

## Navigating Economic Development in Palestine: Analysis of Key Challenges

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### ABSTRACT

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*economic development, economic policies, economic dependence, foreign aid, Palestinian economy*

This study aims to evaluate the influence of various economic determinants – including economic policies, economic dependence, foreign aid, corruption, and unemployment – on the economic development of Palestinian society. This research utilizes the analytical descriptive methodology where qualitative insights are gathered from in-depth interviews with key specialized stakeholders from four Palestinian related institutions. Further, 252 questionnaires have been addressed to Palestinian citizen to assess their views about challenges facing the economic development in the country. The study finds that economic policies can bolster production levels to a certain extent. Economic dependence appears to challenge the production capacity of the Palestinian economy. Notably, foreign aid does not serve the purpose of financing the general budget deficit and hence the development goals. Furthermore, the presence of corruption seems to hinder the state's ability to effectively roll out economic development strategies. To foster economic growth, there's a crucial need to refine existing economic policies and augment production avenues. Mitigating the adverse effects of economic dependence can be achieved by fostering an equitable investment environment that promotes diverse project initiations. Moreover, the reliance on foreign aid to cover the public budget deficit necessitates an overhaul, underscoring the importance of advanced coordination and regulatory mechanisms between official and civil society institutions. The comprehensive approach used in this study aligns with Palestine's current development plans, making the findings particularly relevant for policymakers. Overall, this research serves as a pivotal resource for a range of national and international stakeholders aiming to understand and address Palestine's economic development challenges.

## 1. INTRODUCTION

Economic development stands as a beacon for a world aspiring to eradicate human distress, achieving progress, prosperity, and holistic advancement. Development, in essence, is an endeavor to orchestrate transformative societal shifts, eliminating hindrances to economic growth and progress [1]. To ensure a flourishing economic development process, a set of prerequisites is indispensable. This includes equipping states with the technological arsenal to bolster local production and providing comprehensive financial insights to fuel economic growth. Concurrently, the design of strategic economic plans, rooted in foresight, is paramount. At the human capital level, educating and training individuals across sectors on the imperatives of economic development is crucial [2]. Economic development serves as a pivotal instrument enabling countries to achieve economic autonomy, steering clear of various forms of economic dependence. By fostering progress and growth, countries can extricate themselves from all shades of reliance. Development not only elevates the living standards of society's members by amplifying their incomes and generating employment opportunities but also enhances their health and educational status. This, in turn,

narrows the socio-economic disparities across societal tiers, fostering both social and political stability. Furthermore, economic development ensures the delivery of goods and services in appropriate quantities and varieties to society, stimulating an increase in domestic products and catalyzing broader macroeconomic advancements [3].

Economic development is a demanding journey requiring immense investments, unwavering commitment, time, and diversified strategies for all nations alike [4]. This requires an efficient reallocation of both internal and external resources such as direct foreign investments, loans, and grants [5]. Economic development is often hindered by a set of challenges and obstacles intrinsic to the economies of different countries. Key barriers include a shortage of skilled manpower, constrained local market dimensions, establishing a global market presence, political and economic instability, sustaining funds for projects and strategic economic plans [6].

Since its establishment in 1994, the Palestinian authority sought to enhance economic growth and achieve sustainable economic development in different sectors. To achieve these goals, the Palestinian authority has received foreign aid from international institutions and donors [7]. The size of the foreign aid received summed to about \$40 billion during the

period 1994-2020 [8]. During this period, the Palestinian authority has established many ministries and governmental bodies that aimed to generate government revenues and enhance economic growth through structural changes in different economic activities, production, and consumption [7]. Despite the improvements made early during this period, the Palestinian economy has witnessed a continuous shrink coupled with high unemployment rates and levels of poverty after the second intifada and the 2006 geo-political fragmentation. Moreover, the technical and financial foreign aid provided to the Palestinian authority was considered ineffective due to a set of reasons [9]. These include the lack of coordination between different stakeholders, the Israeli control over most economic activities and government revenues, corruption, as well as the own interests of donors.

In general, there are many factors and prerequisites that can accelerate the progress toward achieving sustainable economic development. These include technological advancement, effective governance, advanced economic infrastructure, resource availability including financial and human resources, etc. [10, 11]. The absence of some of these factors in addition to other context-specific challenges can hinder economic development. The 2021-2023 Palestinian strategy for Development highlights many challenges confronting the Palestinian economy to ensure economic development [12]. Among these challenges is the Israeli occupation represented in Israeli constraints hindering access to pivotal development resources; Israel's control over border checkpoints and customs revenues, and the dependence of the Palestinian economy on Israel, especially concerning monetary and trade policies. These impositions have fostered economic distortions, resulting in a weakening of key productive sectors like the manufacturing and the service sectors. Data indicates that over the past decade, approximately 70% of Palestinian imports have originated from Israel, culminating in a widening trade deficit with Israel which accounts for more than a third of the Palestinian GDP.

Another challenge is related to the persisting high unemployment rate reaching 24.4% (13.1% in the West Bank vs. 45.3% in the Gaza Strip) [13]. Another fundamental challenge stems from the Palestinian Authority's financial structure, which is heavily reliant on foreign aid. This foreign aid is contingent on the donor countries' appraisal of the Authority's performance, essentially putting the Palestinian economy at the mercy of external perceptions and evaluations [14]. Other considerable challenges include internal political and administrative divides, anemic investment volumes, as well as pervasive socio-economic issues such as poverty, and the growing socio-economic disparities between and within the two Palestinian regions [15]. Regarding the socio-economic disparities, an important dimension of development that the Palestinian authority seeks to sustain is the overall improvement of individuals' wellbeing [16]. This can be achieved through improving the quality of education and creating job opportunities, which in turn may lead to lower levels of unemployment and poverty.

The main goal of this paper is, therefore, to assess the influence of some of these challenges on the Palestinian economic development from the perspectives of public specialists and citizens. The challenges include economic policies, economic dependence, foreign aid, corruption, and unemployment.

The assessment of challenges hindering economic development has received a great deal of attention in the

empirical literature. For instance, Nour [17] emphasized that the fluctuating oil prices on the global market could stymie Sudan's economic development given its profound reliance on oil exports. Furthermore, Olanrewaju et al. [18] posited that political factions often exploit internal discrepancies and conflicts to further their personal agendas, thereby impeding economic development. Further, empirical evidence shows that economic development and corruption are negatively associated [19-21]. Multiple studies underline that among the formidable barriers to economic development is the size of foreign debt and governmental strategies to service these debts, whether through taxation, investments, or public-private partnerships [22-24]. Previous research also highlights the indispensability of strategic planning in achieving economic development. Effective blueprints that enshrine sustainable economic development within government agendas have been pinpointed as pivotal elements propelling both economic development and growth [25, 26]. Regarding the Palestinian context, Al-Zaro's [27] pointed out that the existing development projects have not truly culminated in tangible development or robust economic growth. Although economic progress has been made within certain phases or regions in Palestine, such development is, in essence, constricted, devoid of a nurturing environment. Given the overarching Israeli control over key Palestinian revenues, coupled with the Palestinian inability to exert influence over their own terrestrial, maritime, and aerial domains and the predominance of Israel in Palestinian foreign trade, Al-Zaro questions the feasibility of authentic economic advancement.

This research on the challenges of economic development in Palestine adopts novel research questions offering fresh perspectives on economic challenges in the region. It adapts the views of both government institutions and ordinary citizens. The study also integrates interviewees' feedback, capturing the evolving nature of economic challenges in Palestine. Instead of examining economic challenges in isolation, the research places them within the broader geopolitical context, exploring links with political instability, foreign aid dependencies, corruption, and unemployment.

## 2. METHODOLOGY

This study employed a descriptive and analytical approach, utilizing both qualitative and quantitative methods for data analysis. First, in-depth semi-structured interviews were conducted with specialists in the field of economic development from different related institutions. These institutions include the Ministry of National Economy; the Palestinian Ministry of Labor; the Ministry of Housing and Works; the Industrial Property Authority; the Investment Promotion Authority; the Palestinian Economic Council (PECDAR); the Standards and Metrology Institution; the General Federation of Industries, and the Palestinian Economic Policy Research Institute (MAS). Out of these, four institutions were chosen using the purposive sampling approach where institutions have been selected based on the ability of their specialists to answer the interview questions. These institutions are the Ministry of Economy, the Ministry of Labor, the Investment Promotion Authority, and MAS. Each institution was contacted first through the public relations department. Then, each institution was asked to nominate some employees/representatives who were capable to answer the interview questions.

The semi-structured interview is composed of five main dimensions addressing challenges faced by the Palestinian society regarding economic development. The challenges are related to economic policies, political dependence, foreign aid, corruption, and unemployment. Each of these dimensions was explored through six distinct items, as visualized in Figures 1 to 5. These items are measured using the 5-point Likert scale with values ranging from strongly disagree (1) to strongly agree (5). The response rate of the Likert scale for each item is calculated as the sum of the scores of all respondents for each item divided by the highest score. The degree of the response rates is distributed as shown in Table 1.

Furthermore, a quantitative method was utilized by administering questionnaires to Palestinian citizens to assess their attitudes toward the challenges facing economic development. 252 questionnaires were distributed using the convenience sampling approach. The questionnaire is composed of 11 items measuring Palestinian citizens attitudes toward challenges facing economic development as shown in Table 2. The Likert scale and the response rate presented in Table 1 are also applied to the questionnaire items. The scale's reliability is validated using the Cronbach alpha coefficient, where a value of 81.4% is obtained.

**Table 1.** The response rate of the Likert scale

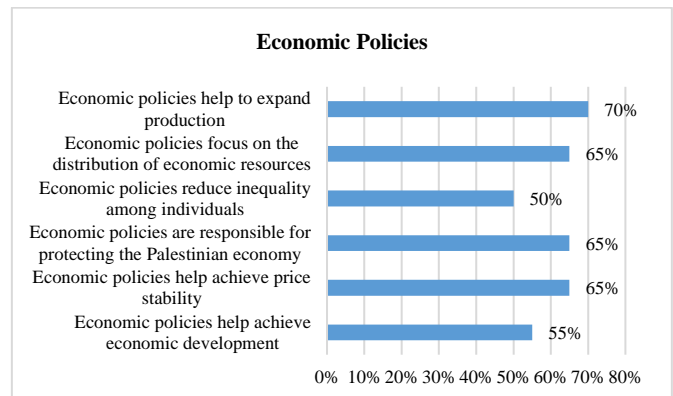
Degree	Response Rate
Very low	Less than 50%
Low	50% - 59%
Moderate	60% - 75%
High	76% - 89%
Very high	90% +

### 3. RESULTS

Figure 1 presents specialists' attitudes towards the influence of economic policies on economic development. Overall, the impact of economic policies on economic development within the Palestinian society is moderate, with a mean score of 61.6%. The statement "economic policies contribute to production expansion" received the highest percentage (70%). One of the specialists highlighted that "Current economic strategies are geared toward industrial sector enhancement and the promotion of domestic products. The food products sector, for instance, constitutes 15% of all industrial establishments and accounts for 22.7% of industrial production value." Another stakeholder emphasized the role of employment and productivity enhancement. He asserted, "To stabilize the labor market, dialogues with pertinent stakeholders, including workers and employers, are essential. Through these efforts, a stable investment-friendly market is sought after, emphasizing the pivotal role of economic policies in expanding production." All of the specialists pointed to several hurdles such as the Israeli occupation, lack of border control, access to raw material, political unrest, and the Paris Agreement, which has notably strained the Palestinian populace.

Figure 1 also reveals that the endeavor of economic policies to bridge the inequality gap among individuals is the least successful, reflected by the lowest score of 50%. Elaborating on this, one of the interviewees argued that contemporary economic policies lean heavily towards bolstering the private sector, addressing the pressing unemployment issue that plagues the Palestinian community. By fostering the private sector, the hope is to enhance employment rates, thus

mitigating poverty. However, the challenge arises from the private sector's primary focus on its own interests. Hence, policies strive for a delicate equilibrium between empowering the private sector to alleviate unemployment and poverty and curbing the widening disparity between individuals. Another interviewee claimed that the Palestinian economy, like many others in this era of globalization, is interlinked with global economies. As countries influence each other's economies, the repercussions manifest in individual incomes. One of the specialists proclaimed that current policies fall short of addressing individual disparities. This stems from the lack of bolstering productive sectors, which inadvertently hinders employment growth. The inequality mainly resulted from women's low participation in the labor market and the gender gap in wages.



**Figure 1.** Economic policies

Figure 2 indicates a significant influence of economic dependency on the progression of the Palestinian economy, with a response rate of 77.5%. The statement "economic dependence hampers the productive prowess of the Palestinian economy" registered a high score (85%). One of the specialists emphasized the challenge of economic dependency for Palestine, pointing to the ministry's strategic goals of decoupling economically from Israel, enhancing the business climate, and championing Palestinian industries. However, achieving these objectives is intricate due to the intertwining of Palestinian and Israeli economies: 55% of Palestinian imports come from Israel and 83% of their exports go to Israel. Some of the interviewees stated that as long as an external entity has control over key economic parameters, the productive capacity would not be enhanced. Other specialists highlighted that the Palestinian economy is rather consumption-oriented post-1994 and is heavily leaning on the Israeli market.

The item "Economic dependency distances the Palestinian economy from global integration" has the least score (70%). Specialists provided insights into this by stating that while economic dependence might seem to insulate the Palestinian economy from the global scene, it does not entirely do so. The ministry's policies are geared towards tapping into foreign markets and cultivating domestic ones. However, accessing international markets, while challenging under occupation, isn't insurmountable. Further, the Palestinian market often turns into a hub for foreign goods, specifically Israeli. Also, the lack of border autonomy severely hampers Palestine's ability to engage in unrestricted import and export activities. This effectively sidelines the Palestinian economy, with the overarching goal being continuously dependent.

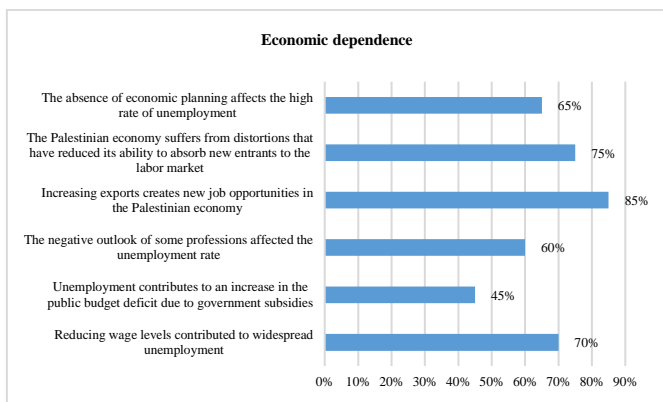


Figure 2. Economic dependence

Figure 3 indicates that foreign aid has a moderate impact on the economic development of Palestinian society, with an average score of 73.3%. The figure highlights that the stipulations set by donor countries significantly influence the realization of economic development, with a response rate of 85%. The main reason as illustrated by the interviewees is that donors typically dictate how their contributions are utilized regardless of the Palestinian authority agenda. Figure 3 also suggests that a substantial portion of foreign aid is used to offset the public budget deficit, with a score of 50%. This is because – as illustrated by the specialists – foreign aid predominantly finances the public budget deficit, with unrestricted, untargeted aid being channeled entirely to this end, noting that around 60% of all foreign aid goes to the public budgets. Also, most of foreign aid often arrives as specific goods or services rather than cash, thus not directly offsetting budgetary shortfalls.

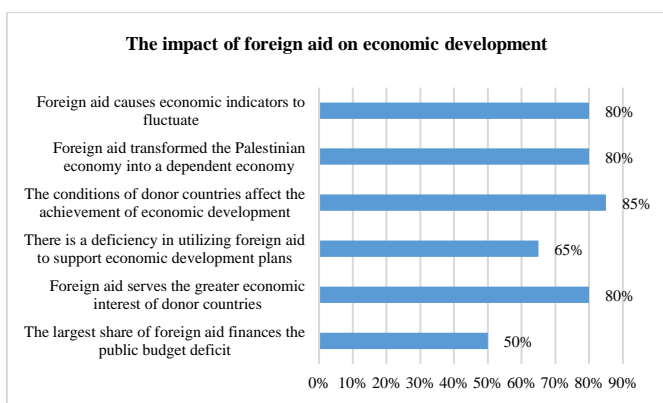


Figure 3. Foreign aids

Figure 4 illustrates that corruption significantly affects the economic development in Palestine, with an average score of 80%. Figure 4 demonstrates that corruption profoundly influences economic development with a dominant score of 85% for the item "Corruption skews the state's role in executing economic development strategies." Most of the interviewees agreed that all forms of corruption – economic, financial, or administrative – undermine the effective implementation of projects. The item "Corruption affects the collection of public revenues," has a core of 75% which has the least impact compared to other facets of corruption. The interviewees claim that corruption might not substantially affect the collection of revenues, considering 60% is derived from clearance, which is less susceptible to exploitation.

However, the remaining 40%, derived from taxes and fees, is more vulnerable to corrupt practices. Also, the presence of corruption impedes proper tax collection, leading to underreporting, evasions, and preferential treatment for certain entities, ultimately affecting overall revenues.

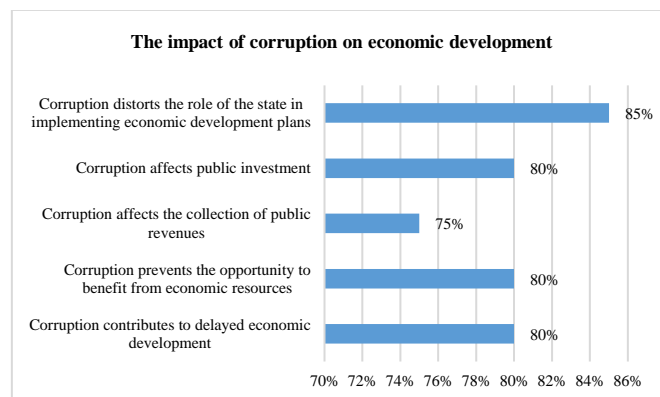


Figure 4. Corruption

Figure 5 demonstrates that unemployment has a moderate impact on economic development (an overall response rate of 66.6%). Results revealed that increasing exports play a significant role in job creation within the Palestinian economy. The specialists emphasize that exports lead to higher levels of production, which in turn demands a more substantial human capital. This could significantly alleviate unemployment rates. However, the challenge for Palestine is represented in its inability to control these exports due to potential border closures by Israel. On the other hand, the notion that unemployment exacerbates the general budget deficit through government subsidies was less agreed upon. This is explained by the fact that there aren't state-provided subsidies for the unemployed as mentioned by the respondents. Instead, assistance often comes from grants and aid from European countries.

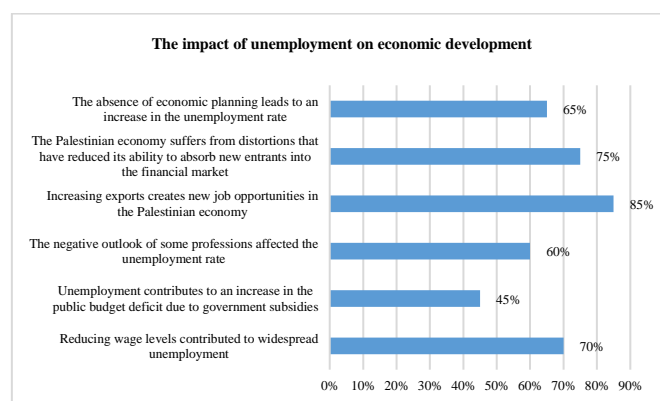


Figure 5. Unemployment

Citizens' attitudes towards challenges of economic development are summarized in Table 2. Results suggest that the Israeli occupation significantly affects the pace of economic development in Palestine. The high arithmetic average of (4.54) for the statement "the Israeli occupation is a cause of slowdown in economic development" supports this perspective. On the other hand, the statement "immigration abroad weakens economic development in Palestine" received a lower arithmetic average of (3.82). This suggests that while

emigration is seen as a factor affecting economic development, it doesn't carry the same weight of concern as the Israeli occupation among the respondents. The general arithmetic average of (4.16) for all the respondents' views further underscores that there is a high degree of concern about the

challenges facing economic development in Palestine. The overall sentiment reflects an acknowledgment of the significant obstacles the Palestinian economy encounters, with the Israeli occupation being perceived as a predominant hindrance.

**Table 2.** Means for the domain of Palestinian citizen attitudes toward the challenges of economic development

Rank	Item	M	%	Degree
1	The Israeli occupation causes a slowdown in economic development.	4.54	90.8	Very high
3	Corruption contributes to the delay in economic development.	4.46	89.2	Very high
8	Poor planning hinders economic development.	4.25	85.0	Very high
9	The deterioration of the political situation affected the economic development in Palestine.	4.22	84.4	High
2	Economic dependency (the situation in which the economy of one country depends on the development of the economy of another country) is a barrier to economic development.	4.21	84.1	High
4	Unemployment contributes to the low rate of economic development.	4.18	83.7	High
10	The weakness of the productive sectors affects the economic development in Palestine.	4.12	82.4	High
11	Security and safety affect the rate of economic development.	4.11	82.1	High
6	Dependence on imports weakens economic development in Palestine.	3.97	79.4	High
5	Foreign aid has made the Palestinian economy a restricted one.	3.85	77.0	High
7	Immigration abroad weakens economic development in Palestine.	3.82	76.4	High
	<b>Total</b>	<b>4.16</b>	<b>83.1</b>	<b>High</b>

#### 4. DISCUSSION AND POLICY IMPLICATIONS

The study yields several noteworthy findings. Firstly, it revealed that existing economic policies contribute to expanding production; however, their impact falls short of the required magnitude. The present policies tend to favor imports over fostering a robust local production infrastructure, particularly in sectors like agriculture and industry. Consequently, the productive contribution of these sectors to the GDP remains limited when compared to the more dominant services and trade sectors. This phenomenon has led to a perceptible shift in the Palestinian economy towards a service-oriented economy, as opposed to a production-oriented one. This observation aligns with the conclusions drawn by Sammour [28], who emphasized the significance of trade policies, particularly in developing economies, which enable them to bolster domestic growth by importing advanced capital goods, thereby fortifying their production foundations to meet both local demands and international needs.

Secondly, the study's outcomes indicate that prevailing economic policies have not been effective in ameliorating inequality in Palestine. This shortcoming can be attributed to the limited enhancements within productive sectors, resulting in insufficient employment opportunities as a primary income source. The policies also fail to address gender-based inequality in unemployment participation and wages. Thirdly, the study highlights the influence of economic dependency on the productive capacity of the Palestinian economy. The pervasive economic dependency dynamics have transformed the local market into a consumer-oriented domain, a consequence of the occupying force's imposition of goods onto the Palestinian market. This state of economic dependency is a result of Paris Agreement. The findings also emphasize that while economic dependency can certainly undermine the Palestinian economy, it does not lead to complete isolation. Evidently, the formulated economic policies are geared towards accessing foreign markets and nurturing novel

internal markets, illustrating an ongoing endeavor to mitigate the effects of isolation. This nuanced perspective counters the notion that economic dependency fully isolates the Palestinian economy from external engagement.

Fourthly, results demonstrate that the stipulations set by donor countries when offering foreign aid wield a noticeable impact on the realization of economic development. The imposition of their own conditions can limit the recipient's ability to contest these terms. Consequently, a considerable proportion of grants are allocated to non-development initiatives. Moreover, the study debunked the notion that foreign aid mitigates the general budget deficit. The conditional nature of most foreign aid grants renders them subject to stringent oversight by the donor nation, ensuring adherence to designated plans. Realizing benefits from foreign resources rests on factors like robust infrastructure, skilled human resources, and the institutional efficacy of national and local governance. The direction of foreign aid within the economy also shapes its impact, whether aimed at investments, capital projects, or balance of payments support. This is in line with the empirical evidence arguing that developing countries shall decide on the allocation of aid received in order to increase its effectiveness in achieving economic development [29].

Fifthly, the study highlights that corruption impedes growth and resource allocation. Yet, the inability to curb corruption-associated repercussions, such as illicit markets, tax evasion, and capital flight, can undermine the very foundations of economic advancement. Lastly, the study shows that the Israeli occupation considerably impedes the pace of economic development in Palestine. This inference derives from the perspectives of Palestinian citizens regarding the challenges confronting economic development.

Several policy implications emerge from this study are worth highlighting. First, transferring the Palestinian economy from being consumption-oriented to production-oriented requires providing incentives to investors such as tax incentives for all enterprises, especially small and medium-

sized enterprises. To facilitate this, collaborative efforts with representative private sector entities of Palestinian industrial establishments are recommended, aiming to equip them with technical support programs for enhancing product quality and cost-efficiency. This elevation in competitiveness serves the dual purpose of bolstering local and international market presence. Moreover, redirecting focus from exporting Palestinian labor to exporting goods and services is essential to optimize the productivity of the Palestinian workforce. Secondly, the reduction of socioeconomic inequality requires imposing progressive tax rates, investment in education, providing job opportunities to reduce unemployment. The latter may be enhanced by directing economic resources toward productive industries, enabling market entry, improving the quality of goods in order to compete in the international market. Lastly, the effectiveness of development aid is conditional on many factors such as good governance, political stability, and the practices and interests of donors. Thus, for international aid to be effective in achieving short-term and long-term development, international agencies shall direct aid to programs achieving the benefits of the recipient country rather than achieving their special interests. Moreover, international bodies shall control the process of investment to avoid corrupted practices and exploitation of the aid.

## 5. CONCLUSIONS

This study evaluates the influence of several economic determinants – including economic policies, economic dependence, foreign aid, corruption, and unemployment – on the economic development in Palestine. The findings of the study demonstrate that the existing economic policies, economic dependence, foreign aid, and the high level of corruption impede economic growth and hinder the progress towards achieving sustainable development in Palestine. Accordingly, two potential efforts shall be enhanced to attain sustainable development. First, improving the quality of governance in order to reduce corrupt practices at all levels. Secondly, allocating aid to channels that serve countries' development agenda rather than donors' intentions.

Future research can employ real time series data on corruption, the size of foreign aid, and other economic indicators in order to measure the short-term and long-term impact of each determinant on the economic development in Palestine. Such analysis shall help policymakers in formulating effective policies that seek to reduce the impact of key challenges for attaining sustainable development.

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