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

**Palestinian Labor in Israel:
Trends, Motives and Impact**

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Foreword

The Palestine Economic Policy Research Institute (MAS) has from its earliest days devoted special emphasis on the issue of Palestinian labor in Israel and the settlements due to our conviction that the primary impact of this relationship on the Palestinian economy is to deepen its dependency on the Israeli economy, while creating structural distortions in the Palestinian economy. Conversely, the Israeli labor market plays an important role in absorbing Palestinian labor. Clearly, the importance of examining this relationship (and its consequences) increases as the number of Palestinian workers in Israel and the settlements continues to rise, as it has during the past 12 years. These years have witnessed a noticeable increase in the number of Palestinian workers in Israel, and their proportion of the total number of workers. The number of Palestinian workers in Israel increased from 78,000 at EO 2010 to reach 193,000 at EO 2022.

This study's objective is to identify the main features of Palestinian labor in the Israeli economy, its trends, motives and impact. This, in turn, helps to identify the issues and determinants that will govern the future prospects and potential of Palestinian labor in the Israeli economy. This study also provides a detailed review of the historical context of the flow of Palestinian labor to Israel, since the occupation of the West Bank and Gaza Strip in 1967 and their forced annexation into the Israeli economy, and until the signing of the Oslo Accords and beyond.

Moreover, the study reviews the main features of Palestinian labor in Israel, as well as aspects of supply and demand that caused a decline in productive, economic activities across various sectors over the past decades, especially industry and agriculture. Palestinian lands have been transformed into the Israeli economy's backyard. The study also examines the overall conditions of Palestinian workers in a dysfunctional economy, resulting from long decades of Israeli policies of impoverishment, dispossession and stifling development.

Given the current situation, the study recommends the introduction of (partial and gradual) improvement by adopting economic policies that

revitalize the productive sectors. This requires establishing systems and laws that protect local products. There is also a need for structural change in the Palestinian economy, enabling the West Bank and Gaza Strip to create suitable jobs for the majority of its local workforce. Moreover, the study proposes restructuring the movement of Palestinian labor within Israel in accordance with signed agreements. This requires the Ministry of Labor to play a pivotal role in protecting workers from any form of exploitation by intermediaries, mobilizing donor countries to pressure Israel and oblige it to honor the legal guarantees and entitlements of Palestinian workers, ensuring that they receive their legitimate benefits. These must be transferred to them routinely, in accordance with the provisions of the Paris Economic Protocol.

MAS thanks the research team for their efforts in preparing this study, led by Dr. Maher Al Kurd. We also extend our sincere gratitude to the Arab Fund for Economic and Social Development for funding this study, and for their continued support of MAS and our research priorities in developing the Palestinian economy.

Raja Khalidi
Director General

Executive Summary

This study identifies the key features of Palestinian labor in the Israeli economy: its trends, motives, and impact, in order to pinpoint the issues and factors that govern the future prospects and potential of this labor pool in the Israeli economy. This research delves into the fundamental motives influencing the supply of Palestinian labor in the Israeli economy; and demand by Israel for this labor. The study outlines the consequences of this phenomenon on economic conditions in the Palestinian territories occupied in 1967.

The study shows that the historical context of the issue of Palestinian labor since the occupation of 1967 is one of de facto or enforced annexation to the Israeli economy, isolating this labor pool from its Arab surroundings and exploiting its cheapness. Moreover, policies of dispossession and impoverishment practiced by the Israeli occupation caused the further erosion of activity in productive sectors, suffocating the ability of the local economy to generate gainful job opportunities for its workforce, further entrenching the dependence of Palestinian labor on the Israeli labor market. Despite the signing of the Oslo Accords, this dependence has remained a reality to this day, underlining the occupying state's failure to adhere to these agreements.

Regarding supply and demand, the study reviews the economic conditions that led to a decline in the productive sectors, especially agricultures and industry, over the past few decades. This decline in the productive sectors resulted in a rise in unemployment, leading to the 'migration' of Palestinian workers from the West Bank and Gaza Strip to the Israeli labor market. Israel's policies transformed the occupied Palestinian territories into something akin to the 'backyard' of the Israeli economy, accessing cheap Palestinian labor without affording it the legal rights associated with employment in labor-intensive Israeli sectors, especially construction and agriculture. While the dependence of the occupied Palestinian territories on the Israeli labor market deepened, the Israeli construction and agricultural sectors in themselves became increasingly dependent on Palestinian labor.

Israeli policies have had negative social and economic results. Throughout the last three decades of the occupation, the rate of Palestinian employment in the

Israeli economy ranged between 20%-30% of the total workforce. During this period, the gap in living standards increased negatively for Palestinians vis-à-vis Israel. Large differences in the size, performance and capacity of the Israeli economy - compared to the West Bank and Gaza Strip - reflect large differences in wages. For similar jobs, the wage rate in Israel is more than double that in occupied Palestinian territories.

The study highlights the effects of economic distortions on the future of Palestinian labor in the Israeli economy. The Oslo Accords and their economic annex, the Paris Economic Protocol, theoretically aimed to rehabilitate economic conditions and build institutions across a five-year transition period. However, the Israeli failure to implement the terms of these agreements, or to agree to the transition period - limited the ability of self-governance to address these distortions. The effects of these distortions (to which the study dedicates a full chapter) include weakening the ability of the local economy to generate gainful employment opportunities for more than half of its workforce, thereby increasing rates of poverty and unemployment. Although the minimum wage (approximately USD 530) is about one-third of the minimum wage in the Israeli economy, this gap is not commensurate with the equivalence in the cost of living. Recent surveys by the Palestinian Central Bureau of Statistics (2023) indicate that one-third of Palestinian workers in the private sector receive less than the minimum wage applicable in the areas governed by the Palestinian Authority. These indicators reflect reality: the local economy is unable to generate gainful employment for more than half of its workforce.

Within this context, the future of Palestinian employment in the Israeli economy – and its dependence on the Israeli labor market - is subject to these conditions, entrenched within distortions that have been in place in the occupied Palestinian territories for more than half a century. Moreover, Israel's policy of annexing East Jerusalem and isolating it from its natural surroundings and vital economic sphere further weakens and impoverishes economic conditions in Palestinian territories occupied since 1967.

The objectives and plans for this study were set before the Gaza War commenced in October 2023, which effects are reviewed briefly in the conclusion. The direct result of the war is the destruction of the Gaza Strip and

all its facilities and infrastructure, which contributed about 18% of GDP. Most workers across all economic sectors are unemployed. The war has also had multiple consequences on economic conditions in the West Bank. From October 7, 2023, the West Bank has been subject to comprehensive closure, and all work permits for Israel cancelled. Consequently, tens of thousands of workers in the West Bank are now unemployed. The total value of their remittances was estimated at approximately 17% of GNI. This comprehensive closure, in addition to the escalation of settlers' attacks on multiple Palestinian communities in the West Bank, combined with the retraction of trade (internal and external) and Israel's policy of withholding taxes and customs' owed to the Palestinian Treasury, will collectively lead to economic shocks that may have a profound impact if they continue for several months.

These recent developments call into question the future of Palestinian labor in the Israeli economy. Herein, the study's results and conclusion indicate that to address the issue of Palestinian labor in accordance with national, economic development priorities, requires a fundamental and qualitative change in the structure of the economy, and the end of its subordination to Israeli economic policies. The need is Palestinian sovereignty over international borders, land and natural resources, and the right to formulate and implement national economic policies that liberate the 1967 territories from ever-deepening dependency on the Israeli economy.

The study's conclusion presents recommendations based on this current reality, centered on directing public and private investment towards revitalizing and expanding the contribution of productive sectors (industry, agriculture and construction), while developing systems and laws that protect local products, indispensable for generating new job opportunities in the local economy.

The study proposes reorganizing the movement of Palestinian labor to the Israeli economy in accordance with signed agreements. The Ministry of Labor must play a leading role in affording protection for workers from exploitation by middlemen, in addition to mobilizing the efforts of donor countries to assist in obliging Israel to provide legal protection for Palestinian workers and transfer them their full entitlements, as stipulated in the Paris Economic Protocol.

