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The State of the Palestinian Economy after Oslo

The Economic Paradox of the Oslo Syndrome

The Oslo Agreement and its economic counterpart, the Paris Agreement, aroused hopes for economic co-operation as well as accelerated growth and economic prosperity for the Palestinians. However, in reality, the opposite has occurred. The process and its results, expressed in terms of GNP per capita, can be summarised as follows:

In the wake of the Six Day War, Palestinian GNP per capita was equivalent to $400-$500 annually (in average prices for the period 1990-1996). In the 25 years since the war, GNP grew to an annual level of about $2,250 per capita. During the closing days of the previous administration — following the signing of the Oslo and Paris Agreements — GNP in the Palestinian economy fell to an annual level of about $1,800 per capita, and further declined during the period of the current administration, to about $1,725 per capita. Based on these estimates, extrapolated from Israeli and Palestinian data, we can state that GNP per capita has declined by about 25 percent. Foreign sources offer even bleaker estimates, according to which the drop in GNP per capita surpasses 30 percent.

This decline is the outcome of a syndrome originating in the Oslo Agreement, the continued attacks waged by Palestinian terrorists, which resulted in bor| r closings of long duration, and the replacement of Palestinian wage earners by wage earners imported from Eastern Europe, the Far East, and other distant places within the Israeli labour market.

Background

At the core of this “paradox” lies the asymmetric economic dependency of the Palestinian national economy upon the Israeli economy.

At the eve of the Oslo Agreement, the value of the benefits gained from co-operation with Israel was as follows: About 27.5 percent of Palestinian GNP represented income earned from the employment of Palestinians in the Israeli economy. About another 10 percent represented income from Palestinian value added that was latent in the goods exported from the Palestinian market to Israel (and from there to Western markets). All told, about 37.5 percent of Palestinian GNP directly sprung from co-operation with the Israeli economy, to which can be added the influence of multipliers, a phenomenon that created additional though indirect income. In monetary terms, co-operation with Israel contributed about $1-$1.5 billion to Palestinian GNP. Co-operation resulted in a similar contribution to Israeli GDP though on the Israeli side, the significance of this contribution appears trivial considering that it comprises only about 1.5-2.0 percent of Israel's GNP.

The Dominant Factor

The syndrome undermined, first and foremost, Palestinian employment in Israel. From the Palestinian perspective, employment represents the dominant arena for co-operation with Israel. Prior to the Oslo Agreement, about 115,000 Palestinians were employed in Israel. Employment makes a significant contribution to the Palestinian economy given that the figure quoted represents about 25 percent of the Palestinian labour force. The importance of this factor is further increased in the face of a 15 percent rate of unemployment among the Palestinian labour force.

In the wake of the terrorist attacks and the consequent border closings, the number of Palestinians employed in Israel fell to half its original level. In addition, the re-entry of Palestinian wage earners into the local labour market threatened to double the rate of unemployment. This phenomenon was partially avoided when tens of thousands of Palestinians — including those returning from abroad — were provided with employment in the public sector, especially in the Palestinian Authority's police force, which employs more than 60,000 individuals (despite only 30,000 being authorised by the Oslo Agreement).

Given this seeming similarity in their dimensions, we could point to what appears to represent a substitution of the two trends, that of declining Palestinian employment in Israel on the one hand, and increasing employment in the Palestinian Authority's public sector on the other. However, this equivalence is deceptive because the falling employment in Israel represents a decline in the export sector while the rising employment in the Palestinian Authority represents an increase in public consumption. Although this increase is imperative, from an economic perspective, it is a necessary evil requiring prompt location of fiscal resources.

Against this background of the decline in resources resulting from the shrinking scope of Palestinian employment in Israel, the Palestinian Authority is recruiting the bulk of resources at the expense of, among other things, investment in export growth.

Secondary Factors

The uncertainty surrounding national security and defence, lying at the root of the syndrome, is a significant factor by itself, delaying general development and the level of investment in the Palestinian economy. The continued border closings, which further reduce the level of Palestinian employment, also negatively influence the physical accessibility and cost of commuting between Gaza and the West Bank. The ensuing consequences include a relative decline in intra-Palestinian trade and the shift of demand from the local Palestinian to the Israeli market. From the standpoint of national economies (in contrast to the restricted market for one or another factor), this represents a minor addition to the value added of Israel. However, the same cannot be said in regard to its influence on the Palestinian national economy.

Concrete Steps to be Taken with a View to the Future

In the long term, the development of the Palestinian economy is dependent upon the growth of its export industry. Concrete steps to be taken by Israel within the framework of co-operation may accelerate the process to a considerable degree, particularly in the critical area of marketing. However, the results of the accelerated growth will be not be realised in the near future. Despite this, steps to be taken in the area of employment may generate immediate gains. More specifically, we are referring to the co-ordinated reduction of the number of work permits granted to wage earners from foreign countries with the issuance of tens of thousands of transit permits, exempt from abrogation during border closings, to Palestinian wage earners.