

5. Areas of Opportunity

The Palestinian economy is, and has been for a quite a long time, operating below potential. Once an improvement in the political situation occurs promising peace and stability, the economy is expected to move rapidly ahead to regain ground lost in the last three decades. At such a time, it is expected that every sector will grow. This is not just a hopeful proposition, but a realistic expectation given the way the economy performed during the periods of relative calm in the 1990s.

Economic activities in every sector responded so rapidly to the partial improvement in the security situation during this period that GDP was able to grow at rates of over 10 percent. In addition to investment opportunities offered by growth in the domestic economy, the Palestinian economy offers foreign investors' access to major markets with which it has free trade agreements.

5.1 The Construction Sector

Naturally, any reconstruction programme will start with building physical infrastructure and public institutions that were damaged in the past few years. There are huge opportunities in rehabilitating the Airport and in the construction of the Seaport, as well as the destroyed residential areas in Gaza.



Building hotels, restaurants and recreational sites would be needed to revive the tourism sector, which was stagnant in the past seven years and only increased in the year 2007. In addition, building activities for residential homes would increase to accommodate the natural growth in population, the rehabilitation of the refugee camps, and the expected inflow of Palestinian returnees. One of the most important might be in the city of Jerusalem, where numbers show that there is an opportunity for building thousands of residential units.

In the end of 2007, PALTEL Group and 'Baiti' real estate Company announced plans for establishing two new Palestinian cities between Ramallah and Nablus, with an investment of approximately \$900 million, on an area of 4,000 dunums of land. The smaller one built on 1,000 dunums will contain 4,000 residential units housing nearly 25,000 Palestinians.



5.2 The Agricultural Sector

The early stages of economic recovery are expected to witness substantial expansion in the agriculture sector for two main reasons. The first is due to the expected expansion in the production of food to accommodate the expected increase in both income and population. For certain food items, supply could increase automatically as unused capacity is utilised. Supply, however, will be inadequate for other items, where there is little or no local production and where shortages are already evident. Investments in such items as wheat, seed oil and sugar would have very good returns.



The second reason for the expected expansion in the agriculture sector is the very profitable prospect of regaining the lost share of Palestinian cash crops in foreign markets, including exports to Israel. The major cash crops are tomatoes, cucumbers, eggplants, beans, peas, and olive oil. These items continue to be exported to and through Israel, suggesting that they are competitive and capable of regaining their old share in neighbouring markets given a suitable investment in export facilities.

5.3 The Manufacturing Sector

Successful expansion of the construction and agriculture sectors will require an expansion of the manufacturing sector. Construction of infrastructure will increase the demand for building materials substantially, especially cement, concrete, asphalt, crushed stones, aluminium, and iron and steel rods. At the same time, expansion in agriculture requires a parallel expansion in agro-industries as an outlet for agricultural surplus and a supplier of processed food. The PNA has a great incentive to encourage domestic production to meet this increased demand so that a shortage of foreign exchange is avoided.

The manufacturing sector is expected to grow at a rate similar to the overall growth rate of the economy. There is a great opportunity for investing in stones, textiles, leather, pharmaceuticals, in addition to agro-industries and building materials industries.

5.4 The Tourism Sector

With an improvement in the security situation, the tourism industry has the potential of becoming an important growth-enhancing sector. In the early 1990s, the World Bank estimated 'that given political stability, the Palestinian tourism industry can expect to receive between 500,000 and one million tourists (both religious and recreational) on an annual basis, generating income in the entire tourism sector of \$250-300 million'¹.



Realising this potential, however, requires an effective partnership between the public and the private sectors. The former has to coordinate with neighbouring countries to establish a regional framework needed to facilitate the expected increase in the number of foreign tourists. The latter has to put up the financial resources needed for investment in hotels, restaurants and places of entertainment. Additional activities may include publishing pamphlets, and organising trade fairs conferences, festivals and exhibitions.

5.5 The Information and Communication Technology Sector

As described in Section 2.2.3.1, ICT is one of the fastest-growing sectors in the Palestinian Territory, mainly thanks to private telecommunications services and an innovative software industry. In fact, the growth rate of this sector averaged an impressive 25–30% annually before 2000.

The high level of education of the Palestinian human resource pool indicates a potential to explore knowledge-intensive industries that depend on modern technology. Clusters could be developed around ICT-based services, including software development, hardware industry, IT consultancy etc.

¹ World Bank: Developing the occupied territories: an investment in peace, Washington D.C., September 1993, Vol.3, para.156, p.44.



Some specific areas in which the Palestinian people could present a comparative advantage are translation services and development of software and internet contents adapted to the Arabic language and the cultural context of Arab and Muslim societies.

The liberalisation of the telecommunication sector presents new investment opportunities. The exclusive license to operate the landline network granted to PALTEL ended on 15th November 2006, and in September 2006 the Kuwait-based Wataniya telecommunications company successfully bid 251 million Jordanian Dinars (\$355 million) for the required licence. Wataniya Palestine, which is 30% owned by the PIF, will build and operate a GSM network, and has plans to roll out a high-speed 3G network in the future.

The development of the regulatory framework for the ICT sector is also making it more attractive for investment. Laws are currently being developed to establish a regulatory authority for the sector and to regulate electronic transactions and signatures.

5.6 The Education and Health Sectors

The education sector is one of the sectors with the most potential for investment. As mentioned above, Palestinian people value education highly, and private schools flourish in the WBGS. Furthermore, the Palestinian Reform and Development Plan (PRDP) presented at the Donor meeting in Paris in December 2007 is positively slanted towards education,



emphasizing that it is the major pillar that the Palestinian economy will be built on, and includes several projects to improve the quality of education in Palestine.