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OFFICE OF THE UNITED NATIONS SPECIAL CO-ORDINATOR

The Impact of Closure and other Mobility Restrictions on Palestinian Productive Activities 1 January – 31 December 2002: A Summary

Office of the United Nations Special Co-ordinator
for the Middle East Peace Process
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This is a summary of a report scheduled for full release in mid-March 2003.

Overview

This is a summary of the latest in a series of publications by the United Nations Special Coordinator's Office on the economy of the West Bank and Gaza. The report covers all of 2002 -- one of the worst-ever years for the Palestinian economy. It focuses on the extreme deterioration in productive activities and what role support of production in the short-run can have in stemming the current economic decline.

In addition to providing solid data on such indicators as unemployment and poverty, the report documents the impact of the economic decline on the Palestinian people. This summary includes a case study and some charts similar to those found throughout the report.

UNSCO started the series in 1994 primarily to provide economic analysis and data to international donors. The intention was better to inform their decision-making in allocating assistance to the Palestinian Authority. Since the outbreak of the Intifada in September 2000 – and the subsequent Israeli curfew and closure regime in the West Bank and Gaza – UNSCO has chronicled a precipitous decline in all economic indicators.

Introduction

The defining social and economic reality for West Bank and Gaza is Israel's restriction of movement of goods and people, called closure. Israel's access and closure policies have stifled the West Bank and Gaza economy, and dropped most of the population below the poverty line. The consequent soaring unemployment rates and plunging GDP have been well documented by this series of reports and others. The overall vulnerability can be captured in one telling statistic: in just 27 months, closure reduced Palestinian gross national income by approximately $5.4 billion—one year's worth of income.[1]

Closure appears to be an enduring reality at least for the short, and perhaps the medium, term. Recent economic research has been focusing on how to lessen the impact of closure on the Palestinian economy.[2] In that vein, this report argues that while donor support to the public sector remains critical, the private sector will probably deteriorate further if it is not supported, with even more serious long-term consequences for the economy as a whole.

In turn, this report examines the circumstances in which support for productive activities can increase resiliency of the Palestinian economy. It also points to a major challenge for such support: discerning whether the economy has begun down the path of reversion to barter trade and subsistence farming to such a degree that productive sector aid typically supportive of monetized economies becomes irrelevant.

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[1] World Bank estimation.
[2] See, for example, a series of forthcoming papers by the Palestinian Economic Policy Insitute (MAS).

Current Conditions

The West Bank suffered its harshest movement restrictions ever in 2002. On average, military-imposed curfew prevailed for 130 days in the major towns – or 70 percent of the time—during the last six months of 2002. An estimated 75 percent of domestic production in the West Bank was brought to a halt during this period.[3] Although curfew policies were lifted and imposed intermittently throughout 2002, closure remained the dominant reality preventing movement of goods into, but more commonly out of, the West Bank governorate blocks.[4]

With the closure regime now more than two years old, the report highlights major trends that have firmly taken root. The overarching trend, of course, is the rapid impoverishment of the Palestinian population. Poverty rates increased from approximately 25 percent between 1998 and 2002 to engulf 60 percent of the population (75 percent in Gaza.)[5] Unemployment rates (adjusted for discouraged workers) increased more than 20 percent in 27 months (from 23 percent in September 2000 to 45 percent by mid-2002).[6]

The private sector experienced the most precipitous decline, with income loss severe: closure destroyed 50 percent of private sector jobs in Gaza and 26 percent in the West Bank in the same period. Thanks to donor budgetary assistance, the public sector—which accounts for nearly 30 percent of jobs—was able to at least pay salaries, keeping unemployment from rising even higher. But this report argues that public sector support, while keeping the economy from collapsing, has not been complemented by support for the private sector – the engine of growth in any economy and a bulwark against dependency. The private sector needs support as well.

Productive Activities Stifled By Closure

This failure to support the productive sectors predates the current crisis and is a contributing factor to the West Bank and Gaza's extreme vulnerability to closure. The Palestinian economy had declining GDP in the early 1990s, but by the end of the decade it experienced two years of successive per capita GDP growth. Much of the growth was associated with developing basic infrastructure often neglected under decades of occupation. Between 1994 and 2001, the number of schools increased 39 percent, hospitals increased 76 percent, and hospital beds increased 58 percent. In just four years, the number of telephone lines increased 145 percent, and the road network expanded 140 percent.

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[3] UNSCO estimate.

[4] Curfew is defined as a period when Palestinians are not allowed to leave their homes. Closure means that Palestinian people and goods cannot move between various areas. External closure restricts movement between the OPT and Israel. Internal closure restricts movement between different areas of the OPT.

[5] Estimate for 1998 was published by the World Bank, West Bank and Gaza Update, June 2001. Poverty is defined as less than $2 consumption per person per day. Recent estimates of 60 percent were published October 2002 by UNSCO.

[6] PCBS Labor Force round Q2-2002, adjusted unemployment rate. UNSCO calculates that unemployment, when calculated to include those who cannot work due to curfew in the non-Jerusalem West Bank reached 63.2% in Q2-2002.

This major public sector economic role might have been expected to contribute to enabling an environment of private sector economic activity. However, the domestic productive sector conspicuously did not become a driving force behind growth, partly because there was a lack of policies to encourage its development. Consequently, the Palestinian economy remained and possibly even grew more dependent on Israel for employment and income,[7] and ultimately more vulnerable to shocks of closure (please see the attached case study for one family's story).

At the same time, major Israeli construction on the West Bank added to the fragmentation of the land and economy. Israel appropriated land, constructed new settlements, built new roads throughout the 1990s. By 2002, a network of settlement bypass roads, permanent checkpoints and numerous roadblocks divided the West Bank into enclosed urban centers and isolated rural regions.

Within such an environment, a system known as 'back-to-back' was introduced to transport goods into Palestinian areas. In it, goods are downloaded, then inspected at Israeli checkpoints and uploaded on another truck for continued transport (see attached graphs for patterns of such flow in the Gaza Strip.) In a previous report,[8] UNSCO reported that the back-to-back system was beginning to appear in the West Bank, severely limiting transportation of goods between Palestinian towns and villages.

UNSCO research shows that transport trucks were constrained by a series of checkpoints that separated not only in the West Bank and Gaza on their borders with Israel, but that separated Palestinian villages and towns from one another. Moreover, Israeli and foreign goods were often permitted free entry into Palestinian blocks, while Palestinian goods were often refused the right to pass checkpoints. As might be expected, Palestinian output declined as access to markets was cut.[9]

<u>**The Response: A Fractured Economy**</u>

Significant economic disparity has resulted from Closure's varying impact on geographical, social and productive sectors of the population. Those affected have developed adaptive and coping strategies, which need to be examined closely. In certain regions at certain times, closure sealed markets to such a degree that any response beyond humanitarian assistance was unlikely to have much impact. Closures have in many cases hampered the effectiveness of the humanitarian response.

That unemployment appears to have stabilized is just one indicator of the Palestinian will to adapt and survive under severe conditions of closure. However, adaptation is a survival strategy, not a development strategy. Beyond subsistence activities, there is an urgent

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[7] By 1999, nearly 20 percent of Palestinian Gross National Income came from employment in Israel, see UNSCO report, *The Impact of Closure and Other Mobility Restrictions on Palestinian Productive Activities*, *1 January 2002 - 30 June 2002.*
[8] Op. Cit. The Impact of Closure, UNSCO
[9] Ibid

need to address basic development needs. In the current environment, and in the short term, a reduction in closure and at the very least, a modicum of agricultural development, are required to jump-start and guide such activities. [10]

Implications for the Response Effort

In 2001-2002, national and international aid gradually shifted away from development into relief efforts. In the current crisis priority has been given to meeting emergency needs. However, this report recommends a critical review of aid efforts to examine the capability of aid to ameliorate the effects of closure in the short-term with policies that are more conducive to medium- and long-term development goals.

In 2002, food-aid distribution managed to stem hunger in areas where markets became inoperative and where income loss impoverished large segments of the population. Similarly, employment generation programs were put in place, but limited to work on land reclamation and infrastructure.

Ultimately, combined physical damage and income loss dwarfed the response effort. Long-term structural changes will be inevitable if current trends persist. If each governorate continues to be sealed off, as in the second half of 2002, then the number of private sector establishments would continue to shrink until supply of goods and services is reduced to supplying local demand— a structural change that would be difficult to reverse.

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[10] Foreign trade will certainly plan an important role—treatment of trade policy options, however, is intentionally omitted in order to restrict the analysis to the domestic policy options. Similarly, the importance of economic relations and employment in Israel should not be underestimated in their significance to Palestinian economic growth. As a simplifying measure, however, and due to the separation effects of closure, and the short-run focus of this report, external closure is assumed as the reality to which this analysis is confined.

Case Study: The Khawaja Family, Olive Farmers

The Khawaja family provides a personal insight into Palestinians' ability to adapt to today's harsh economic realities. They live in Neleen, a village west of Ramallah and own 20 dunums of land that is excellent for farming rain-fed vegetables. The family once planted several varieties of vegetables twice a year; the output was enough for raising a large family, with some savings.

Starting in 1990, when the first of the 12 sons was able enough to work, the young men left their land for higher salaries offered in Israel. The father had no help for the labor-intensive vegetables, and had little choice but to plant with olive trees (he calls it the tree of the dead land) – 300 in all.

Until recently, the Khawaja daughters and sons' wives mainly picked the olives. The trees received minimum care, because the sons were mostly away. Still, the trees gave good output with medium quality. And until recently, the price of olives and olive oil was very high, and local and regional markets available and accessible. That meant the Khawaja family was able to sell all its output quickly at the end of the season.

However, in 2001 seven of the sons lost their jobs in Israel and could not find any work in the local market. So they started looking after the trees through ploughing, fertilizing and pruning. As a result of extra care and good rain, the olive harvest 2002 was excellent in terms of quantity and, more important, quality. Altogether, 15 of the family members were available for the harvest. Unfortunately markets were not accessible to sell the output; the prices plunged for such high quality produce. Approximately 1500 kg of olives still had not been sold.

Concerned about their ability to feed themselves, the unemployed sons now are planting land owned by a neighbor who lives abroad. They will grow vegetables for their families' consumption.

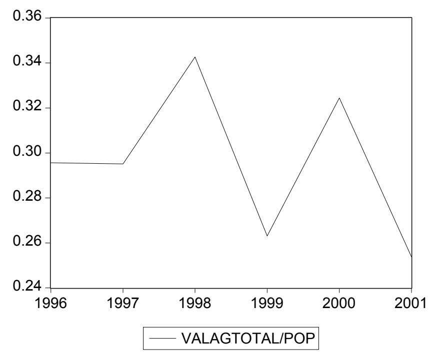
Khawaja Family Olive Harvest (1998)

Output	Quantity	Price /kg	Total Value
Olive	2000 kg	2.00 JD	4,000 JD
Olive oil	1120 kg	3.75 JD	4,200 JD

Khawaja Family Olive Harvest (2002)

Output	Quantity	Price /kg	Total Value
Olive	2000 kg	1.00 JD	2,000 JD
Olive oil	1120 kg	1.25 JD	1,400 JD

Value of Palestinian Agriculture production per capita 1996-2001



Truck Flow in the Gaza Strip: Imported From Israel and the West Bank
Truck loads in monthly average

Year	Imported from Israel	Imported from West Bank	Total imported	Index
1997	7,509	393	7,902	100
1998	7,966	585	8,551	108
1999	8,032	610	8,642	109
2000	6,900	554	7,454	86
2001	5,519	551	6,070	77
2002	5,315	388	5,703	69

- Imported from Israel does not include the number of trucks from the West Bank
- The numbers are calculated by taking the average of the 12-month every year.

Truck Flow in the Gaza Strip: Exports
Truck loads in monthly average

Year	Israel	West Bank	Total	Index
1997	889	668	1557	100
1998	505	664	1169	75
1999	489	618	1107	71
2000	436	525	961	62
2001	770	492	1262	81
2002	487	337	824	53