High and stable return on investment, average 7% and 8% in the last 10 years (Paltrade, 2014).
- 211 companies of foreign private shareholders with a total capital of (US\$ 1.8 billion (Paltrade, 2014)
- Palestine is uprising economic with huge potential for further growth in many sectors.
 - ICTs: grew by 300% between 1996 to 2010, more than 2000 IT graduates every year, excellent infrastructure for telecommunication, low labor cost
 - Housing (14% of economic activities, 8% of GDP)
 - Public transport (buses and taxis)
 - Agri-Business/Dairy (high quality agricultural products to US, EU, GCC).
 - Pharmaceutical sector: in the last 20 years, 7-10 new product lines annually, and it has the highest export potentials rank among Palestinian export products.
 - Leather and footwear: 420 business mainly focused in Hebron, highly quality products exported to EU, Jordan and Saudi Arabia.
 - Tourism: Between 500,000 to 1,000,000 tourists annually (hotels, handicrafts, car rental, restaurants, etc.)

5. The presence of skilled and young labor force

- Well-educated and skilled labor force
- Low costs of human resources compared to other countries in the region
- High rate of education (less than 2% illiteracy rate)
- 29 universities and community colleges (17 in West Bank and 12 in Gaza)
- Around 222,000 of university students (Females= 133,000 ; Males= 89,000) in 2014/2015 (PCBS, 2015).
- Knowledge is the main input so high potential for Knowledge intensive business services (12% of service sector).
- More than 100 associations work in innovation, creativity and entrepreneurship.

What is the next step?

□ **Develop a Coherent Palestinian Economic strategy**

- Develop a coherent strategy and strengthen existing institutions.
- Develop a strategic plan at national level to develop innovation in SMEs with other Arabic countries and foreign expertise (South Korea?). More than 99% of Palestinian firms are SMEs.
- Adaptation of Export-Led Strategy. Palestinian economic strategy should focus on encouraging domestic GDP, increasing exports and improving trade.
- Take advantage of the Free Trade Agreement with Arab countries.
- Trade with Jordan is very important, it is one of the main Arabic trade partners.

□ Economic integration with Arabic countries

- Arab countries still the main supporters and the incubator for the Palestinian economic.
- Many agreements but with low economic impact for Palestine.
- Reactivate the trade agreement mainly with Arabic countries. For example, Greater Arab Free Trade Area (GAFTA) (signed in 1997 to reach zero tariff in 2007), free trade agreement with Jordan and Egypt).
- Reduction of standard trade barriers, such as non-tariff and real trade costs.
- Trade liberalization policy also greatly helps SMEs by facilitating the inflow of foreign capital as well as technology.

- Arabic industrial zones between Jordan and Palestine which based on SMEs and startups , the experience of South Korea in building Strong SMEs with self-viability & global competitiveness is very important in this case:
 - Establishing of Small and Medium Business Association (SMBA) in 2006 under the ministry of Knowledge economy.
 - Development of the institutional framework of SMEs (for example, Enactment and implementation of 16 SME-related laws and ordinances, including the Framework Act on Small & Medium Enterprises (SMEs))
 - The Korea Federation of Small Business.
 - SME-exclusive industry system.
 - Expanding Database of SME's & ventures for young job seekers.
 - Policy financing for Start-ups and tech commercialization.
 - Innovation of traditional markets & micro-enterprise.

❑ **Develop the educational system in Palestine**

- We should invest more in Education, it is the Palestinian oil.
- Develop an educational system built on both formal and informal education (lifelong learning).
- Entrepreneurial university, market-oriented graduates.
- Common Master and PhD programs between Palestinian, Arabic, and Foreign universities.
- Research partnerships and collaboration is very important mainly with EU and South-East Asia.
- Exchange program (students, professors, researchers).

Thank you