

The Palestinian National Authority's Role in Maximising the Benefits of International Trade Agreements



PALESTINE ECONOMIC POLICY RESEARCH INSTITUTE

2005



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This study was prepared by Palestine Economic Policy Research Institute-MAS research team, particularly by the following researchers:

Researcher: Mahmoud El-Jafari: Research Fellow at MAS and Professor of Economics, And Director of Institute of Business & Economics

Research Assistant: Dareen Lafi

Reviewers: Samir Abdullah,: Director General- MAS
Basim Makhool, Research Coordinator- MAS
Nasr Abdel Kareem, Associate Professor of Finance, BirZeit University
Yousef Daoud, Assistant Professor of Economics, BirZeit University

Editorial Assistants: Wael Abu Saleh (Arabic)
Simon Boas (English)

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Foreword

Economists and other experts in the field agree unanimously that the expansion and diversification of foreign trade is one of the issues at the top of the development agenda. There is a deep-rooted and well-founded belief that the growth of the Palestinian economy and its progress towards sustainable development will ultimately depend on the value of its external trade. For this reason the Palestine Economic Policy Research Institute (MAS) gives high priority to the study of this issue. This study aims to review the opportunities that bi- and multi-lateral trade agreements give to Palestinian exporters and importers, and to investigate how these opportunities can be improved through developing and improving the performance of PNA institutions. It has examined the difficulties facing those involved in international trade, and looked for examples of best practice in the experiences of other countries.

We hope that this research presents a new addition to the accumulated knowledge required to understand and overcome the challenges facing Palestinian development. We hope that its recommendations are a source of help to economic policy makers and all those responsible for the facilitation of Palestinian foreign trade.

I would like to thank the research team, especially Senior Researcher Dr. Mahmoud Al-Jafari and Research Assistant Dareen Lafi, and the other researchers at MAS whose review and valuable comments about this study contributed to its enrichment. I also thank the Minister of National Economy and his staff at the Ministry for hosting the workshop to discuss the study, at which our colleagues in the private sector and the experts who participated presented important suggestions about its recommendations. My thanks also to them. Finally, and as always, my sincere gratitude to our partners in the International Development Research Centre (IDRC), Canada, for their support of this valuable research.

Dr. Samir Abdullah
Director General

Executive Summary

The main purpose of this study is to identify the decisions and actions required from Palestinian National Authority (PNA) bodies in order to maximise the benefit of trade agreements signed with other countries, including Israel. The research concentrates on defining the governmental authorities' role in the provision and facilitation of services to exporters, importers and merchants, including assistance with market information, promotion and marketing, insurance, financing, transport, shipment, inspection, accreditation, and conformity with international standards and measurements.

Previous studies have focussed on the nature and limitations of the agreements themselves, particularly the arrangements with Israel. While important, this neglects the practical measures that can be taken to improve Palestinian foreign trade. Deficiencies in the support mechanisms - rather than the treaties themselves - are what most prevent local businesses enjoying the advantages of international commerce. Consequently, while reviewing the situation (and previous work on it) this study asks how it can be optimised by active government intervention.

A comprehensive review of the related literature, including the texts of the agreements themselves and subsequent amendments, was followed by gathering primary data from exporters and importers in the governorates of Ramallah, Al-Bireh and Bethlehem by means of a questionnaire. Structured individual and group interviews were conducted with key industrialists, manufacturers and merchants working in a variety of fields, including foodstuffs, cosmetics, medicines, plastics, stone and marble, traditional industries, furniture, textiles and metals. Secondary data was compiled from the Palestinian Central Bureau of Statistics and relevant Ministries. In addition, the trade-promoting activities of neighbouring or comparable countries were examined, in order to ascertain which government measures succeeded in boosting exports and which hampered them.

As expected, the information revealed that importers and exporters suffer from the lack (or prohibitive expense) of numerous services that would facilitate their transactions. Problems include:

- ✧ The lack of examination and inspection services for imported commodities and services.
- ✧ The lack of information services about international export markets and their requirements in terms of Palestinian commodities.
- ✧ The increasing cost of credit and the lack of specialised institutions for financing foreign trade.
- ✧ The absence of competent authorities to carry out the education of producers and exporters in new production methods and marketing techniques.
- ✧ The rising price and deteriorating quality of infrastructure services.

Most traders bemoaned the lack of official encouragement and facilitation of the sale of goods in export markets, and said that as a consequence they were not attuned to the latest developments in them. This has led to a continued reliance on the Israeli market to act as a go-between, and the continued subordination of Palestine's economy to Israel's. Furthermore, a common complaint was that the PNA had not involved exporters and importers when the original trade agreements had been signed, nor consulted them when they had been subsequently reviewed.

After reviewing and analysing the data, the study concludes with some specific recommendations. These have been discussed by key stakeholders in a workshop and presented to the relevant institutions of the PNA. They are summarised as follows:

1. To establish new institutions to promote Palestinian foreign trade, such as special commercial representative offices abroad (now being sought by the Ministry of National Economy), dedicated financing organisations, and institutions to organise exhibitions and trade fairs.
2. To improve the role of existing enterprise-support institutions such as PalTrade, the Chambers of Commerce, the Federation of Industries, Businessmen's Associations, the Palestine Standards Institution and others to support exporters and importers.
3. To establish market research centres to provide information about local and international markets.
4. To reduce Value Added Tax for locally-produced products to make them more attractive exports and enable them to compete with foreign imports.
5. To review the international trade agreements, continue to push for preferential treatment of Palestinian exports, and to involve the private sector more closely in future trade negotiations.

6. To recognise that the private sector needs improved information about international consumer tastes and better skills in international marketing, and to remedy this by increasing educational opportunities and participation in international exhibitions. Assistance is also required in improving exporters' knowledge of international quality standards.
7. To support local manufacturers by facilitating the import of raw materials. To abolish or ease customs duties on certain key goods (as already proposed by the Ministry of National Economy).
8. To concentrate on enhancing the quality of Palestinian products at both production and marketing stages, specifically by:
9. Encouraging the use of new technologies by reducing customs duties on high-tech machinery; and
10. Tightening supervision of local products with respect to conformity with international standards.
11. To approve and execute laws designed to protect the Palestinian economy from smuggling and dumping. Not only must they be approved by the Legislative Council, but credible mechanisms to enforce them must also be set in place.
12. To establish well-equipped testing and calibration laboratories in many Palestinian governorates *outside* Ramallah, where at present all products which need to be examined for their conformity to international standards must be sent. The present system increases costs even at times of relatively few Israeli movement restrictions.
13. To develop the quality and lower the cost of infrastructure services, particularly transportation, electricity and water.

