Press Release

MAS: New Release "Political Economy Analysis of the Palestinian Private Sector"

Ramallah, 9 May 2018: An analytical study entitled "*Political Economy Analysis of the Palestinian Private Sector*", was published today by MAS. The study addresses the pivotal role of the different economic activities (productive and services) of the private sector institutions (excluding agricultural institutions) within the broader context of public economic policy leadership and regulation. In line with standard political economy approaches, the study analyses external and internal structural constraints, the enabling environment, dynamic factors impacting the private sector, as well as the main areas for strengthening the private sector economy performance, resilience and prospects. The study was prepared by lead researcher Mr. Raja Khalidi, assisted by Dr. Wael Daya, Arwa Abu Hashash, and Ali Jabareen.

In the preface of the Director General of the Institute, Dr. Nabeel Kassis says "this study… goes beyond the current literature to present a comprehensive analysis of the contribution of the private sector economy to national development". He adds "When MAS was first approached by the EUREP and AETS/Cardno, MAS was interested and ready to work on producing a political economy analysis, because as we have known from the outset of our work, all research on the Palestinian economy is by nature political."

In light of the performance review of the seven core activities of the private economy (industrial, construction, internal trade, transport and storage, information and communications technologies (ICT), non-financial services (including tourism) and financial intermediaries), the study shows that productive capital accumulation is proceeding apace in some areas, in the form of assets and through value added creation. This process follows a different distribution between Gaza and the rest of Palestine, with industry less significant in the former than in the latter.

The study addresses, as well, an important new phenomenon, known as "financialization of the Palestinian economy" and formation of distinct social/income group class interests, as well as the emergence of perceptible inequalities. Different indicators may be cited to point to the sort of forces at play, which confirm that important transformations underway in the Palestinian corporate and investment scene, as well as in the underpinning social capital. Financialization is an important process both because of its role in facilitating mobilization

of resources for investment and intermediating economic transactions in general. But in a fragile situation such as Palestine, excessive deepening of the financial economy also can create risks for the banking sector and indebted households and overshadow the real economy.

The study, as well, highlights the impact of the Palestinian political division on public services in Gaza which has created inefficient and ineffective health, education and business sector services. From the private sector perspective, the government fails to address strategic challenges or enhancing economic development. This has compounded public disillusionment with the role of government in promoting economic growth. No less influential than the foundational factors and dynamic processes shaping the performance and prospects of the private economy, political challenges loom on the horizon whose impact can be significant for economic stability.

On the other hand, the overall picture of the macro economy is dim, there are bright spots in the private sector economy where growth has occurred, employment has been assured, technology has been acquired and adapted and capital investment generates both private and public returns. However, successes are haphazard and fragmented, growth has been uneven and has favoured activities that respond to the distorted demand structure of the economy and binding constraints that preclude a developmental impact of any growth achieved.

To download a copy of the study http://www.mas.ps/files/server/20190905104256-1.pdf