

SOS: Palestine's Private Sector

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The Gaza Strip and West Bank, including East Jerusalem, are Israeli occupied lands that have brought despair to all involved. The most recent chapter in this historic saga was the overrunning of Gaza by Hamas militants. As the world contemplates how to deal with this latest episode, one thing is for sure, June 2007 will go down in history as a turning point in the Palestinian Israeli conflict. Understanding whether this turning point will bring about a serious improvement toward real stability in the region can only be determined if a serious shift takes place in how donors deal with supporting Palestinians and how the international community deals with continued Israeli constraints to Palestinian development. Center stage in this analysis should be the Palestinian private sector which is the only place where sustainable development can be realized. As such, an integral part of every donor intervention should include support to the Palestinian private sector.

Britain's outgoing prime minister, Tony Blair, wasted no time in landing his next job – special envoy for what's called the Middle East Quartet, a group made up of the U.S., Russia, the European Union and the United Nations. He could not have picked a larger challenge or a more volatile conflict at a more sensitive time. Fresh in everyone's minds is the failure of the last person who held the job, former World Bank President James Wolfensohn. Wolfensohn was a person of international stature, untainted by the Iraq war fiasco, a practical hands-on person, who entered the conflict on an evangelical-like mission to break the historic stalemate in the status quo and get things moving toward reviving the Palestinian economy. It took Israel merely one year to frustrate and marginalize Wolfensohn, which led to his resignation in humiliation. Blair's path forward is definitely uphill, but windows of opportunities may be pried open if a new approach is taken, an approach based on sustainability and not only subsistence for Palestinians.

Ever since the Israeli military occupation of the West Bank and Gaza Strip over 40 years ago, Israel systematically linked the occupied territory's economy to its own. Before the Oslo Peace Accords, this forced linkage was most apparent in Israel's restriction of Palestinian business and its controlling the freedom of movement for Palestinian labor. For nearly a decade prior to Oslo, Israel issued work permits to tens of thousands of Palestinian workers to allow them to enter Israel to find work. Palestinian labor was found in Israeli construction, agriculture, hotels and the like. Dealt with as a second class labor force, Palestinian laborers were exposed to working conditions that allowed Israeli businesses to benefit from offering lower wages without having to stringently apply Israeli Labor Law. Many Palestinians workers even found themselves building the illegal Israeli settlements that were threatening the existence of Palestinian communities. For Palestinians, being able to work, anywhere, while under Israeli occupation, was a matter of survival.

The Israeli occupation authorities also levied taxes on the occupied people and used a portion of those taxes to flood the Palestinian areas with Israeli made infrastructure and goods. This created further Palestinian dependence on the occupier's economy.

Contrary to the obligations embedded in the Fourth Geneva Convention of 1949, the signatories of this key Convention -- the U.S., UK and Russia (previously the USSR) included -- allowed for Israel, the occupying force, to create a structural economic dependency of the Palestinian economy while at the same time applying a maze of restrictions on Palestinian ability to become economically viable. Instead of demanding from Israel the application of international law, these countries, and others, continued reporting, year after year, the Israeli violations of international law while simultaneously footing most of the costs of occupation.

When the Oslo Peace Accords were signed in 1993, an economic arrangement followed called the Paris Economic Protocol. Just as the Oslo agreement itself kept intact the ultimate Israeli control over all key

aspects of Palestinian life, the Paris Economic Protocol institutionalized the occupier's economic interest in this bilateral agreement with the Palestinians.

After the Oslo agreements, state donor's role in funding Palestinians' "development" turned into an international underwriting of the Israeli occupation, reducing, and many times removing, the financial costs of military occupation from Israel. In short, knowingly or not, donor funding had an accomplice-type role in allowing the situation to reach where it is today.

For the most part, the Palestinian private sector is a recent phenomenon. From 1967 until the Oslo agreements the business community was nascent and deeply connected with Israeli suppliers, the only suppliers Israel would allow to have direct contact with the Palestinian community. The number of private Palestinian companies was low and the depth of know-how was shallow. Export-focused thinking was non-existent given Israeli restrictions and constraints. Nevertheless, the seeds of the locally grown private sector, which was able to maintain itself while the entire world was turning a blind eye, became the foundation on which the Palestinian business community was built.

With the advent of the Oslo Peace Accords the Palestinian private sector took on a new dynamic, one that was much more complex. A handful of investment firms were established that facilitated a flow of capital into the economy. With the newly created hope that the Oslo process was going to result in the end of Israeli military occupation, many Palestinians came to Palestine to work, which injected in the market new skills and expertise. This new professional class was global in scope and diverse in know-how, since their skills came from all four corners of the world, where the Palestinian Diaspora is scattered.

As new private sector firms started to be established –the first Palestinian telecommunications company, new hotels, and an information technology sector – Palestinian students began focusing on the new skill sets needed to be absorbed in the labor market. The Palestinian economy, although tiny, was a rapidly shifting economy, moving from traditional practices to modern ones, from an agricultural base to a service sector and export-orientated one.

As firms started to realize that they had common interests and concerns, especially with regards to dealing with the newly formed Palestinian Authority as well as the continued Israeli structural constraints that were still being applied, trade associations started to be formed. The majority of these associations were created in a dynamic that merged existing sector players and know-how with the newcomers that came from a different vantage point to economic development. Yet other associations brought firms and people together for the first time to establish brand new sectors in Palestine, such as the Palestinian Information Technology Association. All of this redefined the Palestinian focus on economic development and enriched the engagement of these sectors with the local environment and the dynamic of donor interventions which were driving the bulk of business activity.

Although donor money was the gas allowing the Palestinian economy to chug along, at no time did donors view the development of the private sector as the highest priority in building a viable Palestinian society. Donors assisted in the creation of sector associations and provided firm level assistance to some extent, but a strategic approach to the private sector never materialized. Many in the international community were quick to criticize the growing number of the Palestinian public sector workers, but few, if any, had the foresight to see that a strong Palestinian private sector was the only way to provide an alternative to public employment.

The international community collectively and closely followed the Israeli adoption of a policy of separation, which was publicly declared in a speech by past Israeli Prime Minister Ariel Sharon made in a conference at the Herzliya Conference in December 18, 2003. Then Prime Minister Sharon said: "If there is no progress toward peace in a matter of months, then Israel will initiate the unilateral security step to disengage from the Palestinians." This unilateral separation policy immediately materialized in a drastic reduction of Palestinian labor allowed into Israel, from more than 160,000 in the early 1990's to nearly 20,000 in 2003. Israeli officials also publicly announced that they intended to reduce the number

of Palestinian workers allowed into Israel to zero by 2008. While the most visible indication that Israel was strategically changing gears was the acceleration in the building of the Separation Barrier on West Bank lands, there are realistic expectations that the separation concept will soon materialize in many other areas such as health, trade, banking services, telecommunications, transportation and many others. With the absence of any strategic alternatives, the unilateral Israeli implementation of separation can only lead to total collapse of the nascent, but already exhausted, Palestinian private sector.

All the while Israel was bulldozing forward, the Palestinian private sector buckled down and took the brunt of the Israeli pounding of the Palestinian community. Being, for the most part, dealt out of the developmental paradigm, the Palestinian private sector was left on its own to deal with the Israeli effort to force Palestinian society to its knees. After being structurally linked to the Israeli market for decades, Israel's decision to unilaterally separate, or 'disengage' as it was called, from the Palestinians came at a time of utmost instability. The elimination of Palestinian labor that was employed in Israel increased the unemployment rate in the West Bank and Gaza overnight. The Separation Wall's land grab separated farmers from their lands, causing strains of enormous magnitude on Palestinian agriculture. The Israeli military and political actions to weaken the nascent Palestinian central 'government' left the economy in a free fall. With security and economic conditions becoming intolerable, Palestinian emigration, or desire thereof, peaked. Palestinians held elections in hopes of getting things back on track. As a reply to the election results, Israel installed a policy of denying entry to foreign nationals, Palestinians and otherwise, which forced many skilled workers out of the country and struck a severe blow to the education sector, which employed many foreign nationals. The list of Israeli actions to weaken Palestinian society goes on and on but all with a clear purpose: to stunt Palestinian development and prohibit Palestinian steadfastness, economic or otherwise.

Now, after the events in the Gaza Strip last month, we hope the international community has understood a key lesson: that the Palestinian private sector's role in sustainable development is not a side show, but rather the only concrete platform that can create a viable Palestinian society. On average, donors annually injected \$350-450 million into the Palestinian Authority from 1994-2000. From 2001-2007, the amount averaged about \$650 million annually. This amounts to over \$7 billion, more per capita than anyplace in the world except for Israel, which is heavily subsidized by the U.S. Of those funds, less than 5% were invested in private sector development. Even with this meager donor support, the private sector has proved its stamina and resilience in the face of crisis. Palestinian private sector achievements may be found in every sector and many seeds of a stable economy have been planted, but now need nurtured. Productive economic sectors have been organized, firms are now experts in crisis management, and a greater understanding of the limitations of economic growth while yet under Israeli occupation has been internalized.

The word "viable" has been used and abused in trying to define what a Palestinian state should be. Even President Bush's new found interest in realizing a Palestinian state comes with the requirement for it to be "viable." What does "viable" mean to Palestine? The viability of any future Palestinian state must come within the context of a sustainable private sector, one that can create sustainable job opportunities, develop competitive products and services for the local market first, and an export market as well. The Palestinian private sector must be able to absorb Palestinian university graduates and by establishing a knowledge-based thrust in our economy while also absorbing the tens of thousands of construction workers that Israel abruptly pushed into unemployment after forcing them to be linked to the Israeli economy for decades.

Viable development must be seen through different lenses than that of relief. On December 7, 2006 twelve UN agencies together with 14 NGOs operating in the occupied Palestinian territory launched an emergency Appeal for \$453.6 million to help meet increasing Palestinian humanitarian needs in 2007. This is the largest appeal for emergency humanitarian assistance ever launched in occupied Palestinian territory and the third largest in the world. The backdrop of this appeal was summed up by Kevin Kennedy, the UN's Jerusalem-based Humanitarian Coordinator who said, "Two-thirds of Palestinians in the West Bank and the Gaza Strip are now living in poverty. Growing numbers of people are unable to cover their daily food needs and agencies report that basic services such as health care and education are

deteriorating and set to worsen much further.” This was all before last month’s events in Gaza, which are only exacerbating the humanitarian crisis.

With no political horizon with the Israelis, and after suffering the shock, and bleak aftermath, of recent events in Gaza, the private sector in Gaza must not be forgotten at this crucial moment. Gisha, an Israeli Legal Center for Freedom of Movement, just released shocking data about Gaza’s economy, post-Hamas overrun. They state that:

“75% of Gaza’s factories have shut down because of the closure of the borders. The rest of the factories are operating on a limited basis, on borrowed time, until the stocks of raw materials are exhausted.

85% of Gaza residents are already dependent on food aid – and the number is growing.

There is a serious shortage of raw materials, including flour and sugar for household and industrial consumption, and prices of raw materials have risen between 15% and 34%.

Approximately 30,000 factory workers stand to lose their jobs (factory employees constitute 10% of those working in Gaza, and on average, each worker supports a family of seven. In Gaza, unemployment stands at 35%);

Israel erased from its computers the customs code used to identify goods entering Gaza and issued orders not to allow any imports into Gaza, with the exception of humanitarian goods, such as donations of food, medicine and medical equipment.”

Gisha concludes, “This policy is destroying the business sector, creating a new welfare regime in Gaza, and turning growing numbers of Gaza residents into dependents on international welfare agencies and religious charities. As of today, 87% of Gaza residents live below the poverty line. The opportunity to earn a living with dignity and to build a properly-functioning society is disappearing. According to the chairman of Israel’s Association of Industrialists, Shraga Brosh, “the economic boycott on the Gaza Strip ...will result in a humanitarian disaster, fueling flames and leading to deterioration of the security situation – a situation that will be destructive to the Israeli economy.”

The situation is volatile. Internal Palestinian politics are being put in the limelight as if the continued Israeli military occupation is an innocent bystander in creating the conditions for the Palestinian social collapse. The donor community has a historic responsibility to Palestinians, especially after so many years of observing the Israeli occupation from afar and a decade of footing the bill as Israeli actions continue unabated. The challenge to donors today is to convert assistance to the Palestinians to *sustainable* assistance, equal in priority to relief and humanitarian assistance, but sustainable in a way that creates an enabling environment allowing the private sector to assume its natural role of becoming the foundation of a future state.

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