



# Embassy of the State of Palestine

The General Delegation of Palestine to Australia, New Zealand, and the Pacific

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## Economic Impacts of the Israeli Occupation

### Summary

In 2015, Israel withheld Palestinian fiscal revenue for four months, donor aid declined, and Israeli settlements continued to expand into Palestine, while poverty and unemployment remained high. Palestine continued to be a captive market for exports from Israel, while occupation neutralised the potential development impact of donor aid. Genuine reconstruction has yet to take off in the Gaza Strip despite \$3.5 billion in donor pledges. Gaza's socioeconomic conditions worsened and the infant mortality rate increased for the first time in 50 years. Occupation imposes a heavy cost on the Palestinian economy, which might otherwise reach twice its current size.

### Overall Economic Costs of the Occupation

- The Gaza Strip and West Bank, including East Jerusalem, remain under occupation, with tight restrictions on the movement of people and goods; systematic erosion and destruction of the productive base; losses of land, water, and other natural resources; a fragmented domestic market and separation from international markets; a tight blockade on Gaza since 2007; the expansion of Israeli settlements; construction of the Separation Barrier and closure policy in the West Bank; and the isolation of East Jerusalem from the rest of the West Bank
- **The economic cost of occupation in 2010 was estimated at \$6.9 billion, or 85% of GDP**
- Between 2000–2005, cumulative GDP loss due to occupation was estimated at US\$8.4 billion (twice the size of the Palestinian economy)
- The cost of direct damages from the three Israeli military operations that took place in Gaza between 2008 and 2014 was at least three times the size of the GDP of Gaza
- From 1948 to 2000, the cumulative value of human capital and material losses suffered by the Palestinian refugees totaled US\$275 billion and US\$173 billion, respectively
- The efficacy of international aid to the Palestinian people has been nullified by occupation, which either eliminates Palestinian productive activities or renders them uncompetitive by elevating production and transaction costs

**Without occupation, the Palestinian economy could produce twice the GDP it currently generates; chronic trade and budget deficits, as well as poverty and unemployment, could recede; and economic dependence on Israel could end**

## The Unemployment Crisis

- The unemployment rate in the Occupied Palestinian Territory was 26 per cent in 2015, compared to 12 per cent in 1999, prior to the tightening of restrictions on movement and access of Palestinian labour and goods
- Lack of employment opportunities in the domestic economy forces thousands of unemployed Palestinians to seek employment in Israel and in settlements in low-skill, low-wage manual activities
- This forced dependence on employment in Israel and in settlements magnifies the vulnerability of the Palestinian economy to political shocks, as Israel can at any time bar Palestinian workers, even those with Israeli permits, from entering Israel
- Weak economic growth and high unemployment have deepened chronic food insecurity—recent data show that two thirds of Palestinians are affected by food insecurity

## Fiscal Sustainability

- In 2015, the PA continued its ongoing efforts to narrow the budget deficit, succeeding in reducing the fiscal deficit to 11% of GDP (down from 27% in 2006)
- Total revenue grew by 9% to 22% of GDP, however the potential benefits of this were offset by a 30% decline in donor aid
- These efforts have been implemented in an unfavourable political-economic environment characterised by recurrent and costly confrontations, a small tax base, lack of sovereignty over Area C, lack of control over borders, and the leakage of hundreds of millions of dollars of Palestinian fiscal revenues to Israel
- Israel's control of clearance revenue, which accounts for about three fourths of PA revenue, enables it to exercise undue control over Palestinian fiscal affairs
- Despite such unfavourable conditions, the PA has managed to consistently narrow the deficit-to-GDP ratio, suggesting that its fiscal management is relatively sound and that the chronic fiscal crisis is mainly caused by occupation
- **The fiscal cost of occupation is estimated at US\$800 million (half of the Palestinian fiscal deficit)**
- The combination of stricter occupation and declining donor aid constrain economic growth and may roll back PA achievements in building the institutions required for a well-functioning economy to underpin a viable future State

## The Agricultural Sector

- **More than 2.5 million productive Palestinian trees have been uprooted by Israel since 1967**
- In January 2015 alone 5,600 productive Palestinian trees were vandalized
- At least 10% of the most fertile land in the West Bank has been lost due to construction of the Separation Barrier

**Israeli control of Area C, the blockade imposed on Gaza, and other restrictions have generated the current unemployment crisis in Palestine**

**The chronic fiscal crisis is mainly caused by occupation**

Since the onset of occupation in 1967, the Palestine has lost access to more than 60% of West Bank land and more than two thirds of Palestinian grazing land

As a result of the slow pace of disbursements and Israel's restrictions on imports, 91% of the houses destroyed during the 2014 Gaza War have not been rebuilt and 75,000 people remain displaced

- Israel has been extracting water above the level determined in the Oslo II Accord, and confiscates 82% of Palestinian groundwater for use inside its borders or in its settlements, while Palestinians must import over 50% of their water from Israel at elevated costs
- The PA and Palestinian farmers are prohibited from maintaining or constructing water wells
- Only 35% of irrigable Palestinian land is actually irrigated, costing the economy 110,000 jobs and 10% of GDP
- In Gaza, half of the cultivable area and 85% of fishery resources are inaccessible to Palestinian producers
- Fishing off the coast of Gaza is restricted to 3 nautical miles and was only recently extended to 6 nautical miles, instead of the 20 miles stipulated in the Oslo Accords

### The Situation in Gaza

- Israel's blockade of Gaza, in its ninth year, continues to exert a heavy toll, severely impacting Gaza's once vibrant export sector
- The population of Gaza is locked in, denied access to the West Bank and the rest of the world; even people in need of medical treatment are not allowed to travel to obtain essential health care
- Enforcement of the stringent dual-use restrictions obstructs reconstruction efforts, raises production costs, and forces Palestinian firms out of business
- As a result of damage to Gaza's sole power plant during the Israeli military operation in 2014, as well as restrictions on the importation of critical inputs and spare parts, the power plant has been operating at less than half its capacity
- The resultant deepening of Gaza's electricity crisis in 2015 has taken a toll on every aspect of public and personal life, some consequences of the crisis are: Up to 90 million litres of partially treated sewage is discharged daily into the Mediterranean Sea, the waiting time for some surgeries can be as long as 18 months, the malfunctioning of sensitive and life-saving medical equipment is recurrent, and more than 70% of households are supplied with piped water for only 6–8 hours every 2–4 days
- Infant mortality, one of the best indicators for the health of a community, has risen for the first time in 50 years; this trend in Gaza is unprecedented
- Full recovery of the Gaza Strip is challenging without a lifting of the blockade, which collectively deprives the entire 1.8 million population of Gaza of their economic, civil, social, and cultural rights, as well as the right to development

### How Australia can Help

- **Put pressure on the Israeli authorities to: allow the free movement of goods and services in and out of Palestine, allow the Palestinian business sector to access Area C, and lift the long-term siege and blockade of the Gaza Strip**
- **Increase trade and economic cooperation with Palestine**
- **Encourage the Australian business sector to invest in Palestine**

All information contained within this fact sheet has been obtained from the UNCTAD “Report on UNCTAD assistance to the Palestinian people”, which can be accessed at:

[http://reliefweb.int/sites/reliefweb.int/files/resources/app2016dl\\_en.pdf](http://reliefweb.int/sites/reliefweb.int/files/resources/app2016dl_en.pdf)

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