

Interview with Dr Jawad Naji Minister of National Economy

Dr Jawad Naji was sworn in as the Minister of National Economy in May 2012. Previously Dr Naji was the Palestinian Prime Minister's Advisor for Islamic and Arab Fund affairs. He also currently serves as Deputy Governor of Palestine in the Arab Fund for Economic Development in Africa, and as the Palestinian representative on the Executive Committee for the Al-Aqsa and Al-Quds Funds, and the Palestinian representative to the Arab Investment and Export Credit Guarantee Corporation. He previously served as Board Vice President of the Palestine Capital Market Authority and the Municipal Development and Lending Fund. He was also President of the Palestinian Economists Association and the Director of the Department of Economic and Planning Affairs in the Palestinian Liberation Organisation (PLO).

What are your priority areas for your time in office?

From the start the Ministry of National Economy faced multiple issues and challenges as the Palestinian economy began experiencing a severe slowdown. We therefore decided to highlight our priority areas and differentiate between short term interventions meant to address the most immediate challenges, provide economic relief and prevent further deterioration, and interventions meant to promote sustainable growth and development in the long term.

With regards to short term priorities, we decided to focus on consumer protection, both in terms of working to preserve and grow consumer purchasing power, and to protect the overall quality of goods and products available in our markets.

With respect to the longer term, we decided to focus on enhancing the investment climate by finalising a number of key legislations including the new Companies Law and the new Competition Law, in addition to exploring extending and expanding the Investment Promotion Law.

We also took a strategic decision to focus on improving the capacity and competitiveness of the Palestinian productive base, especially in the agricultural and industrial sectors. We are doing this by working on three fronts; firstly, providing modern and adequate infrastructure for Palestinian industrial enterprises; secondly, extending the reach of Palestinian enterprises to potential new markets, especially in the Middle East. This is being achieved by mobilising support and funding for a number of permanent regional commercial centres dedicated to marketing Palestinian products in markets abroad. Thirdly, ensuring that Palestinian enterprises have access to effective technical assistance programs and facilities from which they can gain real benefit and assistance.

We are also signing bilateral trade agreements with countries in the Middle East and North Africa, most recently with Algeria, to gain access to additional markets. This will hopefully create new opportunities for Palestinian exporters.

The Palestinian Authority (PA) is now taking steps to reduce prices in the economy. Can you let us know how these are progressing, and what other initiatives you have planned? How do you see the private sector fitting into this?

We have adopted measures to control the price level of a number of basic food commodities to alleviate some of the economic pressure being felt in low and middle-income households. We introduced a temporary price cap on a number of food commodities that constitute the bulk of the average Palestinian household's consumption. We also stepped up enforcement efforts to identify and penalise violators and revoked all exclusive distribution rights for Palestinian importers who import Israeli products, or who import other products through Israeli commercial agents. This will stimulate competition and encourage direct sourcing of goods and products from their countries of origin, which will lower prices and increase VAT revenues to the PA's treasury.

Despite some violations, most traders have complied with the new regulations. We estimate that these measures have helped stabilise the price levels and prevented further escalation.

We have engaged the private sector in intensive dialogue during the crisis and received useful feedback which we took into account before introducing any measures.

It is widely recognised that the private sector should be the driving force in the economy. What are three specific impediments you see that weaken private sector growth? What actions are you taking to support its growth?

Restrictions on access and movement are the primary impediment to growth and development in the Palestinian private sector. Successive reports by the World Bank, the IMF, UNCTAD, and others have reiterated the undisputable fact that the main bottleneck to private sector development here in the Palestinian Territory is this arbitrary regime of restrictions on movement and access that governs everyday life. In its

most recent report, the World Bank highlighted the severe consequences of our lack of access to Area C, which constitutes over 60% of the West Bank. This is particularly important as this area is rich in resources that could be of tremendous value to the Palestinian economy if we were allowed to build and develop it. In terms of movement, we are commercially locked out of Gaza and East Jerusalem, and our access to regional and international markets is undermined by various discriminatory practices on Israeli-controlled trade crossing points.

Other impediments we are working to address in the near future include bureaucratic constraints, such as the protocol for starting up and registering a business, and access to credit. Palestinian SMEs especially tend to be underbanked and underfinanced. We are, therefore, working on mobilising donors and local partners from the Palestinian private sector to facilitate the channelling of capital into productive pockets within the Palestinian economy, especially in the SME space. We are also working on decentralising the Ministry's services so that people and businesses have offices close by that can service their needs.

According to recent data, local capital is flowing out of the economy and being invested abroad. What do you read into this, and what actions are you taking to reverse this trend?

Political uncertainty and instability are correlated with the volume and direction of capital flows. We cannot really dictate what investors do with their money because that goes against our philosophy and policies, which aim to promote and encourage the private sector and free markets. We do have some leverage over deposit taking institutions, and I believe the Palestinian Monetary Authority has introduced some restrictions on banks investing their capital abroad.

The way forward is to work on improving the overall business environment through intensive institutional and regulatory reforms, improving the infrastructure for businesses and enterprises, and facilitating the transfer of knowledge and expertise to Palestinian enterprises through technical assistance programs. All of this will ultimately help restore investor appetite and provide greater investment opportunities for both local and international investors.

The government has been unable to pay public sector employees' salaries on time in the last few months. Has this had any implications on the economy? What?

Of course, these disruptions in public pay have severe consequences. To start with, they diminish and disrupt local

consumption levels and affect enterprises that rely on local demand. Bank mortgages and business loans are not getting paid on time, if at all, meaning that people start dipping into their savings, which diminishes the amount of capital available to the economy for investment. These disruptions undermine every aspect of Palestinian economic life.

The PA is preparing to implement a minimum wage. What implications do you expect this step to have on the labour market? On employees? On the private sector? On the economy as a whole?

The minimum wage law is still being developed. Many stakeholders are involved including the Ministry of Labour, labour unions, and private sector representatives. We want to make sure that this law provides the right balance between the need to have minimum wages that can support an acceptable living standard, and the need to keep Palestinian businesses competitive, able to sustain themselves and capable of creating new job opportunities. If we strike the right balance, we will achieve a win-win situation and help support living standards in Palestine without compromising Palestinian businesses.

Youth is an important factor in any economy, but especially here where young people make up such a significant proportion of the population. What do you see the role of youth to be in the Palestinian economy? What is the Ministry doing to support and expand this role?

What we really need from the youth are more entrepreneurs, not government employees. Therefore, the starting point should be a serious reconsideration of educational programmes in schools and universities. Innovation, entrepreneurship, and critical thinking should be encouraged as this is the key to enabling the youth to add significant value to our economy. We are coordinating a number of initiatives in which donors and private sector representatives provide technical training specifically targeting the youth. These will upgrade their skills and better prepare them to enter the job market.

What is your vision for the future of the economy?

We need an economy that is strong, dynamic and open. Strong in the sense that it is competitive and based upon high value-added production that is capable of absorbing a substantial portion of the Palestinian work force. Dynamic in the sense that it is capable of renewal through innovation and entrepreneurship, which will allow it to overcome downturns and slowdowns. And open in the sense that it is fully integrated into the global economy and well positioned to benefit from the flow of knowledge and technology across borders.

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