



**MAS**

PALESTINE ECONOMIC POLICY  
RESEARCH INSTITUTE (MAS)

# Background Paper

## Round Table (3)



### Import Substitution Policies for Primary Goods

June 2024



**MAS**

**PALESTINE ECONOMIC POLICY  
RESEARCH INSTITUTE (MAS)**

Tel No. +970 (2) 2987053/4

Fax No. +970 (2) 298055

info@mas.ps

ww.mas.ps

---

## **Import Substitution Policies for Primary Goods**

Prepared by: Palestine Economic Policy Research Institute (MAS)

Background Paper  
Roundtable (3)  
June, 2024

---

This paper was prepared with funding from Heinrich Boll Stiftung (Jordan and Palestine)

 **HEINRICH  
BÖLL  
STIFTUNG**  
فلسطين والأردن

---

The views, interpretations and conclusions expressed in this paper are those of the authors and do not necessarily reflect the views of Heinrich Boll Stiftung (Jordan and Palestine).

# Contents

1. Background and justification	01
2. This Paper's Objectives	02
2.1 Quarterly comparisons of foreign trade volumes and the impact of the War	02
2.2 Comparison of monthly trends in foreign trade (impact of War)	04
3. Environmental analysis and motives for trade policies focused on import substitution	06
4. Proposals and alternatives for changing trade policies to allow for import substitution	07
5. Trade policy recommendations and plausible interventions	10
6. Implementation mechanisms	11
Questions and discussion topics	11

# 1. Background and justification

The War has now continued for seven months (starting in October 2023), and the Gaza Strip and the West Bank are both set to witness a significant deterioration across all macro- and micro-economic indicators for 2024. This mainly takes the form of a sharp decline in GDP, combined with a significant rise in unemployment and poverty (both are likely to reach unprecedented levels). GDP declined by 29.3% during Q4 2023, equivalent to about USD 1 billion (according to estimates by PCBS - the Palestinian Central Bureau of Statistics). In the Gaza Strip, subject to a brutal war and the systematic destruction of infrastructure, housing, and public facilities, GDP shrank sharply and unprecedentedly during Q4 2023 by more than 81%, accompanied by an increase in unemployment, reaching 75%. The West Bank's GDP contracted by 19%, with unemployment rising to 30% (PCBS).

Within this context, the Palestine Economic Policy Research Institute (MAS) continues to monitor economic and social developments during the course of the current War on both the Gaza Strip and the West Bank. MAS undertakes and publishes research on the devastating economic effects of this War on both the Gaza Strip and the West Bank, relying primarily on data sourced from PCBS, and indicator-forecasting performed in-house by MAS. Concerning economic performance for 2024, the most prominent indicators are:

- Concerning the Gaza Strip, it has become unlivable. Economic activity, social services, healthcare and education have collapsed.
- The West Bank's GDP declined significantly by about 19%, due to repeated incursions into West Bank cities, villages, and camps, combined with total closure between governorates. This resulted in a major paralysis of all productive sectors, as about one-third of Palestinian economic establishments have ceased work, with the remainder operating at reduced capacity.
- The almost complete cessation of employment in Israel has had major repercussions on Palestinians' household incomes, private consumption levels, savings and domestic revenues. Consumption declined sharply across Palestine by 33% in Q4 2023 (21% for the West Bank, 82% for Gaza), continuing into 2024. Wages paid to Palestinian workers in Israel constitute 99% of the net remittances of Palestinians working abroad, equivalent to 14% of total disposable income (of which 88% is for the purchase of goods and production inputs largely from Israel).
- The continued prevention of Palestinian workers from entering Israel during 2024 is expected to lead to a further decline in household consumption, by at least 15.9% compared to 2022 (monthly losses of up to NIS 1 billion).<sup>(1)</sup>
- The general anticipation is that there will be a significant decline in imports in 2024 by 30%, constituting about 49.5% of total consumer spending. This decline is largely due to the interruption of wages paid to workers in Israel, and the loss of income for a large number of workers in the local economy, leading to a drop in demand for imports.<sup>(2)</sup>
- It is expected that local and foreign revenues will decline by about 20% as a result of the economic downturn and the significant rise in unemployment.
- Unemployment rates are expected to exceed 35% during 2024. The International Labor Organization (ILO) estimates that unemployment in the West Bank may reach 45% with the continuation of the War across the duration of 2024.

---

(1) Source: [https://mas.ps/cached\\_uploads/download/2023/11/20/gaza-war-brief5-eng-1700486267.pdf](https://mas.ps/cached_uploads/download/2023/11/20/gaza-war-brief5-eng-1700486267.pdf)

(2) Source: [https://mas.ps/cached\\_uploads/download/2023/11/20/gaza-war-brief5-eng-1700486267.pdf](https://mas.ps/cached_uploads/download/2023/11/20/gaza-war-brief5-eng-1700486267.pdf)

The numbers and facts cited above – namely, high unemployment, weak public and private spending, declining revenues, contracting aggregate demand, declining trade – are a premise for reconsidering local economic and trade policies and underscore the necessity of adopting new ones. This requires reformulating trade relations with Israel, with a need to search for alternative jobs (sources of income) for workers who have lost their livelihoods. This requires a transition to consuming local products, changing import patterns, and intensifying investment in reconstruction.

Within this context, this paper outlines new importation policies required to replace existing ones, concerning primary (the most important) imports that can be replaced by locally manufactured goods. Such new policies may contribute to bringing about a positive change in certain economic indicators. Most importantly, the paper reviews the reality of foreign trade during the last two years, and the impact of War on it.

## 2. War's impact on foreign trade

This section provides more details on the issue of foreign trade and the impact of the War on it, represented primarily by a noticeable decline in the volume of exports and imports during Q3 2023 and Q1 2024<sup>(3)</sup> compared to previous levels.

A statistical and analytical outline is provided of the state of Palestinian trade from Q1 2022 to Q1 2004, looking at the two crucial 'quarters' - Q4 2023 and Q1 2024. This is the latest foreign trade data issued by the PCBS concerning trends in foreign trade indicators.

### 2.1 Quarterly comparisons of foreign trade volumes and the impact of the War

*(See Table 1 and Figures 1 and 2 below)*

**Impact on imports:** Returning to pre-war foreign trade figures (Q3 2023), merchandised imports from Israel constituted 58% of total merchandised imports. This ratio remained the same for Q4 2023, but what is striking is the significant decline in (observed) merchandised imports (a 28% decline compared to the previous quarter), wherein imports from Israel fell by 27%. In total, the value of merchandise imports for 2023 declined by 5.5%, reaching USD 7.7 billion (compared to USD 9.1 billion in 2022). This decline is due to many reasons, the most important being:

- Israel's tightening of restrictions and procedures on the movement of people and goods between governorates in the West Bank.
- The high cost of imports, especially from East Asia, given disruptions to maritime trade across the Red Sea.
- Private consumer spending declined, especially for imported goods, due to the sudden and sharp loss of income and high unemployment.
- Importers (merchants) expect a further decline in the purchasing power of citizens, therefore, they no longer import or store goods, for fear of being unable to sell them in the future.

---

(3) Statistics for Q1 2024 are not currently available.

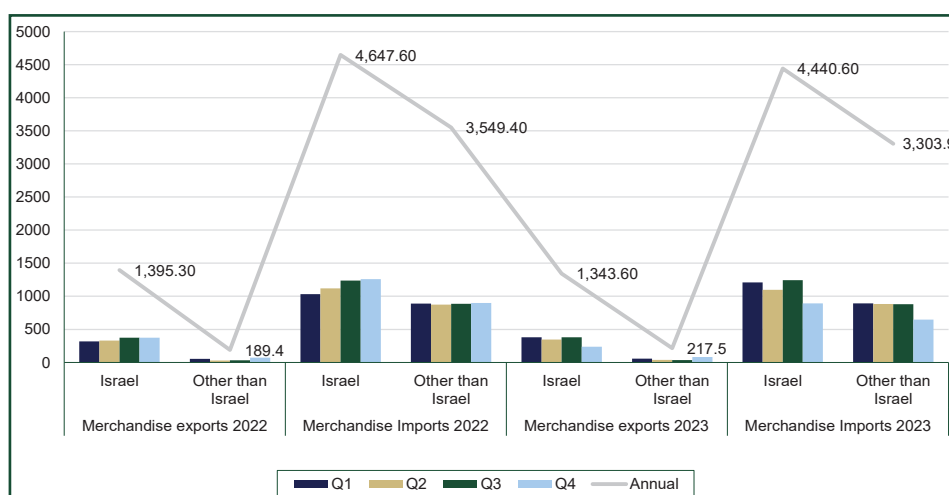
**Impact on exports:** Palestinian exports of goods to Israel constituted 91% of total (documented) Palestinian merchandised exports. Palestinian exports decreased by 23% in Q4 2023 compared to the previous quarter, driven by a 37% decrease in exports to Israel. However, what is striking about Q4 2023 is the unusual rise in exports to the rest of the world, by 133%. In total, 2023 exports declined by 1.5% compared to 2022, reaching USD 1,561 million (NIS 1,343 million to Israel), compared to USD 1,584.7 million in 2022 (NIS 1,395 million to Israel).

**Table 1: Value of Palestinian exports and imports by region for 2022-23 (Quarterly data in USD million)**

Quarter	Merchandise exports 2022		Merchandise imports 2022		Merchandise exports 2023		Merchandise imports 2023	
	Israel	Other than Israel	Israel	Other than Israel	Israel	Other than Israel	Israel	Other than Israel
Q1	318.0	55.1	1,031.3	889.5	379.7	58.6	1,209.1	892.6
Q2	329.5	30.9	1,118.4	872.9	345.9	39.8	1,097.4	882.1
Q3	374.0	31.5	1,239.0	887.7	379.5	35.8	1,242.4	881.4
Q4	373.8	71.9	1,258.9	899.3	238.5	83.3	891.7	647.8
Total	1,395.3	189.4	4,647.6	3,549.4	1,343.6	217.5	4,440.6	3,303.9

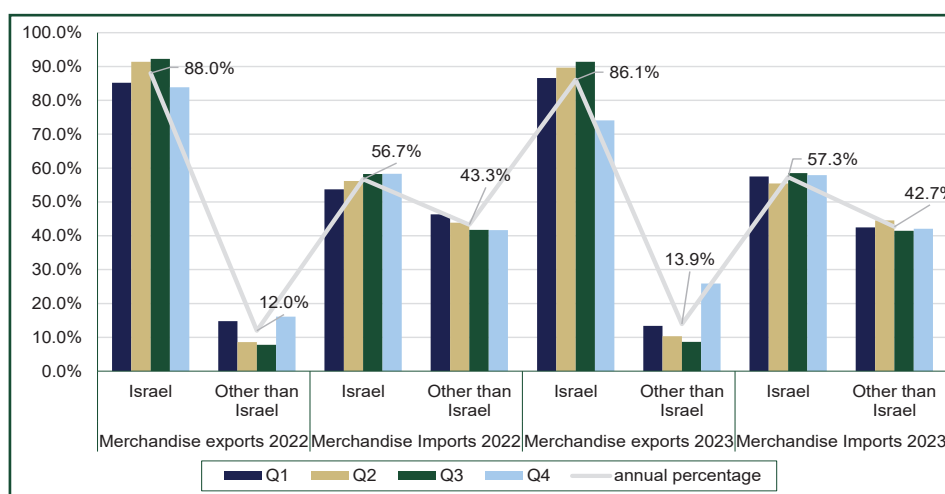
Source: PCBS (2024). Foreign trade statistics. Ramallah, Palestine.

**Figure 1: Value of Palestinian exports and imports by region for 2022-23 (quarterly data in USD millions)**



Source: PCBS (2024). Foreign trade statistics. Ramallah, Palestine.

**Figure 2: Percentage distribution of Palestinian exports and imports by region during 2022-23 (quarterly data)**



Source: PCBS (2024). Foreign trade statistics. Ramallah, Palestine.

## 2.2 Comparison of monthly trends in foreign trade (impact of War)

To demonstrate the true impact of the current War on foreign trade in Palestine, a monthly comparison was performed between January 2023 and January 2024. The results are outlined below.

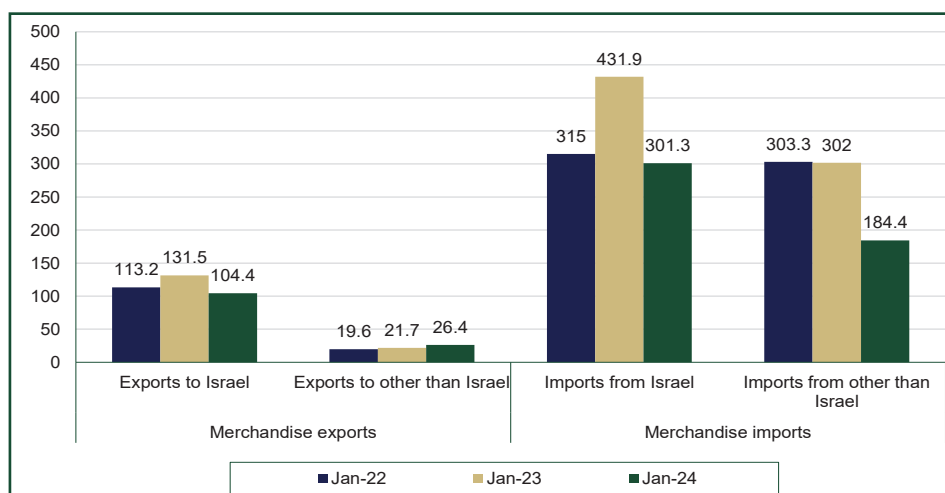
**Impact on Imports:** Total imports decreased during January 2024 by 34% compared to January 2023, that is, from USD 733.9 million in January 2023 to USD 485.7 million in January 2024. Imports from Israel also decreased by 30% in January 2024 compared to January 2023, while imports from the rest of the world fell by 39% (see Tables 2 and 3, and accompanying figures).

**Table 2: Comparison of the value of Palestinian exports-imports by region of commercial activity with total exports-imports during January 2022, January 2023 and January 2024 (USD millions)**

Commercial traffic	Area	January 2022	January 2023	January 2024
Merchandise exports	Exports to Israel	113.2	131.5	104.4
	Exports to other than Israel	19.6	21.7	26.4
	Total exports	132.8	153.2	130.8
Merchandise imports	Imports from Israel	315	431.9	301.3
	Imports from other than Israel	303.3	302	184.4
	Total imports	618.3	733.9	485.7

Source: PCBS (2024). Foreign trade statistics. Ramallah, Palestine.

**Figure 3: Comparison of the value of Palestinian exports-imports by region of commercial activity with total exports-imports during January 2022, January 2023 and January 2024 (USD millions)**



Source: PCBS (2024). Foreign trade statistics. Ramallah, Palestine.

**Impact on Exports:** Exports to Israel for January 2024 amounted to 80% of total exports, with 20% of exports reaching alternative overseas markets. January 2024 witnessed a decrease in total exports by 15% compared to January 2023 i.e. USD 130.8 million. At the same time, exports to Israel decreased by 21% during January 2024 compared to January 2023, noting an increase in exports to other countries by 6% (given the closure of the Israeli market and Israeli restrictions on movement).

**Table 3: Percentage distribution of Palestinian trade in goods out of total exports-imports for January 2022, January 2023 and January 2024**

Commercial traffic	Merchandise exports		Merchandise imports	
	Exports to Israel	Exports to other than Israel	Imports from Israel	Imports from other than Israel
Jan 2022	85.2%	14.8%	50.9%	49.1%
Jan 2023	85.8%	14.2%	58.8%	41.2%
Jan 2024	79.8%	20.2%	62.0%	38.0%

Source: PCBS (2024). Foreign trade statistics. Ramallah, Palestine.

## Conclusion

Palestinian foreign trade continues to be negatively affected by the War on Gaza and the West Bank, in a noticeable and unprecedented manner compared to previous periods:

- Quarterly and monthly comparisons show a decrease in total imports by 28% and 34% respectively.



- Quarterly and monthly exports fell by 23% and 15% respectively.
- Exports did not decrease significantly in December 2024 due to the increase in the proportion of exports in this month to third-party countries, despite the noticeable decrease in exports to Israel.
- Israeli restrictions and closures on the West Bank have restricted the movement of trade, especially exports to the Israeli market.

### **3. Environmental analysis and motives for trade policies focused on import substitution**

Concerning the issue of changing patterns of imports from Israel, with a view to reducing dependence on the Israeli market and enhancing the share of local produce, at the start of 2015 the Palestinian government officially adopted a policy of import substitution away from Israel. This was stated in the minutes of Session No. 36-2015 of the Council of Ministers: “The government is in the process of reformulating the economic relationship with Israel and encouraging reliance on local products and goods and encouraging direct imports.” However, work on this issue has not achieved the desired results - to this day, imports to and exports from Israel remain the largest segment of Palestinian foreign trade. This confirms that reducing dependence on the Israeli market is a goal that becomes more crucial day after day, with the escalation and repetition of Israel’s punitive measures and their use of the economy and trade as tools for political blackmail, as the current War demonstrates. The current environment creates sufficient justification for developing new trade policies, as outlined below:

- The devastating effects of the ongoing War and the decline in foreign trade necessitate strengthening domestic production to reduce the negative impact of contracting foreign trade.
- Israel holds and deducts clearance funds at a time when revenues have dwindled due to increasing unemployment. The decline in imports and the weakness of the Palestinian production base further erode local revenues.
- International support for the Palestinian national budget has declined significantly, now representing less than 5% of total public revenues (compared to 27% in 2008).
- On the other hand, regardless of Israel’s practices, Israel’s share of Palestinian imports is much higher than what can be justified by objective conditions. “Gravity models” were designed to evaluate Palestinian foreign trade. These models estimate the normal level of trade between countries that share geographical contiguity (like Palestine and Israel), a single currency, a common trade policy and other factors. The latest model designed for this purpose, published in a magazine issued by the Bank of Israel, concluded that the “normal” level of Israel’s share of Palestinian imports should not exceed one-third of total imports (the real figure for 2013 is 70%).<sup>(4)</sup> Import substitution away from Israel requires either importing from a third party, or boosting the share of local (Palestinian-made) products in local markets, enhancing Palestinian production capabilities.

---

(4) “Trade links between Israel and the Palestinian Authority: Recent Economic Developments.” Bank of Israel. October 2013-March 2014.

## 4. Proposals and alternatives for changing trade policies to allow for import substitution

The reality outlined above underlines the necessity of searching for methods to increase local production capabilities nationwide, thus securing alternative sources of goods to those that are imported (especially from Israel). This requires formulating new trade policies across three directions. (Note that this paper covers only the Third Direction, the First and Second require dedicated research of their own).

**First Direction:** Develop customs policies that are immediately implementable, covering commodities excluded from the Paris Economic Protocol and remain unexploited. Develop protective customs policies while encouraging direct imports (as specified by the Council of Ministers – see above).

**Second Direction:** Change consumption patterns for goods imported from Israel that do not have local alternatives, especially non-essential goods (e.g. candy, chocolate, soft drinks, etc.). These local sectors need further examination and appropriate policies.

**Third Direction (the subject of this paper):** Expand the productive capacity of the Palestinian economy, that is, work to replace part of the goods imported from Israel with local ones, including sensitive and important goods that are (or can be) produced locally.

### An overview of Palestinian imports

This section outlines the most important (targeted) commodities, and mechanisms (policies) that can be applied to achieve the goal of reducing dependence on the Israeli market across four sectors within the Harmonized System. Imported goods are examined with the eight-digit identification of the Harmonized System, used internationally to classify goods for international trade. Classification codes reveal the identity of each targeted commodity, as the eight-digit number (commodity code) describes the nature of this commodity, its components, and the purpose of its usage. This furthers the objective of this paper, which is to determine the nature and number of targeted commodities that can be imported (or replaced) with goods sourced from a third party, or by local produce.

Raw foreign trade data made available by the PCBS is outlined below (see Tables 4 and 5):

- Palestinian imports in 2022 exceeded USD 9 billion, noting that Israel's share of Palestinian imports declined to 52%, compared to about 70% (on average) before 2015.
- There is a high concentration in imports from Israel, as more than half of total Palestinian imports from Israel are concentrated in seven commodity groups/goods. These are petroleum derivatives, cement, foodstuffs, wheat/flour, livestock, marble and paper.
- The Harmonized System applies to 4,076 commodity groups/goods imported from Israel and elsewhere at the four-digit level, of which 4,002 goods are imported from Israel and 3,884 from other countries. This means that 74 goods are imported from outside Israel exclusively.

## The select list of imported goods that can be replaced with local produce

Table 4 details the list of select (targeted) goods that are to be replaced with local alternatives, or at least witness a significant reduction in import levels, especially from Israel. This table shows that:

- Around 36 goods that can be replaced with local products, partially or completely, of which 22 goods are imported exclusively from Israel, and 14 are imported from Israel and elsewhere concurrently.
- The value of goods imported from Israel amounts to USD 1,563 million (36 goods), constituting 33% of imports from Israel. Those imported from elsewhere amounted to USD 610 million, constituting 14% of imports. In total, the import value of these goods amounted to USD 2,173 million, or about 24% of the total value of Palestinian imports.
- The following characteristics apply to the nature of goods that can be included in such a list:
  1. Some of these goods come exclusively from Israel and can be replaced with local products: mineral and carbonated water, certain foodstuffs, eggs, fruit and vegetables, animal feeds and fertilizers.
  2. Some of these goods are imported from both Israel and elsewhere. These can be produced locally or imported directly (not from Israel): livestock, cement, mobile phones, chocolates, candy, wheat and rice.
  3. Some goods are easy to replace and do not require (intensive) manufacturing. There is an abundance of local salt production, as well as minerals (gas), water, certain agricultural commodities and dairy products.

In conclusion, Palestinian trade and customs policies can be reformed to replace a large proportion of these goods. If we assume that 50% of these goods can be replaced by local production, this would pump about USD 1 billion into the Palestinian market, making a massive difference to the share of local produce, while increasing employment.

**Table 4: List of select goods imported from Israel and elsewhere for 2022 (USD thousands)**

Group code	Description of the group	2022 Imports from Israel	2022 Imports from the Rest of the World
2309	Production inputs for animal feeds	492,610	
0102	Livestock (bovine cattle)	135,762	26,983
2523	All types of water-based cement, including non-agglomerated cement	112,496	100,129
2201	Water, including natural or artificial mineral water	90,528	
8517	Telephone devices, including cellular and mobile phones	80,726	62,242
3004	Medicines (except for items listed under Code 3002)	79,046	97,334
1806	Chocolates and other foodstuffs containing cocoa	57,029	33,562

Group code	Description of the group	2022 Imports from Israel	2022 Imports from the Rest of the World
2202	Water, including mineral water and carbonated water	42,370	36,717
1006	Rice	36,528	50,905
1101	Spelled flour grain, or wheat flour mixed with rye	35,311	22,577
0407	Birds' eggs: fresh in shell, preserved or cooked	35,234	
0403	Buttermilk, clotted milk and cream, yoghurt, etc.	25,827	
0808	Apples, pears and quinces (fresh)	22,752	
0406	Cheese (including curd)	21,372	
2201	Water, including natural or artificial mineral water	19,339	
0804	Dates, figs, pineapple, avocado (American pear), guava	18,512	
0803	Bananas, (fresh or dried)	18,510	
0207	Edible meats, entrails and limbs	18,151	
0104	Livestock (sheep and goats)	17,408	31,456
1601	Sausages (of all kinds) and similar products made from meat or offal (organs)	16,861	
3304	Cosmetics, make-up and beauty-care production inputs	15,450	
3101	Fertilizers (animal or vegetable origin), pure or mixed	15,054	
3808	Insecticides, fungicides, weed sprays and rodenticides	14,524	
1704	Sugar products (including white chocolate)	13,848	20,424
7604	Aluminum bars, rods, and special shapes	13,460	40,554
0804	Dates, figs, pineapple, avocado (American pear) and guava	13,341	
1213	Straw and chaffs of grain (raw or crushed as hay)	13,125	
1001	Spelled flour grain, or wheat flour mixed with rye	11,205	23,961
0809	Apricots, cherries, peaches or apricots (including plump peaches).	10,907	
2009	Fruit juices (including grape juice) and vegetable juices (or other)	10,803	
1209	Seeds, fruits and kernels for sowing	10,163	
1701	Cane sugar, beet sugar and chemically pure sucrose	10,001	38,588
6404	Shoes with outer soles made of rubber, plastics or natural leather	9,685	
2105	Ice creams	9,558	
0805	Fresh or dried citrus fruits	8,226	
3302	Mixtures of aromatic substances and others (including alcohol)	7,744	25,213
	Total	1,563,468	610,645

Source: PCBS (2022). Foreign trade data for Palestine. Ramallah, Palestine.

**Table 5: Sources of imports, select goods and associated percentages (USD thousands)**

Import sources	Value of imports ( in thousands of dollars)	The number of goods at the 4-digit level	Percentage
Total imports	9,088,634	4076	100%
Imports from Israel only	4,750,427	4002	52%
Select goods from Israel only	1,563,468	36	33%
Select and common goods from other than Israel	610,645	14	14%
Goods from other than Israel	4,338,207	3884	48%

Source: PCBS (2022). Foreign trade data for Palestine. Ramallah, Palestine.

## 5. Trade policy recommendations and plausible interventions

In order for imports from Israel or the rest of the world to be replaced, there must be sufficient capacity to reform laws, regulations and procedures that prevent the import of these goods. In this case, there is no need to look for specific policies - all that is required is to activate oversight and impose strict penalties on violators. However, due to the lack of this alternative (due to the existence of international agreements including the Paris Economic Protocol and the Customs' Union), indirect alternatives must be followed while not infringing on signed agreements. These alternatives or steps can be represented by the following mechanisms:

1. Focus on developing clear-cut industrial and commercial policies, namely specifications and standards, which aim to maintain consumer safety and product quality, while increasing competitiveness. Reform and simplify industrial licensing policies, as these policies still need a specific strategy to direct investments and boost industrial activity. Work with existing factories located in residential areas to relocate to new industrial areas (this requires further planning).
2. Develop an investment encouragement policy for the list of select commodities. Despite the establishment of legal and administrative structures for investment, there persist numerous obstacles, the most important being political instability. The weak role of financing institutions (due to banking complications for loans) and the lack of other incentives require setting exceptional incentives that go beyond the current Investment Encouragement Law.
3. Financing policy: A specialized industrial financing entity does not exist, despite the large number of banks operating in Palestine. Loans directed to industry also face complex procedures and guarantee mechanisms, suffocating interest rates and short-term repayment periods. Even other financial institutions that provide loans – ironically considered competitors to commercial banks - have procedures that are no less complex.

## 6. Implementation mechanisms

- The Council of Ministers' decision to reformulate the trade relationship with Israel should be activated, and new investment encouragement laws issued regarding the select list of targeted goods.
- Instruct the regulatory authority for taxation and the customs police to audit and monitor importers of select goods from Israel specifically.
- The Ministry of National Economy should establish a special unit mandated to focus specifically on following-up on developments in direct imports and obstacles facing importers. A periodic evaluation of the work and results of such a unit should be performed in light of its achievements in fulfilling its mandate. Among the most prominent tasks of this unit will be to establish a database for these goods, their importers and places of consumption, while initiating direct and continuous channels of communication and dialogue with importers in general, and importers of listed goods specifically, convincing them both to promote local goods.
- Undoubtedly, a large number of smaller voluntary measures help in encouraging import substitution, especially since the current Palestinian popular mood disfavors consumption of Israeli goods and encouraging the consumption of local alternatives or import of goods from alternative markets when. This provides a basis for public policy to go further. The issues of import substitution and direct importation are cornerstones of fundamental change in Palestinian production. This change requires an integration of both the policies and roles of government, as well as the role of the private sector and its current and future response to reality.

### Questions and discussion topics:

- What is the feasibility of implementing Palestinian trade and industrial policies as outlined in this paper?
- What is the possibility of partially - or completely - reformulating trade relations with Israel?
- Is there room to establish exceptional investment incentives in the list of agricultural and industrial (select) commodities cited in this paper?
- Why do some private importers import Israeli goods produced locally, deducting from the share of local produce?