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SECURITY COUNCIL
Forty-fifth year

Letter dated 16 October 1990 from the Chargé d'affaires a.i. of the Permanent Observer Mission of Palestine to the United Nations addressed to the Secretary-General

I am instructed by the Executive Committee of the Palestine Liberation Organization, which has the powers and responsibilities of the Provisional Government of Palestine, to transmit to Your Excellency a memorandum, prepared by the Director General of the Department of Economic Affairs and Planning of the Palestine Liberation Organization, on the direct losses sustained by the Palestinians as a result of the Gulf crisis (see annex), for consideration of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait.

I should be grateful if you would arrange to have the text of this letter and the annexed memorandum circulated as an official document of the General Assembly and of the Security Council.

(*Signed*) Dr. Nasser AL-KIDWA
Alternate Permanent Observer
of Palestine to the United Nations
Chargé d'affaires a.i.

ANNEX

DIRECT ECONOMIC LOSSES SUSTAINED BY THE PALESTINIANS AS A RESULT OF THE GULF CRISIS

This memorandum is meant to identify the categories of economic losses sustained, or most likely to be sustained by the Palestinians as a result of the Gulf crisis which broke out on August 2nd, 1990. These categories are grouped according to the community or "body" which will most feel the impact of the losses. However, it ought to be stated at the outset that it is very difficult to quantify the economic losses sustained (or sustainable), at least because of three reasons. The first is the dearth of specific information relevant to the memorandum and usable in the calculation of losses with a satisfactory degree of reliability. To meet this problem, the memorandum contains a mixture of firm quantification (some of it derived from Israel's annual Statistical Abstract), information reported by the more authoritative media, and estimates based on justifiable indicators.

The second reason is that the crisis is now seven weeks old at the time of writing, and some of its economic fallout as it hits the Palestinians has not yet had time to be identified, let alone assessed correctly. And the third reason that makes the assessment of losses very difficult is that some of these are capital losses ("stock"), while some others are income losses or income foregone ("flows") ; and the two cannot be added together. Nevertheless, we go on to attempt an assessment of losses, with the utmost care possible in identifying, and where feasible quantifying, the categories of losses. Where no quantification is at all possible, the memorandum merely identifies the category involved and characterizes it.

The losses under examination will be mainly sustained by three Palestinian communities as well as the Palestine Liberation Organization, PLO. We will now identify the losses of each of these by itself, and finally attempt to produce a cumulative account of them together.

1. Palestinians in the Occupied Territories

The suffering of this community of Palestinians is without doubt the most severe, because it comes to add to massive and general suffering caused by Israeli occupation in 1967, and repression since then, but most brutally and indiscriminately since the uprising or intifada erupted in December 1987. We need only add in passing that the community under reference now has gone through every form of hardship imaginable, and we need not therefore refer specifically to the political, economic, physical, psychological, and cultural aspects of the dispossession and hardship inflicted on groups and individuals alike, and on the community as a whole. In turning to the economic hardships deriving specifically from the eruption of the Gulf crisis, we identify the following categories.

a) The drop of about 20 percent in the value of the Jordanian dinar (the most dependable currency in wide use in the OT), in terms of its convertibility against the US dollar and in its purchasing power. It is reliably estimated that the price of petrolem and its derivatives has risen by well over 40 percent in the OT, but as energy constitutes a rather small proportion of domestic consumption and production inputs, the overall consumer price level has risen only by 15 percent so far. The severity of the impact of the factors ju mentioned will certainly become heavier once the general slowdown in economic activity (because of the anxiety created by the "climate of war" in the region, and of the resultant steep drop in remittances into the OT) is sufficiently felt.

b) The complete stoppage of the flow of remittances to the OT from relatives in Kuwait. The Palestinians in this country number about 400,000, and include a labour force of about 150,000. (The size of the remittances will be estimated at the end of the next paragraph.)

c) The sharp drop by at leat one half in the remittances from Palestinians working in the other oil-exporting countries in the Gulf. This community numbers about 250,000, with a labour force of about 75,000. Both in Kuwait and in the other Gulf countries, the causes behind the stoppage and the decline in remittances, respectively, are the occupation of Kuwait and the fear of war in the area as a whole. A very sharp drop in economic activity has resulted, especially in Kuwait, and economic expectations for the immediate future are very grim. It is reasonable to expect that the remittances from Palestinians working abroad (as

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"net factor payments abroad"), which totalled $ 808 million in 1987 -- of which some $ 100 million were earned through work in the Israeli economy leaving $ 708 million coming mostly from the Gulf -- would be no more than $ 142 million on a yearly basis. (We estimate remittances from Palestinians in Kuwait to be 60 percent of the total, or some $ 425 million; half the remittances from the other Gulf countries would amount to $ 142 million.) Thus the loss sustained by the OT from the drop in remittances from the Gulf alone would be $ 567 million on a yearly basis. But this is not all. This last sum, though huge compared with the size of the economy of the OT, has to be augmented by the income flow foregone as a result of the drop that will follow, both in consumption (through the working of the income "multiplier"), and in investiment, to which most of the remittances are usually directed, as official statistics show (through the working of the investment "accelerator"). In the absence of compensatory aid of substance, the economy will fall into a downward spiral movement.

d) An estimated 30,000 Palestinians have returned, mostly from Kuwait. Half of these are estimated to go to the OT, the other half mostly to Jordan but also to Syria and Lebanon. Those of working age among the returnees will only further inflate an already very high level of unemployment in the OT. (The Palestinian labour force actually employed in the Palestinian economy and in the Israeli economy constituted in 1987 only 66 percent of labour supply, even if this supply were defined to be no more than 25 percent of the population in that year. Thus, unemployment, which is today certainly more than 34 percent of labour supply, owing to the severe sluggishness in economic activity, given the constraints of the intifada, would be nearer 40 percent once the returning work force is added to the already unemployed in the OT. Once again, in the absence of compensatory financing to promote the economy via expanded investment and consumption, there will be even greater difficulty than before in creating new job opportunities. The problem of unemployment will most probably be greatly accentuated if the fear of a war breaking out continues, and more Palestinians leave the Gulf countries.

e) Further hardening of Israeli measures meant to limit exports from the OT via Jordan are beginning to be felt. Israel's excuse is that some of these exports are destined for Iraq, against which the economic sanctions imposed by the Security Council operate. And Israel, for once, will become the upholder of international legitimacy and the application of United Nations resolutions! The exports from the OT destined for Jordan amounted to $ 49 million in 1987. It is

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presumed here that 60 percent of exports will today be bona fide exports to Jordan, and only a small part of the balance will be directed to Iraq. Perhaps the losses involved will not exceed $ 5 million, assuming alternatives to the Iraqi market are not found. But what is more serious with respect to lost opportunities for the export of OT products is the fact that Jordan itself, suffering severely as it is from the repercussions of the crisis in the Gulf, will cut its imports from the OT drastically. Indeed, Jordan is already under great economic strain, as we will have occasion to indicate later. The total loss sustained by the OT in the area of exports may well be in excess of $ 40-45 million on a yearly basis, assuming exports for 1990 will be about equal to what they were in 1987.

f) The final category of loss to be identified here is the complete stoppage of financial assistance from the Kuwait government and Kuwaiti private associations, the Arab Fund for Economic and Social Development and the Kuwait Fund for Arab Economic Development, to philanthropic, educational, health care, and economic programmes and projects in the OT. Already, one large hospital in the West Bank, the Maqassid Hospital, has announced that it will have to close its doors by the end of September unless financial aid is received to enable it to continue its work. The total assistance coming from Kuwaiti sources and Arab sources headquartered in Kuwait has been no less than $ 70 million on a yearly basis over the past two or three years. In addition, similar assistance has been coming from the other Gulf countries, in a much larger volume. Knowledgeable estimates put the latter volume of assistance at about $ 120 million on a yearly basis. Under present circumstances, no more than $ 50 million can be reasonably expected, and it will be mostly from Saudi Arabia.

2. Palestinian Communities in the Oil Countries of the Gulf

All the categories identified so far have represented the loss of income by the OT as a result of the Gulf crisis. The present section of the memorandum deals with substantial losses both in income and in capital assets, as the following points will show. However, there is hardly any possibility of quantifying either the income flows or the capital stocks involved, except on the basis of certain assumptions relating to income that can be defended but not substantiated.

a) As was indicated earlier, some 30,000 Palestinians resident in Kuwait have left since the occupation of Kuwait -- essentially because of a feeling of insecurity. Whether justified or not, this feeling has caused them the loss of their income from whatever source it had been coming. In addition, it threatens the movable and immovable assets left behind with erosion in their value because of neglect or physical damage, unwarranted take-over, and a drop in value arising from the official depreciation of the exchange rate between the Kuwaiti and Iraqi dinars in favour of the latter, by equating the two, while the Kuwaiti dinar used to fetch some three Iraqi dinars at the free market rate of exchange. (The assets left behind include creditor bank accounts and personal belongings of all sorts, in addition to business assets.)

b) The depreciation of the value of the assets of the Palestinians who have stayed in Kuwait (who number about 370,000), is considerable, both because of the steep drop in general economic activity and the reduction -- by decree -- in the value of the Kuwaiti dinar in which asset values had been denominated. Of great significance to them has additionally been the seizure by Iraqi authorities of the holdings by banks of currency (whether in Kuwaiti dinars or foreign exchange) and of securities. In addition, the Palestinians in question, like the Kuwaiti nationals and other non-Kuwaiti expatriates in Kuwait, sustain considerable loss of income as a result of the drop of economic activity to the bare minimum called for by the needs of survival. The expatriate communities have been hit very hard, as their members will face a three-horned dilemma: remaining in the country with very little if any income; leaving and thus exposing their possessions to take-over, neglect, and loss of value (in addition to the loss of their bank accounts); and liquidating some of their assets to meet living expenses in a considerably depressed market for business assets and personal belongings like cars, jewelry, and so on.

c) A very conservative estimate will now be attempted of the income expected to be lost, on a yearly basis, if the crisis continues at its present level for a whole year. On the assumption of a Palestinian labour force of 150,000 in Kuwait, of an average income per member of this force of $ 5,000 per annum -- a very conservative estimate indeed -- and of a drop of 60 percent of per capita income across the board, the income lost in one year would be $ 450 million. If the same calculation were made for the work force in the other Gulf countries which

numbers some 75,000, but on the assumption that the loss of income because of the slackening of economic activity under the influence of the crisis may amount to 20 percent across the board for the whole work force, then the total loss will amount to $ 75 million on a yearly basis.

3. The Palestinians/Jordanians in Jordan

This section of the memorandum permits of no quantification whatsoever. Consequently, the categories of Palestinian losses will be identified below in qualitative terms.

a) Like Jordanians originally from East Jordan, the Palestinians naturalized Jordanian resident in Jordan will suffer of the severe shrinkage of economic activity as a result of the Gulf crisis and the embargo imposed by the Secturity Council on Iraq. The magnitude of the hardship arises from the fact that the Jordanian economy had depended heavily on its Iraqi counterpart before the crisis, and much of the activity of the former had been generated thanks to its close connection with the latter.

b) As a result of the shrinkage just mentioned, and the intensification of Jordan's problem of scarcity of convertible foreign exchange, the value of the Jordanian dinar has fallen recently by about 20 percent vis-a-vis the US dollar. The danger is great that it may drop further, thus accentuating the weakness of the purchasing power of the national currency.

c) Understandably, the shrinkage in economic activity and the resultant drop in government revenues have forced the government to pursue a policy of extreme austerity which has meant the drop in public consumption and tightening of the civil srevice, as well as a freeze on new public investment except in the case of projects already initiated.

d) An atmosphere of anxiety prevails in the shadow of gloomy fears that war may break out. This adds further to grim business expectations and therefore a near-freeze of new investment by the business community, and a deepening of the problem of unemployment. The return of thousands of Jordanians and of Palestinians/Jordanians from Kuwait has aggravated this problem. No redress can be hoped for in this contex without the injection of substantial economic

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assistance which would compensate the country for the losses sustained as a result of the rupture of its economic dealings with Iraq upon the imposition of economic sanctions on the latter country. This would activate the economy, encourage new investment and create new job opportunities.

4. The Palestine Liberation Organization

The PLO itself, too, has had its share of economic hardship as a result of the crisis in the Gulf. This can be ascertained in the following two categories.

a) The complete stoppage of the payment by the Palestinians in Kuwait of the "liberation contribution" of 5 percent of income of Palestinian earners. The revenue attributable to this contribution would amount to $ 37.5 million on the basis of the total income earned by the Palestinians in Kuwait made in section 2 (c). Extending the calculation to the income of Palestinians working in the other Gulf countries, we reach an estimate of $ 25 million. The total loss under the present category would thus be $ 62.5 million.

b) The second category involved is the stoppage of the contributions made in the past to the PLO by the Kuwaiti government and many Kuwaiti private associations and groupings in support of the PLO's educational, cultural and educational, health, and relief programmes. Most of the financial support in question used to go to scores of institutions in the Occupied Territories. Even though the political and economic situation in the other countries of the Gulf has not been hit like that in Kuwait, it is expected that official and private contributions from these countries will continue but on a noticeably reduced basis.

5. Summing Up

This summing up takes account only of the loss of remittances and income, but it does not include the very huge losses of capital (physical and monetary) and personal belongings, the increase of unemployment, and other losses and hardships about which there is no quantifiable information available. Furthermore, it covers estimates on a one-year basis, assuming the economic situation did not deteriorate any further with respect to the various categories

dealt with. Finally, it does not include the termination-of-service or pension payments owed to Palestinian workers in the private sector and in government service in Kuwait, in case they were unable to take back their jobs with the financial rights attached to them.

The income and remittances foregone are summarized as follows:

Under section 1 above:	Remittances	$ 567	million
	Exports, say	40	
	Kuwaiti aid	70	
	Other Gulf aid	70	$ 747
Under section 2 above:	Income from Kuwait	425	
	Income from other Gulf	75	$ 500
Under section 4 above:	Palestinian contributions from Kuwait	37.5	
	Palestinian contributions from other Gulf	25	$ 62.5
Total			$ 1,309.5 million

In all probability, the capital losses are well in excess of the income and remittance losses just summed up.

21 September 1990

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Director General
Department of economic Affairs & Planning
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