OBSTACLES TO WEST BANK INDUSTRIAL DEVELOPMENT CAUSED BY THE PALESTINIAN LACK OF CONTROL OVER ITS EXTERNAL AND INTERNAL BORDERS

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Abstract - It is not possible to understand and analyze economic performance of Palestinian firms independently of its geopolitical context. Israel control over the West Bank still exists nowadays as it does not recognize the State of Palestine and the sovereignty of the Palestinian Authority to fully administrate its territory. Consequently, some obstacles to the industrial development are related with this external influence of Israel, and the Palestinian Authority lack of control over its external and internal borders. The main objective of this study, that crosses qualitative and quantitative methodological approaches (in-depth interviews and a questionnaire to a statistically representative sample of the West Bank manufacturing activities), is to disclose and discuss the major obstacles that came from this external influence. Namely, obstacles in the raw materials importation, as well as obstacles to sell West Bank goods in local and foreign markets.

Keywords - Economic Geography, Borders, Industrial Development, Palestine, West Bank.

I. INTRODUCTION

The data presented by Mas (2013), in is study entitled "The Palestinian Economy After 20 years of Oslo Accords", indicates that the share of the industrial sector contribution to the Palestinian GDP declined from 22.3% in 1994 to become less than 12% at the end of 2012. And according to Rantisi (2016) the value-added share from the manufacturing activities during the period of 1999-2014 just ranged between 10-13% of the total Palestinian economy. In addition, Al-Qumsan (2005) stated that there was registered a decline in total investment directed to the Palestinian industrial sector during the period 1994-2000. All these figures demonstrate the difficulties currently faced by a shrinking industrial sector, that has been progressively losing its relevance in Palestine.

According to the Palestinian Central Bureau of Statistics (PCBS, 2013), 91.7% of all industrial units are micro or small-sized firms, with less than 9 employees. The low dynamic of this industrial sector, mainly composed by traditional businesses, is also proven by its restriction to the local market and its failure to attract foreign direct investment (El-Jafari, 2016). Meanwhile, the data from the Palestinian labour force surveys (PCBS, 1996, 2015), indicates the increase in the unemployment rate from 13.9% in 1995 to 25.9% in 2015, and in this context it has been advocated that the industrial sector development could contribute to solve this social problem just with the existing number of firms, as the Palestinian industrial sector is working at 50% of production capacity, and in the specific scenario of increasing its production capacity to 70%, that would create about 40 thousand new jobs (Attiyani, 2016).

In order to revert this worrying declining trend that currently characterizes this industrial sector, and create the conditions to reinforce its contribution to promote the Palestine development, it is important to disclose and debate the most relevant constraints that is avoiding the industry growth in this geographic context. Some of these constraints are caused by external influences, mainly concerned with the Israeli occupation (Aburaida, 2017). After Israel occupied the West Bank in 1967, it took control over its border with Jordan and started to regulate the Palestinians freedom to travel to neighboring Arab countries. The Palestinians mobility from the West Bank to Jordan started to be controlled by Israel in the border crossing points, and only when Palestinians arrived to Jordan it would be possible for them to travel to the Arab and foreign countries. Israel did not only start to control the Palestinians freedom of external mobility, but also their mobility inside the West Bank; between its cities and villages, by creating an internal network of military checkpoints. This Israel control over Palestinians external and internal mobility never ended, from then until our present days their mobility freedom is captured. The main goal of this paper is to analyze the impact of this Israeli control over West Bank external borders and over West Bank internal mobility, in its industrial sector and in terms of: importation of raw materials and exportation of industrial goods.

II. RESEARCH METHODOLOGY

By combining qualitative and quantitative methodological approaches (in-depth interviews and questionnaires), this study approaches a more comprehensive vision of the external obstacles faced by West Bank industry and its implications. Initially, 12 in-depth interviews were conducted with relevant stakeholders in the West Bank industrial sector. The interviewees were selected with a view to a diversified set of perceptions of the current situation
of West Bank industry, namely the most relevant obstacles to its development and the key challenges that those obstacles create to local entrepreneurs in the conquest of new markets inside and outside the West Bank. The diversity of opinions was guaranteed by conducting interviews with local institutions and various opinion makers of different nature, including government agencies, private entrepreneurs, sectoral associations, labour unions, and university research centres. Based on detailed information collected in these in-depth interviews, it was possible to design a questionnaire, that in a second phase was applied to a representative sample of West Bank manufacturing activities. With this questionnaire, it was possible to get original information about the most important difficulties faced by the West Bank industrial sector, and problematize and discuss it closely. To guarantee the legitimacy of the conclusions of this study, the survey was applied to a statistically representative sample of all West Bank manufacturing activities. For the sample definition, it was important to know the total number of West Bank industries. The most recent data collected by the Palestinian Central Bureau of Statistics (PCBS, 2013) about West Bank manufacturing activities is the ‘Establishments Census 2012’, that points to 12,657 industrial units operating in 2012 in the West Bank territories. In order to gain a statistically representative sample, 134 questionnaires were used, which means that the results are achieved from a sample representing the reality of West Bank manufacturing industry with a margin of error less than 10% and a confidence level higher than 95.5 (Arkin & Colton, 1967). However, and to achieve a better representation of the field, it was decided that the questionnaires would be distributed to a stratified random sample depending upon three criteria: the sample has the same proportion of industrial units by manufacturing activity as the West Bank industry; the sample has also the same proportion of industrial units by firm size (in terms of the total number of workers); and geographically, the sample has the same proportion of industrial units by governorate, as it was revealed by the most recent West Bank industry census.

III. OBSTACLES TO THE RAW MATERIALS IMPORTATION

This survey results demonstrate that only 5% of the West Bank industries are using raw materials in their production process that came exclusively from the West Bank, and 8% are using raw material that came simultaneously from both inside and outside the West Bank. Therefore, only 13% of the manufacturing activities use raw materials originated in the West Bank, this reality is not unexpected and is a consequence of the 1948 War, when the Palestinians were forced to leave their best properties and go to the most mountainous and less fertile and poor lands of Palestine. So, 87% of the West Bank industries are totally dependent of imported raw materials, as all raw material used by those firms came exclusively from outside the West Bank. This fact increases in a significant way the production costs to almost all West Bank industries (with importation taxes), which clearly contribute to decrease the firm’s profits and their competitiveness. Is curious the fact that more than ¾ (76%) of the West Bank industries are paying importation taxes to buy raw materials originated from territories that in the past were Palestinian lands (before 1948). As 37% of the West Bank manufacturing activities only use raw materials bought from Israel and 39% use raw materials bought from both Israel and other countries. This data is in line with data divulged by ITA (2014) that shows that the Palestinian market relies heavily on Israel as a trading partner, as it accounts for 72% of total Palestinian imports. Besides Israel also collects extra taxes (customs) from West Bank manufacturing activities when they want to import from any other country, with the justification that those raw materials need to use their ports and airports and that has extra costs that need to be paid by the West Bank firms (only 20% of West Bank imported raw material enter in the West Bank exclusively by its border with Jordan, 80% arrive from Israel ports, airports and routes). This reality discourages the will to import raw material from any other country, in fact only 11% of the West Bank firms use raw materials that came exclusively from other foreign countries than Israel.

Furthermore, by prohibiting the contacts between the West Bank and the Gaza Strip through Israeli territory (despite their physical proximity), it is extremely difficult for the West Bank firms to have access to raw material from Gaza Strip (less than 2% of West Bank firms use raw materials that came from the Gaza Strip), which increase their dependence on imported raw materials, and especially from Israel. In this context, the owner of a shoes factory in Jenin said: “We are facing big problems with the availability of raw materials that come from Gaza as a result of the Israeli blockade imposed on it, which reflects negatively on our production process” (Interviewee B.2).

Besides Israel, the collected data shows that with the China exception (15% of West Bank firms import raw materials from China) all other relevant countries in the importation of raw materials benefit from cultural/geographical proximity, as they are neighbor Islamic or Arab countries, namely Turkey (a country that sells raw materials to 25% of West Bank industries); Jordan (selling raw materials to 13% of West Bank industries); and Egypt (selling raw materials to 9% of West Bank industries). The questionnaire results also indicated that 16% of the West Bank industrial firms import raw materials.
through Israeli brokers. As a strategy to facilitate the importation process and to avoid delays in the arrival of the raw materials, some West Bank industrial units are forced to buy what they need from abroad through Israeli brokers, leading to an increase in the raw materials prices.

The interviewees explained the great difficulties that West Bank industrial units face to import raw materials, as a result of Israeli security policies and limitations imposed on specification standards for the goods that arrive or pass through Israel. All these procedures cause frequent delays in the reception of raw materials imported from other countries. In fact, more than 64% of the West Bank industrial units mentioned that it was common or too common to have delays in the reception of imported raw materials, beyond what is supposed to be expected. Those delays are mainly related with Israel lengthy standards testing, on all products that came to the Israel ports and airports and with West Bank as its final destination.

It is important to note that not only the West Bank firms need to bear the losses caused by these delays, as they need to pay extra fees for the storage costs of these goods in Israeli ports and airports. Palestinian firms pay for the costs related with the Israeli authorities’ verification of its goods, in order to confirm if they respect Israeli specific standards and security rules. Besides and according to the interviews, sometimes those goods are damaged during their stay at the borders, which reflects negatively on the production process of the West Bank industries. During these control actions some raw materials are prohibited by Israel, for security reasons, to enter inside the West Bank borders, especially goods bought from chemical and metal industries, which causes limitations in their production processes. Not to mention the fact that Israel impose specification limits by firm in the quantity of some goods that they intend to import.

“Difficulties related with raw material importation cause huge losses and have forced some plants to close. The Israel control of West Bank borders includes quantity limits specifications in some imported raw materials, especially the ones bought by chemical firms” (Interviewee A.2).

“The importers pay extra fees to store the goods they bought in the Israel ports and airports. Those products may also be destroyed or damaged during their stays in the borders. And we should not forget that there are some raw materials that are prohibited by Israel to enter in the West Bank due to security reasons” (Interviewee C.2).

However, not only the Israel control over imported raw materials is causing problems to West Bank firms. Negative impacts also happened by the Israel control over raw materials bought to other West Bank firms. Almost 75% of all industrial units said that the checkpoints influence in raw materials transport inside the West Bank has a negative impact, being an obstacle that prevents firm’s productivity and growth. Since the Israeli occupation of the West Bank in 1967, Israel has established hundreds of checkpoints that led to the division of the West Bank into geographical units isolated from each other by more than 450 checkpoints (21% permanently controlled), where Israel controls the peoples and goods circulation inside the West Bank. In addition, many West Bank streets (the ones with better quality) are occupied by Israel to guarantee the safe use of Israeli colonies citizens, at the same time Palestinians are in several occasions prevented from using those roads (roads inside the West Bank), and alternatively need to use worse and more sinuous roads, which increase the raw materials transportation costs in a significant way.

These extended checkpoints network inside the West Bank has a negative impact in the daily firm’s activity and their productivity, as they act as internal borders inside West Bank, which create constant difficulties in the raw materials transport between West Bank cities. In fact there are frequent delays in the raw materials arrivals to the firms who bought them from other West Bank firms, as its common the reserve of those goods in the checkpoints, for long time for verification control by Israeli authorities.

Finally, it is important to mention the effects in the raw materials importation of the absence of a Palestinian currency. According to Elias (2015) several countries use monetary policies, devaluing their currencies, as a way to increase their exportations and balance their commercial balance, however this kind of political options occupies a great deal of discussion and controversy about the application of economic reform programs in developing countries, as they have negative influence on those socio-economic groups more dependent on imported goods. Yet, in the case of Palestine, it still uses the Israeli currency and has no currency of its own, which makes it subject to Israeli's economic policies. Furthermore, the issuance of a national currency is a symbol of sovereignty, independence and economic decision-making freedom, something that Palestine is still barred from (by the Paris Economic Protocol that impose an Israeli approval for the issuance of a Palestinian currency). So, Palestine is prevented to develop their own economic policies and according to the results of this survey the use in Palestine economy of the Israeli Shekel currency affects negatively the West Bank industrial sector, especially in the importation of raw materials. In fact 59% of respondents believe in the negative impact of the currency conversion in the importation of raw materials, while 41% believe in its negative impact in the West Bank exportations.

The West Bank dependence from Israel economic policies creates difficulties for Palestinian firms in the importation of raw materials. As most of the international trade transactions are frequently carried
out in the US dollar, thus, when the value of the US dollar rises the value of the Israeli shekel decreases, which leads to a rise in the value of imported raw materials. Consequently, the prices of products brought from abroad will increase, which negatively affects an economy as the one of the West Bank where its industrial sector are so dependent of imported raw materials.

All these constraints related with the importation of raw materials justify the suggestion presented by some interviewees to promote a revision of the Paris Economic Protocol, which is an economic agreement between Israel and the PLO, that was part of Oslo Accords, signed in 1994 between the Palestinian Authority and Israel (Shu’aybi, 2013). As Israel controls the Palestinians borders crossings, Israel takes taxes and customs on behalf of the Palestinian Authority imports and exports, and for performing that task Israel takes for itself 3 % of these taxes, which means that it obtains around 120 million US dollars per month for the control of Palestinians borders (Interviewee D.1), money that is taken from the Palestinian economy by Israel. Besides, Israel under the framework of this Protocol imposes several procedures complexities to Palestinians imports and exports, as fees on the security check, customs clearance, tax ports, customs declaration fee and examination fees (for checking on product standards), and as a consequence several factory owners prefer to deal with Israelis dealers, at a higher cost, to avoid the time consuming of all these complexities.

So, with this Protocol Israel difficult the external trade of Palestinian goods and force the Palestinian economy to be subject to the Israeli economy, for instance Israel only allow the exports/imports of Palestinian firms if they are in line with products standards defined by Israel. This scenario only motivates the Palestinian investors to invest outside Palestine, not to mention the fact that the poor economic conditions it creates induce internal problems among the Palestinian government, the investors and the citizens.

It is important to mention that this Protocol was planned to expire five years after its signature, but in fact Israel was never opened to revise it, as with this Protocol Israel keeps full control over the Palestinian economy. There are many reasons to justify the urgent pertinence of its revision:
- restrictions on the movement of goods and capital leads to restrain investors to invest in Palestine, also force the Palestinian investors to invest outside the country;
- according to this Protocol there are raw materials that are required by the Palestinian industries, which are prevented by Israel from being imported. For instance, many machines and machines spare-parts cannot be imported without the approval of Israel government, which makes Palestinian industry inadequate to keep pace with market competitors;
- this Protocol creates bureaucratic and administrative procedures in general and in the importation of raw materials in particular;
- this Protocol forces the Palestinian government to import oil from Israel at a high cost than it could import from other countries, besides it connects the Palestinian added value tax with the Israeli added value tax, without taking into consideration the disparity in income, economic conditions and the development differences.

IV. OBSTACLES TO SELL WEST BANK GOODS IN LOCAL AND FOREIGN MARKETS

Export orientated strategies are essential to promote economic growth in all countries, as a relevant contribution to solve deficits problems in the balance of payments, increase GDP (Gross Domestic Product) and, in addition, create new job opportunities with the appearance of new domestic and foreign investments. However the West Bank face huge problems to sell their products to foreign markets, which is considered one of the main obstacles encountered by its industrial sector, whether in the Israeli occupation period (1967-1993) or under the current Palestinian Authority control. In fact 57,5% of West Bank firms owners/managers strongly agree with the negative impact caused in theirs firm’s productivity, by the bad influence of Israel borders control over the West Bank exports.

This negative influence constitutes a huge obstacle that prevent West Bank firms from increase their production, because the difficulties they are facing to export limit their growth potential. It is extremely worrying the data collected in this survey that points to the fact that more than 83% of the West Bank industry production in being sold only inside the West Bank, and 2,3% to the Gaza Strip market, which means that only 14,7% of all goods produced by West Bank industrial firms are exported. Like the complete absence of FDI in our study sample, also this indicator demonstrates how closed it is the West Bank economy in a globalized world.

If 83% of these firm’s production is locally consumed, this is especially worrying because of the small dimension of West Bank market, with less than 3 million inhabitants registered in 2016. More than 4/5 (80,6 %) of the respondents are concerned with this extreme dependence of West Bank Market because of its small dimension, which totally limit their dreams to growth and to increase their productivity rates.

Not even the West Bank can benefit from the Gaz Strip market with almost 2 million citizens (that market only consumes 2,3% of West Bank industrial production). Since Hamas took control over Gaza Strip in 2007, Israel has closed the borders and ceased
most of the trades between Gaza and the West Bank, therefore, trade from West Bank to Gaza Strip is very expensive, because products are forced to go through Jordan, then Egypt and only then directed to Gaza Strip. The reduced exportation share in the West Bank production is a direct consequence of Israeli control over West Bank international trade, as the Palestinian exports must go through Israeli ports to get to other foreign markets. During the interviews, it was pointed out the great difficulties that West Bank face to export as a result of the Israeli control over its borders. On the one hand, the Standards Institution of Israel (SII) impose high standards specifications on the Palestinian products in order for them to be accepted to be exported to Israel and to the international markets. On the other hand, the complex and long-lasting Israeli security procedures in checking the West Bank products causes frequent delays in the exportation process, which damages West Bank firms reputation, creating extra difficulties in conquest the confidence and satisfaction of their foreign clients. When West Bank industrial owners/managers where asked about what should be done to facilitate the conquest of external markets and increase their exports proportion, it was mentioned the need of some governmental help providing specific information and assistant services in order to help local companies to get to foreign markets. However and by far the most common suggestion pointed out was the relevance to start the Palestinian National Authority full control over West Bank borders, with no Israeli control about the viability of West Bank goods to be exported to other markets, as the Israeli procedures are real obstacles to sell abroad their productions. In addition, several West Bank firm’s owners demanded the opening of the boarders between Israel and Palestine, and a creation of a common joint ‘domestic’ market integrating both Israel and West Bank, to be an open market explored simultaneously by Israeli and West Bank firms. In their opinion the Standards Institution of Israel (SII) main role is to impose so high standards on the Palestinian goods to be accepted inside the Israeli market, which as the main objective of limit the West Bank economy growth by limiting their exports to Israel (despite being the main trade partner of West Bank, Israel market only receives 13% of all West Bank production). Negotiations with Israel must start in order to review this standards policy. But West Bank firms in the challenge of selling their productions do not only face difficulties in the exports process, they also feel the negative influence of the Israeli checkpoints in the challenge of selling products inside West Bank. In fact, the majority of the respondents strongly agree with the assumption that check points have a negative impact on selling products within the West Bank borders and therefore affecting factories productivity. Not only these firms are conditioned to sell almost all their production inside West Bank, as a great proportion of them only explores the local market around the firm location. Its worrying the fact that 40% of the West Bank firms only sell their production in the same governorate where the firm is located, so they are only limited to the local market. Around ¼ of West Bank firms explores regional markets and just 1/3 explore the all West Bank market by selling their products to all the main West Bank cities. This scenario is due to the fact that most of the factories are micro and small sized firms with low production capacity, which is totally locally consumed. Despite that it is not possible to neglect the impact of the checkpoints between villages and cities which hamper the managers will to sell their productions in more distant cities inside West Bank, as a result of the checkpoints that divide the West Bank into four main regions:

1. Za’ataра checkpoint (between Nablus and Ramallah) separates the Northern West Bank;
2. Qalandia checkpoint separates Ramallah from Jerusalem;
3. Container checkpoint separates Jerusalem from Bethlehem and Hebron in the South of West Bank.

These Israeli checkpoints between Palestinian cities and villages create huge difficulties on the process of distribute these firms production by all the West Bank territory. The difficulties related with the Israeli checkpoints control are not only related with the delays and all the annoyance related with the verification procedures but also the products damage, as in many occasions the products are retained in these checkpoints for long periods of time. As a way to avoid these difficulties many firms do not intend to go further the local market as they are not willing to deal with those difficulties (a reason because many of them keep being micro and small sized companies). As one Palestinian investor said “we do not need to seek selling our products in all the West Bank because of the limited capabilities of our factories (machinery, labour, capital, etc.)”. But not all of them think the same way and several industrial owners and managers intend to make their firms growth, and for that purpose they have suggested the complete removal of Israeli checkpoints between Palestinian cities and villages, in order to facilitate the procedure of selling their products in all the West Bank. There is a need for greater cooperation between the Palestinian National Authority and Israel in order to resolve many of the constraints on growth, such as the restrictions on the movement of goods and people.

Other suggestion is related with their will to get free access to the best roads in West Bank (nowadays Palestinians have a limited use of those roads, in spite of being roads inside West Bank).
“Currently the main problem in the industrial goods distribution within the West Bank are the ‘snake’ roads use that increase the transportation costs, as it is forbidden for the Palestinians the use of the West Bank better quality roads, which are available only for those who live on the Israeli colonies.” (Interviewee D.2).

This request is especially relevant because by preventing Palestinians from using the best West Bank roads, forcing them to use the more sinuous ones, this is something that increases the transportation costs, reduce the firm’s profits and discourage these firms owners/managers from the will to sell their production in all West Bank territory.

CONCLUSIONS

In any strategical plan for the West Bank industrial sector, it is important to take into consideration the perspective of the firm’s owners/managers. This research tried to give voice to those agents, by analyzing their opinions about the main obstacles to the local industry development, thorough a survey applied to a statistically representative sample to the West Bank industrial owners/managers. The obstacles for the West Bank industry growth and development are various, from different causes and nature, and many of them caused by the influence of external forces, as a consequence of the limitations imposed by the Israel occupation authorities since 1967.

After the First Intifada and the Oslo Accords signed in 1993, Israel continued to control and occupy the Palestinian lands and refused to discuss the nature and competences of the Palestinian Authority, the fate of Israeli settlers and colonies, the status of Jerusalem, the right of Palestinian refugees to return, the refugee’s compensation and the water usage (Beinin, 1999). Years of peace talks have failed to produce any resolutions to these issues and in 2000, the Second Intifada began, and as a result Israel built a long wall, which has isolated the West Bank. Palestinians became surrounded by the wall from all sides, moreover several Israeli checkpoints were created that cut off towns and villages in the West Bank in order to impose control directly on the ground, in terms of preventing movements of citizens and goods. Consequently, the wall and the checkpoints have been promoting the destruction of economic and social life in several ways, for instance, preventing the access of farmers to their lands; narrowing the ability to citizens to move, creating obstacles to the transport of raw materials and manufacturing goods as well as agricultural products (Aburaida, 2017). These constraints are still occurring nowadays with severe repercussions to the West Bank industry, as it was concluded from the results achieved with the empirical study.

As the West Bank is characterized by the most mountainous and less fertile and poor lands of the antique Palestine, 87% of the West Bank industries are totally dependent of imported raw materials. This fact increases in a significant way the production costs to almost all West Bank industries, especially by the high importation taxes for the use of Israel ports and harbours; and the frequent delays in the reception of raw materials imported from other countries caused by Israel verification and standards testing.

West Bank firms face also huge problems to sell their products to foreign markets, as more than 83% of the West Bank industry production in being sold only inside the West Bank. The reduced exportation share in the West Bank production is a direct consequence of Israeli control over West Bank international trade, as the Palestinian exports must go through Israeli ports to get to other foreign markets, and the Standards Institution of Israel (SII) impose high standards specifications on the Palestinian products in order for them to be accepted to be exported to Israel and to the international markets. Moreover, not only these firms are conditioned to sell almost all their production inside West Bank, as a great proportion of them only explores the local market around the firm location, a consequence of the checkpoints between villages and cities, which hamper the managers will to sell their productions in more distant cities inside West Bank.

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