
THE PALESTINIAN DEMOCRATIC CULTURE,
ECONOMIC VIABILITY, COMPETITIVE CAPACITY
AND THE MULTILATERAL TRADING SYSTEM

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*53 Irsal St, Awwad Bldg, Suite 404
Ramallah - West Bank, Palestine
Tel. +970-2-296-4111
Fax. +970-2-296-4112
email: info@almustakbal.org
or visit our website: www.almustakbal.org*

Introduction

Economic stability is the basis for the creation of a stable dependable democracy. In this regard, the stability of the Palestinian economy and the potential for economic development, leading to prosperity is a key element in the creation of a democratic culture, whose pillars are respect for human rights, free expression, popular representation and good governance. In order to achieve prosperity, good governance is a prerequisite, based on transparency, accountability and predictability, which in lay terms mean a clear legal system with job descriptions and expected outcomes which stem from institutional capacity.

The biggest current problem for businesses in Palestine is political instability brought on mostly by the lack of a settlement with Israel, coupled with a highly volatile security situation. It is well known that political instability is a major deterrent to Economic Development.

From the perspective of businesses and investors, however, political instability is not the only problem facing them in Palestine. According to investors the internal investment environment is described as extremely difficult and a major source of uncertainty, which increases the cost of doing business. It is thought that even if a settlement were reached with Israel today, the new state of Palestine would still face a poor internal investment climate, and would encounter major difficulties in economic development. It would be a serious mistake, therefore, to overlook this important matter and focus on achieving political stability and a settlement with Israel, without improving the internal climate in parallel. Therefore, there is a need for both the public and the private sectors to be proactive in the immediate term to remove constraints and create the necessary conditions to increase the potential for economic development and growth, and to make the internal climate attractive to investment.

A Vision for the Future

Stemming from the specific policy objective of setting in motion sustainable economic development to underpin an economically viable independent Palestinian state, the Palestinian National Authority is committed to developing a competitive market economy; open to trade and investment, with an attractive tax regime to encourage inward investment, growth and employment generation, savings, improvement in living

standards and prosperity.

Palestine's trade policy. In view of the small size of the economy and limited resources, Palestinian trade policy should be geared towards attracting investment and developing growth opportunities. This can only be based on the realization of comparative advantage and the improvement of conditions for increasing the competitive advantage through increasing the efficiency of the economy, upgrading the factor utility ratio, and expanding potential export markets. Palestine must take advantage of its strategic geographic position; a relatively sophisticated labor force; an open economy¹; a revenue base which is not dependent on customs duties, ties with neighboring Arab and Islamic countries as well as future membership in the World Trade Organization in the process of becoming more competitive in the global trading system.

In order to achieve this end, Palestine has decided to adopt a strategy of compliance with the multilateral trading system (WTO), by ensuring adherence to internationally accepted standards which would make it capable of competing in the international trade arena. This strategy is based on 3 principles:

To expand the Palestinian Process for public – private sector dialogue

To use international standards for the establishment of best practices for building the Palestinian economy

To establish consensus for a Palestinian Economy Strategy in compliance with the Multi-Lateral Trading System and aiming to increase the competitive capacity of the productive sector

In order to initiate Palestinian voluntary compliance with the Multi-lateral Trading System, steps must be taken to build institutions and institutional infrastructure to accommodate and enhance the capacity of both public and private sectors in order to deal with the planning and execution of the development plan, as well as the creation of a real market economy, whose driving force is the private sector.

¹ The Palestine Liberation Organization, for the benefit of the Palestinian National Authority of the West Bank and Gaza Strip, has signed free trade agreements with the European Union, the United States, Canada, the EFTA States and has secured membership in the Arab Free Trade Area.

The Economic Reform Process

The Palestinian reform process is based on the concept of cementing the rule of law into the social and political fabric of the society, increasing transparency, predictability and accountability within government while building the capacity of human resources in governmental institutions, and increasing popular participation in the decision making process through enforcement of real separation of powers and empowering both the legislative branch of government and an independent judiciary.

In carefully planning the economic reform process, the PNA has identified several firm level (micro) policy measures, which focus on three main areas: (1) strengthening key aspects of the investment climate (macroeconomic stability, a sound legal and regulatory framework and access to high quality, affordable infrastructure); (2) expanding access to technology and mechanisms for product innovation, particularly at the industry level and (3) ensuring that firm level interventions (production standards, requirements and management procedures) reinforce the broader policy agenda.

At the macroeconomic level, strengthening the investment climate requires continued efforts to rationalize public expenditures, particularly current fiscal spending and to streamline trade and customs procedures.

It has also become clear, through dialogue with the Palestinian Private Sector that Private firms face a number of obstacles² in the legal and regulatory infrastructure which can be addressed by:

simplifying existing regulations and licensing procedures, particularly in the area of industrial licensing and land titling;

eliminating legal and regulatory vacuums, particularly with respect collection of bad debts;

modernizing, harmonizing existing laws and regulations and providing national coverage with respect to company, commercial agency and intellectual property rights registration; creating and publishing standard forms and procedures particularly in the area of income tax administration;

introducing effective mechanisms for the enforcement of laws and regulations; and

improving public-public and public-private coordination; particularly with respect to the roles of the line economic ministries of Planning and International Cooperation,

² World Bank Survey of Palestinian Private Sector Needs, March, 2003

Economy, Industry and Trade and Finance and their relationship to the private sector and private sector institutions.

The Strategy

In identifying the specific areas of required reform, it became abundantly clear that the basic issues of reform do not require the “re-invention of the wheel”. There exists a wide base of international experience related to the process of creating the proper climate for the functioning of a viable Palestinian state with an open market economy. This wealth of experience was articulated in the agreements of the World Trade Organization whose goals coincide clearly with the goals of the Palestinian reform process.

Once Palestine declares its intention to become a WTO member, it has committed to a series of principles which the international community holds dear, and thus increasing confidence in the legal system governing Palestine. These principles include, but are not limited to:

- transparency
- predictability
- non-discrimination
- accountability

Thus, once the spirit of these principles permeates the functions of Palestinian governing rules and regulations, they will lead to a higher level of confidence in both the economy and the government. The process of WTO accession and Palestinian membership in the WTO can seriously increase the credibility of government policies.

By framing the country’s concessions into legal commitments, WTO membership provides powerful guarantees of government’s policy direction. Policy reforms supported by Multi-lateral commitments are more credible, in particular because of the strategic interaction between the government and the private sector.

Wto’s Effects on Domestic Policies and Institutions

There is an immensely positive impact caused by WTO accession and membership on domestic policies and institutions involved in the conduct of international trade. Acceding countries are required to put in place a set of norms and the institutions, which support the liberalization of markets, increase transparency and promote the rule of law through contract enforcement and the evolution of an independent judicial system.

In principle, nothing would prevent governments from putting in place these norms and regulations on a unilateral basis. The role of the WTO in this process is to facilitate the introduction of effective reforms not only by reinforcing the credibility of the government's trade policies but also by helping introduce the policies that are based on best-practices and that must be harmonized internationally.

The reform Work Plan

Economic Policy

The full range of policy options and their implications should be studied to identify future relations between the state of Palestine and the Arab and Islamic World, as well as relations with the EU, USA, Israel, and many other international trade partners in order to determine how these policy objectives can be realized and through what policies and enforcement instruments.

The creation of an Autonomous Trade Regime

The PNA has decided to work on the establishment of all the necessary laws and regulations required for the creation of an autonomous trade regime for the future state of Palestine, which would replace the current regime in force under the interim arrangements of the Paris Protocol. This Autonomous Trade Regime should be WTO compatible, including the requirements for transparency, predictability, accountability and non-discrimination as outlined in WTO requirements. In the process of creating this Autonomous Trade Regime, Palestine has opted, through the assistance of internationally renowned experts to start preparations for the legal and institutional infrastructure in the following areas:

The Foreign Trade Act

Intellectual Property Laws

Technical Barriers to Trade and Sanitary and Phytosanitary Measures

Customs Law and Tariffs

Competition Law

Government Procurement

Capital Markets Authority Law

Income Tax Law

Land Registration

Institutional Reform

Within the move for reform, several steps were undertaken in order to build the institutional structure and the capacity of PNA institutions. In this regard, the PNA has formulated the National Economic Development Plan, which is based on the concept of Palestinian compatibility with the Multi-lateral Trading System's requirements for accession. This plan is based on the creation of several institutional mechanisms which work for the process of implementation:

Institutional Cooperation and Coordination Mechanisms

On the National Level, 3 institutional coordination and support structures (National Task Force, Technical Advisory Team and the WTO Resource Center – Palestine) were created for the implementation of the National Economic Development Plan, inherent in which, is the compliance process to the World Trade Organization's rules and regulations. The coordination and support mechanisms created in this strategy incorporate existing support programs funded by the various donors, and intended on building the capacity of national public and private institutions relevant to all walks of civil society, but specific to institutions related to Economic Development and economic

and trade policy determination³.

Conclusion

Palestine is presently engaged in the historically unique and challenging process of nation and state building. The process is beset by many difficult problems on various interrelated levels: political, economic, security, institutional, financial and legal. The existence of these problems, however, can only work to increase the national resolve to build a competitive and viable state. This building process can only be realized through a clear vision of the expected outcome of the reform process and the identification of the international best practices which may be utilized as examples of the policies which lead to national economic development, and which must be cemented in the proper institutional, legal and regulatory as well as political environment, leading to the culture of Democratization.

It is not an easy job, but it has been done and is achievable...

³ These include the Economic Policy Programme, funded by DFID, the Management Information Systems Programme funded by the GTZ, the ASYCUDA customs program by UNCTAD and the World Bank, the Market Access Program funded by USAID... Etc.