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Country Profile on Employment and Decent Work

Palestine

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Introduction

Sustainable Development Goal 8 aims at promoting inclusive and sustainable economic growth, full and productive employment, and decent work for all. Several targets underlie these aims: sustained economic growth (8.1), high levels of economic productivity (8.2), promotion of productive activities (8.3), full productive employment and decent work for all (8.5), reduced number of youth not in employment, education or training (8.6), the eradication of forced labor, human trafficking and the worst forms of child labor (8.7). In this country profile we provide a trend analysis of key indicators of productivity and decent employment among different demographic segments of the Palestinian population in the occupied Palestinian territory. We examine indicators and identify the main challenges related to goal 8 of the SDGs and to other relevant SDG goals (such as gender equality and quality education) to assess whether Palestine is on track to meet its inclusive work and productivity targets in accordance with Agenda 2030. This employment profile could help policy makers and government officials to understand the key trends in the occupied Palestinian territory's labour market and prioritise policy choices to improve employment and productivity prospects. In this employment profile, we primarily use statistics and definitions from the World Bank and the International Labor Organization. However, in some cases where important disaggregation were not available from international sources, national statistics data were used. This country profile aims at triggering a policy debate on how to achieve decent employment in the Arab region and to provide an informative basis for future policy research.

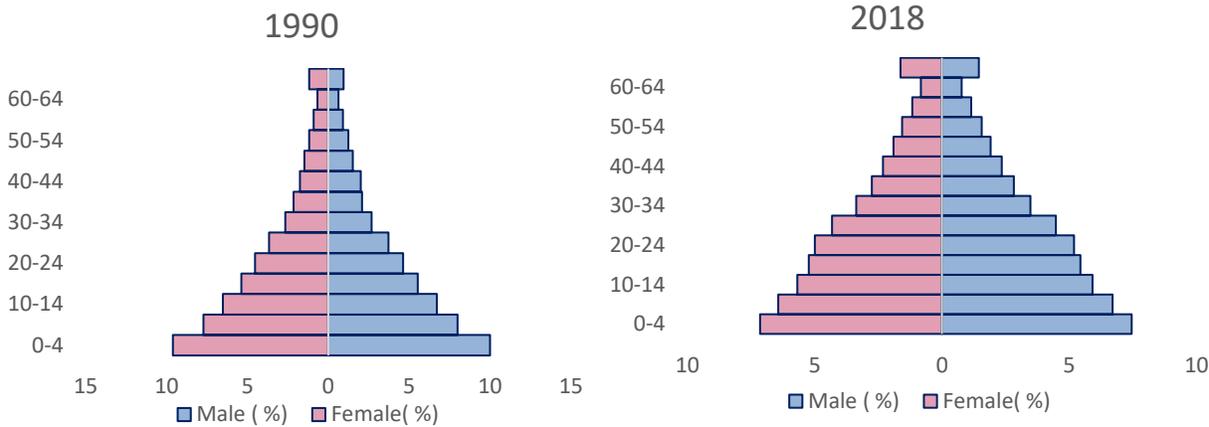
1. Population trends

Notwithstanding the 51 years of Israeli military occupation, World Bank classifies the State of Palestine as a lower middle-income country with a GNI per-capita (2011 PPP\$) of \$5055 in 2017. In the recent decade, Palestine did not experience a significant rise in human development indicators including life expectancy, years of schooling and income. In 2017, the Human Development Index was equal to 0.686, only 4.4% higher than its 2005 levels placing Palestine at a global rank of 119 out of 189 countries and categorized as a state with a medium human development. In 2018, around 4.9 million people lived in the occupied Palestinian territory, up from 3.1 million in 2000. Of those, around 60% lived in the West Bank and 40% in Gaza. Over 2000-18 the Palestinian population grew by 59% making Palestine one of the fastest growing societies in the Arab region. Over 2000-18, population grew by 50% in West Bank and almost 74% in Gaza. Annual population growth averaged around 2.55% in 2000-07. After 2007, it increased at a rate of 2.85% per annum, driven by high population growth in Gaza, which reached a peak of 3% in 2012. In 2018, 69% of the Palestinian population is below 30 years old, and 50% is below 20. This makes Palestine one of the youngest societies world-wide.¹ This youth bulge has been driven by a high fertility rate: 3.942 births per woman over 2000-17. This has been slightly decreasing in 2015 as seen in the age pyramids below. These age pyramids (Figure 2) reflect the demographic transformation in the occupied Palestinian territory between 1990 and 2018. In 1990, the shape of the pyramid shows the high share of the young population in accordance with the high birth rates. In 2018, the decrease in the number of births resulted in a

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narrower base of the pyramid, while older cohorts became more populous especially those in the working age group bracket (15-64). In the absence of sustainable growth mostly due to the Israeli occupation employment opportunities have become severely restricted due to the blockade, military offensives, and to lesser extent the internal Palestinian divide. All these constraints created socio-economic challenges (for instance exacerbating political instability), especially in Gaza, where employment opportunities are significantly more scarce. As a consequence of the below demographic trends and the lack of opportunities, Palestine ended up with a large working age population, however, as will be noted below, there was no significant increase in the labor force.

Figure 2: Age Pyramid

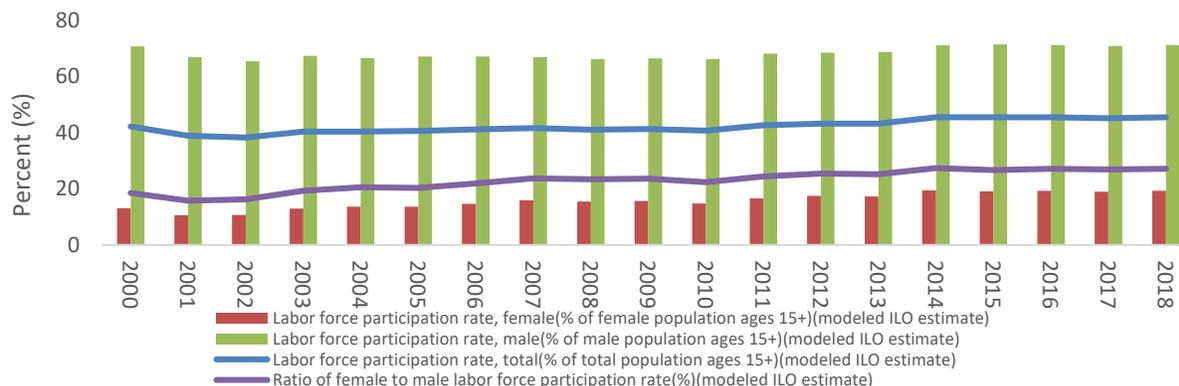


Source: World Bank data.

2. Labour force participation

In the occupied Palestinian territory, labour force participation has not grown comparably with the working age population. While the working age population (15-64) grew by 3.51% on average over 2000-18, labour force participation grew by just 0.5% on average and experienced many drops such as in 2002 and 2009 due to the second Intifada and the Israeli invasion to Gaza respectively. Besides the low participation of females, the labour force participation rates in the occupied Palestinian territory is heavily affected by the ongoing Israeli occupation and events linked to it. For example, after Hamas won the Palestinian parliamentary elections in 2006, Israel withheld customs, VAT and other transfers to the Palestinian National Authority, critically reducing financial liquidity. The drop-in labour force participation after 2006(mainly in the Gaza strip) could also be related to the economic sanctions imposed by Israel, and the aid cuts by the US, EU, and several Western countries following the take-over by Hamas. The Gaza war of 2008-09 is also likely to have contributed to the drop-in labour force participation. Overall, the labour force participation in the occupied Palestinian territory has been fluctuating over the past 15 years, between 39% in 2000 to 45.5% in 2018. This rate is considered one of the lowest in the region scoring lower than the world’s average (62.1%) and lower than the Arab World’s average (49%), yet higher than Jordan (39%) and Yemen (38%) for the same years.

Figure 3: Labour force participation by gender



Source: World Bank data.

Female labour force participation in the Occupied Palestinian territory (including Jerusalem) has been increasing, from 13.1% in 2000 to 19.2% in 2018. The ratio of female to male labour participation rate has been also increasing (signalling rising women participation), but the gender gap remains high, as shown in Figure 3. Female labour force participation has historically been lower in Gaza than in the West Bank. Further, the gap in daily wage between males and females increased by 205% (in favour of males) over 2005-18².

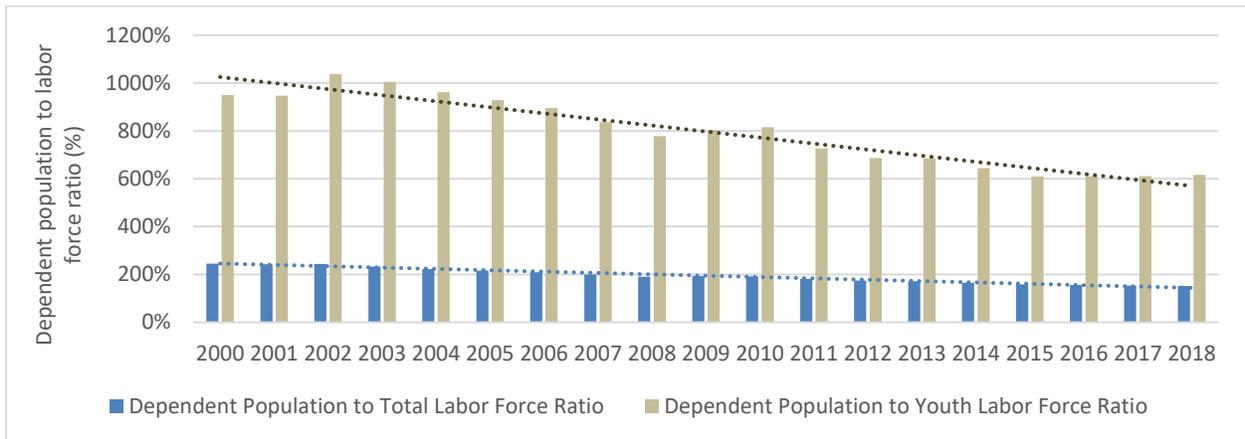
Dependency Ratio:

The figure below shows the ratio of the dependant population (0-14 years old and 65 years old and above) to the total labour force and youth labour force (aged 15-24). The older population is often dependant on other members of the family, especially in non-resource-rich Arab countries, where retirement plans and benefits for senior citizens are scarce. In the occupied Palestinian territory, in 2018, dependants amounted to 151.4% of the labour force and 615.8% of the youth labour force. Given the demographic patterns described before, such a high ratio of dependents to the labour force can be mostly attributed to a low labour force participation, especially among the youth. However, both these ratios decreased between 2000 and 2018 respectively, due to the slight increase of labour force participation rate and the decrease of the dependent population share overtime.³

² <http://www.pcbs.gov.ps/Portals/Rainbow/Documents/Time%20Series%20E.htm>

³ Also looking at the dependent population as a percentage of employed population, one can see that the ratio is also decreasing overtime.

Figure 1: dependant population (0-14 plus 65+) over labour force and youth (15-24) labour force.

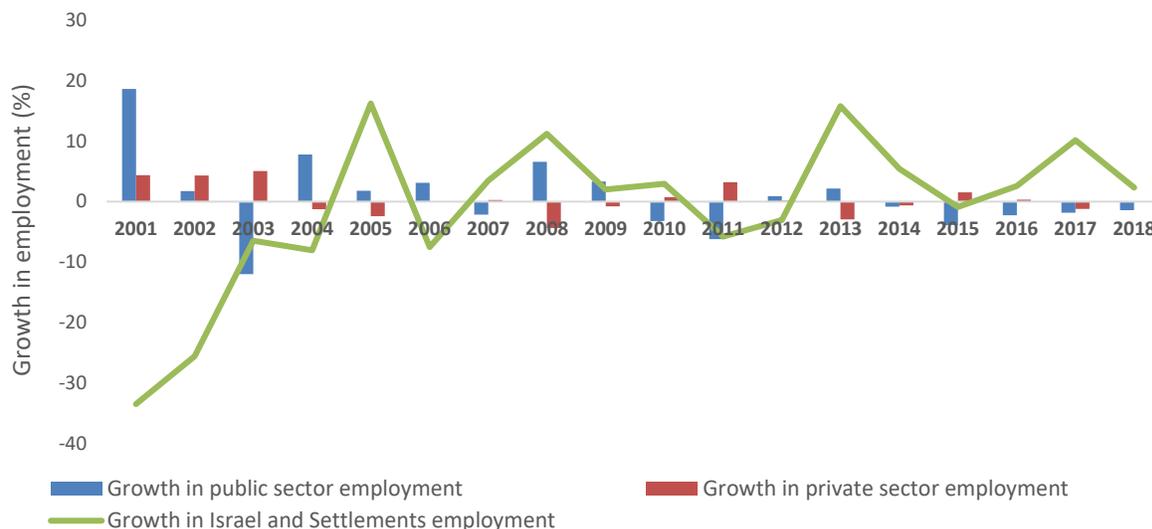


Source: ILO

3. Employment, Unemployment and youth unemployment

In the occupied Palestinian territory, the private sector employs the majority of the labour force. However, mainly due to the Israeli occupation and the restrictions, the private sector was not creating enough jobs to meet the excessive labour supply. A large share of Palestinians in the occupied territory (21% in 2018) started switching to the public sector mainly during and right after episodes of escalation of violence or Israeli military offensives. For instance, in Gaza the share of public sector employment is much higher, at 36.6% of employment (compared to 15.6% in the West Bank). In the occupied Palestinian territory, employment growth depends heavily on political events and public employment was always an attempts to compensate the loss of jobs in the private sectors and lost jobs in Israeli settlements. However, private sector jobs always came after truce situations. The growth in private sector employment in 2004 was mostly due to the end of the second Intifada and the relaxed Israeli restrictions that increased labour mobility, capital flow, and exports. In 2009, growth of employment, mainly in Gaza was induced by \$1.35 billion in foreign aid that boosted consumption (public and private), investments and growth in employment in the public sector.

Figure 2: Growth in Public and Private Sector Employment



Source: PCBS data.

In 2018, vulnerable employment (family workers or own account workers) was estimated as 22.934% in the occupied Palestinian territory, having decreased from 29.73 in 2000⁴. This was much higher, at 24.124%, for women. On the other hand, in 2018, 70.502% of workers were wage salaried workers⁵, meaning that they had an employment contract with some security. This percentage increased only slightly since 2000, when it was 65.528%.

While labour force participation has been modestly increasing for both males and females, unemployment has spread in the occupied Palestinian territory over the past 15 years, jumping from 13.53% in 2000 to 30.182% in 2018. The second Intifada and the ensuing escalation of Israel’s measures and military activity⁶ resulted in lower economic growth between 2000 and late 2002, when unemployment reached almost 30% (it is still around the same level today). Male unemployment increased by 80.5%, going from 13.71 in 2000 to 24.718% in 2018, and female unemployment increased much more, jumping from 12.35% in 2000 to 50.76% in 2018. Interestingly, between 2000 and 2008 male unemployment was higher than female unemployment (without considering the differences in the labour force participation rates among both genders). This was the opposite in most of the Arab world. Over all, the high unemployment and increasing labour force participation point to a Palestinian population under military occupation that is actively looking for jobs but failing to find them mainly due to the occupation, the restrictions and measures

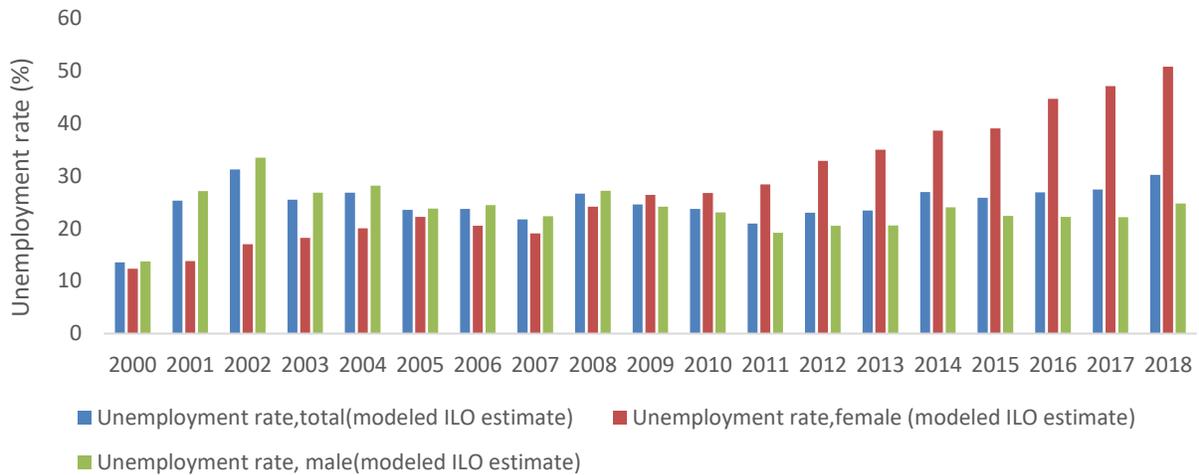
⁴ World Bank data.

⁵ According to the World Bank definition, wage and salaried workers (employees) are those workers who hold the type of jobs defined as "paid employment jobs," where the incumbents hold explicit (written or oral) or implicit employment contracts that give them a basic remuneration that is not directly dependent upon the revenue of the unit for which they work.

⁶ Addition to the Intifada, in March 2002 Israel launched a massive attack on West Bank.

associated with it, and the resulting deterioration in socioeconomic conditions, in addition to the limited role of the private sector in this context.

Figure 3: Unemployment by gender



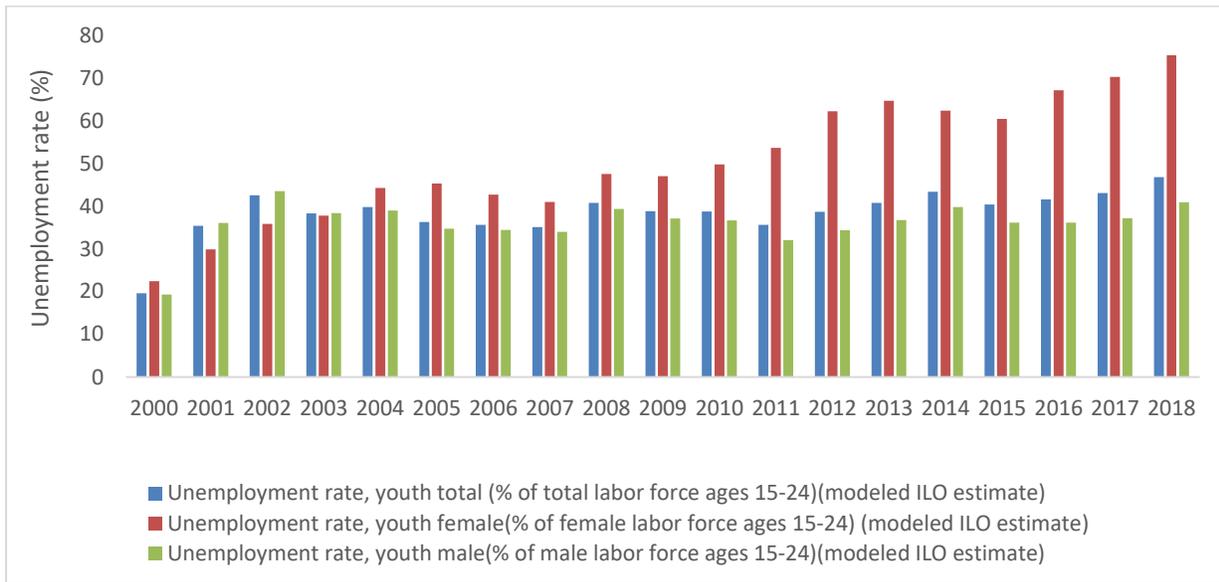
Source: World Bank.

3.1 Youth unemployment

Youth unemployment refers to those 15-24 years of age and who are potential labor market participants but economically inactive. Youth unemployment in the occupied Palestinian territory is one of the highest in the Arab region: 46.8% in 2018, up from 19.63% in 2000⁷. In the 2000's alone, Gaza, in addition to the blockade that was imposed on it since 2007, experienced recurrent Israeli military offensives in 2006, 2008, 2012, and 2014, the latter was the most intense and devastating since the onset of the occupation. This, result was a significant a level of youth unemployment as high as 58% by the end of 2014 with a high level of poverty and a negligible level of employment in Israel. The fact that after every offensive, Gaza strip remained under the blockade, completely cut off from the rest of the world with severe restrictions on the import of products, including construction material needed for reconstruction.

⁷ World Bank data.

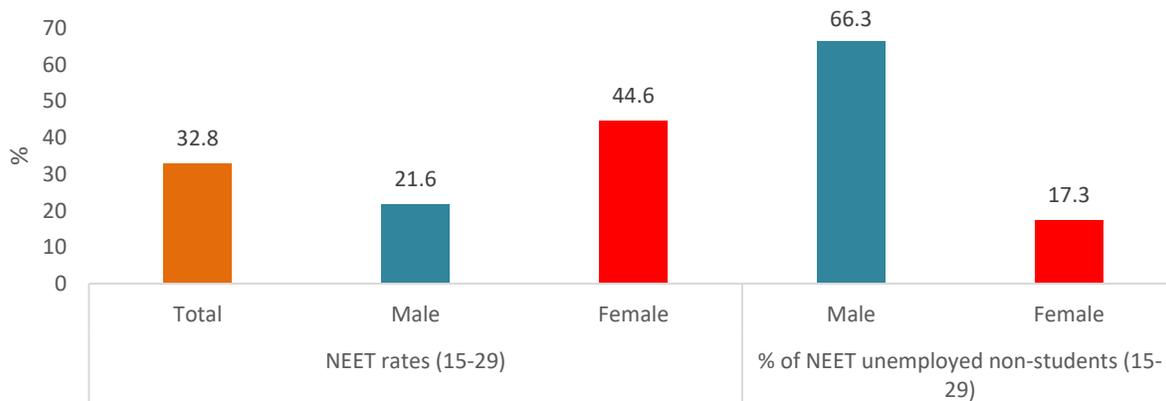
Figure 4: Youth unemployment



Source: World Bank data.

Young females are more affected by unemployment compared to males. Youth female unemployment rate was at 75.28% in 2018, almost three times its 2000 level (22.42%). Youth female unemployment increased at a faster rate compared than youth male unemployment reaching a peak in 2002 of 43.47% due to constant political instability, cultural norms and the fear of harassment. This high unemployment rate, coupled with low wages, pushed the male youth population to seek employment opportunities abroad and female youth population to exit the labor market. Another common indicator used to describe youth unemployment is the percentage of youth who are neither in employment, nor educated or have any training (NEET).

Figure 5: Youth not in Employment, education or training, Palestine, 2015.



Source: ILO school-to-work transition survey of the Occupied Palestinian Territories, 2015.

In 2015, a ILO survey⁸ found that the NEET rate among Palestinian youth aged 15-29 was 32.8%. As a comparison, the NEET rate was 13.1% in the EU28. In the latest year for which the survey is available, the NEET rate was 35.3% in Egypt, 25.4% in Tunisia, and 24.6% in Jordan. Young females had a much higher NEET rate (44.6%) than males (21.6%). Among its many findings, the ILO survey highlights a high drop-out rate from education among the Palestinian youth, long unemployment spells and a significant gender gap in youth unemployment.

4 Output growth and productivity

As mentioned earlier, the World Bank classifies Palestine as a lower-middle income developing country. In 2017, GDP amounted to 12.137 billion (in constant US dollars) and GDP p.c. to US\$ 2,590 (in constant US dollars), up from US\$ 2,160 in 2000. This growth in GDP p.c. is quite modest: as a comparison, GDP p.c. in Egypt, a fellow lower middle-income country, started from about the same level, US\$ 1950 in 2000, and grew to US\$ 2,785 in 2017 (without factoring out the population weight). Palestine’s GDP growth averaged 3.46% over 2000-17 but has been characterised by high volatility and deep drops in periods of Israel military aggression, in particular in the first two years of the second intifada (2000-02), which saw negative growth of -10.2%. When GDP growth did happen, it was mostly due to increased official development aid (ODA) received by the Palestinian Authority.

Figure 9: GDP growth, unemployment and FDI over time.

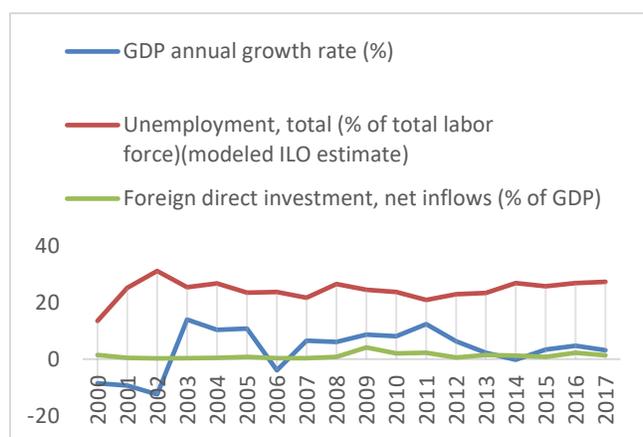
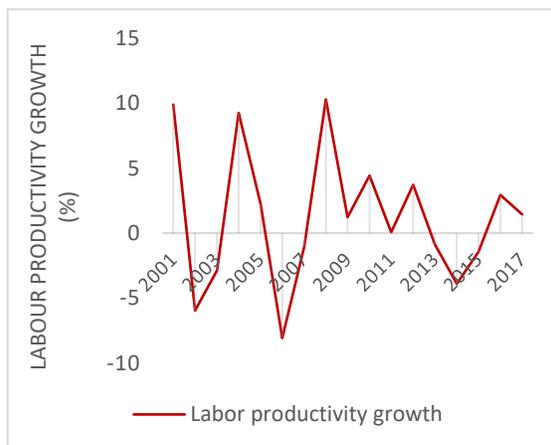


Figure 10: labour productivity growth.



Source: World Bank data.

An important observation, GDP growth did not seem to have driven reductions in unemployment. The correlation between GDP growth and unemployment rate is negative but almost insignificant at -0.04. On the other hand, the correlation between unemployment and FDIs as a percentage of GDP is negative at -0.22. The correlation between unemployment and exports as a percentage of GDP is negative and significant, at -0.61. According to PCBS, most trade goes to and from Israel amounting almost \$300 million in 2016. Such large dependency on Israel for trade indicates that trade blockades significantly impact the trade sector and eventually growth and employment. The occupation and its associated policies and

⁸ http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_502366.pdf

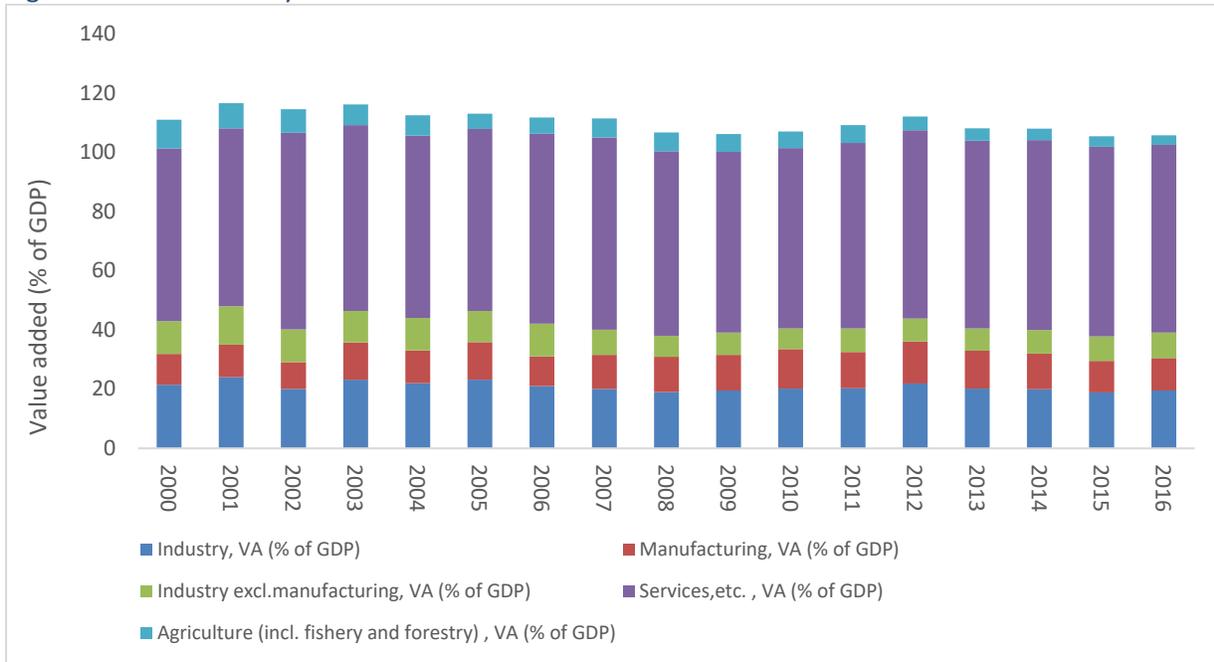
practices, including restrictions on construction and widespread destruction in Gaza (resulting in inadequate infrastructure), recurrent military operations, closures and land confiscation, and the resulting geographical fragmentation and bad business environment, also constrained capital investments and spiked its volatility⁹. The high political and security tension and volatile economic activity also created high fluctuations in productivity in the occupied Palestinian territory. For example, in Figure 10, we plot the ratio of total output to labour force participation for Palestine. Productivity in the occupied Palestinian territory has long been on a low growth trend. The sluggish growth in productivity could be linked to improvements in labour and capital mobility. This labour productivity growth trend is mainly due to the opposite movement of output growth against labour force growth, and not due to the high effective productivity of labor.

5 Structural transformation and employment

Over 2000-16, and similar to most countries in the region, the Palestinian economy shifted from agriculture and manufacturing toward services: their contribution to GDP increased by 9% making up to the highest contribution among sectors. Between 2000 and 2016, manufacturing value added as a percentage of GDP also increased by 5%. At the same time, the contribution of agriculture fell dramatically (-67%) due to the lack of exports opportunities (especially during times of border restrictions) giving the dominance to the services sectors in gdp value adding activities. This dominance raises many questions on the ability of the services sector to generate higher gdp growth especially due to the significant drop in agricultural activities and the sluggish growth in manufacturing.

⁹ Gross fixed capital formation experienced high level of volatility in the occupied Palestinian territory between 2000 and 2016. For example, investments went from -22% in 2002 to +23% in 2003 and then back to 0% in 2004.

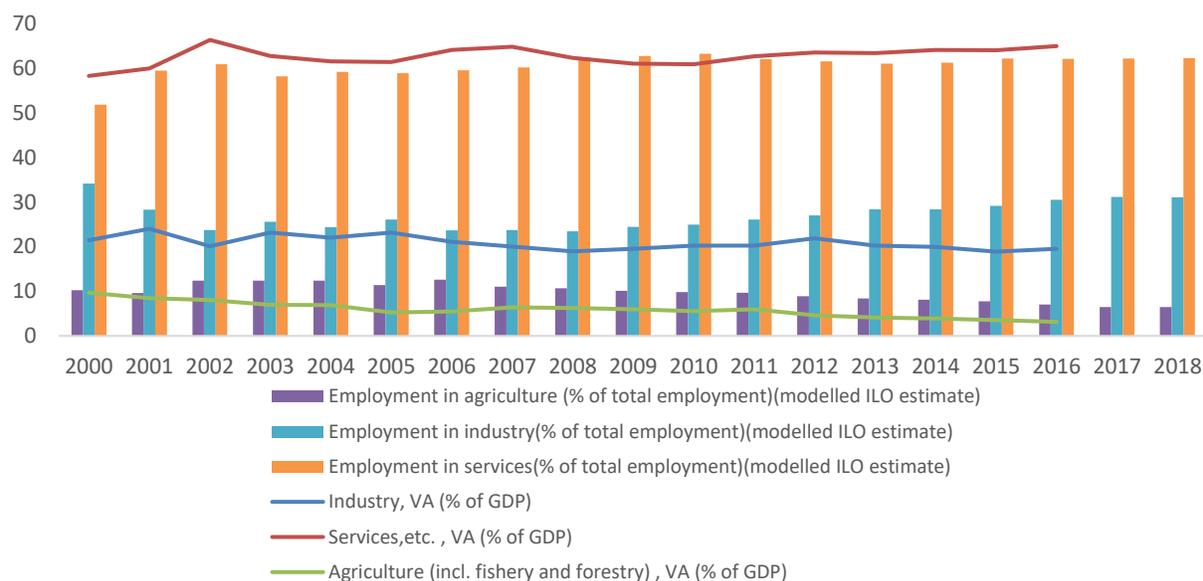
Figure 6: value added by sector over time



Source: World Bank data.

The transition of employment from agriculture to other sector did not change the pattern of economic growth, neither the trend of productivity. Structural transformation is usually defined as the shift of resources and economic contribution from lower value-added activities (such as agriculture) into higher value-added ones, such as manufacturing and value-added services. This economic transformation is reflected also by the recent trends of the employment transitions. Figure 13 below shows the shares of employment by sector and of sector value added as a percentage of GDP over time. The growth in services is creating employment. According to the World Bank, over 2000-18, services increased its share of employment by 20%. Over the same period, employment in agriculture dropped by 37% and that of industry by 9%. This drop in industry employment is due to the loss in market share and the Israeli restrictions on the import of inputs that contribute to final production, energy restrictions and limited infrastructure and the lack of export opportunity due to Israeli blockade.

Figure 7: sector and employment transformation



Source: World Bank

The responsiveness of employment to economic growth can be measured through output-employment elasticity. The employment elasticity shows how responsive employment is to total output growth. One can even disaggregate the output growth by sectoral contribution to GDP and examine how responsive sectoral employment is to income growth by value added.¹⁰ As shown in the table below, the employment response to output in the occupied Palestinian territory is low. Over the period 2000-17, employment elasticity in the occupied Palestinian territory was 0.28. This means that a one percentage point increase in GDP leads to a 0.28% increase in employment. Such elasticity is low compared to that neighbouring countries (such as 0.58 in Jordan). It is worth noting that employment elasticity is significantly higher in Gaza than in the West Bank. However, since the labour force and output is significantly higher in West Bank, the weighted elasticity of both territories rounds up to 0.28. Looking at the sectoral level, growth in agriculture value added has the highest employment elasticity (1.09) among others. This means that increased contribution by agriculture to GDP creates more jobs than services and industry. Even though agriculture adds more jobs, this outcome should not encourage more policies favouring the agricultural sector at the disadvantage of industry and services, unless the Palestinians work on establishing their agroindustry in order to have an overall agriculture’s high value adding contribution to GDP. The services sector has an elasticity of employment at 0.4, compared to 0.22 for industry.

¹⁰ To calculate the employment elasticities in the occupied Palestinian territory, we used the following GDP classifications: GDP (at Constant US\$), Agriculture Value-added, Industry Value-added and services value-added. For the employment part we used Employment to population ratio, Employment in agriculture as a percentage of total employment, Employment in industry as a percentage of total employment and Employment in services as a percentage of total employment. All data was taken from the World Bank Development Indicators.

Table 1: Elasticity of employment:

Employment Elasticity (2017)	0.28
Employment – output elasticity (agriculture)	1.09
Employment – output elasticity (industry)	0.22
Employment – output elasticity (services)	0.40

6 Informal Employment

The informal sector is comprised of firms that participate in the market but are not registered in tax bureaus. Informal employment means being employed in the formal sector, informal sector or as own account workers with no employment benefits. The informal sector in the occupied Palestinian territory is large compared to other Arab countries. Instability resulting from the occupation and its measures, pushed economic activities toward more informality in the occupied Palestinian territory and pushed more employment toward the informal sector, since the latter is less affected by the Israeli measures and actions. According to 2016 data from the PCBS, 32.6% of the labour force works in the informal sector. 20% of females in the labour force work in informal employment, as opposed to 34.9% for males. The structure of informal employment in the occupied Palestinian territory varies across sub-sectors. The subsector with the largest share of informal employment is Agriculture, Hunting, & Fishing, where 97.7% of employment is informal, followed by construction at 92%. The sub-sector with the lowest share of informal employment is the “Services & Other Branches Sector”, with 23.6% of employees being employed in the informal sector. This points to the fact that services is job-intensive, as seen above, and also leads to higher formal employment than other sectors in the occupied Palestinian territory.

Table 2: Percentage of Individuals Aged 15 Years and Above Employed in the Informal Sector from Palestine by Region and Sex, 2016

Region	Females	Males	Total
West bank	23.2	36.4	34.3
Gaza Strip	11.1	31.5	28.6
Palestine	20.0	34.9	32.6

Source: PBCS Data <http://www.pcbs.gov.ps/Downloads/book2266.pdf>

Table 3: Percentage of Informal Employment of Individuals Aged 15 Years and Above from Palestine by Economic Activity and Region, 2016

Economic Activity	Gaza Strip	West Bank	Palestine
Agriculture, Hunting & Fishing	98.3	97.5	97.7
Mining, Quarrying & Manufacturing	93.7	76.0	78.5
Construction	97.1	91.4	92.0
Commerce, Hotels & Restaurants	93.7	74.4	80.1
Transportation, Storage & Communication	88.8	50.0	62.9
Services & Other Branches	24.5	23.0	23.6
Total	56.5	64.3	62.0

Source: PBCS Data <http://www.pcbs.gov.ps/Downloads/book2266.pdf>

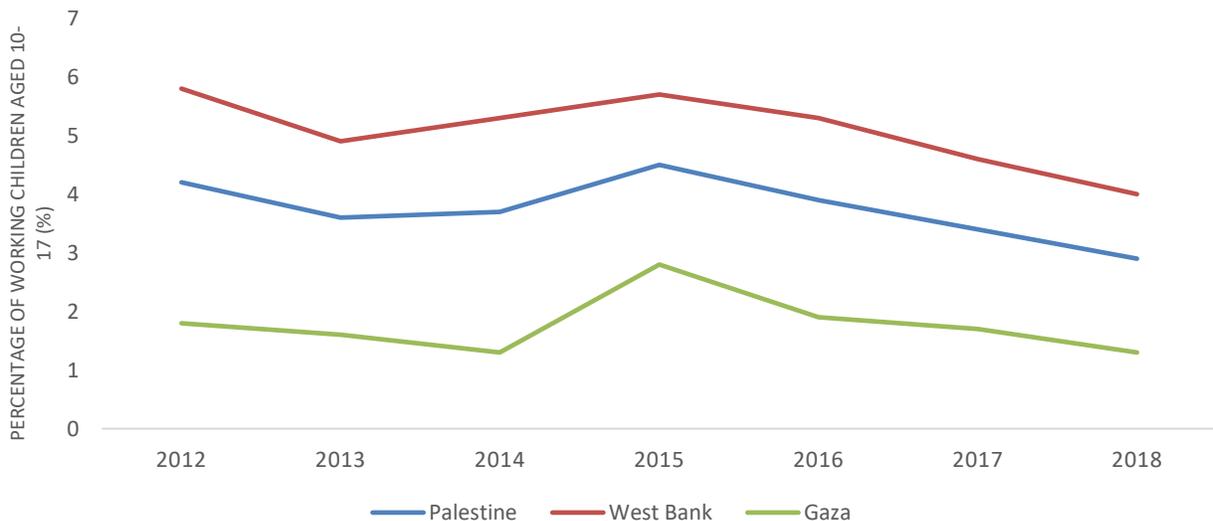
7 Child Labour.

Child labour, as defined by the ILO, is work that obstructs a child's physical and mental development as well as robs them of their childhood, potential, and dignity. The latest data (2018) from the Palestinian Labour force survey indicates that 2.9% of children aged 10-17 in the occupied Palestinian territory are employed, with most of them classified as unpaid family workers. Over the 2013-18, the percentage of employed children has grown negligibly. Past trends from the PBCS indicate that most child workers are categorised as unpaid family members, with over 60% employed in agriculture, and the remaining are employed in commerce services, and periphery jobs.¹¹

Child employment in the occupied Palestinian territory is affected by the conditions resulting from the Israeli occupation and measures, including physical destruction of homes and structures and restrictions on mobility, construction, access to services and resources, all of which force families to put in additional labour hours to maintain their income. Research has shown that, although income decreases cause an increase in child employment, a later increase in income level is not associated with a reduction in child employment, with the conclusion being that child workers are a complement to the adult labour force.¹²

In the occupied Palestinian territory, 71% of children's work is due to economic need. Parents consider that the usefulness (utility) of education is lower due to the poor performance of the economy and labour market, and as such they choose to have their children work instead

Figure 8: Percentage of working children aged 10-17



¹¹ <http://www.pcbs.gov.ps/Downloads/book1079.pdf>

¹² Child Labor Supply in the occupied Palestinian territory: Trends and Perspectives. Abu-Ghallous, I., 2012. <http://meea.sites.luc.edu/volume14/PDFS/Child%20Labor%20Supply%20in%20Palestine-%20Trends%20and%20Perspectives.pdf>

8 Social insurance and safety nets

In the occupied Palestinian territory, social safety nets¹³ (such as cash transfers and last resort programmes) reached only 27.6% of the population in the poorest quintile in 2009, the latest year for which data is available. This extremely low coverage compares poorly to that in some fellow Arab countries such as Jordan (83%). Such data points to the need for better targeting of social safety nets and increased coverage of social insurance programmes. Where formal employment is lacking, the government and the international community needs to intervene with social insurance schemes that can reach people in the informal sector and the unemployed, especially due to the idiosyncratic structure of Palestine as an occupied state and the heavy reliance on Official Development and humanitarian aid. Reliance on direct assistance from UNRWA, for example, increased from 60,000 persons in 2000 to more than 900,000 in 2016.

Conclusions and policy considerations.

- The Israeli occupation remains the single largest impediment to social and economic development in the occupied Palestinian territory.
- Palestine's labour market is heavily affected by the occupation and its measures and practices.
- Palestine has one of the youngest populations worldwide. However, due to instability and Israeli restrictions on the economy, the country has scarce employment opportunities for its large youth.
- Labour force participation in the occupied Palestinian territory is one of the lowest in the Arab region at an average of 42.21% between 2000 and 2018. Such low labour force participation is mainly due to Israeli occupation and resulting instability, which reduce opportunities for productivity and employment.
- Female labour force participation is low but has been increasing, from 13.1% in 2000 to 19.25% in 2018. The wage gap, however, increased by 120% (in favour of males) over 2005-15.
- While labour force participation modestly increased, unemployment rose over the past 15 years, from 13.53% in 2000 to 30.2% in 2018. Such high unemployment combined with the increasing labour force participation shows that Palestinians are actively looking for jobs but failing to find them due to economic restrictions and to deteriorating socioeconomic and political conditions.
- Youth unemployment in the occupied Palestinian territory is one of the highest in the region, at 46%, and much higher for young females, at 75%.
- The NEET rate is high in the occupied Palestinian territory, at 34.4%. Young females have a much higher NEET rate (39%) than males (30%).
- Educational attainment has grown in the occupied Palestinian territory over the past 16 years. However, unemployment among youth with higher education increased over 2001-13, even in

¹³ According to the World Bank definition, social safety nets include cash transfers and last resort programs, noncontributory social pensions, other cash transfers programs (child, family and orphan allowances, birth and death grants, disability benefits, and other allowances), conditional cash transfers, in-kind food transfers (food stamps and vouchers, food rations, supplementary feeding, and emergency food distribution), school feeding, other.

years of high economic growth. Unemployment with advanced education is especially high among Palestinian females, indicating that most of them gave up looking for a job. High unemployment with high education may be due to the Israeli occupation, which restricts job opportunities and economic growth.

- The employment-output elasticity in the occupied Palestinian territory is low (0.28 over 2000-17). When looking at economic sectors, employment-output elasticity was highest in agriculture. However, the only sector that increased its share of employment over the period was services, which was also the one with the higher growth in value added as a percentage of GDP.
- In order to reach 95% employment, Palestine would need to add 4.3 million new jobs over 2016-30. This translates to a rate of 289,000 new jobs annually, more than 10 times the increase in employed workers achieved annually over 2000-15.
- In light of these findings, creating opportunities for a highly educated youth, in particular females, and increasing labour force participation are policy priorities for Palestine.
- The unique political and economic circumstances of Palestine, and the ongoing Israeli occupation and related economic and movement restrictions, severely reduce economic growth and employment creation in the occupied Palestinian territory. Mitigating these restrictions would likely lead to large reductions in unemployment for the Palestinian population.