

## إقرار

أنا الموقع أدناه مقدم الرسالة التي تحمل العنوان:

### نموذج مقترح للحد من البطالة في فلسطين في ضوء التجربة الماليزية A suggested model to reduce unemployment in Palestine in light of the Malaysian experience

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Student's name:

اسم الطالب/ة: أكرم كامل منصور

Signature:

التوقيع: أكرم

Date:

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**The Islamic University of Gaza**  
**Deanship of Higher Education**  
**Faculty of Commerce**  
**Master of Economic Development**



## **A suggested model to reduce unemployment in Palestine in light of the Malaysian experience**

**نموذج مقترح للحد من البطالة في فلسطين في ضوء التجربة الماليزية**

**Prepared by:**

**Akram Kamel Mohammed Mansour**

**Supervised by:**

**Prof. Dr. Mohammed Ibrahim Migdad**

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## نتيجة الحكم على أطروحة ماجستير

بناءً على موافقة شئون البحث العلمي والدراسات العليا بالجامعة الإسلامية بغزة على تشكيل لجنة الحكم على أطروحة الباحث/ أكرم كامل محمد منصور لنيل درجة الماجستير في كلية التجارة/ قسم اقتصاديات التنمية وموضوعها:

### نموذج مقترح للحد من البطالة في فلسطين في ضوء التجربة الماليزية A suggested model to reduce unemployment in Palestine in light of the Malaysian experience

وبعد المناقشة التي تمت اليوم الثلاثاء 07 جمادى الأولى 1437هـ، الموافق 2016/02/16م الساعة الحادية عشرة صباحاً، اجتمعت لجنة الحكم على الأطروحة والمكونة من:

أ.د. محمد إبراهيم مقداد مشرفاً و رئيساً  
د. خليل أحمد النمروطي مناقشاً داخلياً  
أ.د. معين محمد رجب مناقشاً خارجياً

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والله ولي التوفيق

نائب الرئيس لشئون البحث العلمي والدراسات العليا

أ.د. عبدالرؤوف علي المناعمة

## **DEDICATION**

*I would like to take this opportunity to express my deepest thanks and  
dedicate this work to*

*The soul of dear parents*

*Dear wife for her continues support*

*My children,  
Brothers,  
Sisters,  
Friends,*

*All my lovely people that I know*

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## ABSTRACT

This research seeks to benefit from the Malaysian experience as a model for many countries that suffer from the widespread of unemployment. This research seeks to identify the strategy pursued by Malaysia to decrease unemployment. In addition to examining the possibility to take advantage of developing plans and strategies to reduce unemployment in Palestine.

The researcher used descriptive analytical approach which is fit to study a phenomenon as unemployment, and helps to include most necessary information to understand the subject of research, and reach to audited recommendations that could be benefit.

The researcher also used the comparison method which makes comparisons between the Palestinian reality and the Malaysian reality in order to extract the elements of similarity,

The researcher resorted to the depth interview style with specialists in order to stand on the possibility of benefiting from the Malaysian experience in the elimination of unemployment in the Palestinian society.

The most important study results can be summarized as

- The unemployment problem is more severe in the Gaza Strip. It is noted that rates of unemployment in Gaza Strip are higher than in the West Bank throughout the period from 1972 so far.
- The private sector can contribute effectively to treat the problem of unemployment by focusing on sectors and activities generating profit and relying on labor-intensive at the same time especially the replacement industries in general.

Finally, the main recommendations of the study are

- There is a need for stable conditions such as opening the cross points and creating continuing contact between Palestine and other countries.
- The Palestinian Authority has to focus efforts on local development programs to create more job opportunities in the local community to overcome the restrictions imposed on the movement of persons. Such programs should include the rehabilitation of infrastructure, basic services, agricultural business and other areas.
- The private sector has to focus on the sectors of the profit-generating activities, which rely on labor-intensive. Such sectors as the agricultural sector, especially food industries, the production of meat, dairy, poultry and replacement industries in general.

## ملخص الدراسة

هدفت هذه الدراسة إلى الاستفادة من التجربة الماليزية كونها تمثل نموذجا للكثير من الدول التي تعاني من ارتفاع معدل البطالة. كذلك هدف هذا البحث إلى التعرف على الاستراتيجية التي اتبعتها ماليزيا للسيطرة على ظاهرة البطالة بأبعادها المختلفة (الاقتصادية، الاجتماعية، السياسية...) مع بحث إمكانية الاستفادة منها في وضع خطط واستراتيجيات للحد من ظاهرة البطالة في فلسطين.

استخدم الباحث المنهج الوصفي التحليلي والذي يعتبر منهجا يتناسب مع الظاهرة قيد الدراسة ويساعد على الإلمام بكل المعلومات اللازمة لفهم موضوع البحث، والوصول إلى توصيات مدققة يمكن الاستفادة منها. كما استخدم الباحث طريقة المقارنة أي إجراء مقارنات بين الواقع الفلسطيني والواقع الماليزي. لجأ الباحث إلى أسلوب المقابلة وخاصة المقابلة المعمقة مع ذوي الاختصاص من أجل الوقوف على إمكانية الاستفادة من التجربة الماليزية في القضاء على البطالة في الواقع الفلسطيني.

أهم نتائج للدراسة يمكن تلخيصها على النحو التالي:

- تعتبر مشكلة البطالة أشد خطراً في قطاع غزة وهذا يتطلب العمل على علاجها بشكل أسرع. وتجدر الإشارة إلى أن معدلات البطالة في قطاع غزة أعلى منها في الضفة الغربية خلال الفترة من عام 1972 حتى الآن.
- يمكن للقطاع الخاص أن يساهم بشكل فعال في علاج مشكلة البطالة من خلال التركيز على القطاعات والأنشطة المدرة للربح والتي تعتمد على عمالة مكثفة في الوقت نفسه، وخاصة الصناعات الاحلالية.
- وأخيراً، فإن أهم توصيات للدراسة هي:
  - هناك حاجة لتوفير ظروف هادئة مثل فتح المعابر وإيجاد نوع من التواصل بين فلسطين والدول الأخرى يسمح بتنقل الأفراد والبضائع.
  - على السلطة الفلسطينية أن تركز جهودها على برامج التنمية المحلية لخلق المزيد من فرص العمل في المجتمع المحلي للتغلب على القيود المفروضة على تنقل الأشخاص والبضائع. وينبغي أن تتضمن هذه البرامج كافة القطاعات الاقتصادية مثل تأهيل البنية التحتية والخدمات الأساسية والأعمال الزراعية وغيرها من القطاعات.
  - هناك أمالا معقودة على القطاع الخاص حتى يساهم في معالجة مشكلة البطالة، لذا على القطاع الخاص أن يركز على قطاعات الأنشطة المدرة للربح، والتي تعتمد على العمالة الكثيفة. قطاعات مثل القطاع الزراعي، وخاصة الصناعات الغذائية، وإنتاج اللحوم والألبان والدواجن والصناعات الاحلالية بشكل عام.

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## List of Abbreviations

ASEAN	the Association of South East Asian Nations
Eiu	the Economist Intelligence Unit's
ELX	Electronic Labour Exchange
FDI	foreign direct investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GCI	Global Competitiveness Index
GIZ	(Gesellschaft für Internationale Zusammenarbeit) German Agency for International Cooperation
ICT	information and communications technology
ILO	International Labour Organization
Imd	International Institute for Management Development
IMPs	Industrial Master Plans
K-economy	a knowledge-based economy
LFPR	labour force participation rate
MATRADE	Malaysia External Trade Development Corporation
MIDA	Malaysian Investment Development Authority
MIER	the Malaysian Institute of Economic Research
Miti	Ministry of International Trade and Industry Malaysia
NES	National Export Strategy
NSDC	the National SME Development Council
PALEF	Palestinian Employment Fund
P-economy	a production-based economy
PLCs	publicly listed corporations
PMA	Palestine Monetary Authority
R&D.	Research and Development
RM	Malaysian Ringgit, (US\$ 1.00 = RM 3.2)
SME Corp	Small and Medium Enterprise Corporation Malaysia
SMIDEC	Small and Medium Industries Development Corporation
SMEs	Small and medium enterprises
UNDP	United Nations Development Programme
Weforum	the World Economic Forum

# **Chapter One**

## **The general framework of the study**

- 1.1. Introduction:**
- 1.2. Study problem:**
- 1.3. Study aims:**
- 1.4. Study importance:**
- 1.5. Study approach:**
- 1.6. Data collection:**
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  - 1.8.4. Comment on previous studies:**
  - 1.8.5. Additions achieved by the current study:**

## **1.1. Introduction:**

Unemployment is one of most important economic and social issues, the more the number of unemployed increase the more the national economy decreases. In addition to social, political and ethical problems associated with this phenomenon. One can note that this phenomenon is prominent in developing countries which has the highest unemployment rates in the world.

Palestine suffers from the problem of unemployment, but differently from the rest of the world because of the existence of the Israeli occupation since 1948, Israel seized the rest of the land of Palestine in the year 1967. The Israeli occupation has imposed its control on the Palestinian natural resources and on the borders and the movement of exports and imports. These procedures have been increasing since the arrival of the Palestinian Authority that the unemployment rate did not exceed before the advent of the Palestinian Authority (5%) of the total workforce in Palestine. (MAS, 2006) However, after the arrival of the Palestinian Authority in the year 1994 and after Israel's policy of closure and siege, many Palestinian workers have lost their places of work in the Palestinian territories occupied in 1948, where the unemployment rate in the state of siege and closure reaches to (50%) (Almeezan, 2002, p. 19). Nowadays, the unemployment rate in 2014 reached to 29.8%. In addition, unemployment rate in the West Bank reached to 20.8% against 46.2% in Gaza Strip. (Palestinian Central Bureau of Statistics, 2015)

The Malaysian model proved that what seemed in the past as impossible, has become a prosperous reality that the latest statistics in Malaysia shows that unemployment rate for the year 2014 dropped to only about 2.7% (Department of Statistics, Malaysia, 2015) .The unemployment rate in Malaysia was approximately 10%, during the period of the fifties and sixties of the twentieth century (Bayoumi, 2009).

The Malaysian success is the outcome of hard work and a large coordination included government and private sector, in addition to having a vision for development and economic activity through sequential and integrated a five-year plans since independence and until now. Malaysia has been working to be ready for the entry of the current century through planning for Malaysia 2020, and to achieve what has been planned. This effort has included many mechanisms that have been increasing employment opportunities and these mechanisms are represented in the service sector, the strategy for the manufacturing sector, enhancing the development of small and medium enterprises, encouraging foreign direct investment, increasing trade, creating jobs in technology and knowledge-intensive sectors, stimulating the private sector to employ more and recognizing the importance of self-employment.

Accordingly, this research seeks to identify the strategy pursued by Malaysia to decrease unemployment. In addition to examining the possibility to take advantage of developing plans and strategies to reduce unemployment in Palestine.

## **1.2. Study problem:**

Unemployment is a composite problem that has negative economic, political and social effects on the individuals and the society so high levels of unemployment lead to serious social and economic problems reflecting negatively on the national economy.

Unemployment is one of the most serious dilemmas and challenges facing Palestinian society, especially since the outbreak of Al-Aqsa Intifada in September 2000 that the unemployment rate has risen in the West Bank and Gaza Strip. The problem of unemployment is disturbing the lives of tens of thousands of Palestinian families. Unemployment is a global problem but it is gaining a paramount importance in the Palestinian case to all components of the Palestinian people due to the exceptional presence of the occupation and due to the high unemployment and the large number of economic and political effects and the risks posed by unemployment, socially, and even psychologically.

To counter the phenomenon of unemployment, many countries and governments follow different policies and strategies to reach to solutions or mechanisms that can solve this phenomenon in order to avoid its bad effect on individuals and society.

Malaysia success to reduce unemployment was a logical consequence of political, economic and social objective conditions. This success is a result of a comprehensive national strategy reflecting in the satisfaction that established mutual trust relationship and provided appropriate mainstay of the success of a human experience seen by many experts as a worthy challenge to read comprehensively.

The Malaysian model is pushing us to ask many questions that we are trying to answer through this research:

1. What are the most important economic, natural and human components enjoyed by the Malaysian model?
2. What are the most important economic and social policies and strategies that have enabled Malaysia to eliminate the problem of unemployment?
3. What are the main conclusions and recommendations that can be drawn through studying the Malaysian experience in reducing unemployment?

4. Is the Malaysian model fit be applied in the fight against unemployment in the Palestinian territories?

### **1.3. Study aims:**

1. To identify the situation of the unemployment problem in the Palestinian society.
2. To study the Malaysian experience with its various economic, political, cultural and social components.
3. To identify the most important economic policies and strategies, which have been enabling Malaysia to achieve development and to reduce unemployment.
4. To take advantage of the successful economic policies derived from the Malaysian model for the Palestinian territories to alleviate unemployment.

### **1.4. Study importance:**

1. This study shows an importance for the Palestinian community as an attempt to provide a remedy for unemployment challenge in order to eliminate its negative effects that destroys the foundations of the social structure of any society suffers from unemployment.
2. This study constitutes an important reference for decision-makers and economic policies experts in Palestine.
3. The youth graduates and the unemployed will benefit from this study when working with its findings and recommendations regarding the fight against unemployment.
4. This study is of great importance to the private sector when explaining its pivotal role in the economic development process.

### **1.5. Study approach:**

**Descriptive analytical approach** which is fit to study a phenomenon as unemployment, and helps to include most necessary information to understand the subject of research, and reach to audited recommendations that could be benefit.

**Comparison method** which makes comparisons between the Palestinian case and the Malaysian case in order to extract the elements of similarity, and this includes the study of economic policies and strategies, which has been enabling Malaysia to achieve development and to reduce unemployment, so as to draw plans and strategies to reduce unemployment in the Palestinian society.

## **1.6. Data Collection:**

### **1.6.1. Secondary data:**

The most important previous studies are related to the Malaysian experience in the elimination of unemployment, in order to debrief recommendations that serve the objectives of the research. Secondary sources includes notes and biographies of some people who lived through the Malaysian experience in the elimination of unemployment, such as former Prime Minister of Malaysia Mahathir Mohamad, such sources can help the researcher to discover the important aspects of how Malaysia has eliminated unemployment.

Secondary sources also include data from the Palestinian Central Bureau of Statistics and Statistics Centre of Malaysia, as well as the relevant ministries in Palestine and Malaysia.

### **1.6.2. Primary data:**

The researcher resorted to the depth interview style with specialists and experts in order to stand on the possibility of benefiting from the Malaysian experience in the elimination of unemployment in the Palestinian society.

## **1.7. Study sample:**

The study sample includes interviews with specialists of the research topic as follows: -

1. Four academics in economics from various local universities and who have studied the experiences of developing countries.
2. Four specialists and experts from the Ministry of National Economy in Palestine.
3. Two experts from the private sector in Palestine.

## **1.8. Previous Studies**

### **Introduction:**

There are plenty of studies that have studied the issue of unemployment in a general way in the world. The majority of countries in the world, whether rich or poor suffer from varying levels of unemployment. However, there are rare studies that deal with the subject to get benefit from the experiences of other countries in the elimination of unemployment, especially on the Arab and local level.

As the Arab world and Palestine suffer from high rates of unemployment and a severe shortage of literature on this subject, so the researcher has used



studies about unemployment in general talk, both in terms of its causes or damages that hurt to society.

### **1.8.1. Local studies:**

#### **1. Saleh: (2014) The Role Of Islamic Economy In The Treatment Of Unemployment.**

The main objective of this study is to investigate the role of Islamic principles in solving of the unemployment problem in the Gaza Strip as a case for study. Yet, centric importance of the study in the working to validate the role of Islamic principles in the fight against unemployment and its negative effects compared to other principles. And help decision makers to develop appropriate policies to address the unemployment problem as well.

The author used the descriptive analytical as well as the quantitative approach, Where the researcher surveyed a random sample from four hundred thousand unemployment population in Gaza using a questionnaire. The Statistical Package for Social Science (SPSS) program was utilized to analysis the questionnaire.

Finally, the main recommendations of the study are: to promote the concept and value of work in the Palestinian community, reduce of government intervention in economic activity, raise awareness of the importance of Zakat and Waqf as the important resource for money Activating the body Zakat, and make attention to Small Business Enterprises in craft and agricultural.

#### **2. Dahlan: (2013) Women's Unemployment in Gaza Strip . . . Reality, Reasons & Remedies.**

This study aimed to bring serious attention to an important problem the Gazan labour market is suffering, despite the fact that the male work force unemployment rate in Gaza reached 26% in the third quarter of 2013 this percentage reached a level of 57.7% for female in the same period.

In order to achieve the targets of this study the researcher used the analytical descriptive method, where the study has been applied on a random sample out of the study population counting 40,400 females, between the ages of 15 to 65 years, i.e. those among the employability age. The sample population is 381 members.

The most important study results can be summarized as below:

1. The existence of the direct effect between the woman's age and the husband's work on women's unemployment.
2. There is an opposite effect between the unemployment rate and the number of years of education for women, their major and the availability of private institutions providing employment for women.
3. Women unemployment concentrated in the age group 35 years old or less with five years of disruption. The most important cause of female unemployment is the Gazan economic situation in general.

The high priority recommendations of the study are:

1. The government must consider searching for reasons for women's unemployment try to reduce it.
2. Community awareness of the importance of small businesses.
3. Resorting to the vocational education as an alternative to academic study and increase the public awareness of its importance.

### **3. Migdad: (2010) Unemployment Among the Graduates of the Education System in Palestine:**

The research represents a major and important step towards encouraging the Palestinian Tertiary Educational Institutions in tracking their graduates and therefore has a broader and much clearer image about the labor market needs by reviewing the relevant literature and examining the initiatives and efforts of Palestinian Tertiary Educational Institutions and private sector in the West Bank and Gaza Strip.

The researcher designed and test two sets of questionnaires, one of them was designed for graduates while the other was for employers. The first set classifies graduates as employed in their major, employed in fields other than their major, and the third as non-employed. The other set deals mainly with employers. The questionnaires were designed, judged by experts in the West Bank and Gaza Strip and tested on a represented sample of graduates. After the approval and final modifications, more than 1000 copies were prepared to be distributed to the targeted samples.

The research demonstrates several experiences from different countries from Europe, U.S.A., African, and Arab countries. Collected data showed that there is no formal graduates' tracking system at higher education institutions in the West Bank and Gaza Strip. In fact, activities linked to tracking graduates

are modest and in their infant stages; moreover, these experiences are limited to few universities and colleges.

The main recommendation of the study is that the Palestinian Ministry of Education & Higher Education is required to structure its efforts and organize with Tertiary Education Institutions.

#### **4. Odaat : (2010) Unemployment in Gaza Strip:**

This study aimed to identify the relationship between unemployment and its social implications on workers in Gaza Strip, and thus to identify the nature of the social problems plaguing Gaza Strip workers because of unemployment, and try to identify to what extent does unemployment cause family disintegration to unemployed families.

The study used the descriptive approach, and its tool was a questionnaire prepared for this purpose was distributed to a random sample of the research community.

The study proved the exponential impact of unemployment on the social problems in Gaza Strip, the more the unemployment rate increases the more the spread of crime and family disputes and drug abuse. The study also demonstrated the negative effects of unemployment on mental and physical health for the unemployed. The study confirmed the existence of a mutual effect of the split between the two home sides and unemployment, political division work to increase the unemployment rate, which increases tension and political conflict.

The main recommendations of the study are the need to work on the development of the unemployed human resources technically and professionally so that they can get jobs. The study also recommended that public and private and civil institutions should have responsibilities towards the unemployed, also the study demanded to direct the community to invest his savings in small private projects that provide jobs for the unemployed.

#### **5. Hannoun and Bitar (2008): Conditions of An-Najah National University Graduates: An Analytical Study:**

This study examined the conditions of An-Najah National graduates in the Palestinian labor market. It specifically investigated the degree of suitability graduates' skills and the labor market's required skills. To these two ends, two questionnaire were developed and administrated to a randomly chosen sample of 111 graduates.

After analyzing the collected data, it was found that there was an increase in the rates of unemployment among graduates of Palestinian higher education institutions. These graduates represented 70% of the total supply of graduates in the West Bank and Gaza Strip. Unemployment were attributed to a number of factors. Some of them were pertinent to the labor market. The Palestinian institutions of higher learning failed to match their outputs with the needs of the labor market. The Palestinian labor market suffered from rigidities due to the policies of the Israeli military occupation in the last three decades. The Palestinian university graduates represented 7% of the total work force in the public sector. Government employment, mechanisms and scale of salaries, low productivity all make the rate of employment misleading. It was also found that the student's choice of major did not depend on a clear-cut goal which he/she wanted to achieve after graduation. It only depended on getting a university degree. Furthermore, the university graduates were unable to find work and were fired from their jobs due to their weakness in oral and written English skills, Computer skills, and content skills. It was also found that personal connections and favoritism were used to get employment. The graduates had insufficient practical experience due to the lack of pre-service training courses or opportunities before or after graduation.

In the light of these findings, the researchers recommend providing counseling programs to school students to enable them to choose the right majors which will qualify them to work directly after completion of high school. The universities need also to restructure their programs and specializations offered and work to improve and develop university teaching methods and train students during their study and help them acquire the necessary skills for work. The employers of graduates should use objective criteria when they choose their employees. Finally, the university and administrations should consider the introduction of training programs during student's study and introduce students to institutions and establishments which might employ them to get training and get experience and keep them abreast of new developments in their field of work. The university administration should, also follow up graduates to get feedback from them in order to develop their curricular and extracurricular program.

#### **6- Fallit: (2007) Unemployment challenges in the Palestinian society and the mechanism of treatment it from an Islamic perspective:**

This study aimed to identify the reality of the unemployment problem in the Palestinian society, and the most important causes and ways to treat it, as well as it aimed at defining the duties and responsibility that Islam imposed on both the country and private and academic institutions to fight unemployment

among Muslim youth, and to provide solutions to the problem of laziness and dependency that exacerbate unemployment damage. The researchers adopted the descriptive analytical method.

Among the most important results that the study reached to, is that there is a significant difference between the concept of unemployment in the positive economic approach that sees that the desire and ability to work with lack of access to this work will make people with these elements as unemployed. However, Islam includes among the unemployed people who only suffer from physical ailments or are old so that they are not strong enough to work in.

The study also explained the Islamic methods to treat the problem of unemployment, so that solutions mainly relied on Zakat and interest-free loans to the creation of new job opportunities for young people as Islam guides to small projects in order to eliminate unemployment among young people. Islam stimulates investors to finance small projects. Islam fought compactness so as not to keep the money without investing.

The study recommendations are directly related to the responsibility of the government, private sector and young entrepreneurs to invest in small projects in order to solve the unemployment problem in the Palestinian society.

#### **7- Ibrahim (2006): Unemployment and the challenges of the future in Gaza Strip, problems and solutions in the study of the relationship between unemployment and trends in population growth in Gaza Strip:**

The objectives of the study consisted in identifying the unemployment rate in Gaza Strip and highlighting the relationship between population growth and unemployment.

The study relied on the descriptive and analytical approach. The hypotheses of the study were right according to the findings.

The most important recommendation of the study is to activate the role of all public and private institutions in order to provide new job opportunities, and therefore there should be work on the establishment of economic projects and programs of business, so that the financing of these projects will be outside government funding or charitable work scope, and the job training in these projects should be inexpensive and easy. These projects must generate significant jobs especially where unemployment rates are increasing.

**8- Buhaisi (2006): Towards modern methods in the financing of small projects in the Gaza Strip, an exploratory study to the owners of small businesses in the Gaza Strip:**

This study aimed to evaluate small enterprises financing methods available and its ability to keep pace with the needs of these projects.

The study is based on the descriptive analytical method, the study data were collected through a questionnaire addressed to the target group. The study sample included 50 people from small entrepreneurs.

Among the most important results of the study are that the majority of small businesses in the Gaza Strip owners are facing funding problems at the beginning of their projects, and that the nature of usury and the high proportion of usury in the loans offered by banks for small businesses and the complexity of the procedures are the main reasons that prevent small entrepreneurs to borrow from banks.

One of the main recommendations of the study is to establish a fund to finance small projects without earning interest on loans, but just a simple commissions to cover the financial and administrative follow-up expenses. The study also recommended to protect and support these projects and their products so that they can survive and continue.

**9- Khudair: (2006) the Palestinian Ministry of Education and Higher Education policies, their effects and their role in solving the unemployment problem.**

This study aims to know to what extent the policies of the Palestinian ministry of education and higher education affect the unemployment rate, and to suggest possible solutions to decrease this rate among Palestinian graduates.

Using two different questionnaires, the researcher sought to achieve the study target. As one of the two questionnaires was distributed among 597 members of unemployed graduates, the second one was distributed among 60 commerce colleges' teachers of the Islamic, El-Azhar, and El-Quds Open universities commerce teachers. 526 members of the first sample and 44 of the second responded. The SBSS package was used in testing the research hypothesis.

The end the study came to the conclusion that the polices and their procedures affect the unemployment rate, and that they could improve the situation provided stable political situation and good economical reactions.

Some recommendations and suggestions were presented by the end of the study as the following:-

- The best should be done, to develop the vocational studies to equal to a certain extent the academics, and to improve the society points of view towards vocational studies.
- A department belong to the ministry of education and higher education should be established, to do continuous researches and studies on the labour market with cooperation and coordination with the other ministries and big society establishments, and to supply the management on different levels with reports holding the main results.
- Seeking to offer tens of thousands of job opportunities for Palestinian graduates, the Palestinian authority should establish huge overseas complementary projects, including industrial, agricultural, and services fields, in a country that has a stable political atmosphere to a certain extent as long as the occupation is found. Meanwhile the authority should struggle, to achieve free movements from and to the Palestinian areas, and to protect this free movements when it occurs.

### **1.8.2. Arab Studies:**

#### **1. Ismail (2014): The Malaysian experience ... Mahathir Mohamad ... and economic awakening:**

The goal of the book is to find out how Malaysia has become one of the emerging economic powers globally and how it has made those big construction boom.

The researcher used the descriptive analytical method, which helps to cover all the necessary information in order to understand the subject of research, also used inductive analytical method which includes the study of economic policies and strategies, which has managed through Malaysia to achieve development.

The researcher reached in the last chapter that the Malaysian experience provides a pilot case for other countries, it is worth to take advantage of such as an experience even with the political and social environment difference.

## **2- Fadli (2012): The Developmental experience of Malaysia from 2000 to 2010:**

The study aimed to learn about the Malaysian experience in development that it is one of the experiences that characterized conservatively and its importance for the countries of the third world in order to get rid of underdevelopment and dependency.

The researcher used the descriptive analytical method which helps to include all the information necessary to understand the subject of research.

The study talked about the concept the theoretical framework of development in addition to the supporting factors of the development process in Malaysia factors and indicators of development in Malaysia between 2000-2010.

The study found that the Malaysian experience is worthwhile to study because of its great achievements that developing countries can benefit from it to rise from underdevelopment and stagnation.

## **3- Bayoumi (2011): The Malaysian experience .. according to Islamic finance and economics principles:**

The goal of the book is to identify how Malaysia used the Islamic principles to share in the economic development since independence that Malaysia has ensured the establishment of the foundations of the Malaysian country to abide by the teachings of Islam in the eradication of ignorance, poverty and disease.

The researcher used the descriptive analytical method, which helps to cover all the necessary information to understand the subject of the research, also used inductive analytical method which includes the study of economic policies and strategies, which managed Malaysia to achieve development.

The study reached in its last chapter to many lessons and recommendations, including:

- The Malaysia's developmental experience adopted the Islamic values and global technological skills.
- In the light of Islamic values and the application of the principles of Islamic economics, Malaysia has achieved a rise in rates of human development, and the eradication of poverty and unemployment, and achieved a boom in exports.
- The importance of a role for the country in achieving development, and the ability to recover the role of the country in times of crisis.



- The importance of the gradual adoption of the experience of Islamic financial institutions by the country.
- Self-reliance and rejection attempts to dominate the national agenda for development.

#### **4. Saleh (2008): The Malaysian promotion: Reading landmarks in the backgrounds and economic development:**

The study aimed to identify the causes of a Malaysia progress and success of achieving ethnic and religious coexistence equation.

The study indicates that in the beginnings of the state was the Chinese are the dominant on the economy and trade, while Malays live in poverty and ignorance, what was the state of Malaysia, however, has worked to empower the Malay and give them the benefits of economic and educational incentives to rehabilitate qualified ensures their participation in their country's wealth. At the same time the state has been careful not injustice Chinese and Indians, giving them full citizenship and allowed them to preserve their customs and languages. It is smart policies implemented by Malaysia to work on revitalizing the economy even increasing wealth increases the share of each segment of the community, instead of the division of what is in and out of quotas.

The researcher used the descriptive analytical method, which helps to include all the necessary knowledge to understand the subject of research information. The study found that Malaysia has achieved development and prosperity thanks to social stability and this stability must be supported by the rule of conscious political leadership system and this is what we find in Malaysia ownership experience Constitutional that follow a federal system centrally headed by the Prime Minister, who has extensive powers greater than the king himself.

The study found that the Malaysian experience is considered a unique example of its kind worth contemplative outlook viewfinder by Arab and Islamic countries in order to draw lessons from the Malaysian experience.

#### **5. Aljohari (2008): Asian Tiger - Mahathir Mohamad - from a rebellious young man to an Islamic hero:**

The study aimed to identify how Malaysia has become a giant state on the technological and industrial levels, and achieve developmental renaissance in record time.

The researcher used the descriptive analytical method which helps to cover all the information necessary to understand the subject of the research.

In summary, the researcher of the book found that there is a new pattern in the struggle to cope with the era of globalization and the global economic struggle, and the struggle of scientific technology and confidence in the people and the cohesion with them and not the fear of the people or surround them with the security services.

### **1.8.3. Foreign Studies:**

#### **1-Yusuf and others (2012): Monetary Shock and Unstable Unemployment in Malaysia, A Dynamic Interaction Approach:**

The main purpose of this study is to analyze the integration and dynamic interaction between monetary shock and overall unemployment in Malaysia for the entire period of 1980-2010. In order to achieve this objective, the researchers apply various unit root tests, Gregory-Hansen cointegration test, VECM; and Granger causality test with considering the possibility of the structural break. The estimated results clearly show that there is a structural break in the middle of 1990s; and long run co-integration did exist between monetary shock and unemployment. This happens because of the „turn over effect“ in Malaysian labor market, where the highly educated job seekers are competing with experienced low educated labor force. Besides that, the amount of labor employed in the agriculture and manufacturing sectors in Malaysia are also declining because of the automated production line and the overflow of foreign labor. Although the findings of this study clearly show a long run connection with 21% corrected each year from the long-run disequilibrium between monetary shock and unemployment; surprisingly the causality result does not indicates any causal relation between both variables indicating that unemployment is not affected by monetary shock in Malaysia.

#### **2- Abbasi shahkoo and others: (2008) Investigation into the Effect of Information Technology of the rate of Unemployment:**

This study aimed to analyze the impact of information technology on jobs structure in different countries. As for the scientific approach taken by the authors of the study, it is to study the cases of collective and not a single case, in order to identify the collective impact of information technology on unemployment in these countries.

The authors of this study has reviewed many references that look at the subject of the impact of information technology on unemployment rates, that the writings on this subject was divided into a supporter of the view that technology increase the unemployment rate, and shows believes that information technology does not increase the unemployment rate, but working to reduce it.

After comparing 61 countries through the development of this study, it concluded that the inventors of information technology work to reduce the unemployment rate. It is through the application of the developed countries, the study found that technology increases unemployment in the early stages of its appearance, but it is soon to create new jobs after training.

### **3- Ministry of Human Resources, MALAYSIA: (2006) Enhancing Jobs Strategies:**

This study aimed to identify Malaysian enhancing jobs strategies, this paper consists of five sections, including The Malaysian Population and Economy; Outlook on the Malaysian Labour Force and Market; Forecast of Human Resources Requirement; Approaches Adopted by Malaysia towards Job Strategy; Policies and Programs to Address HRD Issues; and conclusion.

The study used the descriptive approach, and concluded that the key to encouraging job strategy and job growth will come from policies that promote diversification of production activities into new areas that facilitate restructuring of existing activities, and foster coordination between public and private entities. A structured and integrated approach to job creation is vital in ensuring that our people benefit from strong growth and that growth is sustained, besides the commitment of Government to ensure that people gain the benefit.

#### **1.8.4. Comment on previous studies:**

##### **For local previous studies:**

The study of (Saleh) talked about the role of Islam in the treatment of the problem of unemployment while the study of (Dahlan) focused on women's unemployment while the studies of (Migdad), (Hanoun and Bitar) and (Khudair) talked about the graduates and the extent of rehabilitation during the study to suit professional potential with market requirements, and the interest of the higher education institutions in the follow-up to their

conditions after graduation in terms of entry to the labor market and get jobs that fit their qualifications.

Those studies demonstrated a failure of the concerned institutions, especially the Ministry of Education and Higher Education and universities in the preparation and qualification of what the market needs of the educated labor, and follow up the conditions of the graduates and the extent of absorption of them in labor market. While the study of (Odat) interested in the social implications of the problem of unemployment on the Gazan society, and proved that a lot of family problems in Gaza Strip are caused by unemployment, which creates the worst categories of workers psychologically and physically, their suffering and the disintegration of the family up to severe consequences.

While there were many views of (Fallit),(Ibrahim) and (Buhaisi) in the phenomenon of unemployment treatment in general mechanisms between commitment to the principles of Islamic law, and attention to small projects as a nucleus for the treatment of unemployment, and interest in generating far from usury alternatives to finance these projects.

#### **For Arab studies:**

The studies of (Bayoumi), (Ismail), (Saleh) and (Aljohari) discovered the features of the Malaysian experience in economic development, The studies of (Hayali) and (Saleh) showed that the weakness of the rehabilitation of labor is the main reason for high unemployment.

#### **For Foreign Studies:**

The goals of these studies have varied between research on the causes of unemployment, and the factors that increase their rates, and its implications. In addition to the effects of the monetary shock and IT on unemployment.

#### **1.8.5. Additions achieved by the current study:**

With regard to the study we are about to embark, researcher did not find among the multiple studies that addressed the issue of unemployment, a study concerned with the development of treatment to reduce unemployment problem derived for the application of the most important lessons and insights learned from the Malaysian experience in reducing the problem of

unemployment, which the Palestinian people can benefit against this problem.

The local and Arab studies focused on the phenomenon of unemployment in general, but did not address a lot of international experiences in eliminating unemployment.

The foreign studies interested in the unemployment results on individuals' health making studies dealing with the issue of unemployment and benefit from the international experience.

Hence, this is a new study particularly at the local level, which lacks for this type of studies, as well as the case for Arabic studies, which did not address specific situations in the Arab societies.

This research seeks to identify the strategy pursued by Malaysia to decrease unemployment. In addition to examining the possibility to take advantage of developing plans and strategies to reduce unemployment in Palestine.

## **Chapter Two**

### **Unemployment in Palestine**

**2.1. Introduction:**

**2.2. Types of unemployment:**

**2.3. A background of the Palestinian Economy and employment:**

**2.3.1. The Palestinian economy between 1948 and 1993:**

**2.3.2. Developmental Program for the Palestinian national economy 1994 – 2000:**

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**2.4.1. Basic National Accounts:**

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**2.4.3. The Main Results for the Palestinian Economic Surveys Series in 2014:**

**2.5. The current situation of unemployment in the Palestinian society:**

**2.6. The causes of unemployment in the Palestinian society:**

**2.7. Conclusion:**

## 2.1. Introduction:-

The subject of the unemployment was identified as a priority for Palestinian society as a crisis that is becoming an overwhelming problem affecting hundreds of thousands of Palestinian families. Like the majority of economic problems facing the Palestinian people, this crisis is a result of Israeli occupation. The intensification of this aggression since September 2000 has led to a deterioration in the investment environment as well as negatively affecting economic activities in all Palestinian governorates.

In this chapter, we are going to identify unemployment and its types, also have a look on the background of the Palestinian economy and employment. In addition to studying the current situation of unemployment in the Palestine and the causes of unemployment in the Palestinian society.

## 2.2. Types of unemployment:-

There are three major types of unemployment: (Case and others, 2012, p.446)

1- **Frictional unemployment**:- short-run unemployment due to the movement of individuals between jobs, while seeking a better match for their skills.

2- **Structural unemployment**:- longer-term unemployment, caused by changing tastes or changing technology that make some job skills less desirable. Automation or change in public preferences might cause structural unemployment.

3- **Cyclical unemployment**:- caused by recessions and depressions.

Then he added that the first two types of unemployment are inevitable in a healthy, dynamic economy. Together, they comprise the rather imprecise concept of the *natural rate of unemployment*—the rate of unemployment that occurs during the normal operation of the economy. Full employment doesn't imply zero percent unemployment. Recessions and cyclical unemployment result in lost output and adverse social consequences (broken homes, alcoholism, and suicide), and lower investment and economic growth. (Case and others, 2012, p.446)

The natural rate of unemployment in the Palestinian economy differs from that of other countries which they in normal conditions. Unemployment in Palestine is not only the total of frictional and structural unemployment. It includes some sort of chronic unemployment resulting from reliance on the labor market in Israel. Reducing unemployment requires a sustainable growth in the Palestinian economy until stopping exporting workers to Israel gradually. (MAS, 2006, P.199)

### **2.3. A background of the Palestinian Economy and employment:-**

Palestinian economy has never been independent since hundreds of years ago. Before 1917 it was under the Othman regime for hundreds of years – 1917-1948 it was under the British mandate – 1948-1967 Gaza was under the Egyptian administration with considered as a special trade zone and the West Bank was annexed to the Jordanian economy – 1967-1994 Palestinian economy was affiliated to the Israeli economy, but with all types of control and restrictions. In 1994 and after signing the Oslo agreement and Paris protocol, it was the first time where Palestinians begun handling their economy, but also under the full Israeli control and restrictions on imports and exports, even for the trade between the two parts of the Palestinian Territories. This didn't last much of time, when Al Aqsa intifada erupted In September 2000, where the Israelis restored their full control and restrictions on the Palestinian life including economy, followed by Israeli invasion to the West bank on 2002. Palestinian economy will never be free as long as the Palestinian Territories are under the Israeli control and occupation. (AbuShahla, 2009)

#### **2.3.1. The Palestinian economy between 1948 and 1993:-**

The Palestinian economy is distinguished from the rest economies of the Arab countries since losing its productivity base in 1948. A new political situation in the West Bank via attaching it to the Jordanian regime, and in the Gaza Strip through the Egyptian trusteeship, imposing on the economy of the West Bank and Gaza to adapt to new situations. After the Zionist occupation of the West Bank and Gaza Strip in June 1967, the Palestinian economy face new coercive conditions that it has lost its ability to grow and develop away from the conditions of the occupation which has governed all economic resources and productive sectors. The Israeli policies and military orders prevented the economic development and the infrastructure growth as the Palestinian economy has depended more and more on the Israeli economy. (Sourani, 2006, p. 1)

The Palestinian economy has seen a number of shifts and changes since the beginning of the nineties when the Palestinian territories experienced several economic crises that living standards have fallen, unemployment has spread, and poverty has widened, especially among vulnerable and marginalized groups. In the beginning of the nineties there has been a severe economic crisis caused by the Gulf crisis and the Israeli procedures against the Palestinian people during the first intifada, these procedures continued until the beginning of the year 1994, after the signing of the Israeli-Palestinian Agreement of Principles in September 1993 in Oslo, where the international community agreed to grant the Palestinian National Authority the necessary material



support to rebuild and rehabilitate public infrastructure and facilitate development efforts and push the Palestinian economy to raise living standards and reduce unemployment levels. (AlMustakbal Foundation, 2007)

### **2.3.2. Developmental Program for the Palestinian national economy 1994 – 2000:-**

This program was put in 1993 and under the supervision of Professor Joseph Sayegh with the contribution of many Palestinian academics and institutions; the Economic Department in the Palestine Liberation Organization in Tunisia has overseen the program. The program from the first attempt to put an ambitious development plan aims to rebuild Palestinian society after the Oslo agreement. The program costs have been estimated at about 11.6 billion US dollars, and in 1991 prices, the program has been based on important assumptions and strategies giving priority to correct the distortions caused by the occupation, to create jobs, to develop infrastructure, export promotion and the housing sector. Despite the importance of this program and the quantity and quality of the work to make it, it has not been applied in practice due to several factors, especially not providing it with the necessary funding and the unrealistic assumptions whether political, demographic or geographic. (Palestinian Liberation Organization, 1993)

When the Oslo peace process was first launched, everyone stood ready, anxious to capitalize on “peace dividends.” There was reason to be. The 1993 Declaration of Principles (DOP) and 1994 Paris Protocol fueled joint Palestinian and Israeli optimism for a prosperous economic future. Both saw in economic cooperation mutual benefit. The Paris Protocol seemed to support a prevailing notion that “mutual respect for each other’s economic interests, reciprocity, equity and fairness” would result in economic “spillover effects” that could also strengthen the peace process. Unfortunately, while both Parties placed substantial emphasis on improving Palestinian economic conditions at the signing of the DOP, as a key to peace, the Israeli economy reaped large peace dividends as the Palestinian economy was allowed to collapse. In reality, the WBGS economies have struggled in spite of the peace process, rather than being assisted by it. (AlMustakbal Foundation, 2007)

The international efforts and aid to the Palestinian economy were not reflected on ground since the economy fell again under a crisis early in 1996 as a result of closures and restrictions on the Palestinian territories by the Israeli occupation authorities. the unemployment rate rose sharply, particularly in Gaza Strip, bringing the average in the Palestinian territories to 24% by 20% in the West Bank and 33% in Gaza Strip. (See form 2-1) That was reflected automatically on the low living standards, where domestic and international efforts began toward calm and activate the wheel of economic activity in order

to revive the Palestinian economy again and gradually the Palestinian economic situation began to recover. (MAS, 2006, P. 23)

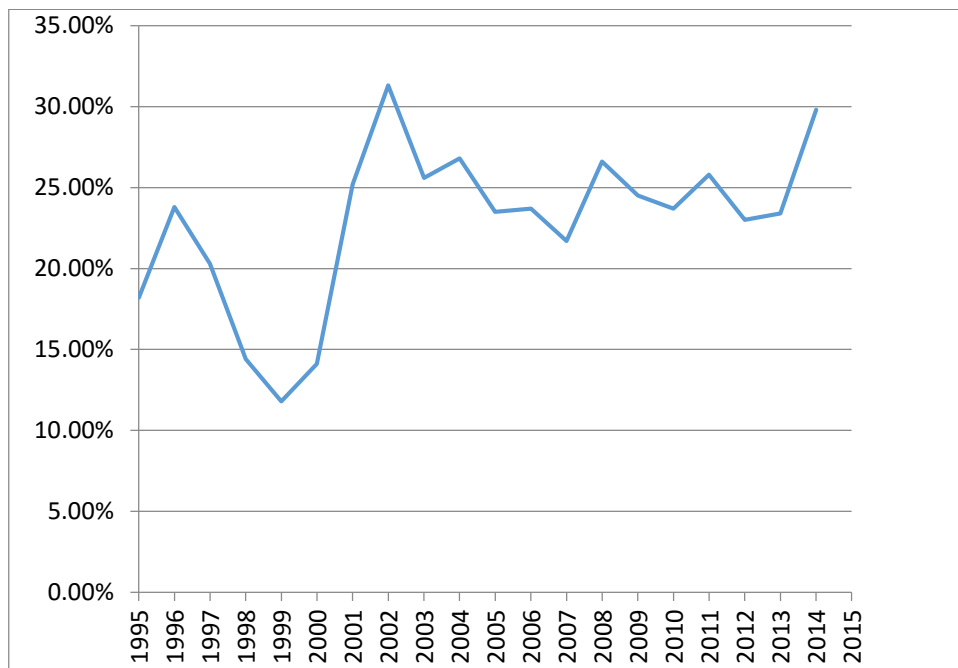
### **2.3.3. The Palestinian economy between 2000 and 2014:-**

After that, economic indicators began to show stability, and the unemployment rate began to decline gradually until it reached its lowest point 10% in the third quarter of the year in 2000, with 8% in the West Bank and 16% in Gaza Strip. However, the political situation flipped upside down in the Palestinian territories once again, and therefore reflected negatively in all aspects of life. According to statistical indicators available in the Palestinian Central Bureau of Statistics, the unemployment rate in the fourth quarter of 2000 rose to the level of unprecedented, reaching 28% in the Palestinian territory by 26% in the West Bank and 34% in the Gaza Strip. The economic crisis has been continuing to this day in spite of repeated attempts and strenuous efforts that have been made to avoid the effects of the political crisis with the Israeli side, in addition to the effects of the international embargo imposed on the Palestinian territories and the interruption crisis of salaries for government employees. (MAS, 2006, P. 24)

During the years 2001 and 2002, gross domestic product has fallen dramatically, resulting in excessive increase in the unemployment rate that reached the highest level and ranged between 25-35%, continuing at these levels until the beginning of 2005.(See form 2-1). However, the economic situation in the Palestinian territories had improved gradually during 2004-2005, and began to achieve imponderable GDP growth rates between the years 2006-2007, and then achieved a growth rate of 5.9% in 2008 (base year 1997), and the per capita GDP reached \$ 1,340.4. This growth was almost to be greater but the Israeli aggression on Gaza Strip in the end of 2008 resulted in a sharp decline in the gross domestic product. The gross domestic product continued to grow in the years 2009, 2010 and 2011 ranged between 6-7%, and achieving a significant improvement in the per capita GDP reaching about \$ 1600. Nevertheless, the per capita of GDP remained below the level it was in 1999 (reaching \$ 1800). This growth has returned to the slowdown in 2012 due to declining international aid, and thus government spending and because of the uncertainty that prevails in the local and regional political scene. It should be mentioned that most of this growth in the last two years came from Gaza Strip but not from the West Bank because of the relative reduction of the blockade on Gaza Strip and the acceleration of the movement of trade through the tunnels, which have increased the pace of implementation of the reconstruction of damaged infrastructure projects by international and local institutions, and stimulate the real estate and construction sectors. In spite of these facts, the per capita of gross domestic product in Gaza remained less at about 40% of the level in the West. (Abdelkarim, 2012)

**Figure 2.1.**

**The evolution of the unemployment rate in Palestine, 1995 - 2014**



**Source: (Palestinian Central Bureau of Statistics, 2015)**

Unfortunately, Israeli policies and practices restricted Palestinians from using natural resources, engaging in productive economic activity, and having / creating a Palestinian public sector. Fearing that Palestinians would compete with Israeli manufacturers, Israel did not invest or industrialize in West Bank and Gaza Strip. It also restricted what Palestinians could do. Israel made the free movement of Palestinian workers into Israel, coupled with free export of Israeli goods to the West Bank and Gaza Strip, the most important features of Israeli Palestinian economic relations. As for Palestinian goods into Israel, those experienced significant trade barriers, especially agricultural goods. As a result, not only was the Palestinian economy denied developing an economic infrastructure to become self-reliant, But also it was diverted from other Arab and foreign markets to rely solely on Israeli goods. (AlMustakbal Foundation, 2007)

#### **2.4. The Palestinian economy up to date:-**

Palestinian growth and development necessitate an economically viable Palestinian entity that covers the West Bank and Gaza Strip. The Oslo Accords reflected Israel's conviction that Palestinian economic growth and prosperity can be achieved without defining border and territorial sovereignty. Since the process was first launched, we know this is not the case. (AlMustakbal Foundation, 2007) Here are the Basic National Accounts and the Percentage

Contribution to GDP in 2013, then The Main Results for the Palestinian Economic Surveys Series in 2014.

#### **2.4.1. Basic National Accounts: -**

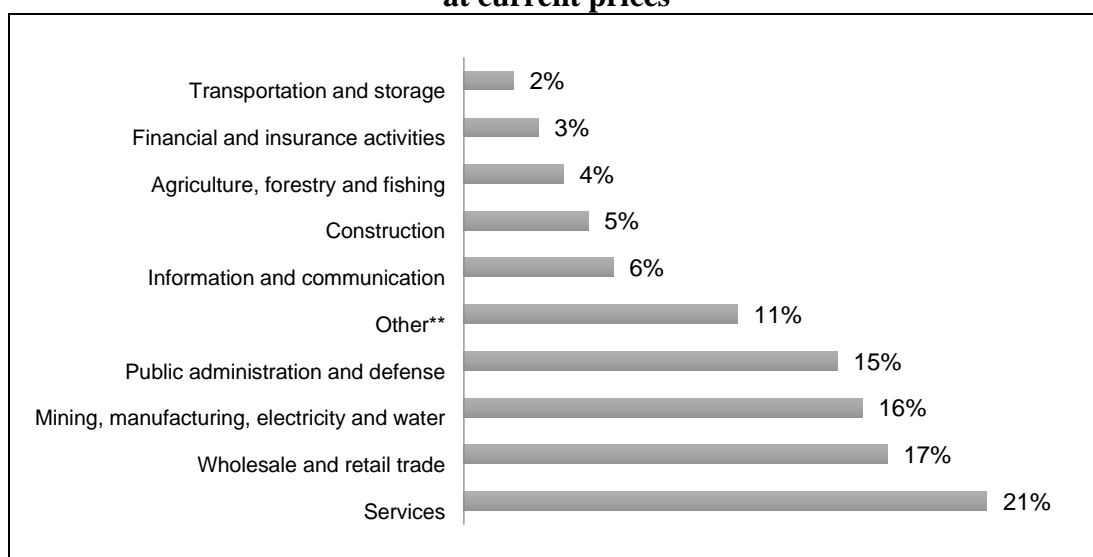
The final findings of the National Accounts at constant prices for 2013 show a general growth in the value of Gross Domestic Product (GDP), Gross National Income (GNI) and Gross National Disposable Income (GNDI). GDP in Palestine at constant prices was USD 7,477 million during 2013, reflecting an increase of 2.2% compared with 2012. GDP per capita was USD 1,793 during 2013 with a decrease of 0.8% compared with the previous year. (Palestinian Central Bureau of Statistics, 2014)

GNI at constant prices in Palestine for 2013 was USD 8,068 million, marking an increase of 3.6% compared with 2012; GNI per capita was USD 1,935, reflecting an increase 0.5% compared with 2012. GNDI was USD 8,767 million during 2013 with a decrease of 1.0% compared with 2012, while GNDI per capita decreased by 3.9% in 2013 to USD 2,103. (Palestinian Central Bureau of Statistics, 2014)

#### **2.4.2. Percentage Contribution of economic activity to GDP in 2013:-**

The Palestinian economy is service-oriented and services contributed 20.9% to GDP at current prices in 2013. (this includes the following activities: real estate; professional, scientific and technical activities; accommodation and food service activities; education; human health and social work activities; arts; entertainment and recreation; and other service activities). Wholesale and retail trade, repair of motor vehicles and motorcycles contributed 17.1%. Industrial activities, which include mining, manufacturing, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities, contributed 15.7%. Public administration and defense activities contributed 14.8%, while construction contributed 4.5% to GDP. Transportation and storage activities formed the lowest contribution of 1.8%. (Palestinian Central Bureau of Statistics, 2014) (See Form 2.2.)

**Figure 2.2.**  
**Percentage contribution of economic activity to GDP in Palestine\* for 2013**  
**at current prices**



**Source: (Palestinian Central Bureau of Statistics, 2014)**

\*The data excludes those parts of Jerusalem governorate which were annexed by Israel in 1967.

\*\*Includes households with employed persons, customs duties and tax on net imports.

In general, it seems that the Palestinian Economy is a service economy so there should an interest in other sides of the economy.

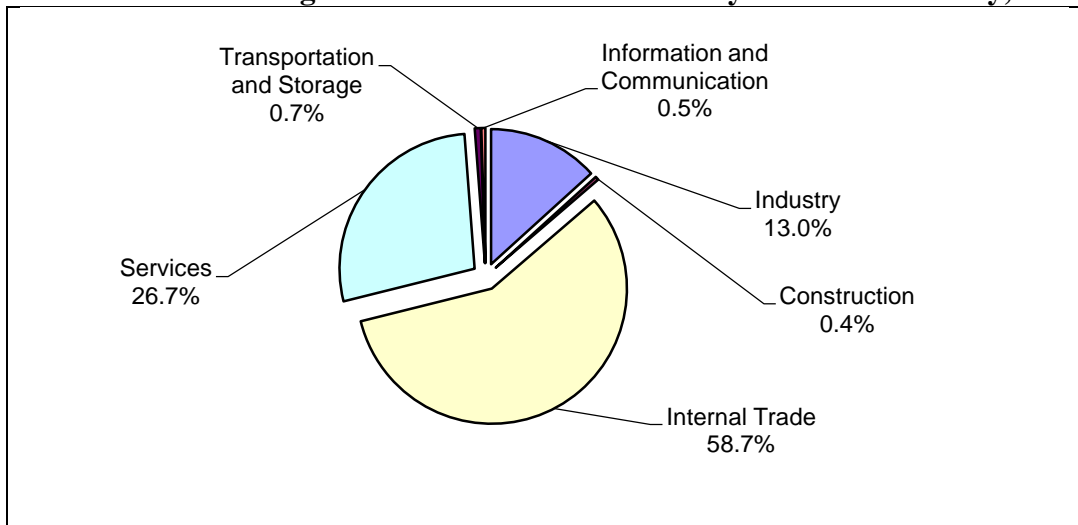
### **2.4.3. The Main Results for the Palestinian Economic Surveys Series in 2014:-**

The Economic Surveys series - done by the Palestinian Central Bureau of Statistics - provides statistical indicators about active enterprises in private and nonprofit sectors in the Palestinian economy, excluding agriculture. These indicators include the number of enterprises, number of employed persons and their output. The main findings of the Economic Surveys series of 2014 in Palestine are as follows: (Palestinian Central Bureau of Statistics, 2015)

#### **Distribution of Operational Economic Enterprises:-**

The results of the survey show that there were 130,747 non-agricultural enterprises in 2014 in the activities covered in the Palestinian economy. This number was distributed as follows: internal trade activities 58.7%, services 26.7%, industry 13.0%, transportation and storage 0.7%, information and communications 0.5%, and construction 0.4%. (See Form 2.3.)

**Figure 2.3.**  
**Percentage Distribution of Operational Economic Enterprises in the Private and Non-Governmental Organization Sector in Palestine by Economic Activity, 2014**

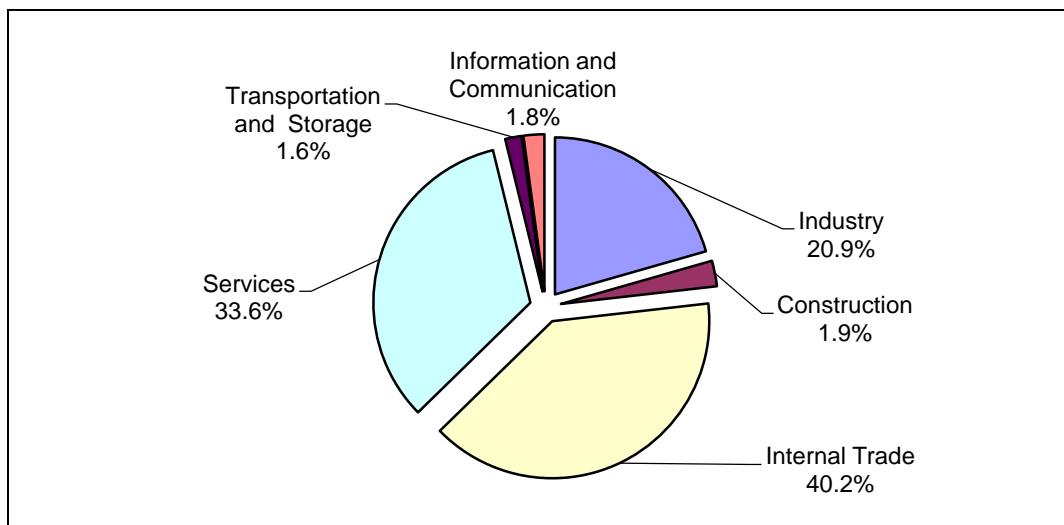


Source: (Palestinian Central Bureau of Statistics, 2015)

**Distribution of Employed Persons in Economic Operational Enterprises:-**

There were 413,471 employed persons in economic enterprises distributed as follows: internal trade activities 40.2%, services 33.6%, industry 20.9%, construction 1.9%, information and communications 1.8%, and transportation and storage 1.6%. (See Form 2.4.)

**Figure 2.4.**  
**Percentage Distribution of Employed Persons in Economic Operational Enterprises in the Private and Non Governmental Organization Sector in Palestine by Economic Activity, 2014**

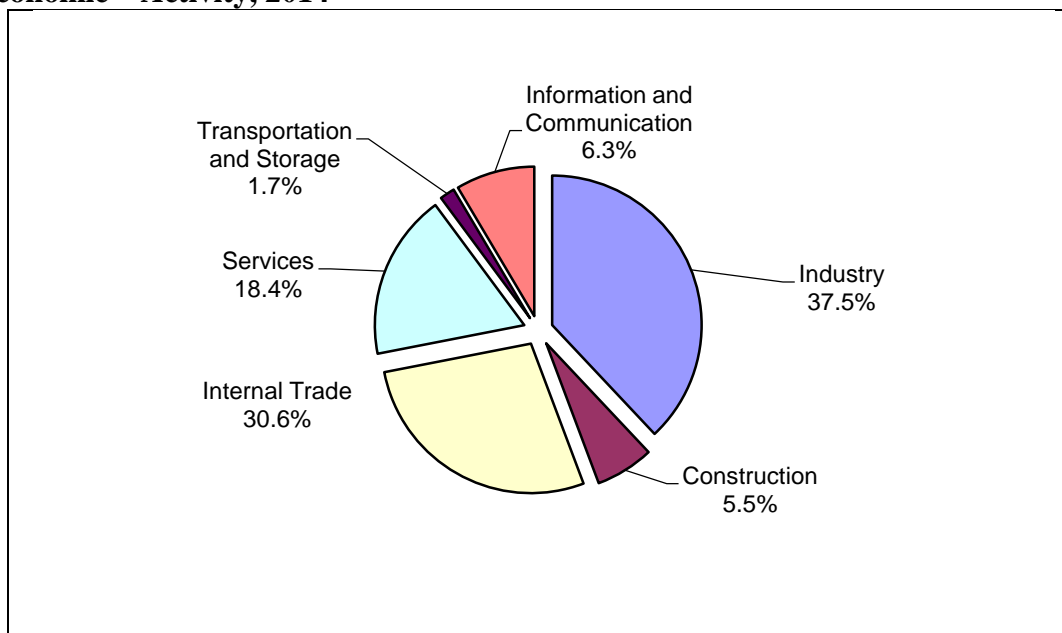


Source: (Palestinian Central Bureau of Statistics, 2015)

### **Distribution of Output from Operational Economic Enterprises:-**

The value of output by economic enterprises was USD 10,946.3 million, distributed by economic activity as follows: industrial activities 37.5%, internal trade 30.6%, services 18.4%, information and communications 6.3%, construction 5.5%, and transportation and storage 1.7%. (See Form 2.5.)

**Figure 2.5.**  
**Percentage Distribution of Output from Operational Economic Enterprises in the Private and Non Governmental Organization Sector in Palestine by Economic Activity, 2014**



**Source: (Palestinian Central Bureau of Statistics, 2015)**

The performance of the Palestinian economy depends, largely, on the Israeli closure policies and the level of international aid to the Palestinian economy. It is possible that there will be a negative growth in GDP per capita unless the Israeli restrictions and closure are removed, and unless the international aid size is increased. If the donor countries continue to provide aid to the Palestinians and strengthen international diplomatic interventions to enable the Palestinians access to markets this would prevent further deterioration in the Palestinian economic performance. Despite that international aid has a limited effect if compared to the impact of ending the Israeli closure imposed on the Palestinian territories, but this aid is possible to make higher stability in the Palestinian economy if targeting the development of the private sector, and invested in activities of sustainable development.

Ending the closure in all internal and external forms will lead to economic recovery. In addition to real developments in trade facilities and

reasonable movement on the crossings (organizing and facilitating the movement between the West Bank and Israel, and achieving territorial contiguity between the West Bank and Gaza. as well as the establishment of Gaza port, and the rehabilitation of the Gaza airport), will lead to the reduction of trade transaction costs, and give a greater capacity to export, and thus lead to real economic transformation. (MAS, 2006)

Despite the current major challenges, the Palestinian economy in the past has shown a high potential for manufacturing and agricultural production in sectors such as, furniture, shoes, clothing, strawberries, and flowers. This indicates that, beside its natural resources, there is enormous potential for the Palestinian economy to become a hub in the Middle East for the production of specialized goods and high-quality services. (Ministry of National Economy, 2011)

## **2.5. The current situation of unemployment in the Palestinian society:-**

The unemployment rates has reached to unprecedented levels that it sometimes exceed % 50 that results in the expanding poverty and threatening the social and economic security of the Palestinian family, and preventing any possibility of political stability. Here is an outlook on the Palestinian Labour Force. (Palestinian Central Bureau of Statistics, 2015).

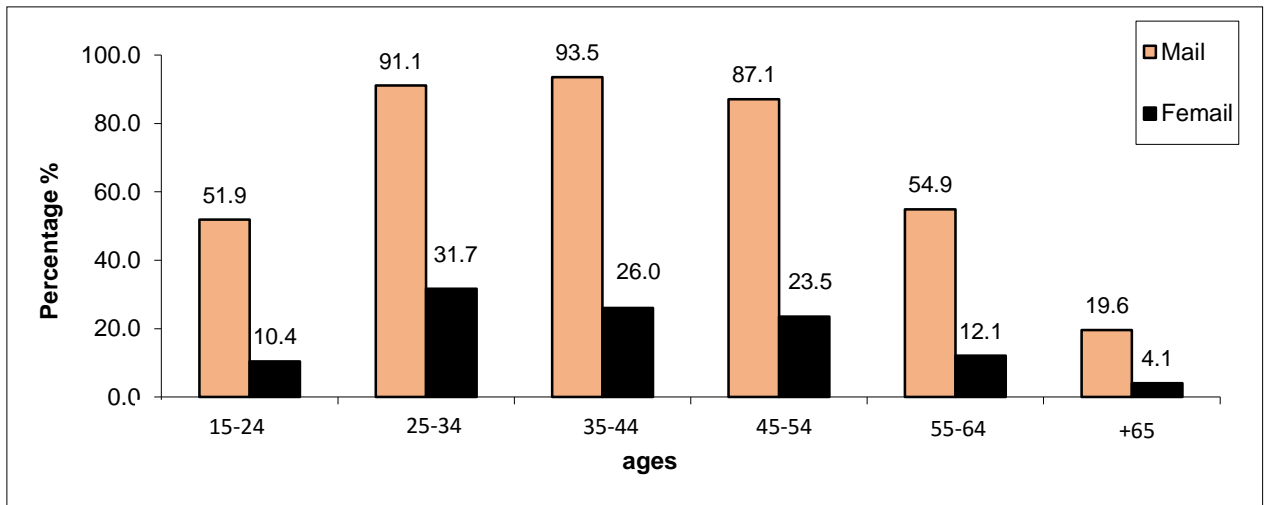
### **Labour Force Participation (ILO Standards):-**

The results indicated that labour force participation rate was 45.8% in 2014 compared to 43.6% in 2013. The males participation rate was 71.5% in 2014 compared to 69.3% in 2013 and was 19.4% for females in 2014 compared with 17.3% in 2013.

The highest labour force participation rate was among persons aged 25-34 years by 61.9%: 91.1% for males and 31.7% for females. The labour force participation rate for persons aged 35-44 years was 60.3%: as 93.5% for males compared with 26.0% for females. The labour force participation rate for persons aged 15-24 years was 31.6% (51.9%, for males compared with 10.4% for females). (See Figure 2.6.)



**Figure 2.6.**  
**Labour Force Participation by Sex, Age, 2014 (ILO Standards)**



**Source: (Palestinian Central Bureau of Statistics, 2015)**

The labour force participation rate in the West Bank was 46.6% for persons aged 15 years and above: 73.4% for males and 19.1% for females. The results indicated that the labour force participation rate in Gaza Strip was 44.4%: 68.2% for males compared with 20.0% for females.

**Labour Force Participation (Relaxed Definition):-**

The labour force participation rate was 47.7% in 2014 compared to 45.7% in 2013. In West Bank, the rate was 48.4% in 2014 compared to 47.2% in 2013, while in Gaza Strip it was 46.4% in 2014 compared to 43.2% in 2013.

**Labour Force Status (ILO Standards):-**

The unemployment rate for persons aged 15 years and above in Palestine in 2014 was 26.9% compared to 23.4% in 2013, while the percentage of full employment in 2014 was 66.6% compared to 70.5% in 2013.

**Employment (ILO Standards)**

36.1% of employed persons worked in the services and other branches sector, while 20.2% worked in the commerce, hotels and restaurants sector. The main field of employment for females was the services and other branches sector, which employed about 57.0% of women. The Agriculture, hunting and fishing sector provided job opportunities to about 20.9% of females in Palestine.

In 2014, employed persons were distributed according to place of work as 61.1% were working in the West Bank compared with 27.2% working in Gaza Strip while 11.7% were working in Israel and Israeli settlements. The

percentage of employed persons from the West Bank in Israel and Israeli settlements was 16.1% in 2014 and 2013, while workers from Gaza Strip had not been accessed to work in Israel or Israeli settlements since 2007.

Employed persons were distributed by employment status as follows: 6.4% were employers, 18.9% self-employed, 67.7% wage employees and 7.0% were unpaid family members.

In terms of occupation, 26.6% of employed persons worked as professionals, technicians and clerks, while 18.0% were employed in crafts and related trade work. Also, 16.8% of workers were employed in elementary occupations and about 6.3% employed as skilled agricultural workers.

The results indicated that percentage of employed persons in public sector in Palestine was 22.9% in 2014 compared to 23.0% in 2013 (41.5 % in Gaza Strip in 2014 compared to 37.8% in 2013 while it was 16.0% in the West Bank in 2014 compared to 16.6% in 2013).

The results revealed that 65.4% of persons were employed in private sector in Palestine in 2014 compared to 65.8% in 2013 (58.5% in 2014 in Gaza Strip compared to 62.2% in 2013, while it was 67.9% in the West Bank in 2014 compared to 67.3% in 2013).

In West Bank, about 22.7% of wage employees in the private sector received less than minimum monthly wage about 50,900 wage employees with an average of monthly wage by 1,035 NIS. The large number of those who received less than the minimum monthly wage was in Hebron governorate of about 14,000 persons with average of monthly wage by 955 NIS, followed by Nablus governorate of about 10,700 person with 1,002 NIS.

In Gaza Strip, the percentage of wage employees in the private sector who received less than minimum monthly wage was 59.7% of about 50,700 wage employees with an average of monthly wage 718 NIS. The large number of those who received less than the minimum monthly wage was in Gaza governorate of about 21,100 persons with an average of monthly wage by 754 NIS, followed by Khan Yunis governorate of about 9,500 persons with 671 NIS.

The average number of days worked per month was 22.4 days (22.5 for employees working in the West Bank, 23.9 days for those working in Gaza Strip and 20.0 days for those working in Israel and Israeli settlements). The average number of hours worked per week was 42.4 hours: 44.1 hours for employees working in the West Bank compared to 37.7 hours for those working in Gaza Strip. The average working hours per week were 42.6 hours for wage employees working in Israel and Israeli settlements.

Average of daily wage for wage employees in the public sector was about 96.7 NIS (104.4 NIS in the West Bank compared to 81.0 NIS in Gaza Strip). The average of daily wage for employees in the private sector was about 76.5 NIS (84.7 NIS in the West Bank and 52.8 NIS in Gaza Strip).

### **Unemployment (ILO Standards):-**

The unemployment rate in Palestine in 2014 was 26.9%, distributed as 23.9% for males and 38.4% for females. Results revealed that unemployment was concentrated among youth aged 15-24 years at 43.6% (39.9% for males and 62.8% for females). (See Table 2.1.)

The unemployment rate in West Bank was 17.7% ( 15.2% for males against 27.4% for females). The highest unemployment rate was in Hebron and Bethlehem governorates by 20.6%, followed by Jerusalem governorate by 19.0%, Salfit governorate by 18.6%, Jericho and AL Aghwar governorate by 17.9%, then Nablus governorate by 17.6%. The lowest unemployment rate was in Qalqiliya governorate by 12.6%.

In Gaza Strip, the unemployment rate was 43.9%: 40.1% for males against 56.8% for females. The unemployment rate among youth aged 15-24 years was 67.9%, distributed as 64.4% for males compared to 82.8% for females.

The highest unemployment rate in Gaza Strip by governorate was in Dier al Balah governorate with 49.7%, followed by Khan Yunis governorate with 46.4%, Rafah governorate with 45.4%, then North Gaza governorate by 42.0%. The lowest unemployment rate was in Gaza governorate by 40.0%

The results indicated that 0.6% of unemployed males and 0.2% of females had not completed one year of schooling. Conversely, about 89.0% of unemployed females and 21.8% of unemployed males had completed 13 years of schooling and above.

**Table 2.1.****Percentage Distribution of Persons Aged 15 Years and Above in Palestine by Sex, Age and Labour Force Status, 2014**

Sex and Age	Labour Force Status						
	Total	Outside LF	Inside LF	Total	Unempl- oyment	Underem- ployment	Employ- ment
<b>Both Sexes</b>							
15-24	100	68.4	31.6	100	43.6	7.8	48.6
25-34	100	38.1	61.9	100	30.6	8.0	61.4
35-44	100	39.7	60.3	100	14.8	5.3	79.9
45-54	100	43.7	56.3	100	15.0	3.9	81.1
55-64	100	66.3	33.7	100	12.6	3.1	84.3
65+	100	89.3	10.7	100	2.5	0.6	96.9
<b>Total</b>	<b>100</b>	<b>54.2</b>	<b>45.8</b>	<b>100</b>	<b>26.9</b>	<b>6.5</b>	<b>66.6</b>
<b>Males</b>							
15-24	100	48.1	51.9	100	39.9	8.3	51.8
25-34	100	8.9	91.1	100	23.0	9.3	67.7
35-44	100	6.5	93.5	100	13.9	6.1	80.0
45-54	100	12.9	87.1	100	16.4	4.4	79.2
55-64	100	45.1	54.9	100	14.7	3.6	81.7
65+	100	80.4	19.6	100	3.2	0.8	96.0
<b>Total</b>	<b>100</b>	<b>28.5</b>	<b>71.5</b>	<b>100</b>	<b>23.9</b>	<b>7.3</b>	<b>68.8</b>
<b>Females</b>							
15-24	100	89.6	10.4	100	62.8	5.3	31.9
25-34	100	68.3	31.7	100	53.0	4.3	42.7
35-44	100	74.0	26.0	100	18.2	2.6	79.2
45-54	100	76.5	23.5	100	9.2	1.7	89.1
55-64	100	87.9	12.1	100	3.0	0.9	96.1
65+	100	95.9	4.1	100	0.0	0.0	100.0
<b>Total</b>	<b>100</b>	<b>80.6</b>	<b>19.4</b>	<b>100</b>	<b>38.4</b>	<b>3.5</b>	<b>58.1</b>

Source: (Palestinian Central Bureau of Statistics, 2015)

**Unemployment (Relaxed Definition):-**

The unemployment rate in 2014 was 29.8%. In addition, unemployment rate in the West Bank was 20.8% against 46.2% in Gaza Strip.

**Persons Outside Labour Force (ILO Standards):-**

54.2% of persons aged 15 years and above in Palestine were outside labour force, as 28.5% was among males against 80.6% among females. (See Table 2.1.)

In general, the problem is more severe in the Gaza Strip and requires faster action. It is also noted that rates of unemployment in Gaza Strip are higher

than in the West Bank throughout the period from 1972 so far, because the West Bank economy's ability to absorb labor is bigger than Gaza Strip, in addition to the ease of exporting the surplus labor to Israel legally or illegally ways. Gaza Strip is disadvantaged by its small market and the difficulty of communicating with the outside world that limits its ability to absorb labor. (MAS, 2006, P. 39)

There is a responsibility on the Israeli occupation authorities to review its security procedures and stop the economic blockade such as the restrictions imposed on the movement of persons, goods and services, in order to enable the Palestinian economy to resume its active movement. The Palestinian Authority and its executive and legislative institutions has a historic responsibility to achieve internal stability and fight corruption.

## **2.6. The causes of unemployment in the Palestinian society:-**

Unemployment in the Palestinian context is a political, economic and professional issue resulting in general from the conflict with Israel. The problem of unemployment is a public responsibility since it generates other problems in the community such as poverty, health problems, child malnutrition and school dropout and so on. The causes of unemployment in the Palestinian society can be divided into three categories: The economic factor, the role of occupation and the Palestinian self-factor.

### **2.6.1. The economic factor:**

Unemployment is not an abstract issue even though it is figures, data and stats, just as the economy is not separated from the political, social and cultural status issue. The premise in the issue of unemployment is faltering Palestinian economy and its cycle. The main contribution to the problem is the weakness of the local market structure and the inability to absorb the unemployed and new entrants for the labor market for the first time and the estimated about 6% of the manpower. (Arab Thought Forum, 2003, p.20)

The Palestinian economy suffers from a chronic unemployment, due to the presence of structural abnormalities that limits its ability to absorb new entrants into the labor market. The problem of unemployment did not appear in the past since there were opportunities to export labor to Israel and some Arab countries markets, especially the Gulf States. Unemployment has become the most important problem since the beginning of the nineties, after the first and second wars in the Gulf as many Palestinians have lost their employment opportunities in the Arab markets. In addition to the Israeli occupation policy which has been deepening the unemployment problem by replacing Palestinian

employment with the foreign labor and imposing severe restrictions on the entry of Palestinian workers into the Israeli labor market. (MAS, 2006, P. 37)

### **2.6.2. The role of occupation:**

The unemployment problem in Palestine is worsening since Israel is following a policy of destroying the Palestinian economy to put pressure on the Palestinians. The most important and direct reason for unemployment crisis in Palestine since September 2000, is the Israeli occupation procedures. Israel is imposing of the closures restrictions and obstacles on the Palestinian territories that limits the freedom and movement of the labor and goods. These procedures have led to growing number of unemployed in Palestine and isolating Palestinian villages and areas for long periods that hurt the business environment and the movement of foreign and intra-regional trade. Has also been directing a painful blow to agriculture, industry, construction, services and other sectors. (Arab Thought Forum, 2003, p.19)

Any interested person can enumerate a long list that results from the Israeli occupation against the Palestinian economy, including: -

- Obstructing the arrival of raw materials to the Palestinian factories and establishments.
- Obstructing the internal and external trade.
- destroying the industrial and agricultural establishments and infrastructure.
- Uprooting the agricultural lands.
- Building the apartheid wall.

### **2.6.3. The Palestinian self-factor:**

The formal Palestinian party and non-formal (private and civil) has a responsibility in not being able to reduce rates of unemployment. As well as the absence of active trade union to put unemployment on the priority of the Palestinian agenda. (Sourani, 2006. P.30) There is a number of criticisms to the performance of the Palestinian Authority that it does not contribute to reduce the high rates of unemployment (Dahlan, 2013, p.43; Fallit, 2007, p.12):-

- Making clutter efforts to face the problem of unemployment and low rates of coordination between the ministries, and between the ministries and the civil and the private sectors.
- Lack of studies on the economic sectors, which can accommodate large labor and lack of mechanisms for the development and funding these sectors.
- Failure to provide adequate financial resources for the ministries concerned such as ministry of labor and ministry of social affairs.
- Lack of seriousness in the decision process that enables the responsible authorities to create a real labor market.

- Not to confront the unemployment dilemma as a challenge and a strategic threat to the community.
- Failure to treat with the weak competitiveness of the Palestinian economy and its low productivity.
- The continuity of investing capitals outside Palestine.
- The absence of professional performance to deal with government investment in general.
- Not activating the government's economic globally and regionally agreements.
- Inefficient use of aid funds and foreign aid, so that not use them optimally in the development projects that help the community to promote local industries and youth employment.
- Disruption of the relationship between higher education outputs and labor market needs in terms of the establishment of many universities and colleges that offer majors either frequent or do not fit the labor market.

It should be noted that the previous three factors (the economic factor, the role of occupation, the Palestinian self-factor) are moving up and running in under an overlap and interdependence. There must be an emphasis on the Palestinian self-factor in order to reduce unemployment by Palestinian remedial procedures and serious attempts to stop the unemployed numbers in order to prepare the Palestinian people to continue withstand in the face of the occupation. It may be true to think that Israeli occupation is responsible for the worsening unemployment crisis in Palestine and deal with this as an assumption. So why to accept the occupation to be an active factor, while the Palestinians are a passive factor!

It was natural that the form of unemployment faced by the Palestinian society since the September 2000 crisis challenge calls for the drafting of the answers and solutions to overcome the economic crisis. This represents a research for the opportunities, potentialities and resources available and the specificity of the Palestinian problem of unemployment in order to build scenarios and development plans and the forming a comprehensive vision of government to manage the crisis as an introduction to solve the problem. However, any try to start would be faced by the occupation and its policies.

## **2.7. Conclusion:-**

It seems that the problem of unemployment is strongly linked to the political situation; therefore, the more progress on the political front the less unemployment. The problem is more severe in Gaza Strip and requires faster action.

The privacy of the Palestinian case needs to build a developmental strategy that focuses on some economic sides within the various sectors, which

means removing the accumulated distortions during the Israeli occupation and work on the development of facilities and sectors on the other hand. The Palestinian economy needs a strategy of satisfying the needs then a strategy of production for export taking into consideration the modern concept of development. Any developmental strategy should meet the basic needs and be self-reliant characterizing by balance, stability and continuity.

If the economy is to be stable, it must maintain a certain level of domestic employment and to keep unemployment to the minimum level. The Palestinian economy must, therefore, have to build in mechanisms in order to ensure employment alternatives and to work on creating jobs and/or job opportunities in the domestic labor market as well as in different external markets. In order to have economic stability, individual earnings must reflect the cost of living. Per capita GNP, therefore, must meet the basic needs of the individual and/or the family unit in the economy. Otherwise, declining living standards, poverty and dissatisfaction will result in political instability.



## **Chapter Three**

### **The Malaysian experience in reducing unemployment**

**3.1. Introduction:**

**3.2. Background of the development process in Malaysia:**

**3.3. An outlook on the Malaysian Labour Force:-**

**3.4. Approaches adopted by Malaysia towards enhancing job strategy**

**3.4.1. The Strategy for the services sector:**

**3.4.2. The Strategy for the Manufacturing Sector:**

**3.4.3. Enhancing the development of small and medium enterprises:**

**3.4.4. Encouraging foreign direct investment:**

**3.4.5. Increasing external trade:**

**3.4.6. Creating jobs in technology and knowledge-intensive sectors:**

**3.4.7. Stimulating the private sector to employ more:**

**3.4.8. Recognizing the importance of self-employment:**

**3.5. Employment mechanisms:**

**3.6. Conclusion:**

### **3.1. Introduction:-**

Malaysia is an Islamic state of great elements that achieved tremendous steps in human and economic development during the past five decades where it became the first industrialized country in the Islamic World in the field of exports and imports in South-East Asia. Malaysia was able to establish a developed infrastructure and diversify the sources of national income from industry, agriculture, minerals, oil and tourism; and has achieved remarkable progress in the fields of elimination poverty, unemployment, corruption and debt treatment.

Malaysia has achieved great success in the fight against unemployment, having transformed from an exporter of raw materials, to a state of an economy depends on multiple domains in services and industry. The Malaysian experience has launched in the seventies of the last century after many Arab countries that still suffer from high rates of unemployment.

According to the latest statistics, the unemployment rate for the year 2014 dropped to only about 3%, after an average of about 10%, during the period of the fifties and sixties of the twentieth century. (Department of Statistics, Malaysia, 2015).

The early stages of the Malaysian experience has begun since 1957, after the evacuation of the British occupation of its territory, and Malaysia launched the new age with the name of Malaysian Federation, which quickly turned to the State of Malaysia, in the year 1963 (Bayoumi, 2009).

This chapter aims at following the means and policies that Malaysia has pursued to fight unemployment, represented in the service sector, the strategy for the manufacturing sector, enhancing the development of small and medium enterprises, encouraging foreign direct investment, increasing trade, creating jobs in technology and knowledge-intensive sectors, stimulating the private sector to employ more and recognizing the importance of self-employment.

### **3.2. Background of the development process in Malaysia, (Why to talk about the Malaysian experience):-**

After gaining independence in 1957, Malaysia tended a development strategy to import substitution in consumer industries that were controlled by foreign companies before independence. However, this strategy did not work in the field of sustainable development in view of the tight domestic market and the weakness of domestic demand. It did not increase the demand for labor or the presence of high benefit, where unemployment rates remained around 10%.

The first phase began in the seventies, tended development in Malaysia to rely on a significant role for the public sector and began to export-oriented manufacturing operations, where Malaysia began to focus on the electronic components industry. This was a labor-intensive industries, resulting in lower unemployment rates and an improvement in wealth and income distribution between the Malaysian society groups. (Al Saawi, 2003)

There is a futuristic vision of development and economic activity through sequential and integrated five-year plans since independence and until now. The Eleventh Malaysia Plan, 2016-2020, is the final step in the journey towards realising Vision 2020.

The Malaysian Government designed and implemented the new strategy from 1970 until 1990 known as the "New Economic Policy" which focused on the eradication of extreme poverty associated with the lack of aggressive recruitment opportunities, and the spread of unemployment and low standard of living in general. Then "Vision 2020" from 1991 - 2020 which was launched by Dr. Mahathir Mohammed who worked through the completion of development plans which started from 1970 and this vision came to move Malaysia to the ranks of developed countries by the end of 2020.(Bayoumi, 2009)

Malaysia has enjoyed one of the best economic growth records in Asia over the last five decades despite a multitude of challenges and economic shocks. The economy has achieved a stable real GDP growth of 6.2% per annum since 1970, successfully transforming from a predominantly agriculture-based economy in the 1970s, to manufacturing in the mid-1980s, and to modern services in the 1990s. Malaysia rose from the ranks of a low-income economy in the 1970s to a high middle-income economy in 1992 and remains so today. Malaysia's national per capita income expanded more than 25-fold from US\$402 (1970) to US\$10,796 (2014) and is well on track to surpass the US\$15,000 threshold of a high-income economy by 2020. Between 1970 and 2014, the incidence of poverty in general was reduced from 49.3% to 0.6% while hardcore poverty has been eradicated. (The Economic Planning Unit, Malaysia, 2015, p.20)

In 2014, Malaysia was rated the 12th most competitive country among 60 countries in the World Competitiveness Yearbook by the International Institute for Management Development; Malaysia was rated 20th out of 144 countries in the Global Competitiveness Index (GCI) 2014-2015 by the World Economic Forum; and 18<sup>th</sup> among 189 economies in the Doing Business Report 2015 by the World Bank; Malaysia also scores highly as a top 20 investor-friendly destination for the period between 2014 and 2018, in the Economist Intelligence Unit's 2014 Business Environment Rankings; Malaysia ranked 33rd on the Global Innovation Index out of 143 countries in 2014; Malaysia

was ranked 61 out of 187 countries on the UNDP human development index, 2011, with a score of 0.761 (high human development). (The Economic Planning Unit, Malaysia, 2015, p.20)

### 3.3. An outlook on the Malaysian Labour Force: -

In the latest data issued by the Department of Statistics in Malaysia, the labour market in Malaysia has demonstrated increase in the labour force participation rate to 67.5 per cent in 2014. The increase of 0.5 percentage point was contributed by the rise in the number of employed persons by 322.1 thousand persons to 13.5 million persons out of the total labour force of 13.9 million persons. The increase of female employed persons contributed to the increase of the overall LFPR. Female LFPR increased by 1.2 percentage points reaching 53.6 per cent in 2014. The unemployment rate fell during 2014 to about 2.9%. This makes Malaysia free from unemployment, where any country is considered free from unemployment if the unemployment rate is below 4%. (See Table 3.1.) (Department of Statistics, Malaysia, 2015).

**Table 3.1.**  
**Key Indicators of Labour Force in Malaysia, 2013 and 2014.**

<b>Indicator</b>		<b>2013</b>	<b>2014</b>	<b>Changes (%)</b>
Labour Force	('000)	13,634	13,931	2.2
Employed	('000)	13,210.0	13,532.1	2.4
Unemployed	('000)	424.6	399.5	-5.9
Outside Labour Force	('000)	6,700.8	6,712.3	0.2
Labour Force participation rate	(%)	67.0	67.5	0.5*
Male	(%)	80.7	80.4	-0.3*
Female	(%)	52.4	53.6	1.2*
Unemployment rate	(%)	3.1	2.9	-0.2

Note: \* = Percentage point %

Source: Department of Statistics, Malaysia. 2015

### 3.4. Approaches adopted by Malaysia towards enhancing job strategy:

The key to encouraging job strategy and job growth will come from policies that promote diversification of production activities into new areas that facilitate restructuring of existing activities, and foster coordination between public and private entities. A structured and integrated approach to job creation is vital in ensuring that our people benefit from strong growth and that growth is sustained.

Malaysia has adopted lots of approaches towards enhancing job strategy, represented in the service sector, the strategy for the manufacturing

sector, enhancing the development of small and medium enterprises, encouraging foreign direct investment, increasing trade, creating jobs in technology and knowledge-intensive sectors, stimulating the private sector to employ more and recognizing the importance of self-employment.

### 3.4.1. The Strategy for the services sector:-

The Malaysian economy is expected to remain healthy and strong as its growth will continue to be driven by domestic sources. The services sector is the primary driver of growth and is estimated to expand at 6.3% per annum, contributing 53% to GDP. Growth in the services sector was supported largely by the wholesale and retail trade, finance and insurance, and communications subsectors. (Malaysian Investment Development Authority, 2015)

Investment in the services sector increased 9.5% annually to RM125.3 billion in 2013, supported mainly by expansion in domestic investment. Labour productivity in the services sector is estimated to increase at an average rate of 2.8% per annum, mainly contributed by the information and communications technology (ICT), real estate and business, finance and insurance as well as transport and storage subsectors. The services sector continued to be the main source of employment, which is expected to provide 8.4 million jobs or 60.9% of total employment. Exports of services is estimated to grow at 5.6% per annum to reach 18% of total exports by 2015. In 2013, Malaysia was ranked among the top 30 services exporters in the world. (The Economic Planning Unit, Malaysia, 2015, p240) (See Table 3.2.)

**Table 3.2.**  
**Major indicators of the services sector, 2010-2015**

Sector	RM million in 2010 prices		% of total		annual growth rate, %
	2010	2015	2010	2015	Tenth Plan
<b>Services value added</b>	<b>420,382</b>	<b>571,835</b>	<b>100</b>	<b>100</b>	<b>6.3</b>
Electricity, gas & water	22,173	27,094	5.3	4.7	4.1
Wholesale & retail trade, accommodation & restaurants	134,635	185,410	32.0	32.4	6.6
Transport, storage & communications	68,511	97,363	16.3	17.0	7.3
Finance, insurance, real estate & business services	93,939	121,328	22.3	21.2	5.3
Government services	64,359	94,152	15.3	16.5	7.9
Other services	36,766	46,487	8.7	8.1	4.8
<b>Labour productivity (RM/worker)</b>	<b>59,278</b>	<b>68,111</b>			<b>2.8</b>
<b>Services export (RM million in current prices)</b>	<b>111,466</b>	<b>146,387</b>			<b>5.6</b>
<b>Employment ('000)</b>	<b>7,092</b>	<b>8,396</b>	<b>59.3</b>	<b>60.9</b>	<b>3.4</b>
<b>Contribution of total services sector to GDP (%)</b>			<b>51.2</b>	<b>53.8</b>	<b>53.0</b>

Source: Economic Planning Unit, 2015

Note: 2015 numbers are estimated

By 2020, the development of the services sector will become more knowledge intensive and innovation-led. The sector is expected to grow at 6.9% per annum, contributing 56.5% to GDP in 2020, and the most important point is that employment may increase by 2.6% providing 9.6 million jobs. (See Table 3.3.)

**Table 3.3.**  
**Major indicators for services sector, 2016-2020**

Item	RM million in 2010 prices		% of total		Average annual growth rate, % Eleventh Plan Target
	2015	2020	2015	2020	
<b>Services value added</b>	<b>571,835</b>	<b>796,722</b>	<b>100</b>	<b>100</b>	<b>6.9</b>
Electricity, gas & water	27,094	32,830	4.7	4.1	<b>3.9</b>
Wholesale & retail trade, accommodation & restaurants	185,410	246,499	32.4	30.9	<b>5.9</b>
Transport, storage & communications	97,363	148,539	17.0	18.6	<b>8.8</b>
Finance, insurance, real estate & business services	121,328	168,270	21.2	21.1	<b>6.8</b>
Government services	94,152	127,684	16.5	16.0	<b>6.3</b>
Other services	46,487	72,900	8.1	9.1	<b>9.4</b>
<b>Labor productivity (RM/worker)</b>	<b>68,111</b>	<b>83,411</b>			<b>4.1</b>
<b>Services export</b> (RM million in current prices)	<b>146,387</b>	<b>195,890</b>			<b>6.0</b>
<b>Employment ('000)</b>	<b>8,396</b>	<b>9,552</b>	<b>60.9</b>	<b>62.5</b>	<b>2.6</b>
<b>Contribution of total services sector to GDP (%)</b>			<b>53.8</b>	<b>56.5</b>	<b>55.3</b>

Source: Economic Planning Unit, 2015

Until 2020 there will be focus on the development of subsectors and industries that are tradeable, have high knowledge intensity and linkages with the rest of the economy, and the potential to generate high-income jobs. Industries such as Islamic finance, ICT, oil and gas services, private healthcare, private higher education, ecotourism, the halal industry, and professional services will be further promoted. (The Economic Planning Unit, Malaysia, 2015, p253)

To conclude, based on its recent impressive performance, the services sector will continue to lead economic growth for Malaysia. Because of its large size and sustained high growth in recent years, the services sector is expected to play a bigger role in generating income and employment as well as in leading economic growth ahead. In line with the pro-active measures to strengthen the services sector and also with the increasing domestic demand, the contribution of the services industry to the Malaysian economy will further increase, consistent with the developments seen in the services industry in Malaysia.

### **3.4.2. The Strategy for the Manufacturing Sector:-**

Industrial policy has played an important role in transforming Malaysia's economy from one dependent on the primary sector to one driven by the manufacturing sector; also, it participated enormously in employment creation.

The transformation in the economic structure and composition was achieved in just over two decades after independence in 1957. In the early years after independence, Malaysia's economy was largely focused on the production of primary commodities. Primary commodities continued to be the main revenue generators until the late-1970s, after which the primary sector's relative importance began to diminish. By the mid-1980s, manufacturing became the engine of Malaysia's economic growth.

In the 1970s, when the industrial base was enlarged and export-promotion encouraged, a more selective approach was adopted for importing technologies (Based on the promoted industrial sectors). The growth industries during that era were electrical and electronics, textile and apparel, and processed agricultural products. Although much of the production activity was related to product and process adaptation at that time, some amount of indigenous technology was encouraged, especially for the established sub-sectors. In the 1980s, when heavy industries were promoted to encourage greater inter-industry linkages, the development of indigenous technological capability and supporting industries was emphasised. (Jomo and Wee, 2010, p.18)

The industrial sector did not grow haphazardly but according to systematic plans - Industrial Master Plans (IMPs) - that were prepared by the ministry of trade and industry in Malaysia. The Malaysian Government has implemented various policies and strategies under these plans. The IMPs were formulated to enhance the growth of the manufacturing sector across the entire value chain and cluster-based industrial developments.

The First Industrial Master Plan (IMP1) was launched in 1986. This document provided the framework for the development of a broad-based manufacturing sector. The IMP1 outlines the transition from an agriculture and primary product based economy to one that was to be led by the manufacturing sector. The IMP1 identified 12 industrial sub-sectors that were to be developed over the plan period. The sub-sectors that were identified are rubber, palm oil, food, wood-based, chemical and petrochemical, non-ferrous metals, non-metallic minerals, electrical and electronics, transport equipment, machinery and engineering, iron and steel and textiles and apparel. (Musalmah Johan, 2006)

After the successful completion of the IMP1, the IMP2 was launched in 1996 to be implemented over a 10-year period until 2005. Unlike the IMP1, the IMP2 had broader goals. One key aspect of the IMP2 that was different from IMP1 was that in the IMP2 there was more stress on business support services. There was also emphasis on the cluster-based approach. In addition, the IMP2 lay great emphasis on deepening industrial linkages, increasing productivity and improving on competitiveness. The IMP2 was deeply concerned with increasing Malaysia's contribution to the value-added. The whole focus of the IMP2 strategy was to move up the value added chain. In other words, IMP2 was directed at rectifying some of the flaws in the IMP1. New technologies with high value-added content have been identified under the Second Industrial Master Plan (IMP2) in the areas of biotechnology, nanotechnology, photonics, ICT and advanced manufacturing. New job opportunities have been created in the fields of bio-process engineering, bio-pharmacy, genetics engineering, bio-informatics, micro and nano-fabrication, precision engineering, theoretical physics, flexible integrated computer manufacturing, communication, networking and software, design and technology, voice encryption technology, artificial intelligence, and speech and pattern recognition. (Ministry of Human Resources, 2006, p.6)

The Third Industrial Master Plan (IMP 3) was launched in 2006 to cover the period from 2006 to 2020. The main goal for (IMP 3) was to achieve long-term global competitiveness through transformation and innovation of the manufacturing and services sectors. The Plan outlines strategies and policies to sustain the momentum of growth in the manufacturing sector by at least 5.6 per cent per annum. The services sector is expected to register an annual growth rate of 7.5 per cent during the IMP3 period. The services activities targeted for promotion are business and professional services, integrated logistics services, ICT services, distributive trade, construction services, education and training, health services and tourism services. (<http://www.mida.gov.my/>). Manufactured goods equal (%67.0) of exports in 2012. (Economic Planning Unit, 2013, p. 23)

It is good to realise that the new sub-sectors in the industry grow, so does the demand for experts and highly skilled professionals. As such, the training and retraining programs has been emphasized for both employers and employees to increase the mobility and adaptability of the nation's workforce towards knowledge-intensive and higher value added activities. Employers are encouraged to redesign and improve selected job functions and work conditions to attract local workers, including women, retirees and disabled persons. (Ministry of Human Resources, 2006, p.7)

In 2012, key indicators in the manufacturing sector showed gross output value of RM908.1 billion. The intermediate input recorded was RM703.8



billion, while value added registered RM204.2 billion. Employment was 1,998,075 persons while value of fixed assets was RM204.9 billion. The contribution of the manufacturing sector to Gross Domestic Product (GDP) in 2012 was 24.2 per cent. (Department of Statistics, Malaysia, 2013).

The economy is projected to maintain full employment with an estimated unemployment rate of 2.8% by 2020. Employment is expected to grow at a slower rate of 2.1% per annum to reach 15.3 million by 2020, with additional 1.5 million jobs created. The services sector is expected to contribute 62.5% to total employment, while the manufacturing sector 18.2%. This slower growth corresponds with the improvements in labour productivity and the shift from a labour intensive economy to a capital, technology and knowledge-based economy. The composition of skilled jobs, such as senior officials and managers, professionals and technicians, and associate professionals, is targeted to reach 35% of employment by 2020. (The Economic Planning Unit, Malaysia, 2015, p23). (See Table 3.4.)

**Table 3.4.**  
**Major indicators of the manufacturing sector, 2010-2020**

Item	2010	2015	2020	Tenth Plan	Eleventh Plan
				Achieved	Target
<b>Contribution of manufacturing sector to GDP</b> (RM billion in 2010 prices)	192.5	243.9	312.5	1,110.9	1,417.3
<b>Annual growth rate (%)</b>	12.1	4.7	4.4	4.8	5.1
<b>Share to GDP (%)</b>	23.4	23.0	22.1	23.1	22.5
<b>Total exports of manufactured goods</b> (RM billion in 2010 prices)	489.6	636.7	812.8	2,801.3	3,677.9
<b>Share to total exports (%)</b>	76.6	81.8	83.4	76.4	82.8
				<b>Average annual growth rate (%)</b>	
<b>Share to total employment (%)</b>	17.0	18.0	18.2	3.9	2.5

Note: 2015 numbers are estimated; 2020 numbers are forecasted.

Source: Economic Planning Unit, 2015.

Malaysia's manufacturing industry has been charting remarkable growth, the manufacturing industry continues to develop rapidly and has since become an important catalyst to the country's economic growth and employment.

### **3.4.3. Enhancing the development of small and medium enterprises:-**

Small and medium enterprises (SMEs) play a vital role in the Malaysian economy and are considered the backbone development in the country. The Malaysian Government's commitment to, and concern for, the development of SMEs has been clearly evident since the early 1970s. The 'New Economic Policy' was introduced in 1971, which aimed to improve people's welfare and restructure ethnic economic imbalances. The government's commitment to the development of SMEs can also be seen in the second Industrial Master Plan (IMP2), which ended in 2005, which is followed by the Third Industrial Mater Plan (IMP3) 2006–2020, to coincide with the country's vision for 2020. (Saleh & Ndubisi, 2006, p 2)

To further enhance and promote the activities by SMEs, the National SME Development Council chaired by the Prime Minister was established. Efforts have been invested to strengthen enabling infrastructure for SME development, building the capacity and capability of SMEs, and enhancing access to financing by SMEs. (Ministry of Human Resources, 2006, p.8)

In 1996, a specialised agency was established to spur the development of small and medium enterprises (SMEs) by providing infrastructure facilities, financial assistance, advisory services, market access and other support programmes. Known as the Small and Medium Industries Development Corporation (SMIDEC), its aim was to develop capable and resilient Malaysian SMEs to be competitive in the global market. (smecorp, 2015)

The establishment of the National SME Development Council (NSDC) in 2004 presented yet another chapter in SME development in Malaysia. As the highest policy-making body, its role was to formulate strategies for SME development across all economic sectors, coordinate the tasks of related Ministries and Agencies, encourage partnership with the private sector, as well as ensure effective implementation of the overall SME development programmes in this country. Initiatives under NSDC included enhanced access to financing, financial restructuring and advisory services, information, training and marketing coordination, and a comprehensive SME database to monitor the progress of SMEs across all economic sectors. (smecorp, 2015)

In 2007, the NSDC decided to appoint a single dedicated agency to formulate overall policies and strategies for SMEs and to coordinate programmes across all related Ministries and Agencies. SMIDEC was tasked to assume the role and the official transformation into Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) commenced on 2 October 2009. SME Corp. Malaysia is now the central point of reference for information and advisory services for all SMEs in Malaysia. (smecorp, 2015)

In 2011, there were 645,136 SMEs, making up 97.3% of total business establishments. To reflect the current business environment, the SME definition was revised on 1 January 2014. The maximum threshold for sales turnover was adjusted from RM25 million to RM50 million and for employment from 150 to 200 workers. As a result, the share of SMEs total establishments increased from 97.3% to 98.5%. 90.1% of SMEs are in the services sector, with 5.9% in manufacturing, 3% in construction, and the remaining in agriculture, and mining and quarrying. SMEs are estimated to grow at 9.3% and contribute 35% to GDP, 59% to employment and 19% to total exports in 2015. (The Economic Planning Unit, Malaysia, 2015, p244)

**Definition of SMEs in Malaysia: - (SME corporation, Malaysia, 2015)**

Malaysian SMEs can be defined according to size, turnover and activity. SMEs in Malaysia fall into two broad categories:

1. Manufacturing, manufacturing-related services and agro-based industries, which have either:

- fewer than 200 full-time employees; or
- an annual sales turnover of less than RM50 million.

2. Services, primary agriculture and information and communication technology (ICT), which have either:

- fewer than 75 full-time employees; or
- an annual sales turnover of less than RM20 million.

An enterprise is considered to be an SME based on the annual sales turnover or number of full-time employees.

The Malaysian SME Corporation put "SME Masterplan 2012-2020" which aims to accelerate the growth of SMEs to achieve high-income nation status by 2020. This Masterplan is for all SMEs in Malaysia, irrespective of sector, gender, geographical region and ethnic background. Successful implementation of the Masterplan will result in raising the contribution of SMEs to the economy by 2020 as 41% to GDP, 62% to employment and 25% to total exports. (National SME Development Council, 2012, p.37). (See Table 3.6.)

**Table 3.5.**  
**Major indicators for SMEs, 2010-2020**

Item	2010	2015	2020	Tenth Plan	Eleventh Plan
				Achieved	Target
<b>Contribution of SMEs to GDP</b> (RM billion in 2010 prices)	262.9	371.9	578.6	1,605.8	2,420.8
<b>Annual growth rate (%)</b>	8.3	9.3	9.3	7.5	9.3
<b>Share to GDP (%)</b>	32.0	35.0	41.0	33.4	38.4
<b>SMEs exports</b> (RM billion in 2010 prices)	100.3	147.8	243.7	634.0	995.0
<b>Share to total exports (%)</b>	15.7	19.0	25.0	17.3	22.4
<b>Share to total employment (%)</b>	57.1	59.0	62.0	57.8	60.7

Note: 2015 data are estimated; 2020 data are forecasted  
Source: Economic Planning Unit, 2015.

Finally, we can say that small and medium enterprises (SMEs) including microenterprises have played an important role in fostering growth, employment and income in Malaysia. The development of Small and Medium Enterprises (SMEs) is even more significant as Malaysia moves towards realising its objective of becoming a fully industrialised nation. The successful transformation and growth of the economy requires SMEs in the country to address the challenges of efficiency as well as the optimal utilisation of existing resources in order to sustain and improve the national competitiveness.

#### **3.4.4. Encouraging foreign direct investment:-**

Malaysia's move from an economy dependent on primary commodities to an industrialising one was accelerated with the inflow of foreign direct investment (FDI) in the late-1960s and early-1970s. The government saw the important role of FDI in developing and shaping the country's industrial base via the technology (embodied in machinery and production processes) and technical expertise that it brought in. Technologies from industrial countries were relatively dominant when Malaysia adopted import-substitution policies in the 1960s. During that period, foreign capital and know-how provided an important avenue for Malaysia to search for new products and processes. (Malaysian Investment Development Authority. 2015)

Malaysia has many foreign investments that came as a result of the "new economic policy" and "Vision 2020", and the trend to invest in the export

industry that provided Malaysia with many jobs which overflowed the need of the Malaysian people to the extent that Malaysia has become the most Southeast Asian country attractive for employment. (Bayoumi, 2009)

Malaysia is one of the most successful developing countries in the use of incentives to target and directing foreign direct investment "FDI" and multinational companies for certain industries and sectors. The Government of Malaysia has pursued a continuous modification of the structures and the nature of the incentives in the light of the needs and the objectives of the national development policy. Using Broadband link between incentives, the provision of specialized facilities for the development of skills and upgrading technology, the Government of Malaysia has been able to exploit the multinational companies to improve the capabilities of competitive corporate strategies in Malaysia. (Economic Planning Unit, 2015)

The evolution of the structure of incentives in Malaysia reflects gradual transition from the general encouragement of the foreign direct investment "FDI" to the focus on directing investment in sectors of high technology industrial clusters. In 1958, incentives that were granted to FDI contains tax exemptions for a period of 2 to 5 years for investment in the import substitution industries such as food, beverages, plastics, chemicals, printing and publishing industry. In 1968, the Malaysian government made some amendments on the incentives to FDI in order to encourage employment and capital-intensive industries, these incentives included exemptions on the tax profits for a period between 2 to 10 years and tax deductions for investment ranged from 25% to 40% of the cost of capital. In the seventies, promotion focuses on intensive labour industries and export-oriented industries. In 1986, all restrictions on private property rights in companies were liberated under the "Investment Development Law". (Jomo and Wee, 2010, p.3)

In 1990, since there were huge inflows of foreign direct investment, the government amended the incentive structure by focusing on the quality of investment measured by the technical and value-added component. It has also expanded tax incentives to include regional centers services for multinational companies with regard to supply, coordination and management. In 1991, there has been a comprehensive review for the policy of incentives in order to organize and direct incentives, strengthen tax returns and promote industries competitiveness abilities. In 1995, the Malaysian government reduced the incentives for intensive labour projects and started to focus on capital investments measured by the amount of investment. (Adel Abdel Azim, 2005)

The IMD World Competitiveness Center ranked Malaysia as the 14th most competitive nation among 60 economies. The World Bank, which compares 189 countries, ranked Malaysia as the 18th easiest place to do

business. The World Economic Forum, which compares 144 countries, ranked Malaysia 20th most competitive. (mentioned before)

Malaysia registered a gross FDI inflow of RM112.1 billion in 2014, an increase of 8.9% from the RM103.9 billion registered in 2013. “Realised private investments in Malaysia for 2014 reached a record RM183.9 billion, up 13.0% from RM162.8 billion previously. (Malaysian Investment Development Authority, 2015)

To conclude, one can say that foreign direct investment has led to a strong push for industrial performance in Malaysia, and it has a positive impact on the use of local resources, local industries and local labour force.

### **3.4.5. Increasing external trade:-**

There is strong evidence that trade boosts economic growth, and that economic growth translates into more jobs. Malaysia’s larger current account surplus was due mainly to a stronger goods surplus, reflecting sustained expansion in commodity exports and continued growth in manufacturing exports. Receipts from manufactured goods rose by 10.1 per cent, while agriculture exports rose at a rate of 3.4 per cent. (Malaysia External Trade Development Corporation, 2015)

Malaysia’s total external trade in 2013 expanded by 9.9 per cent to US\$428.1 billion (US\$ 1.00 = RM 3.2). Trade with regional countries (excluding Japan) grew and accounted for 44.4 per cent of Malaysia’s export and % 49 of imports. Trade links with Australia and India strengthened, driven mainly by higher demand for electrical and electronics and petroleum-related products. Exports rose to RM719.81 billion (Malaysian Ringgit = RM), while imports recorded RM649.19 billion, making it the 16th year in a row Malaysia maintained a trade surplus. Export growths were driven by demand for manufactured goods and mining of Asian and European markets. Demand for products and services in new markets and emerging markets in Africa, West Asia and South Asia also supported the overall export performance. Therefore, it is not surprising that employment in the manufacturing sector will continue to grow in the region of 4.0 per cent for the next five years. (Malaysia External Trade Development Corporation, 2015)

The importance of trade in the Malaysian economy has made it imperative for the Government to provide for an environment that is conducive to doing business. Recognising that the traders’ ability to move goods across borders rapidly, reliably and cost effectively leads to enhanced export competitiveness, Malaysia has taken concrete steps, over the last three decades, to evolve and implement various trade facilitation initiatives particularly in the

area of customs policies, legislations, procedures and practices. The Malaysian government has established the Malaysia External Trade Development Corporation (MATRADE) in order to promote, assist and develop Malaysia's external trade with particular emphasis on the export of manufactured and semi-manufactured products. MATRADE is also actively involved in assisting foreign companies to source for suppliers of Malaysian products and services, and is represented worldwide at 40 locations in major commercial cities. MATRADE has five local branches in Malaysia. (<http://www.matrade.gov.my/2015>)

Private sector companies and Government-linked companies have always been encouraged to venture abroad to secure business and investment opportunities. This will increase access to new markets, create demand for domestically produced intermediate goods and components, help to create Malaysian multinational corporations, and more importantly help create more jobs in the longer term. (Ministry of Human Resources, 2006, p.8)

Malaysia's commitments under the World Trade Organization, the Association of South East Asian Nations (ASEAN) Free Trade Area. ASEAN-Free Trade Agreement and other bilateral FTAs expand opportunities for trade and investments. This also increases opportunities for job creation. (The Economic Planning Unit, Malaysia, 2015, p258)

#### **3.4.6. Creating jobs in technology and knowledge-intensive sectors:-**

As the world entered the new millennium, the shift to a knowledge-driven economy or K-economy got already under way, especially among the advanced countries. The transition to a K-economy has forced Malaysia to re-think its strategy for the manufacturing sector. In the k-economy, the industries that will thrive are those that embrace innovation, develop new ideas, employ new processes, create new products or deliver new services. Thus, apart from building on their core capabilities in assembly and production, manufacturers will rely, more on related services and ICT "Information and Communication Technology" to enhance the value-added of their products. In order to achieve the goal of ushering Malaysia into the K-economy, the K Economy Master Plan, was introduced in 2003. The attempt to make the transition into a k-economy will put Malaysia at the forefront of development because, K-economy is one in which knowledge, creativity, and innovation play a significant role in generating and sustaining growth. (Musalmah Johan, 2006)

The promotion and development of new economic sub-sectors in manufacturing, services and agriculture will be undertaken with job creation as a priority. As Malaysia progresses towards developed status, protection of the environment through sustainable development and effective environment

conservation and preservation has been imperative. Accordingly, new production technology that focuses on energy saving processes and utilization of new and alternative energy resources, such as bio-fuel, hydrogen, solar and wind energy has become increasingly important. Hence, job creation has arisen in areas such as environmental management, environmental engineering, pollution minimization, waste management and R&D.

Competitiveness can no longer depend on low wages but requires a critical mass of creativity and innovative potential that could only be achieved by transforming Malaysia from a production-based economy (P-economy) into a knowledge-based economy (K-economy). (Ariff, 2008, p.380)

The Malaysian government has established many ICT-Based Programmes in order to enhance basic software application skills; realise the application of internet for business communication; attaining supply chain excellence; and provide guidelines to achieve greater customer relationship effectiveness. (SMIDEC, 2007, p.69)

The ICT industry, including e-commerce, is estimated to contribute 16.8% to GDP in 2015. The ICT services subsector contribution to GDP is estimated to increase from 5.2% in 2010 to 5.5% in 2015, while the ICT manufacturing subsector contribution is estimated to decrease from 4.6% in 2010 to 3.9% in 2015, reflecting the transition of the ICT sector from manufacturing towards higher value-added services. As per the ICT Satellite Account, employment in the industry increased by 2.2% per annum from 762,800 in 2010 to 779,500 in 2013, due to new job creation in the ICT trade and services subsectors. (The Economic Planning Unit, Malaysia, 2015, p241)

Finally, Malaysian economic activities within the field of ICT need be developed and further strengthened. Malaysia needs continue to position itself as a preferred destination for shared services and outsourcing. In terms of new activities, Malaysia needs to develop the local digital content industry as well as bioinformatics. To support the growth of the ICT industry as well as bolster the general economic efficiency, an increasing number of highly skilled labour forces is required.

#### **3.4.7. Stimulating the private sector to employ more:-**

Recognising the growing and important role of the private sector in an export led economic growth, the Malaysian Government decided that it was crucial to view the private sector as an important partner of the public sector in achieving economic growth and prosperity.



The public-private sector collaborative mechanisms have contributed much to the ease of doing business in Malaysia. There have been continued improvements on many fronts, specifically in enhancing transparency and streamlining procedures and practices. In this context, the public-private sector partnership must therefore remain an integral part of the Malaysian Government's overall policy and strategy to continually improve the public delivery system, enhance the business environment as well as export competitiveness.

The Malaysian government has established stimulus rules for companies to employ more employees, the government approved tax advantages preferential for local companies to absorb as much as possible of the workforce. The employment stimulus act of 1972 includes tax credits commensurate with the size of employment, and the government has conducted an annual competition to choose the best companies that invest more than \$ 20 million in fixed assets and employ more than 500 employees, and give them priority to get government contracts. (El Adam, 2012)

The Malaysian government has established the Double Tax Incentive for Employers in the 2006 Budget Speech to encourage publicly listed corporations (PLCs) to provide employment opportunities for designated unemployed graduates. PLCs that hire and provide on-the-job training to graduates are entitled to deduct from taxes double the amount of the allowances paid to participants in the Training and Attachment Program for Unemployed Graduates. (Economic Planning Unit, Malaysia and the World Bank, 2007, p.174)

Such demand-side subsidy programs are supposed to compensate employers for the initial cost of hiring and training the unemployed person. The intent, however, is that the new employee's productivity would increase by the time the subsidy is over, so the employer continues to employ that person. Combining the subsidy element with training may thus improve the likelihood of positive outcomes. The Malaysian initiative includes job training. However, the government should be cognizant of deadweight and substitution effects that might arise if employers would have hired graduates even in the absence of the incentive, or substituted designated graduates for unsubsidized graduate hires.

#### **3.4.8. Recognizing the importance of self-employment:-**

The Malaysian government has recognized the importance of self-employment in employment creation and economic growth. As such, efforts have been intensified to create more self-employment opportunities.

Business opportunities for self-employment and entrepreneurship including in petty trading, SMEs, agriculture, and services have been promoted. The inculcation of entrepreneurship values and changing the mindset as to view self-employment as a viable alternative to salaried employment will be intensified including in institutions of higher education. In addition, entrepreneurship training programs have been implemented by various Ministries and agencies for unemployed graduates. (The Ministry of Human Resources, 2006, p.9)

The Malaysian government has established many Self-employment assistance programs to help a sub-set of the unemployed start small businesses have also had mixed results, and the small number of scientifically evaluated programs makes strong conclusions about their effectiveness difficult. Post-program employment (or business survival) rates are often positive.

Programs that provide mentoring and counseling, in addition to financial assistance, tend to do better than those that just provide the latter. They also appear to be more effective for the better-educated among the unemployed. (Economic Planning Unit, Malaysia and the World Bank, 2007, p.171)

### **3.5. Employment mechanisms:-**

The Ministry of Human Resources in cooperation with other employment agencies undertake the task of employment. The Ministry of Human Resources has the necessary information and data about job seekers including their ethnic, place, education, training, practical experience and the types of occupations they want. The Ministry of Human Resources conducts intensive activities about job opportunities available in the employment offices. The Ministry of Human Resources make comprehensive surveys that aim to know the professional persons who have special abilities, The ministry works to provide such persons, it also follows graduates to determine their majors and provide work for them. (Bayoumi, 2009)

The employment mechanisms in Malaysia is very effective, the citizens in Malaysia introduce a job form request to " JobsMalaysia " agency which follows the Ministry of Human Resources then the agency begins to search for the required job and suggests it to the job seeker. The Malaysian government supports agencies of employment that follow the private sector, which in 2010 were about 760 employment agencies officially licensed. (Al Ali, 2012)

JobsMalaysia is an automated online job matching system provided by the Ministry of Human Resources. It is one out of the three core modules under

the Electronic Labour Exchange (ELX). The system of JobsMalaysia provides facilities for job seekers to seek suitable jobs and for employers to get their right candidates. Job seekers can do online job application while employers can manage the applications using JobsMalaysia. All these facilities are accessible to all levels of users with no charge. (<http://www.jobsmalaysia.gov.my>. 2015)

JobsMalaysia was established to improve the mobilization of the nation's human resources and to ensure that manpower utilization is optimized through the systematic matching of job seekers to job vacancies. To be a one-stop centre for labour market information that will be accessible to the public, both locally and overseas, including Malaysian students studying abroad and potential foreign investors.

### **3.6. Conclusion:-**

Malaysia has had relatively low unemployment rates since independence compared to most other developing countries, and it has been adopting government policy to keep unemployment down. Government efforts to maintain rapid economic growth and accelerate structural change from a predominantly agricultural economy to a developed, industrialized economy have created better employment opportunities for its growing labour force.

The generation of employment opportunities and improvements in workers' living standards have mainly been sustained by economic growth, facilitated by investments in response to increasing domestic as well as foreign demand. Political stability, investor sentiment as well as financial and exchange rate stability have encouraged both domestic investments and FDI. Infrastructure provision, labour availability, other inexpensive inputs and tax incentives have all increased returns, thus encouraging investments. This underscores the need for expansionary fiscal policy with appropriate government interventions, including "crowding in" public investments. Malaysia has gained global recognition for best practices in organizing the private sector to lead economic development and job creation.

In addition, strong political leadership, concerted effort and coordination between government agencies and the private sector has contributed to a successful implementation of the transformation program. An increasing number of countries have expressed interest in this cooperative model of job creation and economic growth so sharing experiences and best practices can shorten the time required for rapid development amongst countries. In this respect, Malaysia is considered a good example to share its experiences with other countries.

## **Chapter Four**

### **Suggested approaches for Palestine towards decreasing unemployment in light of the Malaysian experience**

**4.1. Introduction:**

**4.2. Development requirements in Palestine:**

**4.3. Supportive role for the private sector in achieving job creation:**

**4.4. Potential sides to stimulate demand for labor in the private sector:**

**4.4.1. The agricultural sector:**

**4.4.2. The Industrial sector:**

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**4.4.4. Small and medium enterprises (SMEs):**

**4.4.5. The services sector:**

**4.4.6. The constructions and infrastructures sector:**

**4.5. Supporting and developing the Palestinian Employment Fund:**

**4.6. Institutional roles and responsibilities:**

**4.7. A discussion with the specialists and experts opinions:**

**4.8. Conclusion:**

#### **4.1. Introduction:-**

Economic growth is the basic premise to decrease unemployment. However, the basic question revolves around how to achieve such growth in the current data from the instability and political division and continuing arbitrary Israeli procedures. And increasingly dangerous siege and closures as well as the financial embargo imposed on civil servants in Gaza that workers in the public sector lose their incomes and that were internal factors driving the economy of Gaza.

In addition to the previously mentioned, it should be noted that there are structural imbalances in the labor force and the composition of the Palestinian labor market, so it is required that the Palestinian Authority has to focus efforts on local development programs to create more job opportunities in the local community to overcome the restrictions imposed on the movement of persons. Such programs should include the rehabilitation of infrastructure, basic services, agricultural business and other areas.

This chapter seeks to suggest some approaches for Palestine towards decreasing unemployment in light of the Malaysian experience as a model for Palestine, which suffers from the widespread of unemployment. Malaysia success to reduce unemployment was a logical consequence of political, economic and social objective conditions. This success is a result of a comprehensive national strategy reflecting in the satisfaction that established mutual trust relationship and provided appropriate mainstay of the success of a human experience seen by many experts as a worthy challenge to read comprehend.

Facing the phenomenon of unemployment requires national actions at all levels and this calls for the need to develop emergent contingency plan to face all the consequences of unemployment. This underlines that the Palestinian government programs should include clear mechanisms to decrease unemployment and poverty in order to save what can be saved. There is a need for making continuous national conferences for Palestinian and international economists also the private sector and regional and international organizations to help and to contribute to the provision of appropriate conditions for recovering the Palestinian economy to create new jobs, in addition to the possibility of holding bilateral agreements with some countries to employ some Palestinian workforce according to some terms and for limited periods.

#### **4.2. Development requirements in Palestine: -**

The situations in Palestine are unique that Palestine suffers from both occupation and political division so development in Palestine requires some conditions to be achieved: -

- The Palestinian national governance system should have a national vision based on the broader national framework in politics and economy.
- The economic prosperity and sustainable development require political stability. Underdeveloped economies, political troubled countries do not provide the atmosphere that allows a business to invest. The Palestinians have to strengthen and enhance their political unity in order to achieve economic growth.
- Unemployment rate in Palestine changes according to the Israeli procedures against the Palestinians, so the problems of the Palestinian economy will continue, as a result there is a need for stable conditions such as opening the cross points and creating continuing contact between Palestine and other countries.
- The Palestinian Authority is captured with injustice agreements with Israel, these agreements need to be reviewed or even cancelled especially the Economic Paris Protocol, in preparation for disengagement and independency on the Israeli economy.

#### **4.3. Supportive role for the private sector in achieving job creation:-**

The private sector is the part of a country's economic system that is run by individuals and companies, rather than the government. Most private sector organizations are run with the intention of making profit. Stimulating demand for labor in the private sector depends on the availability of basic and sufficient conditions such as ensuring the investment environment that encourages the private sector to invest in the production and provision of many goods and services.

Israeli occupation procedures have formed strong blow to the private sector since Al-Aqsa Intifada and this is reflected in the loss of jobs and the closure of establishments. The Israeli policy against the private sector includes preventing the import of raw materials needed for production due to the closure and isolation set up by the Israeli occupation.

The reduction of production of the private sector due to the weak general economic activity and lower aggregate demand and the weakness of people consumption results in reducing the employment opportunities. In addition,

there is a low support and aid provided to the private sector and there is continued political instability that hit the investment environment. (Arab Thought Forum, 2003, P.31)

There are many programs and services that must be provided to support the private sector in order to gain its objectives, these objectives include. (Eljafari, 2006, P. 96):

1. Enhance the competitiveness of the domestic product in the domestic and export markets.
2. Reduce the deficit in the trade balance.
3. Reduce unemployment.

The third goal is the most important one that governments seek to achieve through the provision of incentives for the private sector. The private sector cannot achieve this without attribution from the public sector. Therefore, there must be supportive policies for the private sector's role in creating new jobs, and these policies include (Dahlan, 2013; MAS, 2006)

- Exemption the local production inputs from duties and taxes.
- The reduction of customs duties on imported raw materials.
- The provision of public services at discounted prices.
- Facilitating the export licensing procedures and the granting of certificates of origin.
- Giving of loans to investors in the private sector with low-interest.
- Supporting institutions and projects that decide to increase the number of employees.
- Encouraging investment in marketing services.
- Reducing insurance costs.
- Supporting the institutions that facilitate the private sector at home and abroad such as commercial representations abroad, and institutions of quality control, research institutions and others.

- Providing support to the private sector services such as: export and licensing services, inspection, transportation, distribution, exhibitions and the adoption of the use of technology.
- Supporting the market competitive function of that means raising the efficiency of the market to take the right economic decisions.
- Achieving efficiency in the use of capital: through increasing savings rates and encouraging investment in the productive sectors, especially in the industrial sector.
- Supporting technical progress and technological development in order to use resources efficiently, and that means the need to develop education.

There is a big hope that the private sector can contribute effectively to treat the problem of unemployment, so it is required from the private sector to focus on sectors and activities generating profit and relying on labor-intensive at the same time. Such sectors as the agricultural sector, especially food industries, the production of meat, dairy, poultry and replacement industries in general. In addition to the construction and infrastructure field, especially the provision of housing for groups of young people with limited income.

#### **4.4. Potential sides to stimulate demand for labor in the private sector:-**

Identifying the promising sectors to absorb the labor force in the private sector depends on activating investments and services that have a competitive advantage in the domestic market and export markets as it depends on the availability of the procedures and mechanisms from the public sector for the private sector. The Palestinian economy is losing a large part of the domestic production of goods and services for the benefit of the Israeli economy. There are many goods and services that are classified as basic commodities, and it is easy to start their production to meet the demand of the local market, also it is expected that producing such goods can increase demand for labor.

The easy imports substitution is an effective policy that can be adopted by the private sector to stimulate investment and absorb more of the workforce, and the following are the most promising sectors: -



#### **4.4.1. The agricultural sector:-**

Talking about the agricultural sector means talking about the most important productive sector in the West Bank and Gaza Strip. More than 20% of the population depends on the agricultural sector in a way or another. However, the biggest obstacle facing the agricultural sector resulted from falling sharply since 1994. It was contributing by more than 25% of GDP in 1993 but today its contribution does not exceed 10.8%. (Sourani, 2006, P.34). The contribution of agriculture in gross domestic product is falling dramatically that in 2014 it became about 3.8%. (The Economic Observer, 2015, P.1)

Agriculture is one of the most important sectors to implement easy imports substitution strategy and activate exports. The production of many goods such as meat, dairy products and fruits can reduce the dependence on Israel. There is about 40% of the Palestinian consumption allocated for imported goods from food. Therefore; any reduction of imported goods of food will lead to increase local production, thus increasing the demand for labor. (MAS, 2006, P.98)

The agricultural sector has suffered from successive attacks and reprisals by the Israeli army and Jewish settlers. These attacks have taken the picture of uprooting hundreds of acres and house demolitions, as well as the destruction of greenhouses, trees, vegetables, and irrigation systems and wells. In addition to that, there has been a closure of a large number of acres as closed military zones. Large number of acres was confiscated to be used for the expansion of settlements and bypass roads willing and buffer zones.

##### **4.4.1.1. Suggestions to improve the agricultural sector performance:-**

In light of the foregoing, the development of the agricultural sector depends on a set of actions (Badr and Abu Ali, 2004; Ministry of agriculture-Palestine, 2010) include the following:

- Amending production patterns to suit the needs of domestic consumption.
- Paying greater attention to the agricultural sector by providing the necessary funds to enable farmers to implement programs and projects in place, especially after the hit of the Palestinian agricultural sector of the destruction and bulldozing by Israel.
- Using modern technologies in the field of production to raise acre productivity rate.
- Using relative data about comparative advantage in agricultural production, in order to modify production patterns to contribute in the optimal utilization of available resources, especially water and labor.

- Working to provide financing and loaning sources to set up typical agricultural projects.
- Canceling taxes on inputs to enhance the incentive for farmers and raises the yield of production.
- Working on the development and implementation of land reclamation projects, especially in the northern provinces in order to plant crops that can contribute to achieving self-sufficiency.
- Taking advantage of the territory vacated by the Israeli enemy in Gaza Strip in order to establish typical productive projects to bridge the food gap in some agricultural crops.
- Developing the agricultural guidance and securing material and human resources that enable it to perform its role effectively to raise the production rates.
- Activating the legislation and laws that limit the conversion of farmland to alternative uses that decline in agricultural areas.

The Ministry of Agriculture in Gaza has managed during the last period to achieve successes through the pursuit of import substitution and support the local product policy. It is applied via the orientation for the production of crops that are imported and can be produced locally, and creating alternatives that can be produced with local resources depending on their own capabilities.

The ministry has succeeded in substituting a range of crops that were draining millions of dollars in favor of (the Zionist entity) and denied to Palestinian farms such as onions, melons, Cantaloupe and others(See Table: 4.1). The continuation of the ministry's policy in local product citrus support, where they are to prevent the entry crops but only when necessary, such as the lack of crops alternative. (Ministry of agriculture- Palestine, 2010, P.33)

**Table: 4.1.**  
**Import substitution table for the year 2009**

<b>Year</b>	2005	2009	2005	2009
<b>Crop</b>	Area / km2	Area / km2	production / Ton	production / Ton
Onions	4090	7286	10000	21740
Watermelon	2850	6025	14500	30655
Cantaloupe	550	2081	2000	7200
Carrots	1250	2541	2200	5128

Source: (Ministry of agriculture- Palestine, 2010, P. 42)

The agricultural sector has been historically the main engine of growth in the Palestinian economy.

The Palestinian government encourages and regulates the marketing process and export across Palestinian companies geared towards Arab and foreign markets. There are also opportunities to export to European markets, according to the European - Mediterranean Partnership Agreement where the number of goods allowed for export are 15 items that could increase with time. (moe.ps, 2015)

On the other hand, the expansion of agricultural production will boost overlap the front, rear, and tangles with the industrial sector relationships by increasing the production of the food industry.

#### **4.4.2. The Industrial sector:-**

The importance of manufacturing for the Palestinian economy as being one of the most important strategies for the comprehensive development process that must be approved and adopted for the advancement of the national economy and liberalizing it from the imbalances and distortions that results from the Israeli occupation and its policies.

The Palestinian economy suffers from the widening gap between production and consumption, and between imports and exports. There has been a crucial turning point such as the contraction of the Palestinian productive base and declining commodity production sectors / agriculture, industry that are capable of creating a renewed income sectors. There has been a trend of a steady shift towards unproductive services that makes a critical impact in terms of deepening and increasing deformity in the composition of the Palestinian economy. (Sourani, 2006, p.4)

The contribution of manufacturing in the GDP in 2014 is 11%. (Economic Observer, 2015, P.1)

The development of the Palestinian industrial sector needs good planning in order to reach the level of manufacturing and producing medium industries to cover the local market needs. Such products like metal products, chemicals, timber and consuming durable commodities in general. There is a need to stimulate the private sector produce commodities and goods imported from Israeli factories and from Arab countries. The Palestinian government has to provide every possible means to support and expand the agricultural industrialization.

#### **4.4.2.1. Industrialization strategies and import substitution policy:-**

Easy imports substitution strategy in the industrial sector could lead to exports promotion strategy as a second step through the expansion in the production of many goods, including: stone and marble, furniture, food processing, clothing, leather and medicines.

The philosophy of easy imports substitution strategy is based on putting customs barriers on imports of foreign goods in order to protect and promote national production. Usually, many countries reduce tariffs gradually with the development of the manufacturing process and the growth of competitiveness until removing fees completely. Usually, this strategy begins with substituting simple consumer products then followed by more complex products reaching to capital products. (Ministry of National Economy, [www.mne.gov.ps](http://www.mne.gov.ps). 2015)

There are some positive signs for some of the local light industry such as clothing, food, beverages, shoes and household tools. The owners of these industries have managed to adapt and move in this direction despite the simple Palestinian economic potentials in terms of investment, and the limited internal market, and despite the obstacles and complexities by Israel. (Alsourany, 2006, P.64)

#### **4.4.2.2. Suggestions to improve the industrial sector performance:-**

The Palestinian Authority must develop temporary protection for some local industries through import controlling and focusing on the importance of the Palestinian specification to limit the goods that can harm local industries. The Palestinian Authority must study the possibility of imposing taxes on some import since the WTO agreements allow for the development of temporary protection for some goods and local products. (Alra'i, 2003, P.65).

Talking about the possibility of applying import substitution strategy or supporting national products must be accompanied with studying and analyzing the political variables that surround Palestine at the local, national, and global levels. We live in a period that we cannot control our political or economic decisions especially in light of the serious political and economic consequences and weakening the Palestinian economy, also the destruction of community economic infrastructure of Palestinian society by the Israeli occupation.

There are success stories of import substitution strategy in East Asian countries, where the protection of limited duration (five to seven years) during which the national industry can be stronger until entering the global competition in the domestic market then exporting to foreign markets. (MAS, 2006, P.210)

The industrial sector in Palestine should have systematic plans such as the Industrial Master Plans (IMPs) - that were prepared by the ministry of trade and industry in Malaysia. The Malaysian Government has implemented various policies and strategies under these plans. The IMPs were formulated to enhance the growth of the manufacturing sector across the entire value chain and cluster-based industrial developments.

Abdulnaser Awaad - the general manager of the general directory of industries in the Ministry of National Economy in Gaza – suggest that Palestinian have to work as they can to disengage and less depend on the Israeli economy.

There is a potential to provide competitiveness inside Palestine in some local industries and develop them in order to be able to substitute some imported goods. However, this possibility may have opportunities to develop and expand if provided with political and economic constituents, particularly decoding the dependency on the Israeli economy. Paris Economic Protocol gives the Palestinian Authority the right to promote and strengthen the Palestinian industry in various ways, such as grants and loans to provide assistance and research and development of direct tax benefits, in addition to any other methods used by "Israel". (Awartani and others, 1994)

#### **4.4.3. The Foreign Trade sector: -**

Foreign trade sector occupies a large importance in the Palestinian national economy due to many factors related to the whole impact of this sector on the economic production branches, the labor market, the balance of payments and the price levels. Trade has a fundamental role in the provision of local market needs of production and consumer goods and marketing the Palestinian products that closely linked to foreign markets, as well as employing of a large number of citizens.

Trade sector contributes to 18% of GDP, the trade balance stood at a deficit of goods about \$ 913 million during the first quarter of 2015. Both imports and exports of goods accounted for the observed decrease from the previous quarter at rates of 7% and 10% respectively. (The Economic Observer, 2015)

The Palestinian Authority has held with Israel "Paris Economic Protocol" which has identified the procedures and regulations that control economic relations between the Palestinian Authority and "Israel" during the transitional period on the fundamental principle of free trade within a trading system of a mix between a regular free trade area and customs union. The most important

points relating to trade relations in Paris Protocol and that the Palestinian side can take advantage of are the following (Awartani and others,1994): -

- Exporting the Palestinian industrial and agricultural products to foreign markets without restrictions, based on a certificate of origin issued by the Palestinian Authority.
- The Palestinian Authority has the right to use all the crossing points (entry and exit) with "Israel" in order to import and export goods and give equal treatment to the Israelis.
- The Palestinian Authority has the right to conduct bilateral trade agreements in line with Paris Economic Protocol. The trade agreements held between "Israel" and other countries can apply on the Palestinian Authority in an indirect way, such as the free trade agreements with the Czech Republic, Hungary, Turkey, and Slovakia.

Malaysia's commitments under the World Trade Organization, the Association of South East Asian Nations (ASEAN) Free Trade Area. ASEAN-Free Trade Agreement and other bilateral FTAs expand opportunities for trade and investments. This also increases opportunities for job creation. (The Economic Planning Unit, Malaysia, 2015, p258)

After Paris Economic Protocol signed, the Palestinian Authority has concluded some economic and trade agreements with Jordan, Egypt, and Saudi Arabia. The Palestinian Authority has made memorandums of understanding and cooperation with Tunisia, Morocco, Sudan and United Arab Emirates. The Arab summits have concluded resolutions in terms of supporting the Palestinian economy in order to reflect the strategic depth of Palestine with Arab dimension and coverage of the many areas of economic cooperation with a significant impact on the Palestinian economy. As well as to facilitate and increase trade exchange according to mutual interest and to establish and promote transit trade, free trade, entrepreneurship and protection of investments and technical cooperation in the industrial field areas as well as cooperation in the field of transport and the establishment of storage warehouses and reload the goods and marketing services especially with Jordan and Egypt. (Ministry of National Economy, mne.gov.ps. 2015)

Dr. Naseem Abujame' - Associate Professor of economics, Alazhar University – Palestine – suggested that the Palestinian Authority has to work to adjust Paris Economic Protocol in order to be fit for the present situations.

If the Palestinian government managed to increase financial and political support to achieve growth in exports at a rate of 15% per year, this will grow output GDP by about 6.7% per year, (or by 3.1% per capita) which will lead to decrease unemployment and poverty rates. (MAS, 2006)

In Malaysia, the private sector companies and the government-linked companies have always been encouraged to venture abroad to secure business and investment opportunities. This will increase access to new markets, create demand for domestically produced intermediate goods and components, help to create Malaysian multinational corporations, and more importantly help create more jobs in the longer term. (Ministry of Human Resources, 2006, p.8)

In Palestine, the complex economic and political context has in large part driven the development of the National Export Strategy (NES) in 2014. This strategy reflects the aspirations of the public and private sectors, and is the result of comprehensive, inclusive and participatory consultations. The overarching aim of this document is to provide the newly recognized State of Palestine with a roadmap for export growth. The priority sectors were selected based on their capacity to contribute to export growth, trade deficit reduction and employment generation through their current and potential trade performance, as well as meeting selected qualitative criteria. (Ministry of National Economy and Paltrade, 2014)

The products / priority sectors that have been selected based on these indicators were as follows: commodity sector: fruits and vegetables, herbs, olive oil, textiles and garments, stone and marble, footwear and leather, Agro-processed meat and furniture; the services sector, concentrating on strategic two sectors: information & communications technology ( ICT ) and tourism. In addition to the promising partnerships in all sectors. (Ministry of National Economy and Paltrade, 2014)

The Palestinian Ministry of Economy has announced that it is seeking to expand the country's exports outward size through the activation of bilateral and multilateral trade agreements with these markets. The Ministry pointed out that there are efforts to achieve an overall growth in export sectors products by 67% over the next five years, at an annual rate of 13%. The Palestinian Economy Ministry expects to lead the implementation of the national strategy for export to reduce the trade deficit and reduce dependence on Israel in the export. ([aljazeera.net/news/business/2015](http://aljazeera.net/news/business/2015))

#### **4.4.3.1. Suggestions to improve the Foreign trade sector performance:-**

The Palestinian Authority has to formulate and approve the Law of Customs including Palestinian tariffs for all goods and at rates lower than 50% of the customs tariff of Israeli goods. The Palestinian Authority has to lift of the Palestinian customs duties of 100% higher than the Israeli tariff on luxury goods. There is a need to impose restrictions on commercial agencies that imports Israeli goods, and on the absolute freedom of imports in order to

control and direct the business process to serve the Palestinian national policies and the Palestinian people. (Alsourany, 2006, P.94)

The Palestinian Authority had better incorporate new mechanisms, economic and commercial, towards strengthening the capacity of the Palestinian economy on the internal integration between the West Bank and Gaza. This integration is one of the most important challenges facing our economy in order to progress, develop and grow. In this regard, Palestinians have to work towards the separation of the Palestinian economy from the Israeli enemy's economy, in order to stop the case of dependency on Israel as possible and to eliminate the effects of Oslo Agreement and Paris Economic Protocol. The Palestinian market must stop being a consuming market for the products of Israeli goods.

The alternative is strengthening trade and economic relations with Arab countries and providing opportunities for Palestinian exports, including the necessity for the development of foundations for the formulation of Palestinian economic trade policies linked to integral Arab economy, and allow to protect the Palestinian national industries as much as they allow for the development of policies aiming at economic support for many of the destitute and the poor in our country.

#### **4.4.4. Small and medium enterprises (SMEs):-**

Small and medium enterprises are essential means to face unemployment, where they make an effective contribution to employment opportunities because of the nature of their activities and their characteristics of being labor-intensive. Small and medium enterprises are the most important mechanisms adopted in stimulating the demand for labor, for the production of goods and services, labor-intensive and that do not require a large capital funding. It has emerged as the importance of small and medium enterprises after becoming a tool that relied upon in many countries that use medium technology to bring about the implementation of the easy import substitution and export promotion strategies.

##### **4.4.4.1. Definition of (SMEs) projects:-**

Most countries have difficulty in defining a standard definition for the classification of economic projects. The International Labour Organization conducted a study about small businesses and found that there are more than 25 different definitions in the 25 countries, and there are several criteria for the definition of small projects (such as labor standard, capital, value-added, ...) that may be used in accordance with the definitions of functional properties such as management, type of specialization, production methods or market trends. (Nasrallah and Sourani,2005, p.5 )



The Palestinian Central Bureau of Statistics rely on the classification of the size of projects by the number of workers. Small enterprises that the number of employees ranges where from 1-4 workers, medium-sized enterprises are the projects that the number of workers ranges where from 5-19 workers, while large enterprises where employees are more than 19 workers. (See Table: 4.2.) (Palestinian Central Bureau of Statistics, Establishment Census, 2012)

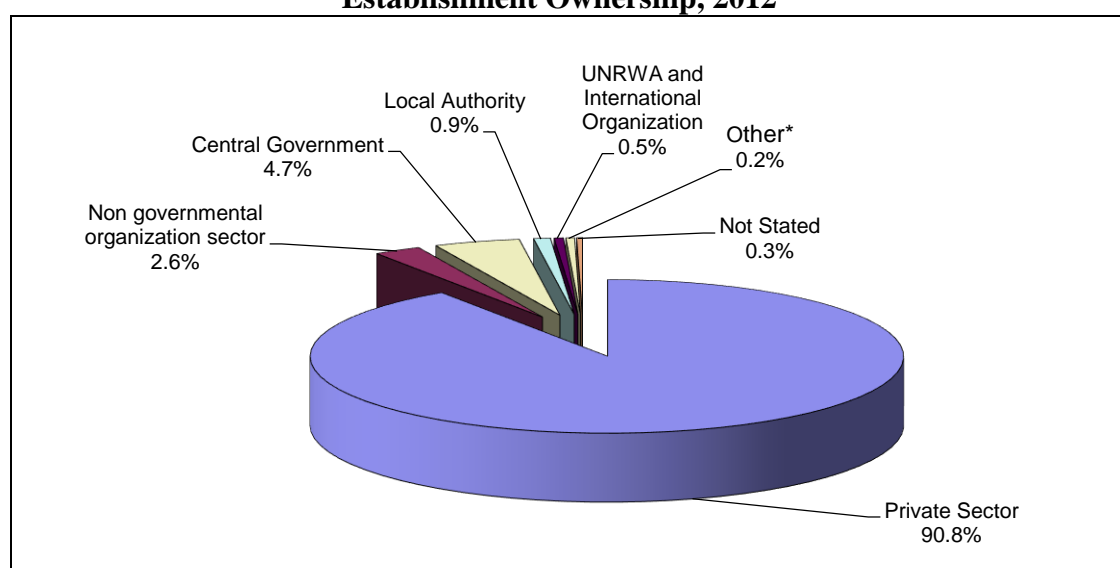
**Table: 4.2.**  
**Size and number of establishments 2012**

Size of the enterprise	number of establishments	Per-cent
Small (1-4)	117,234	89%
Medium (5.19)	12,960	10%
Large (20 or higher)	1.536	1%
Total	131,730	100%

Source: (Palestinian Central Bureau of Statistics, Establishment Census, 2012)

The results of the Establishment Census 2012 indicated that; 90.8% of the operating establishments belong to the private sector (both private national and private foreign) were 131,618 establishments, while 4.7% are central government 6,794 establishments, 2.6% are non-governmental organizations sector, while the establishments belonging to local authorities about 0.9%, UNRWA and international organization constitute 0.5%, the rest of operating establishments which represented 0.2% were national or foreign governmental companies and foreign government, and 0.3% of operating establishments were not stated. (See Form 4.1.) (Palestinian Central Bureau of Statistics, Establishment Census, 2012)

**Figure 4.1.**  
**Percentage Distribution of Operating Establishments in Palestine by Establishment Ownership, 2012**



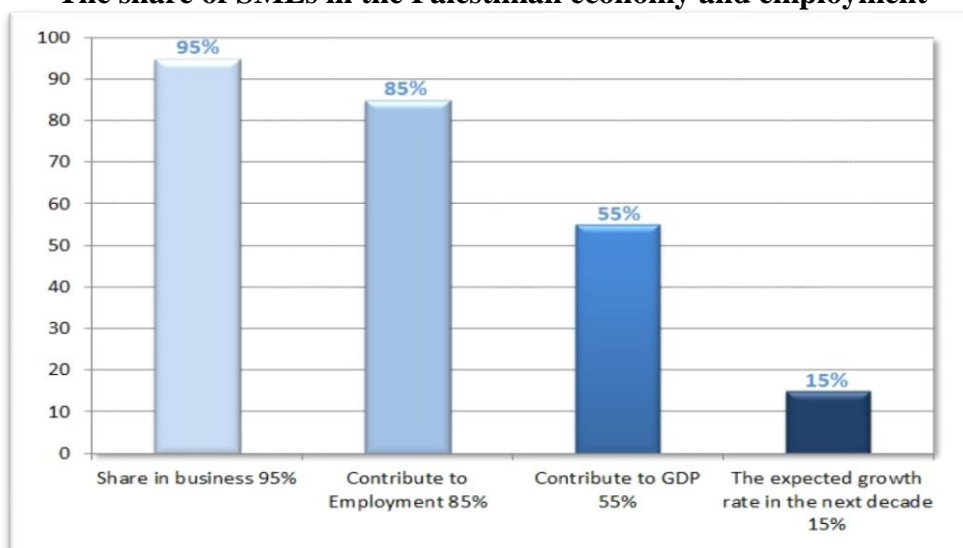
Source: (Palestinian Central Bureau of Statistics, Establishment Census, 2012)

The attention in small and medium-sized industries through the private sector offers many advantages that large-scale industries cannot bring, e.g. (Mkhaimar, 2005; Abu-Jazar, 2006; Muhanad & others, 2009; Abdelkarim, 2010; Namrouti and Saidam, 2012; Abd-Elkarim and others 2013; Palestinian Business Forum, 2014)

- Creating more employment opportunities for unemployed youth, whatever are their scientific and technical skills.
- Developing talent youth and making industrial development rules.
- Raising the level of savings and investment, by mobilizing capitals from individuals, associations and non-governmental bodies.
- Relying on local resources.
- Making geographical balance for development as SMEs are characterized with flexibility.
- Resettling and moving between different areas and regions, thereby creating new productive communities in remote and rural areas.
- Increasing the volume and value of industrial exports.
- Providing opportunities for the poor and low-income to take advantage of new sources of income for them.
- Covering a large part of the local market needs.

SMEs are considered the backbone of the Palestinian economy. In spite of their small size, they make a significant role in driving economic growth and job creation, where such projects make up more than 55% of GDP, and occupy approximately 85% of the total workforce in the private sector. (See Form: 4.2.) (Palestine Investment Fund, 2014, p. 25)

**Figure: 4.2.**  
**The share of SMEs in the Palestinian economy and employment**



Source: (Palestine Investment Fund, 2014)

In Palestine, the majority of small and medium enterprises are often family share. Perhaps the most important characteristic of these projects: lower capital, operational flexibility, low operating costs, as it has proved over years, great flexibility in the face of political fluctuations and changing market conditions. Like any other sector in Palestine, small and medium enterprises face many challenges that hinder the potential for growth and development, these challenges are (Mkhaimar, 2005; Abu-Jazar, 2006; Muhanad & others, 2009; Abdelkarim, 2010; Namrouti and Saidam, 2012; Abd-Elkarim and others 2013; Palestinian Business Forum, 2014):

- Lack of (or weak) economic feasibility study of the project before implementation, that results in putting the project in weak of finance or marketing positions, or not suitable production for the requirements of the internal market or economic conditions.
- Limited invested capital in small size projects while there are high administrative and production costs.
- Increased investment risk because of the limited ability to lose under the stalled political and economic conditions and the inability to predict the future.
- Relying on inherited and family experiences mainly in most phases of the project.
- Reliance on labor-intensive, non-eligible, simple and often common technology.
- Intense competition between national products and imported products due to freedom almost absolute to import from the Israeli market and sometimes illicit faced by small business products such as dumping and tax evasion and smuggling expired or non-conforming products methods to the Palestinian territories from Israeli territory and settlements.
- The difficulty of obtaining soft loans and the adoption of the majority of projects on simple self-financing.
- Small production volume and the limited untapped productive capacity and thus the lack of any economic savings.
- The weakness of future plans and vision of the owners, in addition to poor knowledge of quality, competitiveness and marketing programs, in light of natural typical production methods.
- Close link the internal market and the weakness of exports.
- Lack of information on production inputs used by small businesses, procedures and laws in place to import, which exposes them to be of high prices and low quality.

- The weakness of the interrelationship between economic sectors, especially the agricultural and industrial sectors.
- The dependence on the Israeli market in the provision of production supplies and even spare parts, which increases the costs and time.
- Palestinian consumer preference for foreign products motivated and linked emotionally with imported goods for a long time.

#### **4.4.4.2. Suggestions to improve SMEs performance:-**

The need of the Palestinian economy for the advancement requires serious attention from the Palestinian Authority to the role of small and medium enterprises so that they can advance the development of the Palestinian economy and alleviate the dependency of the Israeli economy. Since that small and medium enterprises create jobs, and absorb workers and university alumni that share in the growth and development of the Palestinian economy. To be successful for such projects and get the desired results, Palestinians must follow the following matters: - (Mkhaimar, 2005; Abu-Jazar, 2006; Muhanad & others, 2009; Abdelkarim, 2010; Namrouti and Saidam, 2012; Abd-Elkarim and others 2013; Palestinian Business Forum, 2014)

- The provision of loans and support needed to fund working capital, and developing the equipment and capital assets, or the expansion of existing projects or fund new entrepreneurial ideas for developing small projects economically and socially.
- Encouraging banks to finance small projects at low interest rates, by giving them material privileges such as tax discount on gains from financing activities of these projects profits, in addition to reducing the rate of reserve requirements for banks in proportion to the amount of money that is financing small projects.
- Training small business owners on modern management project systems in terms of how to provide production inputs, and managing the production and marketing process, and how to deal with banks and government institutions. The provision of appropriate vocational training for the development of workers in small business activities of skills and offering courses in management, marketing, accounting and production areas in line with the attributes and the characteristics of these projects.
- Cooperating with the advisory centers, industry associations and chambers of commerce, industry and agriculture to finance marketing and research productivity.

- Organizing specialized exhibitions to promote and market products of small enterprises and deploy the necessary marketing information to help them marketing their products inside and outside Palestine.
- Cooperating between research and academic centers, government institutions and consulting centers in order to manage training programs and entrepreneurial projects as fit with the needs of the Palestinian community sectoral economic.
- Strengthening and expanding the role of lending institutions to provide loans to small enterprises, within the terms of concessional terms and guarantees.
- Establishing and activating the role of associations and federations of solidarity projects heterogeneous - such as agricultural marketing associations and associations of poultry farmers and industry associations - in order to improve production conditions in the different stages (of incorporation and procedures stage, and the provision of capital, and provide the necessary raw materials within the great deals at the lowest cost, and production and marketing).
- Limiting government control and bureaucratic procedures in favor of the economic activities.
- The provision of appropriate elements for the implementation of economic projects at promotional prices and competitive infrastructure.
- Making comprehensive national development policies, taking into account local potential and actual needs of the Palestinian community, to determine the nature of the opportunities for entrepreneurs and owners of small businesses in different sectors.
- Adopting a policy of incentives for the development of small businesses, through soft loans, and priority customs exemptions and protection from foreign competition and buying government procurement of the national goods.
- Finding new outlets that allow to reduce the impact of the Israeli measures on the business environment in the Palestinian territories, particularly in the provision of raw materials and marketing through the exploitation of foreign markets (and here this means the Arab depth to activate the Arab summit resolutions in 2000 with respect to the privileges granted to the Palestinian product).

Khader Shnewra - the executive manager of the Palestinian Industries Federation – say that there should be adjusting and developing for laws and legislations related to the economic activities, so as to promote investment, productivity, legal environment and increase the success and sustainability of

small enterprises, especially the restructuring of the investment promotion law to ensure that all categories of capital that want to invest can benefit.

In general, small and medium enterprises are economic and social development strategy. To further enhance and promote the activities by SMEs, there should be a National SME Development Council (like Malaysia) chaired by the Palestinian Prime Minister in order to strengthen enabling infrastructure for SME development, building the capacity and capability of SMEs, and enhancing access to financing by SMEs.

#### **4.4.5. The services sector:-**

The services sector plays a central role in enhancing the competitiveness of developing and developed economies alike. The provision of services is a prerequisite to enhance the competitiveness of the commodity sectors, and those services include basic infrastructure such as telecommunication services, transportation, public services (electricity and water), and health and education services, productivity and services such as banking services and professional services. Enhance competitiveness over the efficiency of the public and private sectors in the provision of such services depends on affordable prices, and the level of technology used in the production of these services also. (UNCTAD, 1995)

Data from the Central Bureau of Statistics indicates that working in this sector enterprises accounted for about 26.7% of the total economic establishments operating in the Palestinian territories, and the proportion of its employees amounted to about 33.6% of the total workers in Palestine.

(Palestinian Central Bureau of Statistics, 2015.)

The services sector contributes to 18% of GDP. (The Economic Observer, 2015)

##### **4.4.5.1. Suggestions to improve service sector performance:-**

Any improvement in the role of the services sector in the Palestinian economy depends largely on the public and private sectors implementing supportive measures to enhance labor force absorption in this sector and increase its contribution to GDP. These recommendations can be summarized as follows: - (Eljafari and others, 2003; MAS, 2006):-

- The public and private sectors must focus primarily on creating high wage and productivity job opportunities. They should strengthen partnership and cooperation between the services sector and other economic sectors rather than continuing with the present status where the performance of the Palestinian services sector is only a response and reflection of external elements exemplified in offering marketing and import services from Israel through retail and wholesale trade and local transportation services, which expand their

activities to provide transport for workers between the Palestinian Territories and Israel.

- Enhancement of the role of distribution services, such as retail and wholesale trade and transportation, will depend on the contribution of agriculture, industry, and construction to GDP and will be directly reflected in the role of these services in replacing imports with local products. The relevant authorities must formulate industrial and agricultural policies to strengthen the role of these sectors in producing competitive goods for local and export markets.

- Encouraging the industrial, agricultural and construction sectors in the long term will depend largely on the extent to which high quality production services such as banking, financial insurance, real estate, construction, design, engineering, professional, and legal services are available.

Like Malaysia, there should be significantly increase in the role of Palestinian services in local and export markets, the relevant authorities need to formulate effective and appropriate policies based on data covering all services activities: consumption, investment, production, imports and exports. Also establishing a legal environment pertinent to licensing, taxes, quality, standards, foreign investment, rules, and regulations associated with the flow of services to foreign economies.

There are numerous services that do not meet international standards or quality control in packaging, promotion and advertising, trucking and transportation, and computer services.

However, development of all branches of the services sector including social, personal, production, basic, and distribution services hinges upon the availability of trained and qualified human resources proficient in dealing with technology. Policies therefore need to be taken to restructure university programs to ensure that their output is consistent with the needs of both the public and private sectors. Graduates should have the potential and ability to keep abreast of international developments in technology, particularly information technology, as this is a basic requirement for the development of all branches of the services sector.

In general, the services sector plays an important role in enabling the economies of developed and developing countries alike. This sector highlights an important role in the Palestinian economy.

#### **4.4.6. The constructions and infrastructures sector:-**

Population and economy are growing over times so it is necessary to invest in developing the construction of infrastructure sector in order to address the current and future needs at the level of individuals or companies that investments in this sector will lead to immediate and sustainable national economy growth. The implementation of the necessary vital projects in this sector will enhance long-term development process and it will be reflected positively on the future of employment and revenue. This sector can include building, construction and services areas, such as building schools, hospitals and infrastructure development, where there is an urgent need for them in various Palestinian areas. This is consistent with the aspirations of the Palestinian people for the development of education and health services, infrastructure and raise the level of performance and quality.

Investment in infrastructure has become one of the most important landmarks of contemporary economies after the establishment of many governments of the privatization of many public facilities. Increasing pressure has led on government budgets to the inability of countries to fulfill their responses towards their citizens, especially when the capital budgets shrink gradually to cover the deficit in current budgets, which are mostly salaries and wages. Therefore, the private sector nowadays invest in producing and providing the population with basic services such as water, electricity and telecommunications. In addition, the private sector share in opening new external and fast roads, and building ports, airports and operating them at the same time. The private sector work on the developing and increasing the effectiveness of infrastructure services in health care, transportation, roads, education, waste and sewage, electric power and environmental pollution problems. Due to its important role in bringing about change and economic development, the infrastructure sector in Palestine is an urgent need to develop, especially with a large potential for growth in the areas of energy and telecommunications. (El-Jafari, 2006)

Since the establishment of the Palestinian National Authority in 1994 and until the date of the blockade on Gaza, the construction sector was considered the fastest growing among all economic sectors. Where in 2000 it contributed 33% of GDP, and with more than 22% of the workforce. The volume of imports for this sector from building materials reached through Gaza crossings before the siege in 2007, 52% of the total imports of Gaza. However, the performance and growth of this sector has witnessed a slowdown as a result of a number of political factors, including 2000 uprising, and the blockade imposed since 2007 on Gaza, as well as the Israeli military offensive on Gaza Strip. (Ministry of National Economy, 2011, p.8)



Nowadays, real estate and construction sector is a major contributor to the Palestinian economy, The percentage of participation in the gross domestic product is about 22% (2.3 billion US Dollar) as it represents about 16% of the total workforce. Growth potential in this sector is great, especially if the obstacles have been removed. In addition, the housing sector has great growth opportunities. despite the fact that more than a third activities in the construction sector are concentrated in the residential activity, but there is a big shortage in the housing units, where the Palestinian government estimate size of the deficit to be more than 200 thousand units by 2020. (Palestine Investment Fund, 2014)

Among the impediments to real estate development is the complexities of land registration procedures in Palestine, where this is a very cost-command for the majority of investors in order to get large lands to invest that results in limiting the growth potential in the construction sector and imposing restrictions on the housing sector. (Palestine Investment Fund, 2014, p.33)

As most of the Palestinian labor force is working in the construction and services sectors in Israeli labor market, it is essential to expand the building and construction and services activities in the Palestinian territories to create alternative employment opportunities for the Palestinian labor instead of the Israeli labor market. It has become clear that investing \$ 600 million US dollars in the construction and services areas can work to create 114 thousand jobs in these sectors, and this is a sufficient opportunity to accommodate Palestinian workers who work in Israel. (MAS, 2006, P.74)

The construction sector in Palestine has many advantages that create future opportunities (Ministry of National Economy, [mne.gov.ps/2015](http://mne.gov.ps/2015)) and these advantages are like:-

- There is a representative body for this sector that is well organized (The Palestinian Contractors Union) which has a strong activity associated with all stakeholders.
- There is an updated classification system for companies operating in this sector, according to local standards and requirements.
- The availability of a skilled labor that has practical and technical experience.
- There are management experts who have long-standing experience in the region and a good knowledge of international contractors and local companies.
- Available equipment including factories for ready-made cement mixes, pumps.
- Administrative and financial ability to implement and manage projects relatively large size.
- Engineering companies and engineering services sector with experience.
- Financial support for different projects and support from international donors.

The current high demand for this sector is the result of the scarcity of construction work since Gaza was under an aggravated blockade, which is a tremendous opportunity for the construction sector in the event of a positive development in the political environment and opening crossing points around Gaza.

There are dozens of construction projects are under suspension pending the availability of arriving building and finishing materials. There are still many residential units and road networks and infrastructure, the official buildings and schools, and other institutions in need of maintenance that did not have during recent years, especially after the recent war on Gaza Strip, which destroyed many of houses and establishments that still need to be rebuilt.

#### **4.5. Supporting and developing the Palestinian Employment Fund (PALEF): -**

The establishment of the Palestinian Fund for Employment has come under Presidential Decree No. (9) for the year 2003, where enjoys legal personality and have a pending independent finances, to support economic development by activating and stimulating labor market policies, in order to create and generate permanent jobs and the development of social capital, leading to fight poverty and unemployment on a strategic basis. The minister of labour manages the Fund. (palef.ps/2015)

The Fund implements a range of programs that contribute to some extent to reduce unemployment and contribute to sustainable development, (palef.ps/2015) as:

1. Supporting self-employment for graduates of vocational training centers in a number of disciplines for both sexes.
2. Enabling and rehabilitating the unemployed graduates of universities and higher institutes and centers of vocational training, in order to improve their chances of engaging in the labor market and in collaboration with all partners and stakeholders in it.
3. Developing leadership and creating self-employment projects, and employing others through the provision of suitable loans for jobseekers in order to establish their own business through the fund directly or in collaboration with lending institutions.
4. Supporting and developing existing projects to employ and absorb new labor.
5. Implementing empowerment programs for job seekers in order to form and promote their experience in order to reintegrate them in the domestic and overseas markets work.
6. Empowering and training unions' leaders of both sexes in order to turn them into instructors to train workers and instruct them on the proper handling of the working environment, especially in dangerous work.

7. Enabling the disabled and help them to establish their own economic projects.

The Ministry of Labour and the German Agency for International Cooperation (GIZ) signed a memorandum of understanding under which the German Agency for Technical Assistance supports the establishment of a Palestinian General Authority for employment. International Labour Organization (ILO) also expressed willingness to contribute to the elaboration of this Authority to an entity on the ground. (Ministry of Labour Plan.2014) This cooperation will be through:

1. Securing sources for funding (palef) as an official body that is responsible for employing in Palestine.
2. Preparing laws and regulations, which govern the function of (palef).
3. Participating actively with social partners and stakeholders in all the meetings and workshops related to (palef) in all stages of work.

**(PALEF)** has completed the process of updating the labor market information system as planned; this process must remain constant and continuous according to the developments on the ground and the requirements needed by the users of the system data within and outside the ministry of labor. There must be continuous activation and development of this system through the following interventions: (Ministry of Labour Plan.2014)

1. Updating the system where it is necessary.
2. Increasing the frequency of visiting the establishments and registering or updating their data and statements of all employees.
3. Recording workers inside (1948 lands) under the permits and recording statistical reports about them.
4. Using the system data in a follow-up to the social rights of workers of both sexes with the Israeli side.
5. Follow-up job advertisements in the media and registered them on the system.
6. Conducting alignment operations between supply and demand in order to employ the maximum number of registered unemployed at the system.
7. Preparing statistical data about the system information to applicants either by the administrative units within the ministry or by interested foreign institutions to get them.

Like the Ministry of Human Resources in Malaysia, **(PALEF)** has to make comprehensive surveys that aim to know the professional persons who

have special abilities, (PALEF) has to work to provide such persons, it also has to follow graduates to determine their majors and provide work for them.

#### **4.6. Institutional roles and responsibilities: -**

Many national institutions (governmental or non-governmental) and the foreign ones play prominent role in reducing unemployment. The following are the names of these institutions and the role played by each of them. (Arab Thought Forum, 2003; MAS, 2006; Ministry of labor, 2014):-

- Ministry of Labor: It is the main responsible for the labor sector, where it set up different plans for the work of this sector and its development, and implementing these plans in order to serve the labor force, in addition to the participation of other parties, (including the Ministries of Planning and Finance) in attracting the necessary funding for the implementation of programs and projects in the labor sector.

- The Legislative Council: It has legislative and oversight roles, in addition to the adoption of the budget. It has a responsibility of modifying the present rules of labor, investment, tax and so on.

- Presidency of the Council of Ministers: developing strategies and adopting the budget, in addition to the follow-up achievement and coordination at the ministerial level.

- Judiciary: issuing decisions in the field of labor sector.

- The Ministry of Planning and Administrative Development: helping in the preparation of the strategic plan and provide funding for implementation and follow-up implementation.

- Ministry of Finance: Monitoring the current budget of the Ministry of Labour, such as funding some of the activities and participating in supervision.

- Palestine Monetary Authority (PMA): the provision of banking environment that stimulates banks to invest and fund various projects.

- Palestine Investment Fund: developing the Palestinian national economy through strategic investments.

- Local banks: investing in strategic projects and presenting loans to all business sectors.

- Palestinian Central Bureau of Statistics: a major participant in the development

program of labor market information, in addition to providing relevant work sector with statistical data.

- Workers unions and employers' federations: the main parties of production, they are actively involved in many work committees from the business sub-sectors.

- Arab Labor Organization: It shares in issuing decisions and legislation relating to labor force in Arab countries, including Palestine, as well as making conferences and workshops related to labor force involving the Ministry of Labour and other relevant national authorities.

- The private sector: It has to focus on the profit-generating activities, which rely on labor-intensive in the various economic sectors.

- International Labour Organization (ILO): It stimulates the Ministry of Labour, employers and workers for the application of labor legislation.

- Non-governmental labor organizations and research centers: They prepare studies related to employment sector and they participate in the various committees.

- International institutions such as the German Agency German Agency for International Cooperation (GIZ) and the Islamic Development Bank: They provide technical support and fund projects related to the labor sector.

- Donor countries: They provide financial and technical assistance.

#### **4.7. A discussion with the specialists and experts opinions:-**

The researcher resorted to the depth interview style with specialists and experts in order to stand on the possibility of benefiting from the Malaysian experience in the elimination of unemployment in the Palestinian society and in order to judge the model of reducing unemployment in Palestine in light of the Malaysian experience.

##### **4.7.1. The specialists and experts list:**

The study sample includes interviews with specialists of the research topic as follows: (You can see their names at page 101)

1. Four academics in economics from various local universities who have studied the experiences of developing countries.

2. Four specialists and experts from the government sector as follows:

- Three experts from the Ministry of National Economy in Palestine.

- One expert from Palestine Monetary Authority.

3. Two experts from the private sector in Palestine.

#### **4.7.2. The specialists and experts vision:**

The specialists and experts have agreed that the topic of the thesis is very important. There are lots similar views among economics and the researcher such as:-

- The Israeli occupation is the main reason for economic problems in Palestine.
- The political division among the Palestinians plays a dangerous role in the problems of the Palestinian people especially the economic problems.
- The Palestinians have to work in two sides: firstly, facing Israeli procedures, secondly, developing the Palestinian areas.
- Supporting the private sector to take its natural role in the production process.
- The government has a guidance role in putting policies that make a good economic situation.
- The Legislative Council has a responsibility of modifying the present rules of labor, investment, tax and so on.
- Small and medium enterprises are essential means to face unemployment, where they make an effective contribution to employment opportunities because of the nature of their activities and their characteristics of being labor-intensive. Small and medium enterprises are the most important mechanisms adopted in stimulating the demand for labor, for the production of goods and services.

The specialists and experts from the government and the private sectors have agreed that there are some successes especially in the food industries, the production of meat, dairy, poultry, furniture, clothes and replacement industries in general.

They have also agreed the Israeli occupation follow a systematic policy to destroy the Palestinian economy. These procedures include:-

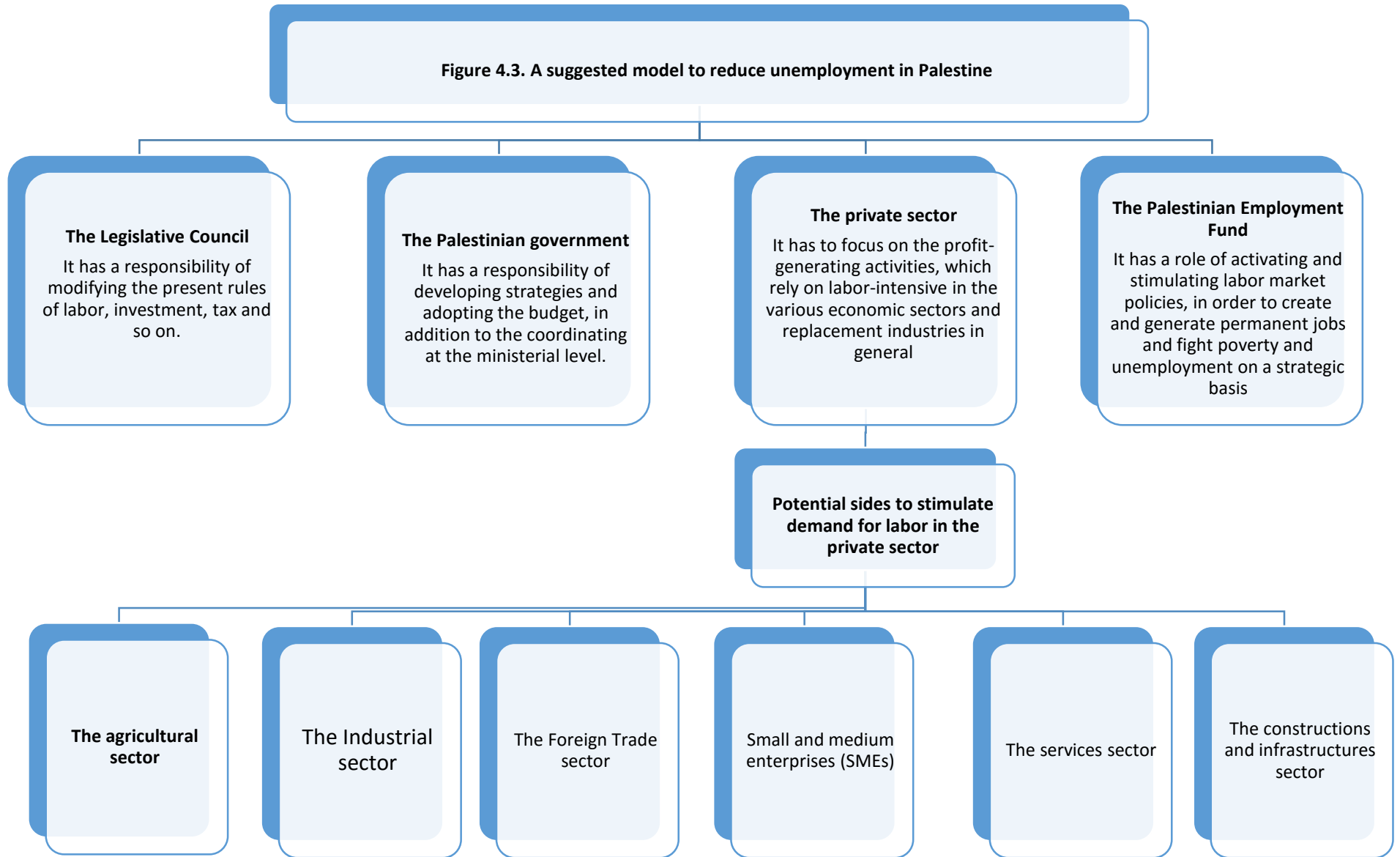
- Preventing the entry of new machines especially since 2007.
- Preventing the entry of spare parts for the machines that need to be repaired.
- Preventing the entry of the raw materials needed for the factories, so many factories are stopping these days.

Some academics have seen that some points need to be revised and renewed. So the researcher has revised these points which are like these:-

- Pointing to the laws that deals with labour market and so on. The researcher has pointed to these laws in the (Institutional roles and responsibilities) part.
- Pointing to the importance of agriculture in the Palestinian case in enhancing development and reducing unemployment. The researcher has done this in chapter four.
- Renewing the information about the Palestinian trade since the establishing of (Pal-trade). The researcher has renewed this information.
- Giving more information about the outputs of this model especially in achieving growth and reducing unemployment. The researcher has done this in chapter four as it possible.

Finally, the researcher has benefited from the discussion with the specialists and experts opinions since they are aware of economic problems in Palestine and they have a knowledge about the needs of the Palestinian society. This benefit is clear in making the final chart for the suggested model to reduce unemployment in Palestine. (See figure 4.3.)

Figure 4.3. A suggested model to reduce unemployment in Palestine



Source: Designed by the researcher.



#### **4.8. Conclusion:-**

To reach to a good range of development and employment, there has to be acceptable achievement in economic growth rates, so that the economy can create new job opportunities to reduce unemployment. Though growth is required, the growth content is the exact more importantly, in the perspective of the satisfaction of basic needs and first of these needs is employment. Related to this point is the technical pattern, especially from the standpoint of labor intensity. There should be an attention to all sectors of life and not marginalize any business sector with no matter how it is simple as a capable area of reducing unemployment.

The Palestinian economy needs a growth rate of at least 6.5% per year to be able to absorb the persons sharing in the labor market. These persons are about 55 thousand workers per year. Through this rate of growth, unemployment will remain at its current level, but if we want to reduce the current levels of unemployment, for example from 27% to 10% in ten years, we need to increase the GDP growth rate to 8.5%-9.5% per annum. (MAS, 2006)

If we review the performance of the Palestinian economy in the nineties, we will find that in the period from 1999 -1995 when Israel eases restrictions and constraints on the Palestinian economy, the growth rate during that period was 8.5%, and this was sufficient to generate enough jobs to absorb job seekers and to reduce the prevailing unemployment rates. (MAS, 2006)

We conclude from this, that the Palestinian economy is able to grow quickly so as to provide jobs for new entrants to the labor market, in addition to reducing the unemployment rate from 27% to 10% -12.5%. we should note that this requires lifting the siege on the Palestinian economy and getting rid of closures and restrictions on the movement of workers and the population as well as on the products. (MAS, 2006, p.229).

Society also needs to raise awareness towards investment process and thus contributing to the creation of jobs for large numbers of unemployed who do not have the capital to rely on themselves.

The cooperation and teamwork reinforce the access of young people and the owners of the leading creative ideas to achieve the business community develop economically, and open the doors for them to work. The future outlook requires some kind of planning in the budgeting process, putting unemployment and reduction as one of the priorities.

## **Chapter Five**

### **Conclusions and Recommendations**

#### **5.1. Conclusions:**

##### **5.1.1. Conclusions that concern about Palestine**

##### **5.1.2. Conclusions that concern about Malaysia:**

#### **5.2. Recommendations:**

##### **5.2.1. Recommendations for the Palestinian Authority and its institutions:**

##### **5.2.2. Recommendations for the private sector:**

##### **5.2.3. Recommendations for the donor countries and international organizations:**

#### **5.3. Suggested Future Researches:**

## **5.1. Conclusions:-**

There are two kinds of conclusions; the first kind that concerns about Palestine while the second kind that concerns about Malaysia:

### **5.1.1. Conclusions that concern about Palestine:-**

- Unemployment is a composite problem that has negative economic, political and social effects on the individuals and the society so high levels of unemployment lead to serious social and economic problems reflecting negatively on the national economy.
- Unemployment is one of the most serious dilemmas and challenges facing Palestinian society. Palestine suffers from the problem of unemployment, but differently from the rest of the world because of the existence of the Israeli occupation since 1948.
- The Israeli occupation has imposed its control on the Palestinian natural resources and on the borders and the movement of exports and imports. These procedures have been increasing since the arrival of the Palestinian National Authority.
- The problem of unemployment is disturbing the lives of tens of thousands of Palestinian families.
- The unemployment rate did not exceed before the advent of the National Authority (5%) of the total workforce in Palestine. However, after the arrival of the National Authority in the year 1994 and after Israel's policy of closure and siege, has many Palestinian workers lost their places of work in the Palestinian territories occupied in 1948, where the unemployment rate in the state of siege and closure, reaches to (50%).
- The problem is more severe in Gaza Strip and requires faster action. It is noted that rates of unemployment in Gaza Strip are higher than in the West Bank throughout the period from 1972 so far.
- The Palestinian economy is service-oriented and services contributed 20.9% to GDP at current prices in 2013.
- The Palestinian economy suffers from a chronic unemployment, due to the presence of structural abnormalities that limits its ability to absorb new entrants into the labor market.
- The performance of the Palestinian economy is largely affected by the Israeli closure policies and the level of international aid to the Palestinian economy.

- There is a responsibility on the Israeli occupation authorities to review its security procedures and stop the economic blockade such as the restrictions imposed on the movement of persons, goods and services, in order to enable the Palestinian economy to resume its active movement.
- There are clutter efforts to face the problem of unemployment and low rates of coordination among the ministries, and among the ministries and the civil and the private sectors.
- There is a lack of studies on the economic sectors, which can accommodate large labor and there is a lack of mechanisms for the development and funding these sectors.
- There is a failure to provide adequate financial resources for the concerned ministries such as ministry of labor and ministry of social affairs.
- There is an inefficient use of aid funds and foreign aid, so that not use them optimally in the development projects that help the community to promote local industries and youth employment.

### **5.1.2. Conclusions that concern about Malaysia:-**

- The Malaysian experience is considered as a model for countries that suffer from the widespread of unemployment.
- Malaysia has achieved great success in the fight against unemployment, having transformed from an exporter of raw materials, to a state of an economy depends on multiple domains in services and industry.
- Malaysia success to reduce unemployment was a logical consequence of political, economic and social objective conditions. This success is a result of a comprehensive national strategy reflecting the satisfaction that established mutual trust relationship and provided appropriate mainstay of the success of a human experience seen by many experts as a worthy challenge to read comprehensively.
- The Malaysian success is the outcome of hard work and a large coordination included government and private sector, in addition to having a vision for development and economic activity through sequential and integrated five-year plans since independence and until now.
- Malaysia has enjoyed one of the best economic growth records in Asia over the last five decades despite a multitude of challenges and economic shocks.
- Malaysia has adopted lots of approaches towards enhancing job strategy, represented in the service sector, the strategy for the manufacturing sector,

enhancing the development of small and medium enterprises, encouraging foreign direct investment, increasing trade, creating jobs in technology and knowledge-intensive sectors, stimulating the private sector to employ more and recognizing the importance of self-employment.

- The services sector is leading economic growth for Malaysia because of its large size and sustained high growth in recent years, the services sector is expected to play a bigger role in generating income and employment as well as in leading economic growth ahead.

- Industrial policy has played an important role in transforming Malaysia's economy from one dependent on the primary sector to one driven by the manufacturing sector; also, it participated enormously in employment creation.

- Small and medium enterprises (SMEs) including microenterprises have played an important role in fostering growth, employment and income in Malaysia.

- Foreign direct investment has led to a strong push for industrial performance in Malaysia, and it has a positive impact on the use of local resources, local industries and local labour force.

- Increasing trade in Malaysia boosts economic growth that is translated into more jobs.

- The public-private sector collaborative mechanisms have contributed much to ease doing business and increasing employment in Malaysia.

- The Malaysian government has recognized the importance of self-employment in employment creation and economic growth. As such, efforts have been intensified to create more self-employment opportunities.

- The Ministry of Human Resources in cooperation with other employment agencies undertake the task of employment in Malaysia. The Ministry of Human Resources conducts intensive activities about job opportunities available in the employment offices.

## **5.2. Recommendations:-**

There are three parts of recommendations; the first part is for the Palestinian Authority and its institutions, the second part is for the private sector and the third part is for donor countries:

### **5.2.1. Recommendations for the Palestinian Authority and its institutions:-**

- The future outlook requires some kind of planning in the budgeting process, putting unemployment as one of the priorities.
- It seems that the problem of unemployment is strongly linked to the political situation; therefore, the more progress on the political front the less unemployment. The Palestinian Authority and its executive and legislative institutions has a historic responsibility to achieve internal stability and fight corruption.
- The problem of unemployment in Gaza Strip requires faster action since it is more severe than the West Bank.
- The privacy of the Palestinian case needs to build a developmental strategy that focuses on some economic sides within the various sectors.
- The Palestinian Authority has to focus efforts on local development programs to create more job opportunities in the local community to overcome the restrictions imposed on the movement of persons. Such programs should include the rehabilitation of infrastructure, basic services, agricultural business and other areas.
- The Palestinian economy needs a strategy of satisfying the needs then a strategy of production for export taking into consideration the modern concept of development that looks for development as a comprehensive process. Any developmental strategy should meet the basic needs and be self-reliant characterized by balance, stability and continuity.
- The economy must maintain a certain level of domestic employment and keep unemployment to its minimum level in order to be stable, therefore, the Palestinian economy must build in mechanisms in order to ensure employment alternatives and to work on creating jobs and/or job opportunities in the domestic labor market as well as in different external markets.
- Facing the phenomenon of unemployment requires national actions at all levels and this calls for the need to develop emergent contingency plan to face all the consequences of unemployment. This underlines that the Palestinian government programs should include clear mechanisms to decrease unemployment and poverty.

- The Palestinian national governance system should have a national vision based on the broader national framework in politics and economy, so it is worth to take into consideration this suggested model.
- The economic prosperity and sustainable development require political stability. Underdeveloped economies, political troubled countries do not provide the atmosphere that allows a business to invest. Palestinians have to strengthen and enhance their political unity in order to achieve economic growth.
- Unemployment rate in Palestine changes according to the Israeli procedures against the Palestinians, so the problems of the Palestinian economy will continue, as a result there is a need for stable conditions such as opening the cross points and creating continuing contact between Palestine and other countries.
- The Palestinian Authority is captured with injustice agreements with Israel, these agreements need to be reviewed especially the Economic Paris Protocol, in preparation for disengagement and independency on the Israeli economy.
- Economic growth is the basic premise to decrease unemployment. One of the shortest ways to get to the real economic development is supporting small and medium enterprises in all sectors of the economy and this means activating the role of the private sector to reduce the phenomenon of unemployment and raise community productivity.
- Enhancing the competitiveness of the domestic product in the domestic and export markets.
- Supporting institutions and projects that decide to increase the number of employees.
- Paying greater attention to the agricultural sector by providing the necessary funds to enable farmers to implement programs and projects in place, especially after the hit of the Palestinian agricultural sector of the destruction and bulldozing by Israel.
- Adopting easy imports substitution strategy in the industrial sector that could lead to exports promotion strategy through the expansion in the production of many goods, including: stone and marble, furniture, food processing, clothing, leather and medicines.

- The Palestinian Authority must study the possibility of imposing taxes on some import since the WTO agreements allow for the development of temporary protection for some goods and local products.
- The Palestinian Authority has to formulate and approve the Law of Customs including Palestinian tariffs for all goods and at rates lower than 50% of the customs tariff of Israeli goods. The Palestinian Authority has to lift of the Palestinian customs duties of 100% higher than the Israeli tariff on luxury goods.
- There is a need to impose restrictions on commercial agencies that imports Israeli goods, and on the absolute freedom of imports in order to control and direct the business process to serve the Palestinian national policies and the Palestinian people.
- Supporting small and medium enterprises since they are essential means to face unemployment, where they make an effective contribution to employment opportunities because of the nature of their activities and their characteristics of being labor-intensive.
- Paying greater attention to the agricultural sector by providing the necessary funds to enable farmers to implement programs and projects in place, especially after the hit of the Palestinian agricultural sector by Israel destruction and bulldozing.
- The Palestinian Authority must develop temporary protection for some local industries through import controlling and focusing on the importance of the Palestinian specification to limit the goods that can harm local industries.
- Increasing the role of Palestinian services in local and export markets, the relevant authorities need to formulate effective and appropriate policies based on data covering all services activities: consumption, investment, production, imports and exports.
- Supporting self-employment for graduates of vocational training centers in a number of disciplines.
- Enabling and rehabilitating the unemployed graduates of universities and higher institutes and centers of vocational training, in order to improve their chances of engaging in the labor market and in collaboration with all partners and stakeholders in it.



- Supporting and developing the Palestinian Employment Fund in order to create and generate permanent jobs and the development of social capital, leading to fight poverty and unemployment on a strategic basis.

### **5.2.2. Recommendations for the private sector:-**

- Focusing on the sectors of the profit-generating activities, which rely on labor-intensive. Such sectors as the agricultural sector, especially food industries, the production of meat, dairy, poultry and replacement industries in general.
- Working in the field of constructions and infrastructures in order to provide houses for groups of young people with limited income.

### **5.2.3. Recommendations for the donor countries and international organizations:-**

- It should be left to international organizations to fund private sector projects that are capable of sustained job creation.
- Support jobs programs that reduce unemployment and make lasting development, so the donor countries and international organizations should spend money on real productive projects to develop the Palestinian economy.
- Focus on job creation programs and support industry, agriculture, construction and services sectors.
- Support private sector projects and institutions.

### **5.3. Suggested Future Studies:-**

- Further studies about more strategies towards employment in Palestine.
- Deep studies about the ways of developing the various Palestinian economic sectors.
- Deep studies about the ways of enabling the Palestinian private sector.
- The Islamic presence in the Malaysian experience.

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## Appendixes

### The specialists and experts list:

The study sample includes interviews with specialists of the research topic as follows:

1. Four academics of economics from various local universities who have studied the experiences of developing countries.

- Dr. Moen Rajab, Previous Professor of economics, Alazhar University – Palestine.

- Dr. Khalil Elnamrouti, Associate Professor of economics, The Islamic University of Gaza – Palestine.

- Dr. Naseem Abujame', Associate Professor of economics,

- Dr. Abdulhakeem Eltalla', Assistant Professor of economics, Alaqsa University – Palestine.

2. Four specialists and experts from the government sector as follows:

Three experts from the Ministry of National Economy in Palestine as follows:

- Abdalnaser Awaad, the general manager of the general directory of industries.

- Rami Abureesh, the general manager of the general directory of trade and crossings.

- Allam Ghabayen, the head of SMEs funding program committee.

One expert from Palestine Monetary Authority who is Dr. Saif Ouda, the head of Monetary Policy Division in Palestine Monetary Authority.

3. Two persons from the private sectors as follows:

- Dr. Ibrhim Jaber, the general manager of the Islamic National Bank.

- Khader Shnewra, the executive manager of the Palestinian Industries Federation.