Concept Paper

Enhancing Palestinian-Arab Trade Relations
From a Private Sector Perspective

INTRODUCTION

This concept paper attempts to assess limitations and constraints currently impeding trade cooperation between the Palestinian and Arab economies from a private sector perspective and discuss concrete measures and policies to reduce these constraints.

Major constraints reported by Palestinian businesses engaged in trade with Arab markets are the so-called ‘unnecessary’ obstacles to trade such as excessive documentation requirements, cumbersome customs procedures or unusual technical requirements. Another constraint to trade is the limited knowledge among Palestinian businesses on Arab markets’ potential and requirements as well as the modest Arab knowledge about Palestinian products and services. In addition, the un-harmonized trade related laws and regulations further hamper Palestinian-Arab trade relations.

Another set of constraints or problem areas are the ‘uncommon’ trade problems. These problems are Palestine-specific due to the Palestinian political and economic conditions vis-à-vis Arab economies. The premises of these problems rests on the notion that the majority (but not all) of Palestinian products and services are less competitive than to withstand fair competition in Arab markets, due to inherent distortions in the economic structure on the one hand and the grave conditions economic sectors in Palestine have been subject to during the latest Intifada. These distortions to the economic structure may be rectified with an ‘affirmative action’ such as providing Palestinian products and services preferential treatment and exceptions on a provisional basis until these products and services develop and qualify for the competitive game of open and fair trade. The problem so far has been the modest level of preferential treatment Palestinian industries were granted and the poor implementation of preferential provisions by many Arab governments.

These identified constraints are not conclusive but shall provide for a practical framework for further discussion with key private sector stakeholders and government representatives on enhancing cooperation with the Arab World as a preparatory process for the Palestinian-Arab forum to take place in Beirut late this year. The paper presents policies and measures to reduce the identified constraints. Some of these proposed ideas are addressed to the governments and others can be tackled by diligent cooperation with Arab private sector institutions.
KEY PROBLEM AREAS RESTRAINING PALESTINIAN-ARAB TRADE POTENTIAL

The problem areas mentioned may be grouped in two categories; the first category is ‘normal’ or ‘common’ trade obstacles that may be encountered by trading partners elsewhere such as unnecessary obstacles to trade, modest knowledge infrastructure on market potential and requirements and un-harmonized trade laws and regulations. The second category of problem areas is relevant to ‘uncommon’ trade obstacles or in other words, problem areas relevant to the Palestinian political, economic and developmental situation vis-à-vis Arab economies such as the poor preferential treatment and exceptions provided to Palestinian goods and services and the lack of guarantee schemes against political risk.

A major ‘common’ trade problem that restraints enhancing Palestinian-Arab trade relations is the introduction of unnecessary obstacles to trade and the modest performance of many Arab governments in removing these obstacles. Unnecessary obstacles to trade are those that produce costs for businesses, which are not justified by the regulatory success (e.g., cumbersome customs procedures, non-recognition of equivalent certificates and qualifications, excessive documentation requirements, unusual safety requirements, special labelling requirements, onerous customs procedures and excessive processing costs). These unnecessary obstacles to trade must be sharply distinguished from sensible regulation that acts to the net benefit of the economy (e.g., regulation protecting key safety interests or competition). The major problem unnecessary obstacles create is the lack of predictability on what the requirements and procedures associated with the trade transaction are or may be and thereby increase the cost and time associated with the trade transaction.

Intra-Arab trade in general and Palestinian-Arab trade in particular are suffering significantly from such unnecessary obstacles. It is worth noting that unnecessary obstacles to trade mentioned above in addition to introducing new procedures on restricting mobility of natural persons, have been reported by many Palestinian businesses engaged in trade with Arab markets as the major impediment for enhancing trade relations with these markets. Attempts to reduce unnecessary obstacles through trade agreements, protocols and amendments to these legal instruments have had so far modest impact due to significant deficiencies in implementation on the one hand and the lack of systemic follow up on the other hand. As a result, Palestinian-Arab trade is restrained from reaching its potential and thus remains seriously underdeveloped.

Another problem area is the modest knowledge of Arab markets about Palestinian products and services on the one hand and the limited Palestinian knowledge about Arab market(s) potential and requirements (technical requirements and consumer taste) on the other hand. Palestinian knowledge of Arab market(s) potential and requirements is crucial for developing and promoting trade with these markets. Trade development and promotion activities carried out by the Palestine Trade Centre- PalTrade in/with Arab markets demonstrate a notable development in addressing this problem area, but additional technical and financial resources need to be allocated for a more systematic and comprehensive approach.

An additional ‘common’ trade problem area that is worth mentioning here is the un-harmonized laws and regulations affecting trade transactions between Palestine and Arab markets such as un-uniform standards and technical regulations and the lack of or limited...
mutual recognition of professional certification and diplomas. One of the major problems Palestinian businesses encounter relevant to the harmonization, and the lack therefore, is related to certificates of origin. It is worth noting the Federation of Chambers of Commerce is quite active on overcoming certain aspects of this problem but as long as the rules of origin and the certification and documentation requirements are not harmonized, these efforts will yield limited results.

The second category of problem areas restraining Palestinian-Arab trade from reaching its potential is the Palestinian specific political, economic and developmental conditions. The long years of Israeli occupation of the Palestinian land, people and economy resulted in inherent distortions to the Palestinian economic structure in its entirety and led to a high level of dependence of the Palestinian economy on the Israeli economy in particular in regard to foreign trade. These distortions to the economy were aggravated by the latest Israeli assault on the industrial and agricultural infrastructure and the systematic destruction of productive sectors. It is therefore crucial to communicate to the Arab governments that some products made it to international markets but the majority of Palestinian products and services are not yet in a position to stand fair competition with like products and services in Arab markets.

Notwithstanding the distorting implications of occupation on the Palestinian economy and the limited ability of Palestinian industry to stand fair competition in Arab markets, Arab governments granted insufficient preferential treatment and provided insufficient exceptions to Palestinian products and services. It is worth mentioning that the Arab Summit Decision to grant zero-tariff for Palestinian products on a provisional basis, taken in the Arab Summit meeting in Beirut in 2002 was not implemented by many Arab governments.

**PROPOSITIONS TO ENHANCE PALESTINIAN-ARAB TRADE**

Research suggests that a significant potential lays in developing trade relations with Arab markets, in particular with Jordan, Egypt and the Gulf countries for the obvious reasons of regionalism and the growing international interests in the Middles East as a regional trading block. The Euro-Mediterranean agreements rest on the assumption that regional trade stimulate economic growth and therefore introduced a set of stimulus to enhance these relations such as benefiting from accumulation of origin provisions to trade with the European Communities. The newly introduced American concept for the Middle East Free Trade Area (MFTA) is another expression of the potential to develop regional trade among Arab markets.

Compliant with the Palestinian strategy of trade diversification, Palestine is keen at developing and enhancing trade relations with the Arab markets. Enhancing these relations depends to a great degree on reducing obstacles to trade. The following are proposed ideas to reduce the impact of some of the above mentioned problem areas:

**Create a Trade Facilitation Task Force**

Reducing unnecessary obstacles to trade may be addressed by identifying these obstacles and discussing means to reduce them. The paper suggests creating a trade facilitation task force composed of (Palestinian and Arab) government officials that shall work together with the private sector to identify regulatory obstacles to trade, monitor trade barriers, discuss means to
remove these obstacles and advance trade facilitation as much as possible such as for example reducing or removing red-tape customs procedures. The trade facilitation task force shall also be entrusted with the mission of reducing technical barriers to trade such as standards requirements, by increasing transparency of these requirements in order for Palestinian exporters for example to know in advance what is required in the Arab export markets (export promotion agencies play also a catalyst role in disseminating market requirements information as discussed later).

**Enhance Classical Trade Promotion Tools**

The limited Palestinian knowledge about Arab market(s) potential and requirements on the one hand and the limited Arab knowledge about Palestinian products and services may be addressed by enhancing classical trade promotion tools such as for example increase Palestinian representation in Arab markets (PalTrade representation office in Amman shall serve as a good example for opening more offices in other strategic markets such as Egypt and the Gulf). Representation in Arab markets is crucial for the development of knowledge about these markets and enhancing the connectivity to these markets. These offices also provide first-hand information and facilitate two-way communication between Palestinian and Arab markets. Other trade promotion tools include market research services about potential strategic markets and the organization and management of trade fairs and trade missions to Arab markets.

In addition to the classical trade promotion activities mentioned, trade promotion agencies play an essential role in disseminating information about market requirements mentioned earlier and may facilitate the flow of information and provide a data base on Palestinian-Arab trade difficulties and constraints reported by the business community. Trade promotion agencies can in this regard play a complementary role to the trade facilitation task force.

**Harmonize Trade Related Laws and Regulations**

Create a task force entrusted with the mission to examine laws and regulations that can be harmonized and communicate and recommend harmonization of these laws and regulations with the national authorities. Classical harmonization issues are the uniform standards and technical regulations, the mutual recognition of professional certifications, harmonization of certificates of origin, harmonization of rules of origin and the harmonized system for customs regulations. It is important to mention that principles for harmonization of trade related laws and regulations (government discretion) are found in the provisions of the Great Arab Free Trade Area, a matter that may speed up the process.

The second category of problem areas to trade is ‘un-common’ trade problems which effects may be reduced by the following policies and measures:

**Provide Preferential Treatment and Exceptions to Palestinian Industries**

The premises for providing Palestinian products and services preferential treatment and exceptions rests on the notion that Palestinian industries are encountering grave conditions and therefore need time and resources to develop to a more competitive standing. Granting
preferences to developing countries and to least developed countries (LDC’s) are principles stipulated in the provisions of the Great Arab Free Trade Area and in other multilateral trade arrangements, most notably the multilateral trading system of the (WTO).

It is of a crucial importance that Arab governments recognize the systematic distortions characterize the Palestinian economy and to recognize the developmental need of the Palestinian economy to rectify these distortions. Granting favourable treatment and exceptions to Palestinian products and services, as a transitory measure, shall enhance the sustainability of economic sectors subject to these measures to withstand the current conditions and shall enhance their competitiveness.

Preferential treatment and exceptions suggested in this paper include the following three components:

**Enforce the zero-tariff decision taken by the Arab Summit in 2002**

A limited number of Arab governments including Jordan, Yemen, Saudi Arabia, the Gulf countries and Tunis enforced the Arab Summit Decision to grant zero-tariff to Palestinian imports taken in the Arab Summit meeting in Beirut in 2002. Many members of the business community voiced their frustration from the insufficient implementation of this decision and are keen at experiencing full implementation.

**Considering Palestinian Sources in Government Procurement**

Another form of preferential treatment is to accord Palestinian products and services preferential consideration in Arab government procurement activities. This idea rests on the assumption that governments make considerable procurement, classically but not only, of pharmaceutical products (for hospitals) and construction materials. It is therefore very helpful form of exception to consider Palestinian sources in Arab government procurement regulations. As a general rule for example if the cost of a Palestinian product or a service is up to 3% higher to a competitive like product or service, the Palestinian product or service will be considered.

**Provide Technical Assistance to Enhance the Competitiveness of Palestinian Industries**

A further component of preferential treatment is technical assistance to rectify distortion in economic structures. Technical assistance programs are often grated to developing countries and to least developing countries. Developing and financing programs that aim at enhancing the competitiveness of productive sectors in Palestine is key to ensuring a sustainable development of Palestinian industries that in part shall undergo serious restructuring processes that accommodate the industrial potential on the one hand and the market need on the other hand (global market). It is important to mention that many Palestinian industries emerged not as a result of rational business considerations but as result of the need of Israeli industries for certain types to production services. The heavy reliance on the Israeli economy during the long years of occupation on the one hand and the immediate need of many productive sectors to
rebuild the damages incurred during the latest *Intifada* in terms of destruction of industrial assets and lost opportunity, all these factors reveal the immediate need for systematic technical assistance programs. Major criterions for identifying sectors and industries for the technical assistance may be the potential of sector or the industry to develop on a sustainable basis and the contribution of the sector or the industry to the economy in terms of employment generation and contribution to GDP.

*Establish an Export – Import Financing Guarantee Scheme*

Establishing an export-import financing guarantee scheme in particular against political risks shall stimulate Palestinian-Arab trade and reduce the Arab perception of risk factors when trading with Palestine. The idea is to reduce the grave impact of the political conditions, such as the imposition of a sudden closure, on trade transactions between Palestine and the Arab markets and thereby enhance the chances for Palestinian products and services to target export markets and have access to raw and input material from Arab markets.

*Last Word*

This concept paper addressed some of the constraints to enhancing Palestinian-Arab trade relations from a private sector perspective and for reasons of economy did not deal with other important constraints such as obstacles associated with transit arrangements and infrastructure related constraints such as the underdeveloped infrastructure for freight transportation between Palestine and Arab markets, which significantly increases the cost of foreign trade with Arab destinations. A businessperson reported that it was much cheaper to export to China than to some destinations in the Gulf due to the high transportation costs. Another issue of importance that was not dealt in this paper is related to market access constraints for Palestinian services in Arab markets. Market access are regulations set either by the government or professional organizations (private sector) such as national institutions of accounting for example that set the criterion for providing market access to foreign nationals to provide accounting services in their market. The growing potential of trade in services necessitates addressing market access issues for this important sector, which is beyond the scope of this paper.