



The Democracy & Workers' Rights Center  
in Palestine

# **Reinforcing the capacity of the Palestinian labor market to absorb the Palestinian labor force**

*lessons learned from other experiences*

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*Prepared by  
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Mohammad Sharia*

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## *Executive Summary*

The absorption of the Palestinian labor force by the labor market is a crucial issue for Palestinian public, private and civil society institutions. When the Israeli labor market was closed to dozens of thousands of Palestinian workers, who had been employed there, the unemployment crisis deepened. Absorbing the unemployed, especially those who lost their jobs in Israel and the Gulf States, remained one of the major challenges for the Palestinian economy.

This study aims at presenting a series of worldwide experiences, undergone especially by developing countries, towards solving the problem of workers returning to the homeland, and ensuring their employment locally. Through the re-absorption of these workers, some countries were able to increase their economic growth, national product, the income of their citizens, as well as reduce the effects of poverty and unemployment, especially among the youth. Palestinian workers' loss of their jobs in Israel is not an exceptional situation; on the contrary, similar problems have been faced by many Arab, Islamic and African countries.

During the years 1995-2000, the capacity of the labor market in the West Bank and Gaza Strip to absorb the labor force actually increased from one year to another. The number of employed workers increased from 395,000 in 1995 to 480,000 in 2000. Then, it decreased during the years 2000-2001, and started increasing again subsequently. The data provided by the Palestinian Central Bureau of Statistics shows that the number of workers employed by the private sector during the years 1995-2000 was increasing from one year to another, whereas the number of workers in the industrial sector was fluctuating during the period 1995-2004.

The continuous reliance on the Israeli economy for absorbing the Palestinian labor force reflected the setback of the absorption capacity of the Palestinian economy. Whereas 35% of the labor force in the West Bank was employed in the Israeli labor market during the period 1980-1993, this percentage reached 40% in the Gaza Strip during the same period. The indemnities paid to workers in the Israeli labor market are the most important source of revenue for Palestinians outside the national economy. Its direct effects were the increase of income and imports from Israel. This overview of the Palestinian economy in the past four decades reflects its integration in the Israeli economy. Unemployment is one of the most important challenges faced in the Palestinian territories.

Emigration of labor is one of the characteristics of the demographic changes in

the past decades. It did not include only labor emigration from poor countries, but also emigration among rich and industrialized countries. At the beginning of the 1980s, the number of emigrants reached 100 million people according to World Bank statistics and studies. It is not possible to talk about the emigration of manpower without taking into account the financial transfers made by emigrants to their national economies.

These transfers are among the most important positive effects of emigration for the purpose of work for the countries these workers originate from. Although it is difficult to calculate the value of these transfers, as they are not all conducted through official channels, the International Monetary Fund estimated them at a trillion US dollars during the period 1971-1995. As an indicator, every dollar which entered Mexico through these transfers contributed in increasing the average per capita income by 3 dollars. During the years 1976-1981, the local production of South Korea increased by 3-7% due to the transfers. Likewise, the wages of workers, who have not emigrated, increased in the Philippines, Bangladesh and Pakistan due to the increase of the national product because of increased transfers from emigrated workers.

There is great similitude in the nature and percentage of unemployment among the labor force after its return to the home country. The unemployment rate increased in a noticeable manner among the returning labor force in comparison with resident labor. Differences in the re-absorption of returning labor in these countries are related to the employment, economic and financial policies in these countries. The most important policies and procedures are related to employment conditions, acquirement of skills, creation of small businesses, capacity in using savings, and the procedures and policies of the State.

The Jordanian economy suffered from the forced return of about half a million Palestinians and Jordanians after the first Gulf War. These returnees represented 10% of the total population of the Kingdom of Jordan. This situation is very similar to what happened in Palestine after 150,000 workers were deprived from their jobs in the Israeli economy. The great difference between the two situations however is that Jordan invested an additional amount of 4.5 billion dollars in its infrastructure in order to absorb these workers.

In 1990-1991, the number of new immigrants in Israel originating from the former Soviet Union was estimated at around half a million. The number of immigrants stabilized at around 70,000 per year during the period 1992-1999. Public investments in Israel were a source of growth, development and in-

crease of the gross product. These investments came from local savings, internal and external loans, and transfers and donations from outside the country, which led to the development of various branches of the economy. They all contributed to the absorption of the increasing labor force in the country and incoming labor, while the unemployment rates remained stable, and lead to an increase of the national product and welfare of the population at all levels.

It goes without saying that all the programs aimed at absorbing the labor force presented as examples , could not have succeeded if the various governments had not made them priorities on each country's national agenda. These agendas served as references for all departments, institutions and ministries to design and implement various work programs, which all together constituted the national plan for fighting unemployment and absorbing the labor force. This required the mobilization of necessary government assistance for these programs, such as sufficient budgetary allocations and the adoption of legislation, laws and directives. In addition, there were tremendous investments in various infrastructure projects in these countries by the governments and donors, which generated private sector investments and encouraged private initiatives.

On the socio-economic level, there is a similitude between the Palestinian situation and others presented in this study. In general, there are two basic conditions that need to be fulfilled in the Palestinian context in order to reduce unemployment and absorb the new labor, while keeping in mind special factors such as natural growth, the closure of the Israeli labor market to Palestinian workers, and workers returning from other countries:

1. The government must make huge investments in material, economic and social infrastructure. Although we understand that it is difficult to implement one main comprehensive program due to geographical problems, Israel's control of land, borders and the number of checkpoints, this remains the first essential condition
2. The second condition is the implementation of a national program divided into various phases and parts, which can be implemented in parallel or successively, and which complete each other. These programs must also be given priority in the national agenda. Their components should be: developing and encouraging small initiatives, developing and encouraging financial intermedia-tion companies, training, export of labor, early retirement and social insurance programs