

Building a Resilient and Inclusive Economy



By Samir Huleileh

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s we entered the year 2021 in the midst of a major health pandemic, we have been faced with significant threats: The first denotes the long-lasting effects of this pandemic on our fragile

health system and economy. Will the pandemic and its vaccination schemes ever end, and will it eat up our economic growth, if any? The second threat is the absence of a plan, particularly a direction that defines how Palestinians can reignite the peace process and bring all parties, especially Israel, into a meaningful negotiation that could end the occupation. There is little to no initiative that attempts to shift and/or slow down the reality of the aggressive colonial policies implemented by the Israeli government to expand and dominate more and more Palestinian land and resources. The third threat is the siege of Gaza and the division in the political system that governs the Palestinian territories.

The above-mentioned threats affect all aspects of the economy and cause severe structural damage, as we can see through most economic indicators. This will be explained below in reference to Palestine's continued economic dependence on Israel and the prevailing extreme economic volatility and lack of political stability. In addition to this structural damage, the Palestinian economic sector must deal with a significant decrease of Palestine's market size and market share not only in terms of allocating and sustaining export markets but also in respect to a weak labor market that offers little to no opportunity locally.

The dramatic increase in the difference in per capita income in the West Bank and Gaza proves that the gap in equality is extremely wide and dangerous, as can be seen not only between various cities but also, more recently, within cities. Continuous and accumulated public deficit shows the bleak state of our government's fiscal situation.

In reviewing the aforementioned economic indications, one tends to feel the dominance of politics in defining the potential of the Palestinian economy where the Israeli occupation has become the main point of reference. The question will always be: Is there a way out, a vision or a road map that can create a better and more sustainable life that could provide the people with a more stable and resilient economy until this occupation and the Israeli-Palestinian conflict come to an end?

The Palestinian government is trapped between efforts to prevent economic deterioration and endeavors to build a resilient and inclusive economy.



■ Dawn at a checkpoint as thousands of Palestinian workers make their way to work in Israel. Photo by Sean Hawkey/WCC.

This crisis is not an unfamiliar situation, for Palestinians or for other peoples. Countries have lived and survived a variety of crises, in particular the financial crises of 2008 and 2012. What differentiates one country from another is the way each chooses to handle financial and political pressures. Some countries found dynamic and flexible solutions for absorbing and incubating an economic recession, and others

could restart their activities and return to their normal performance more smoothly and faster than expected. It is important to ask how a country such as Ireland, among many examples, could be less affected than Greece and Portugal by the 2008 crisis. To rephrase the question, what factors make the economies of Switzerland, Sweden, Norway, and Germany the most resilient economies of the world?



■ Closed shops on an empty street in Jerusalem's Old City after a curfew was imposed to curb the spread of the coronavirus. Photo by Nedal Eshtayah, courtesy of Middle East Monitor.

A resilient economy has the capacity, resources, capabilities, and awareness to respond to major outside pressures. This goes hand in hand with the term *sumud*, steadfastness, that was used frequently during the 1980s and 1990s but unfortunately has been taken out of context to fit the new realities of the 2020 era. This term was relevant to the first Intifada, when Palestinians were encouraged to withdraw from the market by reducing consumption and moving to a household economy, e.g., planting and cultivating plants in home gardens as an alternative to buying Israeli produce. Boycotting Israel was of course much simpler then than it is now. However, the Palestinian Authority has access today to a wide range of means and tools that could substantially affect the production, marketing, and financing of Palestinian economic activities.

Resilience is what the Palestinian economy needs in response to the successive wars and intifadas and to alleviate and attempt to cure the lack of stability caused by the constant Israeli political pressures. Since the second Intifada (2001–2004), the economic situation has been volatile. The Palestinian economy lost 8 percent of its GDP in 2001, recorded an additional decrease of 13 percent in 2002, and witnessed an increase of 15 percent in 2003 to finally return to a 10 percent increase in the year 2004. Preceding the 2006 election and the siege on Gaza, GDP growth in both Gaza and the West Bank regressed dramatically, whereas in 2011, the per capita GDP grew by about 11 percent. But if we compare the per capita GDP from the year 1994 to the per capita of this year, we find almost zero change. This means that the volatile situation continues to eat up all development that Palestine has experienced during the last few decades.

Since 2017, the dynamics between Palestine, the United States, and Israel have changed. Israel has regained the role of the Palestinians' enemy who shows no political interest in ending the occupation. Even with Biden's new government and a somewhat changed approach to the occupation, the United States still remains the guardian and number one enabler of the Israeli occupation. Despite efforts to create a financially secured Arab network to compensate the Palestinian Authority and Palestinians for losses that have been caused by Israel for political and/or economic reasons, this crisis remains a structural and strategic one, calling for a more rooted and unified response from the Palestinian Authority. The Palestinian Authority is at stake, and it must begin to plan how it can strategically proceed in order to provide its people with a stable and sustainable life – despite the occupation and until the conflict is resolved.

Immune economies in the international framework depend on older and more experienced labor forces. These prove to be most effective in claiming an essential part of a resilient economy because they can move easily and smoothly across different sectors of the economy. And given that most of the labor force in Palestine is of a younger generation, it is important that structured training be provided for the labor force, widening the options of its participants and easing their movement across various sectors. As this option is found in the SMEs that make up the majority of Palestinian economic establishments, supporting this category is vital to the survival of an economy as fragile and volatile as the Palestinian economy. Such

Multilateral trade relations and the availability of a variety of resources and inputs are vital to the national income. Creating such factors is the first step for Palestine to break out of its dependence on Israeli export and import: trade diversion must become a national policy and objective.

support will create a stable and eligible network that is capable of resisting economic shocks and policy pressures.

It is also important to let go of the concept that Palestine could or should be developed through one national goal, given that the availability and accessibility of resources vary among the different areas of the West Bank and Gaza. Take Gaza, for example; Gazans' bank deposits now comprise only 8 percent of total bank deposits, while Gazans make up 40 percent of the total population. There is such a lack of resources that it is impossible even to attempt to restart an economy there.

Working inside Israel and Israeli settlements is another controversial factor. In fact, it is one of the weakest points in creating a resilient economy. The fact that between 13 and 18 percent of the total labor

force of the West Bank and Gaza work in Israel negatively contributes to the GNP of Palestine, as it causes vulnerability and prevents political and economic certainty and stability. For the past 14 years, the Palestinian labor force that works in Israel and the settlements has come only from

governorates depend on their citizens working in Israel (whether in settlements or in Area C), whereas others depend on the Palestinian Authority's public employment, and a small but increasing number resort to entrepreneurial establishments. Thus, a detailed resilience plan must



■ Palestinian farmers are seen during harvest season in the Jordan Valley. Photo by Shadi Hatem, courtesy of Middle East Monitor.

the West Bank, and its contribution to the West Bank's total GNP is as high as 40 percent.

Rebuilding this factor, however, takes a lot of care, articulation, and long-term vision, as it requires the availability of jobs and financial support in Palestine. We must acknowledge that some

be built that is specific to each area and governorate and that takes into consideration the availability of resources and the accessibility of the labor force.

The viability of a stable banking sector is a major instrument in building a resilient economy. However, as long as Palestine

depends on the Israeli shekel as the currency preferred by the Palestinian government among all legal currencies, its economy remains dependent. If lending is mostly allocated for consumption of the public, then the total benefit of the economy is minimal. However, when lending is targeted to widening the productive base, infrastructure, and the housing market, then a more durable policy can be implemented. Since most bank deposits are short-term, then the government and the banking sector should look for long-term deposits, either from international markets or from local sources such as social security and pension funds. We must streamline a vision and plan to restructure our banking policies in a direction that serves the purpose of building an immune and resilient banking sector.

The availability, or lack, of water resources in the agricultural sector, the variety of accessible export markets, and the source of inputs for agricultural production largely determine to what extent agriculture could be utilized to become one of the pillars of our food security and help create a resilient economy. The availability of water resources or lack thereof go hand in hand with the sustainability of the agricultural sector.

Lastly, a lot of change is required in our governance. The government has yet to build a long-term strategy not only to contain the current status but also to work towards sustainability and build a better future. Dealing with *al-maqasa* (customs and taxes clearance) money is a priority for the Palestinian Authority in aiding and maintain an independent export/import market. Palestinian import must depend on Israeli officials to collect and clear customs and taxes, only to send the receipt to the Palestinian Ministry of Finance – with a 3 percent surcharge per collection. The establishment of dry ports and bonded warehouses will help avoid the associated, frequently occurring delays in the supply chain and help attempt to build a more stable Palestinian economy.

In addition, working to divert from depending on Israel as the main supplier of power and water to new resources such as renewable energy can be central to building the Palestinian economy. In the same context, importing fuel products from Egypt or Jordan is equally vital to making Palestine more immune and independent.

All the above-mentioned examples of policy changes show how much we can do within the status quo to build a completely different structure from what we have had for the past 25 years. Moreover, these policies should be directed towards four major goals that are essential for our survival and development in the coming few years: First, we must work hard to stop and/or slow the progress of Israeli settlements in Jerusalem and the West Bank and delegitimize these policies in international arenas. Second, we must work towards a production-focused economy. This can be done by supporting exports and reducing imports and their diversion. Third, we must build an inclusive social protection framework that mitigates poverty, deep poverty, and unemployment. This includes funding institutions that can guarantee financial stability through export guarantees, agricultural insurance, political risk insurance, and overall supervision of the labor market. And fourth, we must bring about development by participation which can be achieved by building a democracy with the widest scope possible in order to lead to a transparent, “non-corrupt” government with an independent judiciary and a capable labor market.

The ultimate goal is to mobilize the people, particularly the youth and the diaspora, to have better control of resources and to start an economic reform that serves and supports our political agendas. This would be a transitional program directed towards the internal structures to guarantee a more resilient and immune economy. It includes

restructuring government spending and the income tax structure to provide for a more just social system where allocation of budgets and resources serve the overall developmental needs.

At the heart of all this comes the correction of the injustice that has been inflicted on Gaza since 2007. We need to end the humanitarian disaster that superseded the political division. Immediate mechanisms should be created to alleviate the burdens and lack of basic needs for the people in the Gaza Strip – these must address most importantly the availability of fresh and clean water and energy for 24 hours per day. This humanitarian disaster must be put to an end if we agree that Gaza is an inseparable and integral part of the Palestinian national economy.

Born in Kuwait to Palestinian parents, Samir Huleileh holds a master's degree in economics from the American University of Beirut. He was a major participant of the team that negotiated with Israel during the bilateral and multilateral talks from 1992 until 2014. He served as the undersecretary of the Ministry of Trade and Industry between 1994 and 1997, and later joined as government secretary in the years 2005–2006. He then became CEO of PADICO Holding from 2008–2017, and is an active board member of various private companies and public institutions. He is now chairman of Maalchat, a private company for mobile e-payment methods.