The Gaza Economy

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With a link between Gaza's economic situation and the repeated armed clashes between Israel and Hamas, a sustainable solution to the conflict must address this economic dimension. The solution, which needs to be facilitated by international support, should be at the top of the Israeli government's agenda before a new war erupts. This article describes briefly the key indicators of the Gaza economy and possible future developments.

Main Economic Indicators

Figure 1 compares GDP per capita in Gaza and in the West Bank since the Israeli disengagement from the Gaza Strip in 2005. In real terms, while GDP per capita in the West Bank rose over this period, GDP per capita in Gaza fluctuated: it declined substantially after the disengagement up to the military campaign of 2008-2009 (Operation Cast Lead); it then rose from 2009 to 2014 (with Operation Protective Edge), with an increase that can be attributed to Gaza's "tunnel economy." Since the 2014 conflict, the Strip's GDP per capita plunged again, to about $1,000 at 2004 prices. At current prices, GDP per capita in Gaza and the West Bank in 2015 was $1,700 and $3,700, respectively; with these figures Gaza's economy ranked 174th and the West Bank economy 150th out of 223 economies worldwide. In 2005, GDP per capita in the West Bank was 10 percent higher than GDP per capita in Gaza; by 2015 it was 128 percent higher. The average hourly wage in Gaza and in the West Bank is 62 NIS and 94 NIS, respectively.

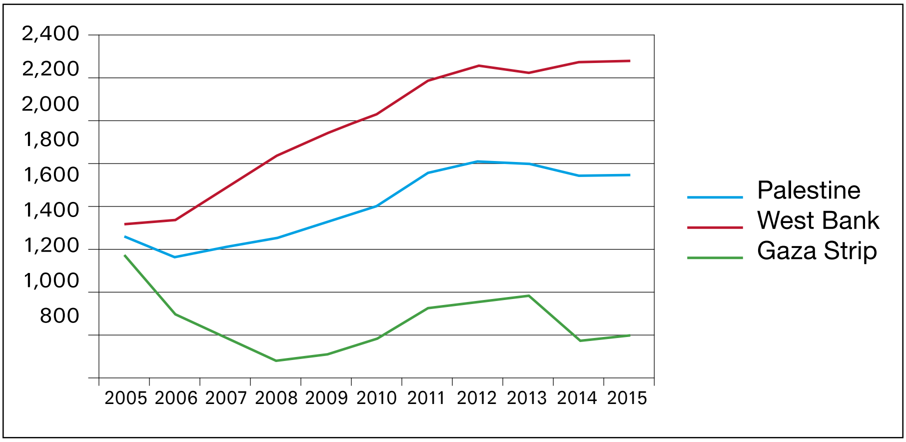

Figure 1. GDP Per Capita, 2005-2015 (in constant prices, 2004 base year)
Source: Palestinian Central Bureau of Statistics[1]

A 2015 World Bank report attributed the growing gaps between the two Palestinian economies to the conflicts between Israel and Hamas, including the blockade, and stated that had there been no repeated hostilities and closure of Gaza, Gaza's GDP growth would likely have been equal to or greater than that of the West Bank.[2] These gaps have important repercussions for any attempt to facilitate a unified economy in Palestine.

Unemployment in Gaza has gone through sharp changes. After the Israeli disengagement in 2005 there was a rise in unemployment, followed by a short period of decline until 2007, when Hamas began to rule. The first two years of the Hamas regime led to a rise of 10 percentage points in unemployment, followed by a general decline until 2014. The 2014 Gaza war led to a second rise in the unemployment rate to 44 percent in 2014, dropping slightly to 41 percent in 2015. A 40 percent unemployment rate is higher than the unemployment rate of almost every other country in the world. Three reasons account for this high unemployment rate: (a) the fall in external trade after 2005 and the imposition of restriction on Gaza's exports; (b) the severe damage to capital and to infrastructure in the wars between Gaza and Israel; and (c) the high level of population growth in Gaza, resulting in a high growth rate of the labor force but no concurrent rise in the export of labor services. In the early 2000s, 15 percent of Gazan workers were employed in Israel. Since the Israeli disengagement from Gaza, no Gazan workers have been employed in Israel. As a point of comparison, the unemployment rate in the West Bank followed a less volatile path, and in the same period ranged between 17-21 percent. This indicator further strengthens the notion of a serious gap between these two economies. Figure 2 provides a comparison of the rate of unemployment in Gaza and in the West Bank since the Israeli disengagement from Gaza.

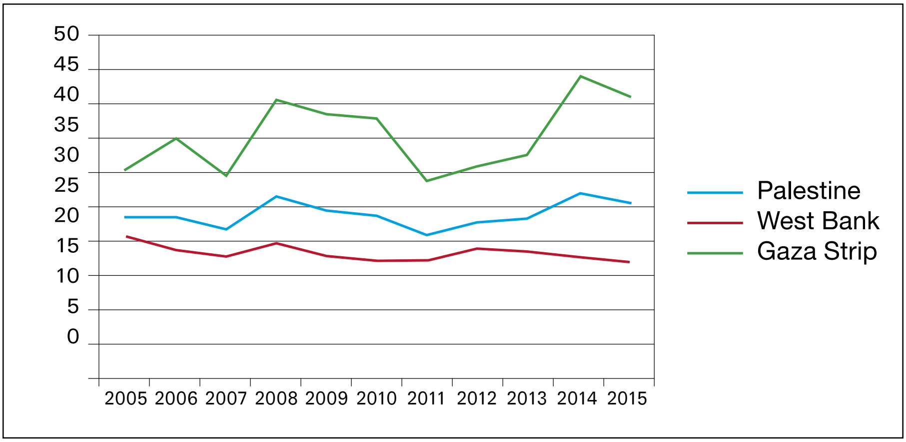

Figure 2. Unemployment Rate in the Palestinian Territories, 2005-2015
Source: Palestinian Central Bureau of Statistics[3]

Gaza also suffers from a major problem of high population density. It has 1.88 million inhabitants, with a density of 5,100 people per square kilometer, placing the Strip in the fifth place worldwide.

Other indicators that help assess the economic situation in Gaza include poverty and food security. In 2014, the poverty rate in Gaza was 39 percent, as compared to 16 percent in the West Bank, which translates to 25 percent in the Palestinian territories as a whole.[4] In 2011, the "deep poverty" rate in Gaza was 21 percent, as compared to 8 percent in the West Bank, which is 13 percent in the Palestinian territories.[5] The relative poverty line and the deep poverty line were calculated using consumption data. In 2011 the annual consumption expenditures for the average household of 2 adults and 3 children were 2,293 NIS and 1,832 NIS in the West Bank and Gaza, respectively.[6] In 2013, the food insecurity rate in Gaza, the West Bank, and the Palestinian territories was 57, 19, and 33 percent, respectively.[7] As a reflection of the extent of poverty, the major share of cash expenditure was spent on food; it was 35 percent of total expenditures in the territories, with 33 percent in the West Bank and 40 percent in Gaza.[8]

Future Scenarios

The economic situation in Gaza has deteriorated substantially in the past decade as a result of the sanctions imposed by Israel and Egypt. In addition, since 2014 there has been a decrease in financial support for Gaza from Iran and Syria. As a result of such strains, Hamas has faced difficulties in paying public sector employees. This is the reason why ceasefire negotiations with Israel and reconciliation talks with the Fatah regime in the West Bank dealt with the possibility of easing the blockade and allowing the economy of Gaza to be opened to external trade. The network of tunnels to Sinai was the natural reaction to economic isolation.

According to a 2015 World Bank report,[9] the "status quo in Gaza is unsustainable, and could have further incalculable socioeconomic and ultimately human consequences.…The combination of armed and political conflict and the blockade imposed by Israel in 2007 have had a huge toll on Gaza's economy." The current status quo is likely to lead to another violent confrontation between Israel and Hamas, thus prolonging the cycle of a conflict that has defined the past decade.

Though Gaza has encountered a host of setbacks, it still has economic potential. Gaza's economic opportunities include developing tourism along its seashore, developing a services sector, reestablishing agricultural exports, and even establishing a hi-tech industry, as Israel's Arab citizens in the north of Israel have done. Gaza's human capital has economic potential, since illiteracy is almost nonexistent and higher education is widespread due to Gaza's five universities.

Natural gas, discovered in the sea near the shores of Gaza in 2000, is estimated at 32 million cubic meters, a supply that could last for 20 years. This project would grant economic and ecological benefits, and generate an estimated income of $2.4 billion in royalties and taxes.[10] Moreover, it could lead to savings of $550 million, because Gaza would no longer have to import electricity services from Israel. By using natural gas instead of diesel, Gaza's power station's production costs would decrease.[11] The current plans for the Gaza Marine field are to construct well-heads on the sea-bed, lay pipes to a collection unit, and a sub-sea pipeline from the collection unit to the shore. It will take three years from the decision to go ahead with exploitation until gas flows ashore. The capital investment required would be $1 billion.[12] The Palestinian Authority has blamed Israel for inhibiting the launch of the project, but in October 2013, an unnamed Israeli official said that the Israeli government was "very supportive" of the project.[13]

In the short and medium run, investments could be undertaken to develop physical infrastructure and public services. Such investment would also lead to a rise in employment, jumpstart a stable Gaza economy, and prevent another conflict between Israel and Hamas.

In order to see substantive growth in Gaza's economy, there must be substantial change, and not merely an ease of the blockade or the partial opening of crossings. Small gestures will not achieve the desired goals, and in the long run will lead to further deterioration. The magnitude of the problems is such that big investments are needed. Small steps can create the illusion of progress but fall short of the minimal expenditures needed. The change should not be implemented by Israel or Hamas, but rather by foreign governments and international organizations. The involvement of international agencies, preferably professional rather than political, is necessary in order to provide the conditions for real economic change. Relying on local agents and bodies, with all the political complications, is likely to lead to continued failure. It is therefore necessary to make use of professional organizations and outline explicitly the necessary steps and required targets. The following issues are particularly important:

Reconstruction and building of infrastructure. Following the destruction engendered by the 2014 conflict, reconstruction of infrastructure should be the top priority. An economic task force should be formed under the auspices of an international organization, such as a new development bank, and set the project's priorities on a defined schedule. Gaza could plausibly be expected to reach a reasonable state in four years, and a much improved one in eight years. Those recruited for rebuilding infrastructure would be local unemployed workers. It is crucial that this mechanism be under international control, use foreign experts, and be transparent regarding its work. Making its actions known could lead to the desired change in public perception, which is necessary for Gaza's economic development.

In addition to the cost of housing reconstruction, investment of $1 billion annually over four years (32 percent of 2015 GDP each year) and $600 million investment annually for the subsequent 3-4 years are required for the reconstruction of the capital stock. However, it is difficult for a poor and small economy to absorb larger amounts of investment.

One possibility is to invest in the rebuilding of houses and commercial buildings that were destroyed in the conflicts, such that a substantially higher housing stock would be attained relative to pre-conflict levels. Such a step could have big effects on public support for the economic development program.

Funding. The funding for the program would come from Arab governments and Western governments. It is crucial that a number of governments participate in funding the program, in order to diversify risk. The initial funding could be managed and monitored by an emergency fund of the World Bank. In the mid and long terms it is preferable to establish a new bank that would be designated specifically for the development of Gaza. Similar undertakings took place in the 1990s in Eastern Europe, following the collapse of the Soviet Union.

Supervision of import of production inputs. A central concern in framing Israel's policy toward Gaza is the fear that production inputs would be utilized for military purposes. This fear has materialized in the use of construction materials for the creation of dozens of "terror tunnels." However, this occurred under the Israeli blockade. Moreover, similar issues of resource diversion have been resolved in other cases. Institutions such as the World Bank often discovered that financial aid ends up in the hands of corrupt rulers or small interest groups instead of its original destinations. Consequently, those institutions developed mechanisms for the transfer of funds, usually in the form of direct transfers to the recipients, and conditioned further deliveries on the attainment of goals. Such mechanisms could be activated in the case of Gaza.

Security. The above steps cannot be implemented if violent confrontations recur. An international military or police force that works in collaboration with an economic task force could be helpful in the first few years.

Reintegration. An obvious point is the need for the West Bank and Gaza to re-integrate. A recent (2017) Aix group paper notes that the combined economies would enlarge the market significantly, thus leading to a better division of labor, with the potential advantages of specialization. The paper notes that "Historically, Gaza had a strong agricultural base and supplied agricultural products to the West Bank. Other sectors, such as furniture, were also developed in Gaza. The diversification of climate, with what can be described as 'seasonal complementarity,' provides another advantage to the combined, integrated economy."[14] Moreover, the fact that Gaza has access to international waters could hold important advantages for reunification of the economies of Gaza and the West Bank, if the blockade were to be significantly loosened. However, there is also a downside to a possible union of the two economies. The economic disparities between Gaza and the West Bank could cause major stagnation for the Palestinian economy in the short run. As the West Bank economy itself is a very poor economy, absorbing the economy of Gaza, which is more than twice as poor, might be destructive in the short term. To prevent such negative impact, reintegration should follow an economic reconstruction plan for the Gazan economy, such as the program presented above. A program to reconstruct Gaza's housing sector and physical capital, and later, an attempt to reintegrate the two economies, could hold promising prospects for the long run. In addition, and importantly, it can also help reduce the frequency of violent confrontations between Israel and Hamas.

Notes

1 "National Accounts Statistics, 1994-2015," Palestinian Central Bureau of Statistics, Ramallah, 2017, http://www.pcbs.gov.ps/site/lang__en/741/default.aspx.

2 "Economic Monitoring Report to the Ad Hoc Liaison Committee," World Bank Group, Washington, D.C., 2015, p. 24, http://documents.worldbank.org/curated/en/563181468182960504/Economic-monitoring-report-to-the-ad-hoc-liaison-committee.

3 "Labour Force Survey: Annual Report: 2015," Palestinian Central Bureau of Statistics, Ramallah, 2016.

4 "Economic Monitoring Report to the Ad Hoc Liaison Committee," p. 5.

5 "Poverty Rates Among Individuals According to Monthly Consumption in Palestine by Region, 2009-2011," Palestinian Central Bureau of Statistics, Ramallah, 2011, http://www.pcbs.gov.ps/Portals/_Rainbow/Documents/Poverty_2009_2011_e.htm.

6 "On the Eve of International Population Day," press release by Palestinian Central Bureau of Statistics, Ramallah, July 11, 2014, http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_IntPopD2014E.pdf.

7 "Food Insecurity in Palestine Remains High," press release by Palestinian Central Bureau of Statistics, Food and Agriculture Organization, United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), and World Food Programme, June 2, 2014, http://www.pcbs.gov.ps/site/512/default.aspx?tabID=512&lang=en&ItemID=1135&mid=3172&wversion=Staging.
8 "On the Eve of International Population Day."
9 "Economic Monitoring Report to the Ad Hoc Liaison Committee," p. 25.
10 Simon Henderson, "Policy Brief: Natural Gas in the Palestinian Authority: The Potential of the Gaza Marine Offshore Field," Mediterranean Policy Program, Eastern Mediterranean Energy Project, German Marshall Fund of the United States, Washington, March 2014, p. 4.
11 Paul Rivlin, "Economics and the Gaza War," *Iqtisadi*, August 31, 2014, http://dayan.org/content/iqtisadi-economics-and-gaza-war.
12 Henderson, "Policy Brief: Natural Gas in the Palestinian Authority: The Potential of the Gaza Marine Offshore Field," p. 4.
13 Ibid., p. 2.
14 "Two Further Studies: Improving the Gazan Economy and Utilizing the Economic Potential of the Jordan Valley," eds. Arie Arnon and Saeb Bamya, Marseille: Aix Group, 2017, p. 12.