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**PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)**

**Manufacturing Industries that Support
Agriculture in Palestine
Reality – Obstacles – Challenges**

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Foreword

Industrial sectoral studies have become a core topic of focus at MAS during the past four years, and MAS has issued a series of these to serve decision-makers at both the macro and micro levels. These studies were implemented vertically, not horizontally, resulting in a detailed study of each sector. This is the first (sub) sectoral study that has been conducted horizontally, as it covers numerous industrial branches that feed into the Palestinian agricultural sector (both plant cultivation and livestock). It is also the first study of its kind, in terms of learning more about industries that support the agricultural sector, a topic that is not covered by any existing Palestinian literature on the subject.

The study investigates the characteristics of industrial activities that support the agricultural sector, which is currently considered a weak link in the chain of agricultural production in Palestine. This study acquires additional importance in light of the decline in the agricultural sector's contribution to GDP in recent years, and the accompanying decrease in agricultural production and competitiveness, with negative effects on workers in this sector, and on attempts to break the cycle of dependence on the Israeli economy. In addition to being the first study to address this topic, the sector's positive impact on food security contributes to reducing poverty, by raising the value-added of agricultural production, while increasing employment and completing the missing link in industrialization strategies that support agriculture. This serves the structural transformation of these industries, as well as providing job opportunities by creating new industrial activities in rural areas. The study also serves the implementation of the concept of agricultural clusters. This centers on strengthening the reciprocal and complementary relationship between industry and agriculture, so that each serves the other, mutually strengthening and complementing one another.

From a research point of view, this form of analysis required several steps, exploring the changes that have occurred in industries supporting the agricultural sector in Palestine and analyzing their most prominent economic indicators (such as their contribution to total production, employment, number of establishments, value-added, foreign trade), in addition to changes in their market share over a specific period of time. The study clarifies the most important challenges and problems affecting the competitiveness of this sector, and its share in local and foreign markets. It also identifies the most prominent strengths and weaknesses at operating facilities, and finally identifies the opportunities that are available to this sector, in terms of enhancing its

production capacity, and driving it towards the development of the Palestinian agricultural sector.

Despite problems with the availability of data and difficulties in obtaining micro-level information on industrial establishments, this study reached a set of important findings and recommendations that must be taken into serious consideration. The most prominent of these findings is the decline in the contribution of the agricultural sector, attributable to: competition by imported goods; the reluctance of investors and agricultural workers to engage in this sector; the occupation's policies that control land and water and their monopoly on some strategic commodities; their control over sources of raw materials for some industries; the high prices of production inputs; and the weakness of Palestinian investment in industries supporting the agricultural sector. This has resulted in the importing of Israeli products by third parties, such that the market share of Palestinian industries reached only 40%. At the same time, most of these industries operate significantly below their full production capacity.

Despite these results, the study shows that there exist opportunities that can be exploited, especially in the areas of animal feeds, irrigation pipes, water networks and packaging. However, these opportunities need policy interventions, the most important of which are the adoption of an effective industrial policy and the expansion of investment incentives for these industries. The study proposes infant industry policies for a list of 77 commodities identified by the study, as these commodities can be produced in Palestine if protectionist interventions and policies are adopted.

MAS would like to thank the research team, led by researcher Mr. Misyef Jamil and Assistant Researcher Ali Jabareen, who managed fieldwork for this unique research effort. MAS also extends its gratitude to all the specialists and experts who participated in focus groups, and whose interventions contributed to the findings of this study. Finally, MAS thanks the Arab Fund for Economic and Social Development for its continuous support. The Fund sponsorship of this study for the benefit of decision-makers, is in line with its continuous support of MAS's core research programme.

Raja Khalidi
Director General

Executive Summary

This study examines aspects of industries that support the agricultural sector in the Palestinian economy, aiming to restore the productive and operational capabilities of the agricultural sector, while also working to expand these. The study identifies plausible opportunities and current capabilities, as well as methods for strengthening industries that support the agricultural sector and provide inputs to its performance, with the hope of realizing economic development.

The agricultural sector consists of production activities in both plant cultivation and animal breeding. Plant production includes numerous kinds of tree crops, as well as field crops, fodder, vegetables, and ornamental (non-edible) plants, both irrigated and rain-fed. As for animal breeding, this consists of rearing animals for slaughter, breeding and hunting activities, honey production, and rearing domestic animals such as birds, rabbits and others. These descriptive classifications are based on types of consumption or production. All industries and inputs that feed this sector fall within the framework of industries that support the agricultural sector, according to the concept as proposed in this study. The industrial sector intersects with the production process of the agricultural sector, in terms of manufacturing the production inputs that this sector needs. This includes irrigation pipes, fodder, pesticides, fertilizers, packaging etc. Conversely, agricultural products are used as raw materials in many food-processing industries, such as those producing tomato paste, pickles, juices, dairy products, and other processed foods.

This study acquires additional significance in light of the decline in the agricultural sector's contribution to GDP over time, and the accompanying decrease in its production and competitiveness. These dynamics have negatively affected employment in this sector, as well as attempts to break with the domination of the Israeli economy. In addition to being the first study of its kind to address this topic, this study makes a positive contribution to the discussion on food security and poverty reduction, by suggesting methods for raising the value-added of agricultural production, and increasing employment, through identifying

the missing links in industrialization strategies that support agriculture. This helps in the structural transformation of industry, as well as creating job opportunities by establishing new industrial activities in rural areas.

The study is divided into five chapters. Chapter 1 introduces the concept and the study's methodology and its determinants, as well as reviewing select literature on international experiences in the field of industries that support agriculture. Chapter 2 presents the most prominent economic indicators for industries that support agriculture, while Chapter 3 focuses on associated foreign trade indicators, in addition to assessing market share and optimal industrial policies. Chapter 4 provides an analysis of data collected from interviews conducted as part of the study, detailing a comprehensive picture of the work environment of industries that support agriculture sector, in terms of production requirements, inputs and production capacity. This Chapter also assesses the impact of the Covid-19 pandemic, as well as providing a SWOT (strengths, weaknesses, opportunities and threats) analysis. Finally, Chapter 5 presents the study's main findings and recommendations.

The study concluded that the decline in the agricultural sector's contribution to GDP to reach levels, totaling only 7% can be attributed to several reasons. The most important of these are competition from imported goods, the reluctance of investors and agricultural workers to engage with this sector, colonial policies that control land and water and monopolize certain strategic goods, and colonial control over the sources of raw materials required by some industries. With regard to industries that support the agricultural sector, these rank in fourth place in terms of their percentage contribution to the value added of the industrial sector. Industries that support the agricultural sector occupy 12.7% of the total labor force in the industrial sector, with 813 industrial establishments (of which 624 are in the West Bank and the remainder in the Gaza Strip). In terms of the contribution of the branches of industries that support agriculture to production, the fodder and plastics' industry constituted together about 85% of the production of industries that support the agricultural sector.

There is a noticeable decline in the contribution of animal feeds' production (by half), largely due to Israel's monopoly, the high cost of

production and a lack of investment. Some industries' production levels were close to zero, others only 4%. The primary reasons for this are obstructive Israeli policies and competition from imported goods. With regard to market share, emphasis is placed on the market share of fodder, as it is easy to calculate, given that it does not overlap with other industries. Palestinian production accounted for 40% of the local market, with the remainder imported mainly from Israel. In this context, it is worth noting that Israel has a monopoly on importing this particular commodity. There are also clear weaknesses in the manufacture of medicines, pesticides and fertilizers, as Israel has a monopoly on their production and importation. If these industries are strengthened and work to break Israel's monopoly over them, then this will lead to a qualitative leap in terms of production and employment, as well as providing the requirements of this industrial sector via local Palestinian industries.

The Corona pandemic affected these branches of industry to varying degrees. It can be discerned that the pandemic had a positive impact on nursery industries, as demand for these products increased during the pandemic's period. By contrast, the animal feeds' industry laid-off 30% of its workers. Some other industries switched to partial employment for their workers, with an employment rate of up to 50%. Results clearly evidence the weakness of policies that reinforce industries supporting the agricultural sector.

The study provides a set of recommendations, most notably, the need for government to adopt practical and effective industrial policies, the first of which is the actual implementation of a cluster-based policy, expanding its coverage to relevant manufacturing branches and providing the necessary funds for the roll out of plans and of projects. Government needs to institute a new series of investment incentives, in order to attract investors and direct them to invest in the production of goods mentioned in the study. This can be complemented by a policy of selective protection from some imported goods (in a carefully studied manner), while strengthening controls over the import of products and subjecting these to strict specifications, in order to protect national products and enhance their competitiveness. Additional recommendations include reducing production costs related to the use of

electricity and water, while providing the necessary support to the agricultural sector and industries that support it. This can be achieved by adopting a comprehensive industrial policy covering all components and interventions, focusing on industries related to the production of goods examined in this study.