

Palestinian Employment Generation

Hiba I. Hussein



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Introduction

The Palestinian economy is stuck between a rock and a hard place. Growth has been stunted and the standard of living has declined. The Private Sector is holding on and showing promise but the majority of people are out of work. The creation of a viable Palestinian economy is essential for regional stability and the future of political relations. However, public confidence and trust is low. Much of this can be understood since over half of the population is without work. When Palestinians have jobs, there will be less likelihood of spreading violence. The issue of employment is very real, but not just of short-term solutions. Medium and long-term strategies must be developed to achieve a successful economy that encourages self-sufficiency.

Summary of the Palestinian Economy 1967-Present

To understand the Palestinian situation, one must look back a minimum of thirty years. In 1967, the smaller Palestinian economy was absorbed into that of Israel's. The merger of the two economies presented a situation where a weaker economy was incorporated into a stronger one, causing a relationship of dependence for over three decades. This relationship proved to be both positive and negative. Although Palestinians benefited from the access to jobs and markets, at the same time, Palestinians became reliant on Israel for things such as employment, trade, some services, water and other natural resources.

The decade of the 1990's brought with it negotiations for peace, the development of the Palestinian Authority, as well as a shift in economic policies between Palestinians and Israelis. While there was an overwhelming international and regional push for statehood accompanied by the development of recognized government branches, the negative effects of years of reliance surfaced during this time and were further exposed with the beginning of the current intifada.

By the late nineties and 2000, it was visible that the Palestinian and Israeli economies had begun to separate. The economic separation revealed that the proper infrastructure to support an immediate roll-over was not in place and a transitional period was needed to develop the

necessary foundation. Fortunately the Palestinian private sector was able to sustain some of this pressure by effectively dealing with the situation. However, the eruption of the intifada in 2000 brought much of the planning and ability to deal with the situation, to a halt.

The Al-Aqsa intifada was met by reoccupation and an Israeli security plan and practices that have virtually stopped all movement of people and goods. Movement in four main areas has either been prevented or has been slowed, impacting economic growth and employment, this includes:

1. within the West Bank and Gaza Strip ("WBGS");
2. between the West Bank and Gaza Strip;
3. between the WBGS and Israel; and
4. between WBGS and international borders.

Prevented from travel, the twenty-two percent of employed Palestinians working in Israel prior to current intifada watched their jobs disappear.¹ Over 146,000 Palestinians who had been working

¹ World Bank, 2002. "Long-Term Policy Options for the Palestinian Economy", World Bank, West Bank and Gaza.

in Israeli areas are back in the West Bank and Gaza and are unemployed.² These jobs once filled by Palestinians, and mostly in the areas of construction and agriculture, have now been filled by foreign workers. It is not unreasonable to assume that even if the situation returned to pre-2000 levels, the notion of returning to work would be limited, if not virtually impossible since most of the jobs are no longer available.

Current Situation

Although studies repeatedly show that the Palestinian economy has avoided total collapse, and the private sector has been highly successful in managing itself and sustaining the negative impacts, unemployment is higher than ever before. In 1995, Palestinian unemployment was approximately 19% and had decreased to around 10% in late September of 2000 just before the

intifada began.³ During this time, jobs within Israel (70,000), the Palestinian Authority (50,000) and the Private Sector (100,000) had been created.⁴ Focus was placed on increasing the viability and economic growth with suggestions made that involved topics such as domestic investment and foreign trade agreements. At the same time, the Palestinian Authority (PA) set in motion teams working on internal plans that would lead to increased GDP, trade opportunities, and job availability.

Presently, a combination of the disintegrating connection with Israel, coupled with domestic unemployment caused by closures and private sector lay-offs, has resulted in over 60% of the population remaining without work. Unemployment is recorded to be approximately 55% in the West Bank and 70% in Gaza.⁵ In effort to survive and remain operational, many in the private sector have been forced to lay off hundreds of thousands of their labor force.

In addition, the population continues to expand and the growth rate has now reached almost 4.3%.⁶ This rapid growth rate will mean that 80,000-85,000 Palestinians of working age are added to the labor force each year.⁷ Those who are fifteen years old are considered of working age and the population is now quite young, with over 50% of the total population under fifteen.⁸

Main Economic Sectors and the Link to Employment

Within the West Bank and Gaza Strip, a number of sectors of the economy provide the larger percentages of GDP at present, and accordingly, a majority of the employment opportunities. Some of the areas most severely affected since the beginning of the Al-Aqsa intifada include (as a percentage of GDP):

- Agriculture (9%);

² Ibid.

³ World Bank, 2003. "Twenty-Seven Months-Intifada, Closures and Palestinian Economic Crisis: An Assessment", Jerusalem.

⁴ Although beneficial, the employment within Israel and the Palestinian Authority were positions that were more of a "one-time" or short-term/non-growth employment opportunity and there really was not any room for growth.

⁵ United Nations, 2002. "The Impact of Closure and Other Mobility Restrictions on Palestinian Productive Activities", United Nations Office of the UN Special Coordinator.

⁶ IMF, 2001. "West Bank and Gaza: Economic Performance, Prospects, and Policies", Middle Eastern Department, Washington. D.C.

⁷ Data was stated in the UCLA Economic Committee Summary Report.

⁸ Ibid IMF, 2001 pg 31-32.

- Manufacturing (13.7%);
- Industrial (11%);
- Construction (7%);
- Banking/financial industry (4.4%); and
- Commerce: (tourism, hotels, restaurants, etc.).⁹

The future of the Palestinian economy and job availability will initially rely on the above sectors, although many forecast that the dependency on agriculture will most likely decline. There are several reasons for this such as, the continuation of the wall and settlement construction. The continued erection of these structures (and all that accompanies them such as bypass roads, etc.) is causing the destruction of some of the most productive Palestinian land and separating some from their most important sources of water. Not only does this imply environmental destruction, but loss of acreage and an increase in the difficulty and cost of irrigation. At the same time, transporting produce to market is a difficult task and the cost continues to increase. Produce has been transported using a back-to-back system where it is unloaded and reloaded onto different trucks at the checkpoints. Often it is the case where it will be left to sit for inspection at the checkpoints where it eventually becomes unsalvageable. All in all, the costs of agricultural production will eventually outweigh its' profitability.

The economy and medium to long-term employment growth has reached a point where not much variation will occur without major changes. The fate of the other sectors will also be determined by the current Palestinian-Israeli situation and how it is resolved. Much of the main areas of the economy can feed into other sectors and increase employment availability. For instance, stability will encourage a rise in tourism, leading to a rise in construction of hotels and other establishments, and increase in infrastructure (roads, etc) and transportation.

Although the Palestinians are a highly-skilled and well educated workforce for a developing area, this results in most earning relatively high wages (in comparison to other countries) and pushing up the production costs, making it more cost effective to take business out of the area to places like Jordan. Rather than reducing wages to deal with the economic downturn, the private sector has had to reduce employment. Instead of stable jobs, Palestinians are now seeing an increase in day-labor positions and daily self-employment as a means of survival.

Closures, Curfews, and the Wall

One of the largest barriers to a well functioning economy and, in turn, job growth is the restriction of movement of people and goods. The inability to move has been heightened since 2000, and these obstacles include closures, curfews and the Security Fence/Separation Wall. Each obstacle places constraints on employment by negatively impacting accessibility to work, to markets, and even preventing students from reaching their schools (including higher education institutions). Combined, this means that employment services, transportation, supply of agriculture goods, and "high-skilled" job opportunities will continue to decline.

Closures have been imposed not only between Israel and the West Bank and Gaza areas, but also *within* these areas. In some cases, the closures are enforced by means of checkpoints operated by the Israeli military that require travelers to enter, on foot and sometimes by vehicle, and then face

⁹ IMF, 2003. "Economic Performance and Reform under Conflict Conditions", West Bank and Gaza, Middle Eastern Department.

inspection of their identification and travel permits. In some places the closures take the form of unmanned roadblocks (for example boulders, concrete barriers, or even large pits) on access roads.¹⁰ The closures have made much of the travel between villages to larger towns/cities impossible. People in the West Bank and Gaza cannot reach their jobs, there is an inability to take goods to markets, access to services (ex. Postal and medical) has dropped, and people are spending less. For those continuing to travel to their jobs and to transport goods, travel time has more than doubled resulting in an increase of costs.¹¹ Shop owners also feel the impact, since their customers make trips less frequently and spend less during these visits.

Curfews disrupt daily life as much if not more than the closures. Especially since the start of the intifada, from main city centers to small towns, people have faced curfews that have lasted between 40-75% of the time since 2002.¹² Curfews are unannounced and restrict movement for an unlimited amount of time. Workers are prevented from leaving their homes to reach their places of employment, goods are unable to be transported to their intended destinations, and students and teachers cannot reach their classrooms.

A more recent implementation, the “security fence/separation wall” poses a new barrier to economic growth and affects employment in direct and indirect ways. Physically, the formation of the Wall has directly affected farmers that rely on agricultural means for their main source of income. Agriculture is one of the main sectors of the Palestinian economy, yet crops of olive trees and citrus groves have been destroyed during the construction of the Wall and farmers have been separated from some of their most fertile land. At the same time, the Wall prevents farmers from access to water and they remain unable to irrigate existing fields. This inability to access their water source have forced many into using alternative methods such as greenhouses, that accrue high expenses, making it necessary for farmers to take out loans which they have difficulty repaying.

The Wall also keeps the goods from easy access to markets, and disrupts movement of other trade and services. Students are impacted from the inability to reach educational institutions since there is an age requirement for movement of 35 years.¹³ With the completion of Phase I, approximately 100,000 trees have been uprooted, 85 commercial buildings have been destroyed, and multiple agricultural shelters.

Presently, the Wall affects over:

- 22% of the West Bank (including over 500,000 people);
- 42% of the agricultural business;
- 53% of the employment sector involving water; and
- 25% of the residents who depend on farming.

The completion of Phase I of the Wall has raised the unemployment rate in the affected areas from 18% to an estimated 78%.¹⁴ Phase II, if completed, will mean the loss of 80% of their fertile land,

¹⁰ World Bank, 2003.

¹¹ Ibid.

¹² IMF 2003.

¹³ From a presentation given by the Mayor of Qalqiyah to UCLA in Athens, December 2003.

¹⁴ PENGON, 2003. “The Wall”, West Bank.

and 65% of Palestinian water resources all of which is highly detrimental to the agricultural industry.

Immediate Action

Although there are many who continue to work on solutions to encourage economic growth and job development, most approaches and policies will have minute success unless closures and curfews are removed (especially within the West Bank and Gaza), borders are established and recognized, and accessibility to diversified trade outlets (shipping ports, airports) are operational within the West Bank and Gaza. Palestinians will not be able to initiate plans to increase employment while internal infrastructure continues to be destroyed with each military action. Physical damage affects employment because the cost of rebuilding means that sectors are downsized to balance the operating costs. The private sector has had to sustain approximately 2/3's of damage in Gaza involving agriculture while suffering from a loss of both public and private property in the West Bank.¹⁵ This damage has affected housing, agriculture and commercial structures. Jobs are not growing, many that exist are simply for rebuilding the destroyed infrastructure and homes due to military reprisals, and therefore they do not hold an opportunity for long-term labor.

The removal of all obstacles to the free movement within, at a minimum, the West Bank and Gaza, would help to jumpstart economic recovery and increase employment. It is reported that if internal closures ceased and exports were made possible, the GDP would jump to 21% by the end of this year and decrease poverty by the end of 2004 by 15%.¹⁶ Movement of people,

goods, and services will allow job growth to slowly resume and strengthen public confidence. Towns and villages will be reconnected and internal trade will be able to resume. This would call for the need in increased transportation and supply of goods and services. Along with internal movement, the reopening of the safe passage between the West Bank and Gaza would set into motion an increase in trade therefore increasing the need for employment.

Medium/Long – Term Needs and Ideas

As mentioned, significant changes in job creation and growth can be realized immediately simply with the free movement of people and goods, but further steps must be taken that include the international community. International movement of trade will open up markets and create a demand for exports, creating new areas for Palestinians to develop and venture into.

Next, a very beneficial step for increasing employment opportunities is the reallocation of donor funding. Diversification of funding will help the private sector grow, increase confidence, encourage investments, and enhance job creation. Donors will also be able to assist by contributing in the provision of training programs. These types of programs will aid in the development of a highly skilled workforce that will be able to supply the knowledge, skills and labor for a variety of areas.

¹⁵ World Bank, 2003 pg 19.

¹⁶World Bank 2003.

Palestinians have a highly educated workforce and the possibility to develop in a number of areas. Some of the areas where Palestinians could develop and increase the availability of work include, as an example, some of the following:

Physical Infrastructure

The development and planning of infrastructure will create jobs in numerous fields and areas, from engineers to construction workers, road crews and flight personnel. Some of the areas

that are in need within Palestine may include, but are not limited to the development and building of:

- roads;
- water and sanitation systems;
- waste disposal;
- recycling;
- airports;
- Seaports.

Construction

As industry and businesses grow, the need for construction will grow. This also includes the need for housing development.¹⁷ Although this may not be a large sector of medium-long term job growth, as the economy grows and roadblocks are opened, one will see an increase of entrepreneurship and relocation. This will in turn require other sectors to increase their need for laborers in fields such as: cement companies and lumber yards, while requiring skilled workers such as electricians, contractors, and plumbers.

Private Sector

The further development of the private sector is an excellent catalyst for long-term growth and investment. Continued confidence and trust in the economy will lead to further need for things such as banks, insurance companies, and other industries. Creation of new businesses and growth of existing sources will call for further employment of staff that require advanced skills, for example: management skills, marketing, accounting, quality assurance, information and technology staff, engineers, brokers and the list goes on.

The Private Sector has an enormous range of areas for development. The following examples will create a wide variety of employment opportunities within each subheading by reinvesting in the Palestinian private sector. Some of these areas include:

Pharmaceuticals: A base for this industry already exists. To promote long-term jobs, Palestinians should focus on the further development by increasing laboratory testing, creation of public policy concerning products, and financing for further testing and development. This, in

¹⁷ For further details, see Oded Eran's article entitled, "On housing construction as a means for immediate job creation."

turn, develops a variety of positions, for example: scientists and chemists, public relations, and marketing staff.

Food and Beverage: This area opens up the availability to increase business developments with international partners. Palestinians have an established relationship with vendors like Coca-Cola. Further encouragement of the food and beverage industry would increase employment by adding to the need for transporters, importers, exporters, marketing, sales and distributors.

Information and Technology: The West Bank and Gaza have made major steps in this area and would benefit from further growth. There are opportunities to expand jobs in the creation of hardware and software, IT staff that can work with businesses, and also the increase the need for teachers and professors that have IT skills.

Financial Sector: Palestinians have focuses on revamping the financial sector over the course of the last few years which has resulted in the need for highly trained accountants, controllers, banking personnel, managerial personnel, and that of new policies and regulations. This sector will continue to grow as other industries grow and the need for these types of services expands.

Media

With an open economy and the need for staying informed, the media within Palestinian areas is an area for skilled laborers. Having Palestinian outlets for news and entertainment will not only keep the community informed, but will provide a check and balance system for the public and private sectors. This avenue will be able to include positions for newspapers, magazines, television, and radio. Employment opportunities will open in areas like journalism, communications, lighting and sound, video, visual arts and technology.

Commerce

The West Bank and Gaza are ripe for the tourism industry. Gaza has a prime location on the sea while the West Bank areas have an enormous amount of historical, religious, cultural, and

natural sites. Both areas would be key tourist destinations during most seasons out of the year. Development of tourism means the need for hotels, hotel management, restaurants and cafes, clothing and souvenir shops, and cultural establishments.

Public Utilities

There is a need for a shift in reliance on Israel for these services to internal Palestinian control. This has been most obvious over the last three years of conflict. For this to happen, many of the various sectors will need to contribute. Workers will be necessary from the need for increased construction to engineers, scientists and technicians.

Agro-business

Palestinians already rely heavily on the agricultural sector for economic gain. The approach can take various shapes and lead to further expansion of produce and other realms such as the dairy industry and breeding services. This will develop a need for people who have skills involving an

agricultural science background, animal science and veterinarians, skills for building the dairy industry. This would also expand the need for laborers in factories, farms, laboratories, and advertising.

Industry and Industrial Zones

This can be deemed as a short, medium and long-term area for employment. Much of the increase in industry will be influenced by the degree of openness in the market. Here all levels of skills will be needed. Industrial zones create an area of employment that can be implemented immediately, however it is more of an immediate solution that will not necessarily see much growth in the long run, rather more of a leveled form of employment.

Needs for Work Force

The higher education system needs to have a new focus, reaching a broader cross-section of industries. The Palestinian National Authority (PA) has worked to reform the sector to set priority areas that will meet the needs where today there are gaps. The government has suggested special loan programs for those who study a certain “priority” area and work in this field after school. It may be necessary for schools to further encourage study of typically male-dominated areas by females within the schools, since as statistics show, women are more likely to receive a higher educational degree.

In the West Bank and Gaza, 49.5% of the total population consists of women yet only about 12-13% are part of the workforce.¹⁸ These areas tend to have a higher rate of women who are not employed than any of the other Middle East and North African (MENA) countries. Although, the percentage of women who are employed is low, this does not mean that women are uneducated. On the contrary, most unemployed Palestinian women have a higher educational attainment and their secondary degrees in comparison to a low percentage of unemployed men. Nearly 90% of unemployed women have at least a secondary degree, and 31% have a university education. The rate for unemployed men who have their post-secondary degree is only 13%. The low participation of women in the workforce is created by a number of things. The reasons are a mixture of circumstances including, the long established cultural and traditional roles, and the growth rate of the rapidly increasing population. Moreover, many women are staying at home to care for the new babies and young children. There is a large percent of the population that is highly educated yet their skills and talents are not being utilized within the workforce.

Next, vocational schools may be helpful for those who do not need or want a four-year degree but need certain skills for the workforce. This would also allow small businesses, which are mostly family operated, to run their business more efficiently. This option could also offer further training programs in areas, for example, occupational safety and health, to allow those who have had some experience in certain employment areas to increase their knowledge and skills and also stay updated.

¹⁸ The Government Report on the Status of the Palestinian Women Five Years After Beijing 1995-2000 presented by the IMCAW through the PNA.

Role of the Government

To start implementing changes for real employment generation, the PA can play a very important role. The government can provide the proper political and economic backings that will lead to stability and a growing economy. Officials and policy makers must understand the needs of the region and then aid in diversifying international donor contributions towards these areas that will lead to a viable economy.

The PA can also continue to encourage the strengthening of new programs within the schools that allow for a broad based education. They can also positively effect the situation by encouraging a change between studies and gender. PA officials can also aid in the development

of incentives for Palestinians who travel abroad to receive their education to return to their home and reinvest in their community.

The Palestinian Authority should also work closely with the international community and other local legal persons to develop laws and regulations that can be implemented to support labor rights (for example, minimum wage, gender equality) and also regulations that provide security and accountability to courts for investors and other industries. The government can aid in supporting women who work outside of the home by offering incentives such as child-care and helpful health-care packages.

By providing this platform, the PA can encourage international businesses to not only invest but link with Palestinian businesses and develop lasting relationships in the area along with opening trade opportunities. This can be done by working on measures such as a Rule of Law and preparing the grounds so that people are held accountable for their actions. Investors must have firm, contractually binding agreements with guarantees that a court of law will hold-up and enforce. If this stable environment is in place, there will be more businesses likely to invest in Palestinian areas, there by increasing employment opportunities.

International Involvement

The international community can play a very important part in the development of medium and long-term employment for Palestinians. As stated previously, donor funding mainly is allocated to humanitarian assistance while some is now going towards programs involving loans to SME's, especially those that involve low-income entrepreneurs.

International stakeholders can also contribute to the generation of employment by:

- Aiding in security facilitation;
- Decreasing or canceling certain debts;
- Assisting in the reform of the courts, policy and other institutional framework that will help attract investment;
- Provide monitoring (on a limited basis) on FTA agreements, including the ease of imports and exports; &

- Assist in the development of law enforcement and provide short-term training and monitoring.

All of the above suggestions will benefit the development of the Palestinian economy, one that has the ability to move beyond short-term solutions and provide sustainability.

Conclusion: Future Outlook

Finally, the creation of employment is a team effort. It takes regional and international support and guidance in developing effective methods for economic growth, and by doing so, creating jobs that are sustainable. We must approach this task together and work collectively to focus on strategies that are not just good in theory but can be applied and put into action.

This situation, although not where it is hoped that it would be at this point, has showed signs of improvement. This can be seen in the development of certain industries like the IT and Telecommunications sectors and the Securities Exchange. These areas have influenced the labor force requiring new technical skills of those involved in advancements such as this, the economic and political reform policies that are taking place, and new study areas within the higher education system.

Long-term solutions will require joint efforts in building confidence. This is no easy task. Working on job creation and regional cooperation between Palestinians and Israelis, will put a much-needed boost into addressing ways to stop the current cycle of poverty. The Palestinian economy is on the verge of progress but just needs a window of opportunity and there is no time like the present.