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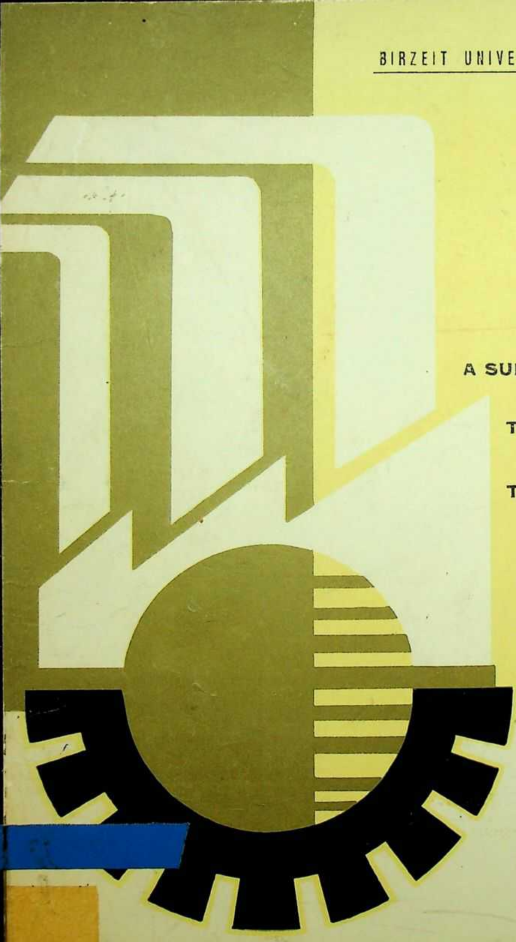

A SURVEY OF INDUSTRIES IN THE WEST BANK AND THE GAZA STRIP

BY

HISHAM AWARTANI

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SEPTEMBER 1979

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EQUIVALENTS

One dunum = 1000 square meters = approximately ¼ of an acre.

One kilometer = 1000 meters = 0.62 of a mile.

Market Exchange Rates of the Israeli Pound Relative to the Jordan Dinar

(1971 - 1979)

Year	Average Exchange Rate* of the Jordan Dinar	Percent of actual yearly devaluation
1971	10.5	-
1972	12.6	19.7
1973	13.4	6.6
1974	17.2	28.0
1975	20.5	19.8
1976	29.1	41.9
1977	32.0	9.8
1978	54.8	71.3
1979	62.2	26.3 (for six months)

*These rates are averages of four quarterely exchange rates (January, March, June, September).

Source: Records of KARSOU' Exchange Office, Nablus

PREFACE

The economy of the West Bank and Gaza Strip has attracted intensive attention by many sides and for different reasons. The main source of information for most writers on this subject has been, by necessity, statistical reports published by the Central Bureau of Statistics in Jerusalem. However, residents of the occupied territories, who have been living with Israeli economic policies for the past eleven years, have their own views to present, which do not always conform with the conclusions inspired by official statistical data.

As a lecturer in rural development and economics at Al-Najah and Birzeit Universities, the writer has been in close contact with economic transformations in the occupied territories. Within the framework of a course titled "Economics of the West Bank and Gaza Strip," the writer and his students have conducted two separate studies in this field. The first, titled "West Bank Agriculture - A New Outlook," has been published by Al-Najah National University. The second deals with industries in the occupied territories and is summarized in this report. It is sponsored and published by Birzeit University.

The completion of this study was not possible without the assistance of chambers of commerce, municipal authorities and a great many businessmen. District labor officers, particularly Mr. Hisham Anabtawi of Nablus District, deserve special thanks for their invaluable help, whether in providing statistical information or supplying critical evaluation of certain problems.

The final report was kindly reviewed by Mr. Ibrahim Abdul-Hadi, Mr. Ghassan Harb, and Mr. Charles Shammas, all of whom provided critical remarks and analyses which proved useful and informative. The writer is particularly indebted to Professor Vivian Bull of Drew University for her deep interest in this work. Mrs. Bull has devoted much of her time in reviewing the manuscript and discussing several controversial points with the author.

Finally, the writer expresses his appreciation to Birzeit University for the material and moral support it has accorded him throughout the course of this research. I wish also to thank Miss Ni'mati Ass'ad of Birzeit's Office of Documentation and Research for typing the first draft of the manuscript, and Miss Emily Makhlouf, Academic Secretary, for typing the final draft.

Hisham M. Awartani
Birzeit University

April, 1979

SUMMARY

This study was conducted from 1976 through 1978 under the auspices of Birzeit University. It comprises a survey of industrial firms operating in the West Bank and Gaza Strip, together with a cross sectional sample investigation of certain aspects of industrial activities. The sample consists of 208 firms, 166 of which are from the West Bank and 42 from the Strip.

The following is a summary of the major findings:

General features. The industrial sector in the occupied territories contributes around 8 percent of their Gross Domestic Product (West Bank 6.7 percent, Gaza Strip 10.1 percent - 1977) and it employs 14 percent of the total labor force. Industrial firms consist predominantly of small household handicraft outfits, where family labor and capital are of primary significance. The lack of a national authority has entailed policies and circumstances which seriously curtailed local industrial activity and maintained the occupied territories as a major export market for Israeli products.

Number of firms. As of the spring of 1978, 3017 industrial firms were in existence, of which 2587 were located in the West Bank and 430 in the Gaza Strip.

Major types of activity. Around 32 percent of all industrial firms were repair garages, blacksmith workshops and simple metallic furniture factories; 16 percent producers of cement blocks, floor tiles, stone cutters and quarries; 16 percent carpentries; 15 percent sewing, tricot and weaving; 11 percent shoes, leather products and plastics; and 10 percent miscellaneous industries.

The afore-said distribution of firms by their types of activity points clearly to the primitive nature of existing industries. Most of them render few services which do not add much to the net value of their products.

Production. Despite erratic behavior of production patterns, there is clear evidence that the number of industrial firms has more than doubled during occupation years. Aggregate output has scored a considerable increase during 1969 to 1973, then slowed down afterwards. After 1977 businessmen reported a pronounced slump. The reasons for the emerging gloomy trend originate mainly from Israeli monetary and economic crises, in addition to a number of unfavorable policies set forth by the ruling authorities.

Finance. The major problem which confronts industrialists and businessmen in the occupied territories stems from the extremely unstable monetary conditions in Israel. A most tangible reflection of this dilemma is the drastic *de facto* devaluation of the Israeli Pound relative to the Jordan Dinar, which is an accepted and much more stable legal tender. The market exchange value of the Israeli Pound has declined by 492 percent over the period 1971 to 1979. To be able to claim real profits, therefore, businessmen have to earn on their current transactions (which are conducted largely in the Israeli Pound) an unusually high return on investment (as valued in Israeli

Pounds) in order to compensate for the loss incurred through excessive devaluation in the Net Worth. As this is not commonly accessible, most businessmen maintain their operations in the occupied territories at a low profile, while at the same time they establish more solid concerns in Jordan and the Gulf States, where profits are considerably more lucrative.

Another important deterrent for expanded local investment relates to the gloomy political future, as it emerges from the on-going "peace" negotiations between Egypt and Israel.

Some other important features of finance arrangements are the relatively small size of capital outlays and the very high share of equity capital.

Labor. The size of the labor force in the West Bank and the Gaza Strip is estimated at 206,200 laborers, of which 14.2 percent are engaged in industrial activities. Industrial firms are characterized by a distinctively small number of laborers. Around 91 percent of all firms have nine laborers or less in each; only seven firms (0.2 percent) have 100 laborers or more.

After being granted permits to work in Israel, about one third of all laborers in the two territories are now employed in Israel. This has resulted in a sharp rise in the real wage levels in the territories themselves. The net effect on local business operations has been mixed. Firms which failed to improve labor productivity in line with soaring wages, have found themselves in difficult conditions. Needless to emphasize, Israeli firms are far more capable of absorbing wage increases than the much smaller industrial outfits in the occupied territories.

The anticipated opening of borders between Israel and Egypt may have grave consequences on the labor markets in the West Bank and Israel. With the expected arrival of large numbers of Egyptian laborers at possibly lower wage levels, a considerable number of Palestinian laborers run the risk of being displaced. Most of these workers will have to move out due to the weak labor absorption potential in the territories themselves.

Marketing and trade. Due to total relaxation of national protective measures, the occupied territories have become the largest single recipient of Israeli exports, accounting for approximately 25 percent of Israel's total exports. Actually, Israel has become by far the largest trade partner with the territories, from which they receive over 90 percent of their imports and sell in return 61 percent of their exports. Israel enjoys a substantial trade surplus with both territories, estimated at IL.3108.0 millions in 1977 (around US$207 million).

Trade across the bridges (mostly with Jordan) is much less significant in absolute or relative values, but Jordan remains a major outlet for a few agricultural and industrial commodities, such as olive oil, vegetable ghee (samna), citrus and vegetable products and soap. However, imports from Jordan are minimal due to excessive custom and security restrictions. As a result, the two territories have consistently made a surplus in their trade with Jordan, estimated at Il.835.9 millions in 1977 (US$55.7 millions).

Subcontracting arrangements between Israeli and Palestinian business firms were vigorously promoted by local authorities in the early years of occupation, essentially as a feature of normal coexistence. Despite few successful cases, subcontracting has considerably declined in significance. It is now largely restricted to certain cloth industries and quarrying. A major reason for this decline is the extreme touchiness of local businessmen about rumours of joint ventures with Israelis.

Unfair competition with Israeli products has been cited as the major impediment against possible expansion in industrial activities. Israeli firms enjoy distinctive advantages relating to their scale of operation; furthermore, they enjoy the benefits of a national authority (protective policies, easier credit and full-fledged auxiliary infra-structures). Limited export potential and the small size of local markets have been identified also as important constraints to further industrial development.

There is enough evidence to believe, however, that if a national authority is established in the West Bank and the Strip, the size of the local market and export potential to neighbouring countries would possibly justify a vigorous, but selective, industrial development scheme.

INTRODUCTION

Much has been written on economic transformations in the West Bank and Gaza Strip following Israeli occupation in June 1967. The interest in this regard is increasing, and it is obviously emerging from political considerations, mainly, the prospects of establishing a Palestinian entity (or state) in the West Bank and the Gaza Strip."1"

Most of the literature on this subject has been concerned primarily with macroeconomic surveys based on published statistical data. This study specifically aims at exploring and evaluating developments in only one economic branch, namely, the industrial sector."2" It closes with a more general discussion on the constraints, pre-requisites, and prospects of economic development in the West Bank and Gaza Strip during and following occupation.

"1" Prominent examples:

a) Vivian A. Bull, The West Bank, Is it Viable? (Massachusettes: Lexington Books, 1975).

b) John Stebbing, The Creation of a Palestinian Arab State as Part of a Middle East Settlement, a preprint, February 1977.

c) Elias Tuma and H. Drabkin, The Economic Case for Palestine (London: Croom Helm, 1978).

"2" The agricultural sector has been studied in a separate report by the same author, title: West Bank Agriculture, A New Outlook, (Nablus: Al-Najah National University, 1978).

OBJECTIVES

This study aims at ascertaining some attributes of industrial development which are not easily revealed by published statistics. It is more concerned with detailed information collected from people actually in the business, and who are often reluctant to talk about their affairs with Government emissaries or foreigners for fear of negative repercussions. Actually, it was repeatedly observed during the course of this survey that businessmen have developed an acute phobia regarding all inquiries which might conceivably subject them to problems with tax authorities.

In view of the relative reticence of most respondents and the limited financial and official support which this study received, its objectives have been defined as follows:

1. Arriving at a fairly accurate distribution of industrial firms by district and number of laborers.
2. Providing a brief description of the major types of industrial firms currently prevalent in the West Bank and Gaza Strip.
3. Evaluating production and supply conditions in industrial sectors of the occupied territories.
4. Analyzing financial problems.
5. Describing marketing structure.
6. Noting the characteristics of the labor market in industry.
7. Providing a future outlook.

It should be pointed out, however, that a fairly large volume of information has been collected on the questionnaires and is not presented in this general report. A more meaningful and useful approach would be to present further details in specialized reports, each dealing with one or few categories of related industries.

SOURCES OF INFORMATION

The information embodied in this study has been derived from three types of sources:

1. Statistical reports released by Israeli sources, particularly the Central Bureau of Statistics.

2. Informal interviews by the writer with members and heads of local chambers of commerce. No questionnaire forms were used for this purpose.

3. Standardized interviews with a sample of businessmen representing 208 industrial firms, 166 in the West Bank and 42 in Gaza Strip, using an elaborate questionnaire (see Appendix for a translated copy of the questionnaire and vocational distribution of sampled firms). Interviewers were assigned from among students taking courses in economics with the writer at Birzeit University during the academic year 1976-77. Before commencing their field work, the interviewers were adequately trained on administering interviews and filling questionnairés.

INDUSTRIAL DEVELOPMENT PRIOR TO OCCUPATION

West Bank. Industrial development in the West Bank prior to 1967 was very slow. This is difficult to quantify precisely due to consolidation of official statistics of both banks of Jordan. The Middle East Institute has endeavoured to produce a set of economic indicators for both parts of the country for the year 1966 (see Table 1).

Table (1)

Gross National Product of West and East Banks
(1966)

(Million dollars)

	Jordan		West Bank		East Bank	
	mill.$	percent	mill.$	percent	mill.$	perce
Agriculture	108.4	24.1	43.4	26.2	65.0	22.
Industries	54.0	12.0	14.5	8.7	39.5	13.
Construction	25.8	5.7	7.7	4.6	18.1	6.
Services	261.5	58.2	100.4	60.5	161.1	56.
GDP (at factor cost)	449.7	100.0	166.0	100.0	283.7	100.
+ Net remittances from abroad	42.6		19.2		23.4	
- Indirect taxes	58.5		23.4		35.1	
GNP (at market price)	550.8		208.6		342.2	

Source: D. Peretz, A Palestinian Entity (Washington: The Middle East Institute, 1970, Table 1.

These figures reveal some fundamental characteristics of the economic relations between both banks of Jordan immediately before the occupation of the West Bank. They show for instance that agricultural output was greater in the East Bank, though it was relatively more important in the West Bank.

Industrial output was very low in both Banks, but more so in the West Bank. However, the striking difference is in the nature of industries in both Banks. Table (2) shows that although the number of industrial firms in the West Bank was larger, the firms themselves were on the whole distinctly smaller than those in the East Bank. It also shows that an industrial firm in the East Bank was on the average 34 times larger in terms of fixed assets and 40 times larger in value of output. It employed 40 percent more laborers and offered more than twice the wage per laborer.

Table (2)

Industrial Indicators in West and East Banks
(1965)

	No. of firms	Average fixed assets (JD'S)	Average output (JD'S)	Average employment (JD'S)	Average wage per laborer (JD'S)
West Bank	3716	121.8	2544.2	4.6	83.9
East Bank	3122	4887.1	9257.5	6.4	192.0

Source: W. Sharayha, Economic Development in Jordan (Cairo: Institute of Arab Studies, 1968) p.178.

All these indicators point to the basic characteristics of industrial firms in the West Bank prior to occupation. They were generally of small workshop type with very limited capital outlays, and they were mostly managed and operated by their owners. As a matter of fact there were only four firms in the West Bank which employed 100 workers or more*. The vast majority of industrial firms employed fewer than 10 workers each. Hence they were of a nature which was distinctly different from the currently recognized nature of industrial firms.

The slow and fragile industrial development in the West Bank until 1967 can be attributed to the following factors:

1. Most businessmen feel that there had been an extremely discriminatory policy against industrialization in the West Bank. This had taken a number of forms ranging from outright denial of licenses for new firms, to forced transfer of existing industries from the West to the East Bank. Such unequitable policies resulted in the West Bank accounting for only 22 percent of Jordan's industry though it had 40 percent of total population.

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*. Jordan Plastics (215), Jordan Vegetable Oils (200), Silvana Chocolates (100), and Jerusalem Cigarettes (100).

2. The West Bank suffered a massive emigration of capital and skilled labor ever since 1950. It was evident that both of these major inputs could earn considerably more in the East Bank, where the government was determined to establish and promote an expanded industrial complex in Amman-Zarqa belt.

3. Jordan, and particularly the West Bank, suffered from the scarcity of industrial raw materials. Aside from certain agriculturally oriented industries, very few industries could benefit from the availability of local raw materials. This does not mean, however, that sufficient effort was exerted to explore all prospects.

Pre-War Industry in Gaza Strip. In the latter years of Egyptian mandate, Gaza Strip enjoyed a flourishing economy which benefited largely from easier foreign trade restrictions. Consequently, Gaza had become an attractive shopping centre for many Egyptians. The boom was further bolstered by relatively substantial expenditures of UN troops which were stationed in the Strip.

In spite of this trading boom, industry in Gaza Strip was quite undeveloped and of small workshop nature. "Real" industries consisted mainly of two beverage bottling plants, two citrus packing houses, and about ten carpet and textile weaving plants. Israeli economists estimate the industrial contribution to the Gross Domestic Product for 1966 at 4.4 percent (see Table 3).

Table (3)

GNP of Gaza Strip (1966)

	Millions of Egyptian Pounds	Percent of GDP
Agriculture	5.5	34.4
Industry	0.7	4.4
Trade and personal services	4.3	26.9
Transport	0.5	3.1
Administration and public services	4.0	25.0
Building and public construction	1.0	6.2
Gross Domestic Product	16.0	100.0
Transfers from abroad	5.0	
Gross National Product	21.0	

Source: Economic Planning Authority. The Economy of Gaza Strip and Sinai. (Jerusalem: Central Bureau of Statistics) p.8.

POST - OCCUPATION DEVELOPMENTS

It has been illustrated that industrial sectors in the West Bank and Gaza Strip on the eve of occupation were rudimentary and extremely fragile. With the advent of occupation, a new set of factors came to bear on industry, and for that matter on all other economic sectors as well. Traditional markets were closed off; new markets were opened; sources and prices of raw materials changed; the labor market underwent drastic changes, and, above all, the new regime was determined to integrate the economies of all occupied territories into the Israeli economy.

In macro-economic terms, industry's share of the West Bank's Gross Domestic Product dropped from 8.7 percent in 1966 (see Table 1) to 6.7 percent in 1976 (see Table 4). In Gaza Strip, however, it rose from 4.4 percent in 1966 to 10.1 percent in 1976.

Table (4)

GNP of Occupied Territories (1976)

	West Bank		Gaza Strip		Total	
	Mill.IL	percent	Mill.IL	percent	Mill.IL	percent
Agriculture (Incl. subsidies)	1243	34.9	485	32.7	1728	34.3
Industry	240	6.7	149	10.1	389	7.7
Construction	520	14.6	285	19.2	805	16.0
Public and community services transport trade and other services	397	11.1	286	19.3	683	13.5
(incl. ownership of dwellings)	1162	32.7	277	18.7	1439	28.5
Gross Domestic Product	3562	100.0	1482	100.0	5044	100.0
+ Factor payments from abroad	890		570		1460	
- Factor payments to abroad	30		14		44	
Gross National Product (at factor cost)	4422		2038		6460	

Source: Administered Territories Statistics Quarterly (Jerusalem: Central Bureau of Statistics, [illegible]

This study has revealed that the distinctive characteristic of industrial firms in the occupied West Bank and Gaza Strip continues to be their house-hold nature. They are predominantly small workshops with modest capital. Owners and family members provide the bulk of labor, so that hired hands are kept to a minimum. Most of these firms perform minor operations on raw materials which are already semi-processed.

More than eleven years after occupation (April 1979) only seven firms in the West Bank employed 100 workers or more (none in the Strip) and seven firms employed 50 to 99 workers (none in the Strip). All of these firms, with the exception of two, were founded prior to occupation.

SURVEY OF INDUSTRIES

One of the primary objectives of this study is to give a reasonably accurate estimate of the number of industrial firms in the West Bank and Gaza Strip, distributed by geographic location and size of labor force. This proved to be the most difficult part of this survey. After intensive exploration of various potential means and sources which might be approached to obtain the required information, the most reliable source at the present proved to be district labor offices. In order to implement new mandatory labor insurance regulations, labor offices have compiled detailed lists of all firms in their respective districts, industrial and otherwise.

Obviously, the classification of industries does not conform with internationally recognized classifications. Consequently, an accurate reflection of existing circumstances might help to give a more realistic perception of the situation.

Tables 5 through 18 summarize the findings of the industrial survey for the West Bank (including East Jerusalem) and Gaza Strip, as compiled in the Spring of 1978. This section is concluded by a brief description of the main types of industries reported earlier in the survey.

This survey has revealed that there are 3017 "industrial" firms in the West Bank and Gaza Strip (table 18). Table 16 shows that Hebron District contained 25.5 percent of all firms, followed by Nablus (17.0 percent), Gaza Strip (14.3 percent), and Jerusalem (10.6 percent).

The distribution of industrial firms by the size of their labor force is revealed in Table (17) which shows that 92.3 percent of all industrial firms have less than 10 workers each. There are only seven firms employing 50 to 99 workers and seven employing 100 or more.

The distribution of firms by type of product is summarized in Table (18). Around 32 percent of all industrial firms are blacksmith or lathing shops, 14.5 percent of them are repair garages, and producers of simple metallic furniture. Carpenters constitute 15.5 percent of total firms, followed by producers of cement blocks, tiles, and other building materials. Sewing, tricot, and weaving firms amount to 14.6 percent of the total.

Table (5)

Distribution of Firms by Size of Labor Force

TULKARM

	(Number of laborers in each group)				
	1-9	10-19	20-49	50 and more	total
Tricot, sewing	7	9	9		25
Bakeries	6				6
Sweets, confectionaries	8				8
Tahina (sesame oil)	1				1
Carpenters	15				15
Shoes	5				5
Blacksmiths, lathing, metallic furniture	40				40
Garages	37				37
Stone and marble cutting, bricks, tiles	23	1			24
Printing, paper products	3				3
Soap	1	—	—	—	1
Total	146	10	9	none	165

Table (6)

Distribution of Firms by Size of Labor Force

JININ

(Number of laborers in each group)

	1-9	10-19	20 and more	Total
Sewing, tricot	15	1		16
Bakeries	2			2
Sweets, confectionaries	6			6
Leather and shoes	4			4
Carpenters	20			20
Blacksmiths, lathing, metallic furniture	43	1		44
Garages	30			30
Stones and marble cutting, quarrying, bricks, tiles	50			50
Printing and paper products	1			1
Canning		1		1
Coal (wood)	10	–	___	10
Total	181	3	none	184

Table (7)

Distribution of Firms by Size of Labor Force

NABLUS

(Number of laborers in each group)

	1-9	10-19	20-49	50-99	100 and more	Total
Sewing, tricot	112	7	3		1	123
Icecream, soft drinks	1	1	1			3
Bakeries, flourmills	11	1	1			13
Sweets, confectionaries	24	2				26
Vegetable oil (tahina)	2	1			1	4
Feedmills	1		1			2
Soap	18	6				24
Chemicals, detergents			1			1
Plastic products			1		1	2
Leather and shoes	31					31
Carpenters	42					42
Solar heating units		1				1
Blacksmiths, lathing, metallic furniture	53	2	1			56
Garages	90	1				91
Canning			1			1
Stone and marble cutting, tiles, cement bricks	78	3				81
Printing and paper products	8	2				10
Electric power plant				1		1
Glass products			2			2
Total	471	27	12	1	3	514

Table (8)

Distribution of Firms by Size of Labor Force
RAMALLAH

(Number of laborers in each group)

	1-9	10-19	20-49	50-99	100 and more	Total
Sewing, tricot	38		6			44
Icecream	1					1
Bakeries	10					10
Sweets, confectionaries	2				1	3
Tahina (sesame oil)	2					2
Alcoholic drinks		2				2
Feedmills		2				2
Tobacco	1					1
Soap	2					2
Pharmaceuticals			3	1		4
Detergents, chemicals	1		1			2
Plastic		1				1
Leather, shoes	8		1			9
Carpenters	32					32
Blacksmiths, lathing, metallic furniture	42					42
Garages	53	1				54
Stone and marble cutting, quarrying, tiles, bricks	40	2		2		44
Printing, paper products	3		1	1		5
Ceramics	1	–	—	–	–	1
Total	236	8	12	4	1	261

Table (9)

Distribution of Firms by Size of Labor Force

JERUSALEM

(Number of laborers in each group)

	1-9	10-19	20-49	50 or more	Total
Tricot, sewing	3	2	2		7
Bakeries	14		1		15
Flourmills	1				1
Drinks	1				1
Sweets, confectionaries	4				4
Canning		1			1
Carpenters	130	1			131
Tourist products:					
Wood	10				10
Mother of pearl	2				2
Glass	1				1
Ceramics	3				3
Smithshops	30				30
Metallic furniture	10				10
Garages	35		1		36
Quarrying	3				3
Bricks, tiles, marble	7				7
Leather, rubber	33	10	1		44
Printing, paper products	6	3	3		12
Sweeping products (by the blind)			1		1
Total	293	17	9	none	319

Table (10)

Distribution of Firms by Size of Labor Force

ABU-DEES, ALIZARIYA

(Jerusalem suburbs)

(Number of laborers in each group)

	1-9	10-19	100 and more	Total
Sewing, tricot	10			10
Bakeries	1			1
Cigarettes			1	1
Plastics		1		1
Shoes		1		1
Carpenters	20			20
Blacksmiths, metallic furniture	20			20
Garages	5			5
Cement bricks	2			2
Electric power plant	—	—	1	1
Total	58	2	2	62

Table (11)

Distribution of Firms by Size of Labor Force

JERICHO

(Number of laborers in each group)

	1-9	10-19	20 and over	Total
Sewing, tricot	1	2		3
Bakeries	3			3
Leather and shoes	23			23
Carpenters	2			2
Cement bricks, tiles	3			3
Blacksmiths	5			5
Garages	10			10
Total	47	2	none	49

Table (12)

Distribution of Firms by Size of Labor Force

BETHLEHEM

(Number of laborers in each group)

	1-9	10-19	20-49	50-99	100 and more	Total
Sewing, tricot	50		7	1		58
Bakeries	6					6
Macaroni	2					2
Icecream, soft drinks	5					5
Pharmaceuticals				1		1
Plastic products			1		1	2
Cigarettes			1			1
Carpenters	32					32
Olive wood products	50	6				56
Mother of pearl	10	5				15
Blacksmiths, lathing, metallic furniture	32	1				33
Garages	27					27
Stone and marble cutting, tiles, bricks	22		3			25
Solar heating units		1				1
Total	236	13	12	2	1	264

Table (13)

Distribution of Firms by Size of Labor Force

HEBRON

(Number of laborers in each group)

	1-9	10-19	20-49	50 and more	Total
Sewing, tricot, weaving	58	13	3		74
Bakeries	9	1			10
Tomato paste		1			1
Vegetable processing	2				2
Leather, shoes	195	4			199
Carpenters	133	4			137
Blacksmiths, lathing, metallic furniture	127	2	1		130
Garages	71				71
Electrodes			1		1
Marble cutting	10	4			14
Quarrying and stone cutting	96	3	1		100
Cement bricks, tiles	17				17
Glass products	6				6
Printing, paper products	7				7
Total	731	32	6	none	769

Table (14)

Distribution of Industrial Firms by Size of Labor Force

ALL WEST BANK

(Number of laborers in each group)

	1-9	10-19	20-49	50-99	100 or more	Total
Sewing, tricot, weaving	294	34	30	1	1	360
Food, beverages	125	12	4		2	143
Cigarettes and tobacco	1		1		1	3
Soap	21	6				27
Chemicals, detergents	1		2			3
Plastic products		2	2		2	6
Leather, shoes	299	15	2			316
Pharmaceuticals			3	2		5
Carpenters	426	5				431
Blacksmiths, lathing, metallic furniture	402	6	2			410
Garages	358	2	1			361
Canning		1	1			2
Electrodes			1			1
Solar heating units		2				2
Stone & marble cutting, tiles, cement bricks	351	13	4	2		370
Printing & paper products	28	5	4	1		38
Glass products	7		2			9
Olive wood	60	6				66
Mother of pearl products	12	5				17
Ceramics	4					4
Electric power plants				1	1	2
Sweeping products			1			1
Coal	10					10
	2399	114	60	7	7	2587

Table (15)

Distribution of Firms by Size of Labor Force

GAZA STRIP

(Number of laborers in each group)

	1-9	10-19	20-49	Total
Sewing, tricot, weaving	68	12	1	81
Flourmills	11			11
Sweets, confectionaries	4	3		7
Soft drinks			2	2
Citrus packing plants			8	8
Plastics			1	1
Shoes, leather	10			10
Printing, paper products	4			4
Carpenters	32	4	1	37
Blacksmiths, lathing, metallic products	97	9		106
Garages	75	1		76
Cement bricks, tiles	84	2	1	87
Total	385	31	14	430

Table (16)

Geographic Distribution of Industrial Firms

West Bank and Gaza Strip

District	Number of Firms	Percent of Total
Tulkarm	165	5.4
Jinin	184	6.1
Nablus	514	17.0
Ramallah	261	8.7
Jerusalem	319	10.6
Jerusalem Suburbs	62	2.0
Jericho	49	1.6
Bethlehem	264	8.8
Hebron	769	25.5
West Bank	2587	85.7
Gaza Strip	430	14.3
Total	3017	100.0

Table (17)

Distribution of Industrial Firms by Size of Their Labor Force

No. of Laborers	No. of Firms	Percent of Total
1 - 9	2784	92.3
10 - 19	145	4.8
20 - 49	74	2.5
50 - 99	7	0.2
100 and more	7	0.2
Total	3017	100.0

Table (18)

Distribution of Industrial Firms

by Type of Product

	No. of Firms	Percent of Total
Sewing, tricot, weaving	441	14.6
Cement blocks, tiles, quarrying, stone and marble cutting	457	15.1
Food industries, cigarettes	174	5.8
Pharmaceuticals, chemicals detergents, soap	35	1.2
Blacksmiths, metallic furniture, lathing, garages	953	31.6
Printing, paper products	42	1.4
Tourist products	96	3.2
Carpenters	468	15.5
Leather, shoes, plastics	333	11.0
Others	18	0.6
Total	3017	100.0

DESCRIPTION OF EXISTING INDUSTRIES

It is not possible to describe in this paper all types of industrial activities in the West Bank and Gaza Strip, but this section provides a brief description of major categories of currently prevailing industries. Distinctive features and important problems will be pointed out, but that does not preclude the need for more specialized reports dealing with specific industries. All quantitative descriptions are based on the results of a sample consisting of 208 firms.

Tricot, Sewing, and Weaving: This is one of the industries which have flourished and expanded rapidly after occupation. There are 360 firms of this gype in the West Bank and 81 in Gaza Strip. It is estimated that around 70 percent of all firms in this group were established after Israeli occupation.

The average number of laborers per firm in this category is estimated at about 12. Only 8.5 percent of all such firms employ 20 or more laborers*, and the vast majority (82.4 percent) have less than 10 laborers each. More than 95 percent of laborers are women who are generally paid much less (may be 50 percent less) than workers employed in similar jobs in Israel. Owners of local firms have benefited from the reluctance of women in most urban centres to seek employment in Israel, even if they receive much lower wages locally.

Machines used in this industry are fairly modern, but they are more labor intensive than what is common in modern large-scale outfits. Products are sold in local markets and in Israel, as no garment imports are permitted into Jordan from the occupied territories.

This industry, particularly the sewing sector, has entered (probably more than any other industry) into extensive contractual arrangements with Israeli firms. A common practice is to receive the semi-finished cloth from leading Israeli manufacturers and then deliver back to them the finished garments at a contracted margin per piece.

Smithshops, Metallic furniture, Lathing Shops: A large number of what is described as industrial firms are small household smithshops and manufacturers of metallic furniture. There are about 410 such firms in the West Bank, and 106 in the Strip.

Most of smith and lathing shops existed prior to occupation (58 percent of sample firms). For several reasons smithshops manifested slow growth. Similarly, the number of lathing shops did not expand appreciably (maybe not exceeding 50 in the West Bank), but much of the old machinery in these shops was scrapped and modern machines were installed.

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* This includes unpaid family labor and all those in the firm who are not directly involved in the production process.

A major break-through took place in aluminum based industries. For economic and quality reasons, aluminum replaced wood and iron in the production of a wide range of products such as office and home furniture, window frames, and doors. Workshops of this kind rarely have more than four workers in each, whereas the average number of laborers in smithshops is usually larger (5.0 in sample industries).

Carpenters: These are commonly manufacturers of wooden furniture used largely in homes. Metallic furniture is gradually replacing wooden products in most other uses. This, together with increasing competition from furniture produced in Israel and abroad (e.g. Denmark) in modern large scale plants, has caused an increasingly difficult situation for local carpenters.

The number of carpenters in the West Bank is estimated at 431, and around 37 in Gaza.

According to our sample, 62 percent of all carpentries were founded over the ten years following occupation. Compared with most other handicraft industries, this demonstrates a slow horizontal expansion.

Very few carpentries exceed 10 laborers in each. The average number of laborers in the sample industries was 4.2. In practically all of them the owners are master-carpenters, and quite often they are assisted by one or more of their kin.

Some development has taken place in the type and size of machinery used in carpentries, but that is still far from bridging the gap with modern Israeli firms.

Bricks, Tiles, and Stones: A noticeably slow growth has taken place in the construction of family houses and public buildings, whether as compared to the pre-war level or to construction rates in Israel. Despite that, the number of firms producing building materials has rapidly multiplied after occupation.

There are approximately 370 stone quarries, stone-cutters, and manufacturers of cement blocks and floor tiles in the West Bank, and 87 in Gaza Strip. Less than half of them (44 percent of sample firms) were in business prior to June 1967. The Average number of laborers per such firm is calculated at 7.8. Only 22 firms of this group have had more than 10 laborers in each, which again reflects their atomic nature.

This industry achieved noticeable expansion following the June War in 1967. Stone and marble producers were very favorably influenced by the tremendous boom in the construction sector in the East Bank of Jordan, particularly after 1972. On the other hand, manufacturers of cement blocks and floor tiles have relied heavily on Israeli markets in which they sell about 50 percent of their produce to Israeli construction firms. However, blocks and tiles are not permitted into Jordan because of the Israeli origin of their raw materials.

Pharmaceuticals: No pharmaceutical manufacturers existed in the West Bank or Gaza Strip prior to 1967. Drug stores in the West Bank sold only foreign made drugs. Shortly before the June War, the first drug producing firm was established in Jordan (in the city of Salt).

Following occupation, a number of drug manufacturing plants were established, mostly in the form of ventures involving pharmacists and physicians. By 1978 there were five pharmaceutical plants in the West Bank, and none in the Strip. All of them ranged from 30 to 60 laborers in each.

As can be expected, most of drug manufacturers in the West Bank have in fact rendered few services on ingredients which are bought from Israel or abroad. The reasons for their managing to sustain a good share of the local market (no sales into Israel or Jordan) were, first, their lower price as compared to Israeli and foreign products, and second, obvious bias of local doctors, most of whom are shareholders in one firm or another.

Although pharmaceutical plants in the West Bank experienced rapid growth and high profits in the early seventies, they later complained bitterly of low profits and slackening markets. It is certainly worthwhile to initiate a specialized study dealing with the problems and prospects of the pharmaceuticals sector.

Soap: There are 27 soap manufacturers in the West Bank, and none in the Strip. About 90 percent of them are located in Nablus, which is traditionally famous for its high quality soap.

Production of soap in the West Bank is a subsidiary industry to olive oil production. Oil of low edible qualities and caustic soda is practically the only raw material used in the production process. Very little mechanization and modern technology are utilized in this industry. Production processes remained essentially the same for the last fifty years, but due to a largely unfounded but deep-rooted reputation, Nablus soap continues to enjoy a pronounced edge over all other types of soap. Exports to Jordan, and therefrom to other Arab countries, are estimated to make up to approximately 90 percent of total sales.

With the exception of two small plants, all soap producers have existed long before occupation. Only six of them (out of 27) have ten or more workers, the rest (77.8 percent) have fewer than ten in each.

Garages: This is one of the sectors which have achieved very fast expansion after occupation. It is estimated that there are 361 automobile repair shops in the West Bank, and 76 in the Strip. Informed sources estimate that 60-70 percent of all these shops were established after occupation.

Expansion in this industry is stimulated by three main factors:

a) Growing number of vehicles in the West Bank and the Strip, which rose from 7673 in 1970 to 14271 in 1977, almost 86 percent increase in seven years.*

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* Monthly Statistics of the Administered Territories, 1972 Vol. 11(9) p.65 and Administered Territories Statistics Quarterly, 1977 Vol. VII (3-4) p.52.

b) Due to the very high cost of new cars, the majority of private cars in common use are old models manufactured in the sixties. As can be expected, cars that old require constant maintenance.

c) Providing repair services to Israeli cars. This, in fact, may account for more than 60 percent of the business handled by garages in towns close to Israel, such as Tulkarm and Jinin.

Automobile repair shops are typical examples of other household industries described earlier. Owners provide much of the labor needed, and they are often helped by two or three hired hands. A striking feature of the labor supply is its very low intellectual and vocational standards. Most of those who join garages for apprenticeship are school drop-outs who possess little aptitude for mastering a highly technical job such as repairing machines. Naturally, this reflects on the quality of service they render. However, the low cost of service relative to Israeli firms gives them a crucial advantage, at least for the time being.

Food Industies: The range of existing food industries is fairly wide, but they are distinctively modest in their size and nature. Each district "capital" has one or two flourmills, two or three bakeries, and in some districts few sesame oil mills (making tahina) and confectionary plants.

Full-scale food manufacturing firms include fewer than half a dozen examples, noticeably: Silvana Chocolates (Ramallah), Jordan Vegetable Oils (Nablus), Agricultural Food Industires (Hebron), Seven Up and Star Soft Drinks (Gaza).

Nevertheless, all urban towns have many firms specialized in producing locally popular sweets. A prominent example is the Kenafe* of Nablus. Again, firms like these are typical of the house-hold industries model described earlier. They involve small capital outlays, rarely exceeding $10,000, and employ three to four workers (including owner-operators). Such firms are very well adapted to their market needs and circumstances, which helps to give them distinct advantages relative to large-scale food industries in Israel.

Except for a tomato paste plant in Hebron, there are no important food processing plants making use of surplus farm products.

Tourist Handicrafts: As the centre of famous religious and historical sites, the West Bank has always been a top attraction for tourists. Prior to 1967, the tourist trade expanded rapidly and became one of the most promising sectors in Jordan's economy.

Tourism industry has undergone drastic changes after Israeli occupation. Some segments have flourished and others have collapsed. Manufacturers of touristic products in Bethlehem, Jerusalem, and Hebron are enjoying a boom. The bulk of this industry is centered in Bethlehem where antiquities made of olive wood or oyster shells are produced. In addition to the 96 firms recorded in this survey, experts believe that more than 150 other producers are engaged in this business

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* This is a famous oriental sweet which is considered a specialty of Nablus.

in their homes at a modest scale. They utilize simple tools and family labor, and market their produce through specialized wholesalers. Bigger outfits have developed and flourished, admittedly, through effective loan schemes specifically initiated to meet the needs of this sector.

"Large" Industrial Firms: Aside from the types of industries described earlier, there is a small number of industrial firms which, in local standards, are considered large in size. As outlined earlier, there are only seven firms in the West Bank which employ one hundred or more laborers, and none in the Strip. The following is a brief list of these firms:*

1. Jordan Vegetable Oils: Established in 1953 in the city of Nablus, the JVO is the largest industrial firm in the West Bank. It is owned jointly by private share-holders and the Government of Jordan. The JVO produces a variety of ghees (Samneh) from imported raw materials. Most of its products are exported to the East Bank where the firm enjoys heavy protection. This company faces complex marketing and production problems, mainly due to conflicting Israeli and Jordanian policies. Nevertheless, due to its prestigious management, it has managed to survive and expand.

2. Malhees Plastics: Established in 1955 in Nablus, Malhees Plastics has developed into a large scale operation specialized in a variety of plastic products, particularly slippers, neck shoes and foot wear.

3. Wahbe: This is probably the largest sewing firm in the West Bank and Gaza Strip. Established in 1964, it developed its business by relying heavily on contractual arrangements with institutional customers. Laborers are largely women. A major cost advantage for this firm is its ability to mobilize labor at a relatively low cost due to women's reluctance to seek employment in Israel.

4. Silvana Chocolates: Established in Ramallah in 1954, Silvana Chocolates has developed as the most successful confectionary plant in Jordan. Despite competition with Israeli and Jordanian manufacturers, Silvana has built a quality reputation in East and West Banks of Jordan. Again, most of the needed raw materials are imported.

5. Jerusalem Cigarettes: This company was established with government support in 1965. Much of its tobacco is grown in the West Bank (mainly in Ya'bad). Due to the ban on imports of Jordanian cigarettes, this company has managed to expand its sales after occupation. Israeli cigarettes have, of course, entered the local market, but their share is still small, mainly due to their higher price,

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* To avoid the possibility of causing problems for these firms with Israeli tax authorities, no figures are reported on their employment capacity. They all range from 100 to 250 workers in each.

6. Jerusalem Electric Corporation: The JEC was established during the British Mandate in the forties. It was offered a monopoly on the supply of electric power in the area extending from Bethlehem in the south, to Ramallah in the north.

After Israeli occupation in 1967 and the swift annexation of East Jerusalem, the JEC started to face very serious problems. It was required, for instance, to supply power to all Israeli settlements in East Jerusalem, which imparted an unexpectedly heavy load on its ailing generators. Moreover, the JEC was forced to accept a number of Israelis on its board, which caused a very serious split in its management. To make things worse, the JEC has had to cope with a number of serious conflicts with its workers.

As the pressure is still mounting and the fate of the JEC is at stake, it is strongly recommended that a critical evaluation of this company's status be launched, the appropriate recommendations made. As a matter of fact, the entire situation of electric power in the West Bank should be scrupulously assessed.

7. Jordan Plastics: Jordan Plastics Company was established in Beit Sahour (Bethlehem District) in 1958. Since then, the JPC has achieved considerable growth, whether in terms of sales or range of products. More recently, it has added new units for the production of foam and spring mattresses. Evidently, its growth has been facilitated by the fact that its products are admitted into Jordan.

PRODUCTION

There are no available indices on output trends for various industries in the occupied territories. However, Israeli sources estimate gross revenue accruing to various industrial sectors in the West Bank and Gaza Strip to have risen since 1969 by 677 percent and 3270 percent respectively (see Table 19).

Table (19)

Industrial Gross Revenue (1976)

(at current prices)

	West Bank		Gaza Strip	
	1969 (100%) IL mill.	1976 percent	1969 (100%) IL mill.	1976 percent
Food, Beverages, Tobacco	40.02	673	1.26	4183
Textiles, Clothing, Leather	5.19	440	2.82	1897
Wood and Wood Products	1.91	727	1.23	2934
Paper, Plastic, Chemicals, Oils	8.63	849	1.14	3410
Metals, Machinery, Transport	3.54	612	0.58	8377
Total	59.29	Av. 677	7.03	Av. 3270

Sources: Statistical Abstract of Israel (Jerusalem: Central Bureau of Statistics, 1977), p.735.

Monthly Statistics of the Administered Territories (Jerusalem: Central Bureau of Statistics, 1972) Vol. 11, No.9, pp.52-57.

These estimates are obviously extremely inflated, even after discounting for soaring prices, which are estimated to have risen over the same period by 415 percent in the West Bank and 500 percent in Gaza.*

* Based on figures published in the Statistical Abstract of Israel (1978, p.774), the consumer price index is calculated to have risen in 1977 to 574.2 in the West Bank and 685.8 in Gaza Strip (1969: 100 percent).

Not misled by these fabulous figures, Van Arkadie has estimated the over-all growth rate for the period 1968-73 "over and above post-war recovery" at about 9 percent per annum.[1] He offers two reasons for Israeli gross over-estimates:

1. "Basic data are of uncertain reliability." It seems that government statisticians are under the impression that data collected from businessmen are too understated. To account for that, and to serve a multitude of other purposes, the figures have been generously adjusted.

2. Referring all statistical indices to 1969 as a base year is certainly conducive to an inherent bias. It would be reasonable to assume that output following occupation was still suffering badly from the war aftermath.

The question of production and demand trends has been further explored with producers themselves through lengthy interviews with "industrialists" and members of chambers of commerce. In response to a direct question on the percentage of actual production relative to capacity, only 27.7 percent of the firms sampled have reportedly operated at over 75 percent of their capacity, and 39.8 percent of them have operated at less than 50 percent capacity.

Moreover, the majority of respondents (56.6 percent) felt that their production over the last three years (1973-76) has actually dropped by amounts averaging at 32 percent, whereas 19.9 percent of them reported an average increase of 23 percent over the same period.[2]

With more than half of the firms reporting decreased output, the question arose if that was in response to a decreased demand. Eighty one of the (48.8 percent) felt that demand has indeed dropped, 35 respondents (21.1 percent) have even reported a rather sharp drop, and only 28.3 percent have felt an increase in demand.

When all these figures and judgements are put together, one can conclude the following:

1. The number of production firms has significantly increased over the past decade. This is not easy to quantify but most businessmen feel that number of firms have more than doubled during occupation years.

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1 Brian V. Arkadie, Benefits and Burdens: A Report on the West Bank and Gaza Strip Economics Since 1967 (New York: Carnegie Endowment for International Peace, 1977), pp.116-119.

2 It should be noted, of course, that these figures are not based on actual records kept by respondents. So they are not accurate enough to be treated in quantitative calculations. Nevertheless, they do reveal actual trends in the conditions of production and supply.

2. Aggregate output has also increased, but with pronounced fluctuations. The increase was highest in the period of 1969 to 73, but output then began to recede, and as of the end of 1977, businessmen agree almost unanimously that output has begun to decline.

Reasons for Production Slump: The apparent decline in output and demand has been explored with all respondent industrialists. Below is a summary of the factors reported, listed according to their frequency:

1. High cost of raw materials, which is made worse by exorbitant customs and rapid devaluation of the Israeli pound.

2. Soaring consumer prices resulting in severe shrinkage in consumers' disposable income. Counting on the Jordan Dinar as a relatively stable yardstick, it has been demonstrated that the Dinar value of salaries paid to civil servants in the West Bank has dropped by 35 percent over the period 1971 - 1977.* If to this is added a 10 percent devaluation in the Dinar in 1974, the actual drop in the Dinar income of employees adds up to 45 percent. This severe drop in real income has left deep scars on economic activity in the occupied territories.

3. Escalated devaluation of the Israeli Pound, which has:

   a) reduced purchasing power of consumers as noted above, and

   b) hit producers so hard and unpredictably that they preferred a slow-down in production rather than risking a substantial loss on a larger output. This question will be discussed in more detail under the section on "Finance."

4. Political uncertainity, which forced businessmen to adopt an unusually conservative business policy.

5. Heavy tax payments, whether in the form of production tax, value added tax (VAT), or income tax. The problem here is further aggravated by poor book keeping practices, which are often taken as an excuse by custom personnel to impose excessively high tax levies.

6. Labor problems, especially scarcity of skilled labor, due to massive emigration to neighboring Arab countries, where laborers earn a much higher pay.

7. Slow-down in the construction sector, which was particularly felt by such industries as brick and tile production, and stone-cutters.

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* An unpublished paper by Dr. S. Nashef and H. Awartani. It should be noted however, that other sectors of wage earners and self-employed workers may have been less disadvantaged.

8. Unequitable competition with Israeli manufacturers, who enjoy superior technology, easier credit facilities, and massive official support. Other things being equal, Israeli firms should be able to produce better quality products at a lower cost.

9. Restrictions imposed by Jordan on the flow of goods from the West Bank. Jordan, for instance, requires the satisfaction of certain conditions before permitting import of products across the bridges, such as:

   a) Raw materials should have originated in the West Bank or Gaza Strip, but certainly not in Israel.

   b) If imported, raw materials and machinery should be received via Aqaba port in Jordan and not through neighboring Israeli ports. Naturally, this entails extra costs and complications at the bridges. The Israelis, for instance, retaliate by imposing their own restrictions on imports coming from or passing through Jordan, on account of security and economic considerations.

   c) Banning importation of products produced by firms which have been established after occupation. (Prominent example: Jinin Tin Cans Factory).

Raw Materials: The procurement of raw materials has been discussed with the sampled industrialists. Findings are summarized below:

1. Averaging estimates of all respondents, 61 percent of raw materials are procured from Israel. Local sources come next (24 percent), and imports from foreign countries amount only to 15 percent. It was often noted that Arab businessmen are practically obliged to procure their imports through Israeli intermediaries. Obviously, this poses several competitive disadvantages.

2. The majority of respondents (76 percent) believe that raw materials were reasonably accessible. The rest reported some difficulties, occasionally getting serious.

3. The bulk of raw materials is purchased prepaid or cash on delivery (68 percent). Only 32 percent of raw materials are bought with some sort of credit facilities, allowing for a few weeks of deferred payment.

FINANCE

The existence of an efficient and sound financial base is a major prerequisite to a flourishing industry. This section deals with some aspects of the financial structure in the occupied territories.

Following occupation, the whole monetary system in the occupied territories was disrupted. Subsequently, new profound developments have taken place. The following are some of the important changes:

1. Jordanian and Israeli currencies were concurrently circulated as legal tender. The first was preferred for hoarding purposes, on account of its stability, and the second was maintained only in quantities sufficient to cover current business transactions.

2. All Arab banks terminated their services and transferred their assets and liabilities to their headquarters in Amman.

3. The Military Government permitted Israeli banks to function in the territories, but their operations have been minimal and are restricted largely to transactions involving, by necessity, settling accounts through Israeli banks, such as transactions made with Israeli or foreign firms. The more vital function of providing loan facilities is kept, as will be explained later, to an insignificant magnitude.

4. The Israeli Government has always been keen on making the occupied territories pay in full for their budgetary requirements. As a matter of fact, several Israeli and foreign economists agree that the West Bank and Gaza Strip have probably begun making a net contribution to the Israeli budget after 1972.

To probe into the financial attributes of industries, respondents were questioned at length on their financial problems. The following is a brief exposition of their responses.

Respondents have estimated that 95 percent of their fixed capital outlays are in equity capital. The rest is derived from banks in Jordan, relatives and friends. Their estimate of equity capital has been just as large (97 percent) for capital requirements intended to meet current transactions. This all goes to prove the earlier observation regarding the minor role played by institutional credit sources. Only 35 respondents (16.8 percent) reported that they received some sort of credit facilities from Israeli banks.

There is enough evidence suggesting that industrial firms in the West Bank and Gaza Strip do not appear to consider shortage of capital as an important problem. Actually, only 38 respondents (18.3 percent) have considered this to be an important problem. This, of course, should not imply the availability of adequate capital resources. It is rather a reflection of industrialists' reluctance to expand their investment and of their preference to maintain their operations in the occupied territories at the smallest functional scale.

The main reasons that industrial firms refrained from establishing more intensive business relations with Israeli banks were reported as follows:

1. Banks demand very high rates of interest on their loans, generally in excess of 40 percent per annum.

2. Loans are subject to the approval of military governors. Obviously, this casts a repugnant image on such credit arrangements.

3. Clients fear possible information leaks to customs personnel.

4. Bank procedures are too lengthy and time consuming.

5. Since most forms are in Hebrew, which might potentially entail grave hazards resulting originally from language problems, a serious language barrier exists.

To summarize, it seems that what hampers industrial development in the West Bank and Gaza Strip is not scarcity of capital so much as the low return on investment (ROI) which is currently earned by most production firms. Unfortunately, it was not possible to solicit a reasonable estimate on the ROI in various industries, due to the extreme sensitivity of respondents to questions of this nature. However, the problem here is two-fold:

1. Continued devaluation of the Israeli pound has automatically inflicted tremendous losses on all firms. The loss varies with the volume of capital tied up in the business, rate of turnover, and volume of credit sales in Israeli currency. The problem is that when a certain amount of capital is invested in a firm operating in a fairly competitive market, the net worth of this firm at the end of the fiscal year may actually be smaller than the value of initial investment if both are measured by the Jordan Dinar, which is also a legal tender, but far more stable than the Israeli Pound. This effect is offset only when the turnover of capital is unusually rapid, or prices are set too high by virtue of certain market imperfections. Both of these conditions do not widely exist in markets as competitive and open as those of the West Bank and Gaza. So the ultimate effect on most production firms where capital is a major component in the production process, is either a modest profit on investment, or even outright loss.

Table (20) reveals the changes in the exchange rate of the Israeli Pound relative to the Jordan Dinar since the beginning of the monetary crisis in 1971. The rates reported in this table show that the Israeli Pound has suffered a total devaluation of 492 percent over the period 1971 to 1979, i.e., approximately at 28 percent annually. Consequently, West Bank firms which are able to claim real profit should earn more than 28.4 percent on their initial investment, as valued in Israeli Pounds!

Table (20)

Market Exchange Rates of the Israeli Pound
Relative to the Jordan Dinar
(1971-1979)

Year	Average Exchange Rate* of the Jordan Dinar (IL's)	Percent of actual yearly devaluation
1971	10.5	-
1972	12.61	19.7
1973	13.41	6.6
1974	17.2	28.0
1975	20.5	19.8
1976	29.1	41.9
1977	32.0	9.8
1978	54.8	71.3
1979	62.2	26.3 (for six months)

* These rates are averages of four quarterly exchange rates (January, March, June, September).

Source: Records of KARSOU' Exchange Office, Nablus

2. In contrast to this risky and gloomy situation, 74 percent of industrialists in the West Bank sample believe that enterprises similar to theirs earn higher profits in Jordan. As they are free to invest here or there, they have become increasingly inclined to move part or all of their capital to Jordan (or to other Arab countries), where profit expectations are much brighter. It is not possible to estimate the rate of capital flow out of the West Bank, since this is not subject to control, but the general feeling is that such a trend is vigorous.*

* This has been confirmed by the author through interviews with executives of two major banks in Amman who have reported substantial deposits by West Bank and Gaza citizens.

LABOR

Significant developments have taken place in the labor market of the occupied territories following Israeli occupation. These developments are so intricate and pervasive that they require a number of studies dealing with economic, social, and political attributes of labor transformations.

The following is only a summary of the main features of the labor market in both territories:

1. Total population at the end of December 1977 was 1,123,400, of which 60.7 was in the West Bank and 39.3 percent in Gaza Strip.[1] The age distribution of the population reveals its strikingly young composition, since about 46.8 percent of total population are 14 years old and under.

2. The size of the labor force is estimated at 206,200 laborers, of which 62.5 percent are in the West Bank and 37.5 percent in Gaza Strip.[2]

3. Of the total population, only 18.4 percent were actively employed, whether self-employed or wage earners.[3]

4. Averaging on both territories, the labor force is distributed as follows: agriculture 30.5 percent, industry 14.2 percent, construction 9.1 percent, and service sectors 46.2 percent.[4] This distribution applies only to labor employed in the territories themselves, whereas 45.3 percent of laborers working in Israel are engaged in the construction sector.

5. In 1968 the Military Governor permitted recruitment of labor from the occupied territories into Israel. This has become one of the most fundamental and subtle socio-economic developments in the territories. Table (21) summarizes the size and relative significance of this phenomenon.

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1 Administered Territories Statistics Quarterly, 1977 Vol. VII, 3-4, p.l.

2 Ibid., pp. 34 - 36.

3 Ibid., p. 34.

4 Statistical Abstract of Israel 1978, p.788.

Table (21)

Size and Distribution of Employed Labor

West Bank	1972	1974	1976	1977
Total employed laborers (,000)	125.1	137.6	129.7	127.4
- thereof in Israel (,000)	34.9	42.6	37.1	35.5
- percent of total	27.9	31.0	28.6	27.9
Gaza Strip				
Total employed laborers	63.6	73.0	76.1	77.3
- thereof in Israel	17.5	26.1	27.8	27.4
- percent of total	27.5	35.8	36.6	35.4
West Bank and Gaza				
Total employed laborers	188.7	210.6	205.8	204.7
- thereof in Israel	52.4	68.7	64.9	62.9
- percent of total	27.8	32.6	31.5	30.7

Source: Administered Territories Statistics Quarterly, Vol. VIII (3) 1978, pp. 34-36.

Official estimates on the size of the Palestinian labor force employed in Israel are incomplete to the extent that they don't account for laborers who commute to their work in Israel "illegally," i.e. without passing through the official labor exchange offices. It is believed that 20 to 25 thousand workers belong to this group. When these are taken into consideration, laborers working in Israel might amount to 35-40 percent of the total labor force.

The important question in this regard is the extent to which labor employment in Israel has influenced industrial firms in the territories themselves. Forty four percent of responding industrialists have reported difficulties in meeting their labor needs; the rest reported only occasional difficulties, or none at all. One might conclude, therefore, that employment of Palestinians in Israel has not reached a scale which threatens the majority of local industries with a serious shortage in supply, but it has indirectly hurt these industries by raising wage levels, as will be noted later.

As a result of easily accessible employment opportunities in Israel, wages and disposable income of laborers have risen considerably. It must be noted however, that most of the increased wage earnings are siphoned back into Israel, which supplies over 90 percent of all imports into the West Bank and Gaza (see section on Marketing and Trade).

Wages: The wage level in the occupied territories immediately following occupation was much lower than that in Israel (see Table 21). This difference has shrunk quickly due to the ease of commuting into Israel. The average wage in the West Bank has risen from 67 percent of the average wage earned by Palestinians employed in Israel in 1969 to 79.7 percent in 1972. There are no official figures on wage levels in the occupied territories after 1972, but there is a general feeling that if all benefits are taken into consideration, wage levels in the territories and Israel might be very close, particularly for unskilled labor.

Table (22)

Average Daily Wage
(IL/day)

Year	Israel IL/day	West Bank and Gaza IL/day	percent
1969	10.3	6.7	67
1972	17.2	17.2	79.7
1974	29.1		
1976	53.4		
1977	71.0		

Source: Statistical Abstract of Israel, 1978, p. 792.

What is the net effect of this situation on Palestinian industries? The general belief among businessmen is that closing the gap between wages in Israel and the occupied territories has not been favorable to the development of national industries. Business firms in the occupied territories are faced with a situation where they have to pay wages identical to those earned by Palestinian laborers working in Israel, even though labor productivity in Israel is much higher due to considerably larger capital outlay per worker and more sophisticated production practices. Consequently, Israeli firms have acquired priority over local firms in labor recruitment from the territories, since they are able to pay more if the need arises. Furthermore, Israeli products require much less labor than similar products produced in the territories, due to economies accruing to larger-scale of operation.

The lack of skilled laborers in the West Bank and Gaza has been often considered an important impediment for industrial development. That is ironic and difficult to comprehend, since skilled manpower has been the principal export of Palestinians to most Middle East countries. However, a closer look at the dynamics of the labor market in the occupied territories reveals two very strong factors favoring continuous depletion of skilled labor in these territories:

1. Real wages and standards of living have been badly hurt as the Israeli economy has plunged deeper into inflation in the early seventies. This came at a time when the economies of Jordan and oil producing countries were undergoing a sharp boom. This situation has encouraged a large number of skilled laborers of all occupations to leave their work and homes and move to neighboring countries. Labor emigration started in the early seventies, and it still continues with a full thrust*. Emigrant laborers in this category are mostly among the more skilled in their fields.

2. In addition to emigration to Arab countries, it has been demonstrated already that a substantial number of skilled laborers are employed in Israel. As thus, they are practically removed from the local labor market, although they still live in their home towns.

These two types of labor movements have drained most of the skilled manpower in the occupied territories. However, with the small household nature of industries in these territories, labor out-bound mobility has not led so far to a very serious shortage in skilled laborers.

There are, of course, potentially positive effects of higher wage earnings on the process of economic development in the occupied territories. In the first place, it has stimulated industrialists, and for that matter all businessmen, to introduce more efficient and up-to-date machinery and production techniques. As a result, industries in the West Bank and the Strip have certainly achieved considerable improvement, though they are still more labor intensive than their Israeli counterparts.

Higher income of laborers has also resulted in a sharply expanded purchasing power of a large sector of population. This has substantially promoted industrial sales to unprecedented levels. Table (23) produces clear indicators of the boom in the standard of living as reflected in the ownership of few major industrial home appliances. Obviously, paying for the tremendous volume of demand of these expensive amenities consumes all wages earned by Palestinians working in Israel, and the deficit is supplemented by remittances received from relatives abroad and through a surplus in the balance of trade with Jordan.

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* According to the Ministry of Labor in Amman, 22,000 laborers + emigrated from the West Bank to oil countries during the period 1970-77. About 13,000 West Bank laborers have emigrated to Jordan itself.

Table (23)

Ownership of Household Equipment
(Percent of all households)

	West Bank			Gaza Strip		
	1967	1974	1977	1967	1974	1977
T.V. Sets	1.8	20.5	36.0	3.3	19.1	42.4
Electric refrigerators	4.8	22.6	33.1	3.5	14.1	33.1
Washing machines		13.0	15.8		3.0	8.4

Source: Administered Territories Statistics Quarterly, Vol. VII, No. 304, 1977, p.77.

The Impact of the Israeli-Egyptian Peace Treaty: A potentially very serious development in the labor market might evolve as a result of the Israeli-Egyptian Peace Treaty. Following the opening of borders, Israel will expectedly welcome Egyptian laborers, and even possibly give them a favored treatment relative to laborers commuting from the West Bank and Gaza Strip. Should this happen, a considerable number of Palestinian laborers might suddenly lose their jobs in Israel. With the currently weak labor absorption potential in the occupied territories, one can only anticipate a sudden and massive wave of labor emigration. It is possible to assume that a development of this nature will be warmly welcomed by Israel.

MARKETING AND TRADE

Of all economic transformations following occupation, changes in the marketing structure and trade patterns have been most pronounced and influential in determining trends of economic growth in the occupied territories. Yet it is not intended here to produce a detailed analysis of the terms of trade between the occupied territories and their neighbors. It is important, however, to shed light on some of the salient features of the trade patterns which have evolved following occupation.

Free movement of Israeli products into all occupied territories has been one of the first and most important post-war developments in trade. Israeli manufacturers have suddenly entered a market which is large, very close, and above all, devoid of any protective power. For these reasons Israeli exports to the occupied territories have grown rapidly to $368 millions in 1975, which amounts to 19 percent of total Israeli exports. If diamond exports are excluded, the share of exports to the territories rise up to 28.3 percent (1975). Even when diamonds are included, exports to the occupied territories rank next only to Israel's exports to the United States, and they make up to 51 percent of its exports to all Common Market countries combined.* No figures are reported on East Jerusalem (12 percent of West Bank population). If Arab Jerusalem is included, it is possible that Israeli exports to the occupied territories would exceed 25 percent of all its exports, ranking ahead of its exports to the United States, and making up to more than one third of all Israel's non-diamond exports.

Trade of occupied territories with Israel has been largely one way. The flow of goods from the West Bank and Gaza into Israel is subject to strict control, whether for "security" precautions or outright protection of Israeli products. This conforms with Israel's recent thrust to correct its ailing balance of trade through a strict protective trade policy.

As a result of these lopsided terms of trade, Israel has enjoyed a substantial and rapidly rising surplus in its balance of trade with the occupied territories, amounting to IL.3108.0 million in 1977 (see Table 24).

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* Statistical Abstract of Israel, 1977, pp. 36, 37, 195.

Table (24)

Balance of Trade (1974-77)
(IL millions)

	Gaza Strip		West Bank		Total	
	1974	1977	1974	1977	1974	1977
With Israel	-379.1	-1426.3	-502.7	-1681.7	-881.8	-3108.0
With Jordan	+ 49.6	+ 421.9	+ 99.2	+ 414.0	+148.8	+ 835.9
Other countries	- 8.6	- 46.2	- 68.7	- 224.2	- 77.3	- 270.4
Total	-338.1	-1050.6	-472.2	-1491.9	-810.3	-2542.5

Source: Administered Territories Statistics Quarterly No. 3-4, 1977, pp. 6-7, and Statistical Abstract of Israel 1978, p. 773.

What is particularly alarming, as observed in Table (23), is the very rapidly growing deficit in the balance of trade with Israel, which has increased by 346 percent in four years.

Foreign Trade: A few weeks following occupation, Israel permitted the resumption of West Bank export trade with Jordan within what was called the "open-bridges" policy. Over the past decade the West Bank has continued to provide Jordan with much of its surplus agricultural produce, and to a smaller extent, with a few industrial commodities. But contrary to wide-spread belief, the size and relative significance of trade across the bridges has not been substantial. Exports are vigorously encouraged by Israel through a generous subsidies scheme, but Jordan has imposed effective constraints based on boycott regulations. However, the Jordan market remains a major outlet for certain products such as oranges, olive oil, surplus vegetables, soap and stones.

Imports from Jordan have been drastically curtailed due to security restrictions and very high tariffs imposed by Israel (see Table 25). This has resulted in a sustained surplus in the trade of occupied territories with Jordan, which has helped to cover part of the deficit incurred in trade with Israel.

Table (25)

Volume of International Trade (1977)
(IL millions)

Exports to	Gaza	Percent	West Bank	Percent	Total	Percent
Israel	837.1	60.2	770.9	61.9	1608.0	61.0
Jordan	422.0	30.4	462.7	37.2	884.7	33.6
Other countries	130.2	9.4	10.8	0.9	141.0	5.4
Total	1389.3	100.0	1244.4	100.0	1633.7	100.0
Imports from						
Israel	2263.4	92.8	2391.8	89.4	4655.2	91.0
Jordan	0.1		48.7	1.8	48.8	1.0
Other countries	176.4	7.2	235.0	8.8	411.4	8.0
Total	2439.9	100.0	2675.5	100.0	5115.4	100.0
Balance of Trade						
With Israel	-1426.3	.9	-1620.9		-3047.2	
With Jordan	+ 421.9		+ 414.0		+ 835.9	
With other countries	- 46.2		- 224.2		- 270.4	

Source: Administered Territories Statistics Quarterly, Vo.. VII No. 3-4, 1977, pp.6-7.

The comparative significance of trade among the occupied territories, Israel, and Jordan is well illustrated in Table (25). Israel's share of exports received from both territories (1977) was 61.0 percent, vs. 33.6 percent for Jordan. As for imports, the two territories have derived 91.0 percent of their imports from Israel and only 1.0 percent from Jordan. The rest, 8.0 percent, is imported from other countries.

Commodity analysis of trade with Jordan is fairly comprehensive (see Table 26). Share of agricultural products (1977) amounted to 73.0 percent (citrus fruits 62.5 percent), whereas 27 percent were classified as industrial (over half of these consisted of olive oil and ghee).

Commodities traded with Israel are crudely classified into agricultural and industrial. They consist largely of a narrow range of products, which are either labor intensive or enjoying a distinctive comparative advantage. They include few agricultural commodities,.in addition to sewing and knitting products, cement blocks and floor tiles, and some wooden and glass handicrafts.

Table (26)

Exports to Jordan (1977)
(by main commodities)

	Value (IL Mill.)	Percent of total exports
Agricultural Exports	645.559	73.0
Industrial Exports	239.185	27.0
Total Exports	884.744	100.0
Industrial Exports		
Olive Oil	23.085	2.6
Samna (ghee) and dairy products	102.766	11.6
Chocolate and sweets	12.310	1.4
Soap	43.044	4.9
Plastic products	7.643	0.9
Stones	21.515	2.4
Others	28.822	3.2
Agricultural Exports		
Citrus fruits	552.955	62.5
Others	92.604	10.5

Source: Ibid., pp. 14-15.

Subcontracting

An important feature of post-war industries is the development of contractual arrangements between businessmen in the occupied territories and Israeli industrial firms. The basic rationale of these contracts is the performance of certain labor-intensive services on semi-processed raw materials which are furnished by Israeli firms. The finished products are then delivered to these firms at a contracted price. In some instances it is believed that Israeli firms have even provided part of the needed investment, either as a loan or on a partnership basis.

Subcontracting has emerged and flourished in the early years of occupation because of certain tangible advantages, mainly:

1. Utilization of cheap labor due to a significant wage differential. However, as the gap between wages in Israel and the territories has narrowed, this has become of minor importance, except to the extent that laborers in the territories continue to enjoy fewer institutional benefits.

2. Exploitation of cheap women labor due to the reluctance of the vast majority of women in the territories to join the labor market in Israel. It was possible to reach this vast labor supply by providing work opportunities for women (mostly sewing and knitting) in their home towns. But against this "location" benefit, women working in the territories are paid at rates which are considerably lower than other women commuting to Israel.

3. The availability of certain raw materials, such as stone quarries. In this case it may be more feasible to process locally available inputs close to their origin and offer the finished product for sale elsewhere.

All these advantages have gradually lost much of their weight and they have often been outweighed by some other disadvantages, particularly the use of small and inefficient production outfits. It has therefore become increasingly difficult to count on significant gains from subcontracting ventures. Even as early as 1972, sales of subcontractual trade amounted to less than 25 percent of total industrial sales to Israel.* Moreover, it should be noted that the "added value" in subcontracting industries is quite modest due to the limited amount of services performed by local subcontracting firms. Discounting the value of the semi-processed inputs which are initially provided by Israeli firms, the net value of goods exported to Israel through subcontractual arrangements is considerably smaller than what is often reported.

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* Arie Bregman, Economic Growth in the Administered Areas 1968-1973, (Jerusalem: Bank of Israel Research Department, 1975) p.89.

Subcontracting is further hampered by the extreme sensitivity of businessmen to rumors of joint ventures with Israelis. After twelve years under occupation, Palestinian businessmen and local public opinion still look with great discomfort and suspicion on all transactions with Israelis which exceed pure selling and buying. This explains the failure of Israeli firms in establishing joint ventures with Palestinian businessmen, even on occasions where such ventures are economically very promising, and despite active official support. In the few cases where such ventures are known to exist, Arab partners are continuously laboring to defend themselves against allegations of collaboration with Israeli firms.

Marketing Problems: During the course of this study, it was clearly observed that some major marketing difficulties confronted industrial firms in the occupied territories. Following is an assessment of these problems based on responses of the sampled industrialists:

1. Competition with Israeli Products: Competition with Israeli firms differs significantly from one industry to another. In general it is insignificant in labor-intensive industries where no substantial capital or highly specialized machinery are required. This includes handicraft and workshop industries such as repair garages, wood and glass handicrafts, block manufacturers, knitting, and smithshops. These industries enjoy a cost advantage over similar firms in Israel, which helps them to attract a large number of customers from Israel itself. There are few other industries which have escaped competition because they manufacture products which particularly suit local tastes and demands of consumers. Prominent examples are Nablus soap, certain sweets, and samneh (ghee).

   Industries which do not enjoy a labor or taste advantage have to withstand keen competition with Israeli products. It is felt that Israeli manufacturers enjoy distinctive advantages which enable them to undercut producers in the occupied territories. The sources of these advantages can be traced to the following factors:

   a) Certain economies of scale, evolving from the construction of larger units with modern and more efficient machinery.

   b) Easier access to sources of credit, which makes it possible to finance considerably larger operations.

   c) Highly protective government policies, which not only control imports but subsidize exports.

   d) Superior skill of technical labor force resulting from more rigorous and systematic vocational training of laborers.

   e) A much more stable and predictable political outlook.

Although these factors would certainly entail significant competitive advantages, experience in the West Bank and Gaza has demonstrated that it is not impossible to compete with Israeli firms even under present adverse circumstances. Industries which are reasonably availed with technical and financial backing have fared very well in their competition with Israeli firms. Prominent examples are soft drinks (Gaza), cigarettes, and pharmaceuticals (West Bank). This experience reflects brighter prospects for industries in the occupied territories following a political settlement, provided, of course, that such industries are basically viable.

2. Limited Export Potential: Industries in the occupied territories are handicapped in being surrounded by two countries which adopt sharply conflicting policies regarding their imports from the West Bank and Gaza Strip. Israel still imposes strict control on the flow of industrial goods into Israel whenever this is deemed to constitute a potential danger to Israeli producers. On the other hand, Israel has vigorously promoted exports to Jordan and other Arab countries. In contrast, Jordan still imposes very strict restrictions of its own on industrial imports from the occupied territories. With these two constraints, exports of occupied territories are seriously throttled. Still worse, national industries have to face a desperate confrontation with Israeli products even in their home markets.

3. Small Size of Local Markets: One of the major inherent constraints to industrial development in the occupied territories is the small size of local markets. The population in both territories by the end of 1977 is reported at 1.12 million (vs. 1.1 million at the end of 1976). In terms of its size alone, this population is far too small to support a wide range of viable industries, even under a sovereign state which is capable of promulgating a protective policy.

   It should be noted, however, that the effective demand of consumers in the occupied territories is influenced by positive factors connected with a rapidly rising standard of living. Widespread education coupled with relatively larger purchasing power of traditionally low income strata (unskilled laborers, dry farming peasants, etc.,) have resulted in a sharply rising demand for modern amenities such as television sets, refrigerators, solar water heaters and other home appliances.

   It was illustrated earlier that despite their small population size, the occupied territories (including East Jerusalem) are the principal importing country from Israel. This is not to mean, however, that it is feasible to manufacture indiscriminately all goods that are currently imported from Israel. It does imply, though, that a selective industrial development scheme might be plausible, even with the present size of population.

FUTURE PROSPECTS

This study has been confined thus far to industrial sectors in the West Bank and Gaza Strip during eleven years of Israeli occupation. This last section is concerned with future economic prospects, with particular reference to the industrial sector. For practical reasons, this discussion will deal with the situation in two different contexts; one represents a state of continued occupation and the other foresees a Palestinian state invariably emerging as an outcome of a political settlement to the current dispute, notwithstanding current irrational Israeli objections.

Prospects Under Occupation: Planning for economic (and industrial) development while the West Bank and Gaza are still under occupation is obviously a formidable task. It is evident that economic activity in the occupied territories will continue to be geared in a way which gives top priority to achieving Israeli interests. Hence it is unlikely that the Military Administration will go out of its way to institute schemes and measures which are explicitly addressed to serve the long term interests of these territories. Naturally, this places a very rigid constraint on all planning and development operations while the territories are still under occupation, hence rendering these efforts unusually disappointing.

This argument, however, should not imply that nothing can or should be done in the "interim" occupation period. On the contrary, it is felt that Palestinians and other Arabs outside Palestine should put forth a more positive economic policy towards the occupied territories. It is indeed ironic to see so much interest in the economic prospects of a probable Palestinian state, while Arab and world communities display a meagre interest in the present situation, which seemingly might continue for years. The danger is that during occupation many changes are going on and new facts are created, all of which tend to leave their imprint on the future. Most of these developments, apparently, will ultimately render more difficult the viability of a Palestinian state.

Economic policies drawn for the occupied territories while still under occupation should aim at the following objectives:

1. Checking accelerated emigration of residents out of the two territories, which has reached in the past few years levels of grave national and economic consequences.

2. Creation of a larger number of jobs locally in the territories in order to absorb an increasing number of the Palestinians currently employed in Israel.

3. Minimizing the damage resulting from existing economic measures promulgated by Israel in the West Bank and Gaza Strip.

4. Instituting schemes which aim at supporting certain economic sectors, hence avoiding their eventual collapse.

Achieving these objectives requires a determined effort, mainly, on the part of Palestinians and Arabs outside Palestine. The measures which should be considered for this purpose need more elaborate professional studies. The following is a list of proposals which are believed to be helpful in meeting the desired ends:

1. Extending financial support on a regular basis to all government personnel, except those who already receive such support from Jordan on account of their being employed by the Government of Jordan on the eve of Israeli occupation. Civil servants who were employed after occupation receive salaries from the Military Administration which hardly cover 60 percent of their needs for a mediocre standard of living.[1] Being mostly young and well educated, this stratum of citizens has become most vulnerable for emigration to neighboring Arab countries where they can earn much higher salaries. On the other hand, employees that receive salaries from Jordan have been remarkably immune against incentives to leave the country.

   There are about 10,000 civil servants in the West Bank, of which approximately 7000 do not receive extra pay from Jordan. To these must be added about 3500 civil servants in the Gaza Strip. Counting on an average monthly supplement of JD.30 (making up to 45 percent of current income), this rescue operation will cost in the neighborhood of JD.4.0 million a year.[2] Besides its direct effects on potential emigrants, this scheme helps to pump in sizable amounts of cash which help to stimulate an increasingly stalled economy.

2. Providing easier access to Jordanian and Arab markets for industrial and agricultural products of the West Bank and Gaza. It has been demonstrated earlier that boycott regulations regarding industrial goods manufactured in the occupied territories have been carried out so obsessively that they have sometimes backfired. Boycott regulations should be sensibly revised in view of experience acquired through the past decade, taking into consideration the priorities of objectives to be achieved. It indeed makes little sense to institute boycott measures which might ultimately prove to be more detrimental to residents in the territories than to Israel itself.

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1 Despite practically identical prices, civil servants in Israel receive salaries which are about 50 percent higher than those with comparable qualifications in the territories.

2 Depending on employees' qualifications, the Government of Jordan pays around JD.60 a month to each of its employees in the West Bank, which is roughly equivalent to 90 percent of their pay from Israel.

3. Extending sizable and specialized credit facilities to Palestinians under occupation. It has been argued earlier that businessmen in the West Bank and the Strip are reluctant to expand their operations due to several reasons, but mainly due to a low return on investment. It is therefore proposed to stimulate investment in feasible projects by providing credit facilities at a low or even no interest. This is certainly not too much to expect from the several oil countries in the Arab League who have repeatedly pledged support to citizens in the occupied territories.

   Due to the distinctively specialized nature of credit operations, the writer proposes the establishment of three credit organizations to channel loans to eligible businessmen in the West Bank and the Strip. One should specialize in agricultural credit, the second in industrial development, and the third should offer loans for housing projects. Opening of these institutions in the occupied territories themselves is not conceivable at the present time. They might therefore conduct their business temporarily in Amman under the directorship of a board representing Palestinians in and out of Palestine.

   The by-laws of the proposed institutions and the volume of required funds should be determined by committees of experts in respective fields.

4. Continuing financial support from doners in the Arab world to municipal councils. In the absence of a national authority, these councils should be rendered more capable of providing a wider and more effective range of functions. However, the flow of funds to municipalities in the occupied territories should be regulated on more equitable grounds. The situation thus far has resulted in cases of extreme inequality, and sometimes in pronounced competition between various cities.

Post-Settlement Prospects: Discussion of future economic developments in the occupied territories is heavily hinged on the outcome of an anticipated political settlement. Indeed major economic policies will subsequently evolve from decisions made on political grounds, often with little consideration of ensuing economic repercussions. This conclusion is much reinforced by the awkward and endlessly slow course of peaceful talks currently under way. It makes little sense then to conduct elaborate developmental schemes for a Palestinian state when even relatively minor political decisions might impart fundamental consequences on such plans. Evidently, Camp David Frameworks have not provided the economist with many solid and clear indicators to make economic planning more plausible.* Therefore, no effort is made here to present detailed proposals for the anticipated Palestinian entity. It will be fairly easy to produce concrete and well defined project proposals when the major components of a peaceful settlement are reasonably defined.

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* Palestinian economists are urged, however, to prepare and evaluate a number of alternative scenarios in order not to be taken by surprise [illegible] of political events following the Camp David Summit.

Nevertheless from a Palestinian economist's point of view, it is felt that the proper functioning of the Palestinian economy in the future will have to rest on some fundamental pre-requisites which can hardly be compromised:

1. Israeli withdrawal from the West Bank and Gaza Strip will take place within a settlement which permits land access between the two territories through a corridor connecting Hebron and Gaza.

2. The new entity will enjoy total sovereignty in all its affairs, without arbitrary influences from any of its neighbors. This is necessary in order to arrive at reasonably equitable trade agreements between the emerging state and its neighbors.

3. The Palestinian state will have to maintain friendly relations with Jordan. Such relations are vital, at least to the extent that Jordan will continue to be the gateway of Palestine to the rich Arab markets. Jordan will also continue to be a major market for surplus agricultural products.

4. Following a peaceful settlement, and in accord with the spirit of the ongoing negotiations, it is reasonable to expect that boycott restrictions on trade with Israel will be totally relaxed. Should this happen, that will relieve manufacturers in the Palestinian state of important impediments on their export trade.

5. Repatriation of emigrant Palestinians is a question of deeply significant national dimensions in any forthcoming Palestinian entity. But when this issue is evaluated on economic grounds, one will have to cope with many serious considerations. The number of returning Palestinians is very difficult to predict with any degree of accucary--unless host countries adopt new policies specifically aimed at driving out part of their Palestinian population. The magnitude of repatriation might also be influenced by Israel's continued refusal to permit free return of Palestinians to their homeland. Either way, it will be extremely vital to the new regime in the West Bank and the Strip to solicit sufficient international support to cope with the returning Palestinians. Given the state of agriculture, industry, and service sectors in the occupied territories, one may safely conclude that the new Palestinian entity can absorb possibly one million returnees in three to five years. However, the pace of immigration and its economic implications should be carefully scrutinized by a specialized team. Israel's own experience in this regard is certainly very enlightening, although the return of Palestinians to their homes should be easier in many ways.

Requisites for Economic Take-off: Taking all previous assumptions, problems, and constraints into consideration, all researchers seem to agree on the potential economic feasibility (or viability?) of a sufficiently independent Palestinian state. Studies published by Vivian Bull, Brian Van Arkadie, Elias Tuma, John Stebbing and several others all argue for major modifications in the presently distorted and alienated economic structure of the occupied territories. All of them would like this to follow the creation of an independent entity in the West Bank and Gaza Strip. Should this happen, it is conceivable that the new state will be able to cope with its inherent economic constraints under satisfactory circumstances and conditions. Israel, Lebanon, and Jordan are basically as poorly endowed with raw materials or size of local markets, yet they all have managed, at one time or another, to achieve remarkable rates of economic growth.

The reactivation and expansion of a viable economy in Palestine necessitates important infrastructural and organizational measures which should be tailored to meet specific demands and needs. The following is a list of some of these requisites:

1. It is important to negotiate a more equitable trade accord with Israel which places some restrictions on the free flow of goods from Israel. This is imperative, at least in the short term, to provide temporary protection to national industries. It will also improve the balance of trade between the two countries, which is now extremely favorable to Israel. It is certainly not advocated, however, to have the new Palestinian state follow a basically protectionist policy.

2. Reactivation of economy in the new Palestinian state will naturally require substantial capital outlays. As is common in all countries in the pre-take off stage, capital requirements cannot be adequately furnished by local sources. Accordingly, massive foreign aid is indispensable for many years following the inception of the new Palestinian state. Assuming that the political settlement will be endorsed by main stream Arab states, one would reasonably speculate that an Arab state in the West Bank and Gaza Strip will find little difficulty in raising sufficient funds to meet its founding needs. Actually, it is conceivable to anticipate a trend towards joint ventures between oil-rich businessmen and highly capable Palestinian entrepreneurs. The geographic location of the Palestinian entity, the reputation of its skilled manpower, and its unique historical and religious heritage are all factors which invariably stimulate foreign flow of capital.

3. To facilitate economic development and foreign investments, an efficient and reliable banking system should be initiated. It is anticipated that Arab banks will reactivate their branches in the West Bank and Gaza. Foreign banks should be motivated to conduct business in the new state, once they are reassured of security and stability in the area.

4. Regardless of potentially divergent political ideologies, the proposed Palestinian entity should adopt a well-defined economic policy which provides maximum security, support, and guidance to private initiatives. Modern history of the Palestinians has clearly demonstrated their remarkable productive potential whenever they are permitted to exploit their entrepreneurial talents. A fairly free enterprise economy administered by an efficient and clearly democratic regime will not only motivate businessmen residing in Palestine, but it will also attract a good number of Palestinians living in the "diaspora" to come back and do business at home. A reversal in the flow of capital and people is of course of utmost national and economic significance.

5. The question of the labor absorbing capacity of a future Palestinian entity is one of the most difficult to deal with. It entails so many political and social consequences that it is hard to evaluate on purely economic grounds.

Counting on a state of negotiated settlement, and in view of concrete economic evidence, it is not recommended nor it is practical to call for an abrupt termination of labor flow from the territories into Israel. The burden of such a disengagement on the economy of the Palestinian state will be too high to undertake in the short run. The problem will be further compounded by the anticipated expansion in the labor force contributed by the large numbers of returnees. It is more likely then to assume that the pace of job-creation would not match the expected growth in labor force. Accordingly, it is unavoidable to lean on Jordan and Israel for the absorption of excess laborers. Within the context of a peaceful settlement, this is a practical and plausible formula which is less detrimental than the all-familiar cosmopolitan dispersion of Palestinians.

APPENDIX

A - Distribution of Sampled Firms by Type of Product

	No. of firms
Food Industries	22
Flour and feedmills	5
Beverages	11
Cigarettes	2
Tricot and knitting	10
Sewing	15
Weaving	6
Soap and detergents	4
Plastics	2
Chemicals	5
Pharmaceuticals	2
Stone-cutting and quarrying	14
Tiles and marble	14
Cement blocks	13
Garages	12
Lathing workshops	5
Blacksmiths	21
Metallic industries	4
Carpenters	24
Ceramics and Glass	7
Printing and paper products	11
Leather products	9
	218

B - A translated copy of the Questionnaire

Birzeit University, Name of Student: ____________

Dept. of Economics & Business Sample Number: ____________

Administration.

A STUDY OF INDUSTRIES IN THE WEST BANK AND GAZA STRIP

Date of interview ____________ Major products ____________

Position of respondent ____________ Classification by type ____________

Educational level ____________ District - address ____________

Years in present business ____________ Location of plant ____________

Age ____________ Date established ____________

A. PRODUCTION

1. What is your estimate of the number of similar firms operating in your district? ____________

2. What is your estimate of your present actual production relative to your production capacity ____________ %

3. How do you compare production in the current year (1976) with the average for the previous years (1974, 1975)?

   a. About the same level ____________

   b. Lower - how much approximately ____________ %

   c. Higher - how much approximately ____________ %

4. What were the reasons for this change, if there had been any?

B. MACHINERY

1. How old is your plant or major machine? ____________

2. Where is it from?

   a. Local b. Jordan c. Israel d. ____________

3. Would you consider your machines:

   a. modern,

   b. reasonably modern, or

   c. old?

4. Is maintenance of your plant:

   a. easily available locally,

   b. supplied mainly by Israelis, or

   c. obtained from foreign sources?

C. RAW MATERIALS

1. Major materials used in the production process:

2. Sources of raw materials: (state relative share)

a. Israel	________
b. Jordan	________
c. West Bank	________
d. Gaza Strip	________
e. ________	________
Total	100%

3. Availability of raw materials:

   a. No problems ________

   b. Occasional problems ________

   c. Excessive problems ________

4. Reasons for problems, if there are any:

5. How do you pay for your raw materials?

   a. In cash.

   b. In bills deferred for one month or longer.

   c. Partly cash and the rest is deferred for less than a month.

   d. ______________________________

D. LABOR

1. Total number of workers (including owners) ______________

   women workers ______________

2. Average wage for production laborers ______________

3. Average wage for skilled laborers ______________

4. Are there difficulties in procuring your labor needs?

   a. Yes.

   b. No.

   c. Sometimes.

5. How do you describe the general attitude and cooperation of your laborers?

   a. Very good.

   b. Good.

   c. Fair.

   d. Poor.

6. How do you rate their technical skill and efficiency?

   Give the number of laborers in each group

   a. Very good ______________

   b. Good ______________

   c. Fair ______________

   d. Poor ______________

7. Where did they receive their major training?

   a. Vocational schools.

   [illegible]nters.

   c. At your firm.

   d. ______________

8. How many of your production workers have attended:

a. engineering colleges,

b. vocational schools, or

c. vocational training centers?

9. How many workers left your firm in the past year (1976)? ____________

Out of an average employment capacity of ______________

10. Do you feel that labor migration to Israel and Jordan has caused problems for your firm?

Migration to Israel : Yes __________ Sometimes _________ No _________

Migration to Jordan : Yes __________ Sometimes _________ No _________

11. What are the main reasons for labor migration out of the West Bank or Gaza Strip?

a. Higher wages (could you say how much higher) __________?

b. ____

c. ____

E. FINANCE

1. What are your present sources of finance?

	Fixed assets	Current capital needs
Equity	________	____________
Banks	________	____________
Other companies	________	____________
____________	________	____________
Total	100%	c00%

2. How would you describe shortage of finance in your industry?

a. A major problem.

3. What are the credit arrangements usually common in your industry, between Arab and Israeli firms?

   (Of course this concerns the industry at large and not your firm) - indicate the most common arrangement.

   a. Direct participation in capital ____________

   b. Providing Arab firms with machines on credit basis ____________

   c. Providing Arab firms with raw materials and then undertake marketing of the finished products. ____________

4. Do you receive credit facilities from Israeli banks?

   a. Yes b. No

5. What problems do you face in dealing with Israeli banks?

6. What are the problems arising from the absence of Arab banks in your area?

7. What are the consequences on your industry of the continued devaluation of the Israeli pound?

8. How do you compare returns on investment (ROI) for firms like yours in the West Bank and Jordan?

a. ROI is higher in the West Bank or Gaza Strip.

b. ROI is higher in Jordan.

c. About the same level.

d. Do not know.

9. Do you find that entrepreneurs in your industry are motivated to do business in Jordan, or even move out there entirely?

a. Yes b. No c) Do not know

10. Would you say that emigration of capital to Jordan (and then elsewhere) has been:

a. substantial,

b. moderate, or

c. negligible?

F. MARKETING

1. Where are your products sold?

	Your firm	Similar firms in your industry
West Bank	______	______
Gaza Strip	______	______
Jordan	______	______
Israel	______	______
______	______	______
Total	100%	100%

2. How do you describe the demand on your products at the present?

a. Very good b. Good c. Weak

3. How do you rate the trend of demand over the past three years?

   a. Rising sharply.
   b. Rising.
   c. About constant.
   d. Decreasing.
   e. Decreasing considerably.

4. What is the extent of competition with similar Israeli products?

   a. Strong and notably harmful.
   b. Relatively weak.
   c. No competition.

5. What are the reasons for that?

G. FUTURE OUTLOOK

1. What do you propose in order to develop industrial firms like yours while still under occupation?

2. What would you like to be done under a national and sovereign regime?

3. What are the industries which you believe could flourish in this case?

4. What do you think of the small size of the local market as an impediment for industrial growth?

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