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## The Crisis in Gaza

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Source: CIA World Factbook

In April and May 2017, as tension mounted on the border between Israel and Gaza, the International Monetary Fund (IMF), the World Bank, and the United Nations Special Coordinator for the Middle East Peace Process (UNSCO) all issued reports on the West Bank and Gaza. These included analyses of economic and social conditions in the region and the UNSCO report also examined effects of the conflict between the Palestinian Authority, controlled by Fatah in Ramallah, and Hamas and its government in Gaza. These developments should be seen in their historical context.

Following the first Intifada, which began in Gaza in December 1987, exports, imports, and labor flows from Gaza to Israel fell. This effect intensified after 1991 as a result of a gradual closing of Gaza from Israel and from the West Bank. The process that began with the closure of the Palestinian territories during the Gulf War of 1991, gathered momentum later with additional and longer closures over time, culminating in an almost complete closure in 2006.

Following the withdrawal of Israeli settlers and armed forces from Gaza in 2005, Palestinians from Gaza were no longer allowed to work in Israel. This reduced per capita income sharply because those Palestinians who found alternative employment in Gaza earned less, in a much less productive economy. The decline of productivity and earnings, along with the rise of unemployment, meant that poverty increased dramatically.

A study conducted by the Aix Group (a Palestinian-Israeli NGO) identified two main obstacles to economic growth. The first was the restriction on the movement of goods and people caused by checkpoints, walls, fences, siege, and similar measures. The second was the restrictions on investment, which were both administrative and a result of high risk due to the frequent outbursts of hostilities, both of which deter investments. These obstacles have been much greater in Gaza than in the West Bank. The closure has had effects on agriculture, water supply, and electricity production. According to a World Bank report, by the end of 2008 approximately 50 percent of households lacked running water due to damage incurred during the war in 2008-2009. This damage was never completely fixed due to restrictions on the entry of construction materials. In addition, military operations caused immense damage to capital equipment and infrastructure and deterred new investments. The wars of 2008-2009 and 2012 resulted in damage that had not been repaired prior to the conflict in 2014. The 2014 war was the longest and the most devastating in Gaza since 1967 (See: [Iqtisadi, August 2014](#)).

Israel's Coordinator of Government Activities in the Territories (COGAT) has noted another factor that is hurting the economy: Hamas, that has ruled Gaza since 2007. Since the 2014 war, Hamas has allocated at least \$120 million to the construction of tunnels designed for attacking Israel and for smuggling. Concrete has been used to build the tunnels at the expense of civilian reconstruction. This activity endangered residents, and electricity has been used to build and light the tunnels 24 hours a day, while hospitals and private homes suffer constant power shortages. In 2016, 25 tunnels collapsed, killing 21 Hamas operatives and injuring many more.

Hamas imposes payments of almost \$200 on imports of furniture from Israel into Gaza through the Kerem Shalom Crossing (on Gaza's southern border with Israel), while it costs \$80 to smuggle a suitcase through the tunnels between Gaza and Egypt. There is a \$27 toll for trucks using through Salah al-Din road, which crosses through the Gaza Strip. These are part of Hamas' system of taxes. In recent years, Hamas has begun to rely increasingly on domestic sources of income. It collects some \$100 million in taxes each month, most of which is used to pay Hamas official's salaries. Hamas has constantly increased taxes while evaluating traders' responses to these measures in order to silence opposition to the taxation. After its takeover of the Gaza in 2007, Hamas generated funds by taxing trade through tunnels used to smuggle goods from Israel and Egypt, but had difficulties alleviating the economic hardships. The situation deteriorated following the Arab Spring in 2011 and reached a low point during the overthrow of the Muslim Brotherhood regime in Egypt in July of 2013. During this period, Hamas decided to impose more taxes on Gaza residents as foreign aid and smuggling revenues declined.

Several months later, in April 2015, Hamas promoted a new economic plan that included a so-called "solidarity tax." Hamas has claimed that this new tax will help the poor of Gaza, but in practice, most of the profits from the taxes have been used to fund the salaries of Hamas's workers. At the same time, Hamas has been imposing new taxes on the Strip's residents, both directly and indirectly, in addition to increasing other taxes.

The most recent burden that Hamas has imposed on Gazans was to force merchants to pay all their taxes and debts before being allowed to leave the Strip. In February of 2017, Hamas released a new directive regarding the exit of businessmen and merchants from the Gaza Strip through Erez Crossing (on the northern border of the Strip) and Rafah (on the Southern border with Egypt). Businessmen and merchants now had to provide official documentation stating that they had settled their payments and debts with the government and local authorities before leaving the Strip. In addition, Hamas recently attempted to impose new taxes on construction materials, but the move was blocked after rising resentment by Gaza's importers and Israel's threat to ban all imports of construction goods to the Gaza Strip. Hamas is now planning to increase taxes in order to finance salary payments. In 2016, Hamas' average monthly earning from taxation stood at \$17 million, and by February 2017, tax revenues reached \$28 million.

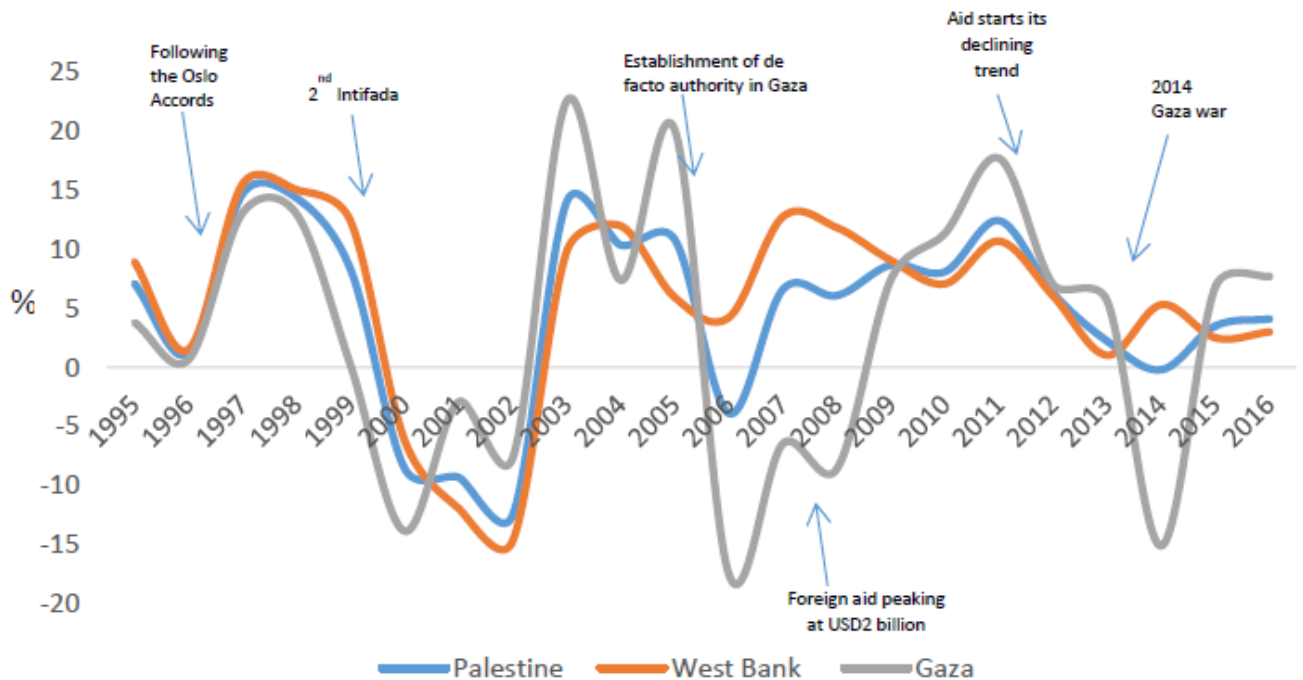
The tax mechanism that Hamas has created directly influences the lives of Gaza residents. For example, customs fees along with a special tax on cigarettes and tobacco products, which are smuggled through the tunnels, equal 50 percent of the total price. The customs fee paid for a pack of cigarettes is \$1.50, and this means Hamas earns up to \$10 million a month from cigarette smokers. In addition, Hamas collects taxes at the crossings between Israel and the Gaza Strip. At the Erez Crossing, Hamas collects various taxes, beginning with incoming mail, and including a toll for driving to and from the crossing. These taxes have even affected real estate as well. Not only is the rate of construction in Gaza down, and not rising as expected, but Hamas' so called Land Authority collects a 17 percent tax from real estate agents on each deal.

By July 2016 Gaza's population had reached an estimated 1.75 million and was increasing at a rate of 2.9 percent a year, one of the fastest growth rates in the world. Almost 67 percent of the population was aged 0-24 years, and the crucial labor market entry age group of 15-24 year-olds accounted for 21 percent of the total population. These facts alone present a major challenge because the region is very densely populated and lacks water. These challenges are, of course, only part of the region's problems, and are essentially political. The Gaza Strip's territory is only 365 square kilometers (141 square miles) making it one of the most densely populated places on earth.

Since Hamas took over, there has been a serious deterioration in key socio-economic indicators. During the decade since 2007, the average GDP growth rate in Gaza was 2.8 percent compared to 6.9 percent in the West Bank. As Gaza's average GDP growth rate was lower than that of the population growth rate, per capita real GDP in Gaza declined. This decline amounted to 5.3 percent from 2006 to 2016, while per capita real GDP grew by 48.5 percent in the West Bank during the same period, increasing the gap in living standards between the two areas. Gaza's economic performance has been closely linked to developments in Israeli closure policies, as well as tensions with Hamas and the wars of 2008-9, 2012, and 2014. Real GDP in Gaza fell in 2007, 2008, and 2014. The contraction of economic activity was particularly significant in 2014 when real GDP fell by over 15 percent due to hostilities (See Figures 1 and 2). Inflow of foreign aid for reconstruction after each escalation of hostilities helped boost Gaza's growth rate but only temporarily. The poverty rate has reached about 40 percent and is much worse than in the West Bank.

Figure 1

GDP Growth in the Palestinian Territories, 1995-2016



Source: World Bank

Figure 1 shows the importance of foreign aid to the Palestinian economy. The decline in aid that started in 2012 was followed by a slowdown in growth that occurred in the West Bank as well as in Gaza and preceded the 2014 war. In October 2014, there was an international conference in Cairo designed to generate aid for reconstruction in Gaza after the war. By 2016, a total of \$1.796 billion had been disbursed, 51 percent of the amount pledged. Of this amount only \$670 million was allocated to priorities listed in the Gaza Recovery Framework and this covered only 17 percent of recovery needs. Table 1 shows how donors outside the Middle East lived up to their commitments much more than those in the region.

Table 1

[Disbursement Status by Donor of Support to Gaza pledged at the Cairo Conference to End 2016](#)

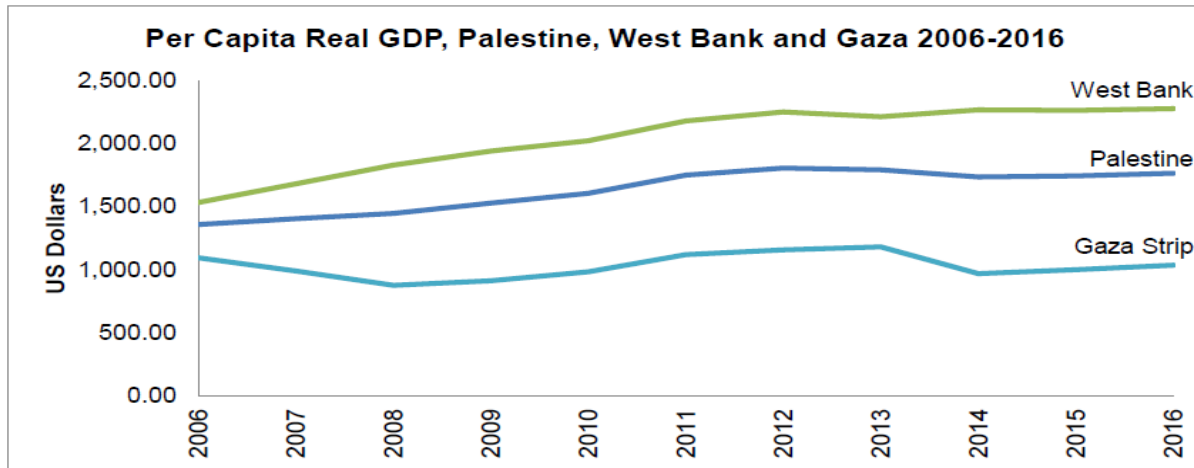
(\$ millions, larger donors only)

Donor	Support to Gaza	Disbursement of Support to Gaza	Disbursement Ratio of Support to Gaza
Qatar*	1000.00	216.06	22%
Saudi Arabia*	500.00	90.41	18%
European Union <sup>1</sup>	348.28	296.73	85%
USA	277.00	277.00	100%
Kuwait*	200.00	48.93	24%
Turkey	200.00	139.48	70%
UAE	200.00	59.08	30%
Norway <sup>2</sup>	144.98	173.91	120%
European Investment Bank <sup>3</sup>	70.00	N/A	N/A
Switzerland	65.28	66.96	103%
Germany	63.32	60.67	96%
World Bank	62.00	62.00	100%
Algeria*	61.40	61.40	100%
Japan <sup>4</sup>	61.00	61.00	100%
UK	32.16	32.16	100%
Italy <sup>5</sup>	23.68	4.69	20%
Spain	22.80	14.6	64%
Sudan <sup>6</sup>	20.00	N/A	N/A
The Netherlands	15.31	15.31	100%
Canada	14.66	14.66	100%
Denmark	14.46	14.46	100%
Australia	13.18	13.18	100%
France <sup>7</sup>	10.13	10.13	100%
Sweden	10.00	11.37	114%
Finland	9.31	9.31	100%
Luxembourg	8.97	N/A	N/A
Russia	8.74	8.74	100%
Belgium <sup>8</sup>	7.92	7.92	100%
Bahrain*	6.50	5.15	79%
Austria <sup>9</sup>	5.22	5.22	100%
India	4.00	4.00	100%

Source: World Bank

Figure 2 shows that national income per capita in Gaza was about \$1,000, less than half that in the West Bank and less than a thirtieth of the level in Israel.

Figure 2



Source: World Bank

Gaza's productive sectors have been particularly hard hit and their share in GDP has been declining. Between 2006 and 2016, the share of agriculture, forestry, and fishing in GDP declined from 6.1 to 4.1 percent, and the share of mining, manufacturing, electricity, and water declined from 11.9 to 8.4 percent. The GDP growth rate resulted from the expansion of construction, wholesale and retail trade, services, as well as public administration and defense. In 2016, public administration and defense accounted for nearly a third of Gaza's economy. As will be seen, the weight of public administration and defense in the economy has had major political consequences in Palestinian politics.

As a result of weak economic performance, the unemployment rate in Gaza rose from 32 percent during the first quarter of 2006 to 41 percent in the last quarter of 2016, resulting in 203,000 unemployed at the end of 2016. The unemployment rate has been highly volatile over the past decade, reflecting closures of the borders with Israel and Egypt, escalation of hostilities, and reconstruction. Unemployment peaked in the third quarter of 2014 reaching 47 percent at the height of the hostilities. This also reflected seasonal fluctuations in demand for labor in farming and fishing.

The rise in unemployment has been most severe among youth and women. Between the first quarter of 2006 and the last quarter of 2016, the unemployment rate for 20-24 year-olds increased by nearly 10

percentage points (from 50.6% to 60.3%) while that of 25-29 year-olds increased by close to 16 percentage points from (36.3% to 52.1%). In the same period, the unemployment rate for women increased from 35.1 to 64.4 percent, with the gap between men and women steadily increasing over the decade.

At the end of April 2017, The Palestinian Authority (PA) informed Israel that it would stop paying for the electricity that Israel supplies to the Gaza Strip. This was part of an attempt to reassert control after ten years of Hamas rule. The population of Gaza suffers acute power shortages, with the supply of electricity rationed to about four hours a day. As its own power station is out of commission, Gaza is dependent on electricity supplied by Israel, and on a limited, and less reliable, supply from Egypt. According to the Israeli Coordinator of Government Activities in the Territories, Israel supplies Gaza with more than half of its annual electricity needs (125 megawatts) at a monthly cost of about \$11 million.

In 2007, 58,000 civil servants worked in Gaza. At that time, the PA ordered its Gaza employees to stop going to work as violence erupted between the PA and Hamas. This led Hamas to appoint its own civil servants to run the ministries. Since 2007, the PA has continued to pay Gaza civil service salaries despite them not working, but in April 2017, it announced a salary cut of between 30 and 50 percent for civil servants there. This sparked a public outcry and tens of thousands began to protest.

[According to the UNSCO](#), the political situation has deteriorated over the last year:

“Despite the practical recommendations proposed by the Middle East Quartet in July 2016 the period witnessed a surge in Israeli settlement-related activity and a continued high rate of demolitions in Palestinian and Bedouin communities at risk of forcible transfer in Area C of the West Bank, continuing acts of terror and violence against civilians, signs of a deepening political Palestinian rift between Gaza and the West Bank, and continued military build-up and firing of rockets by Hamas and extremist groups in Gaza. ... In Gaza, the security situation remained volatile with the potential for further escalation on the rise. Extremists launched a number of rockets towards Israel without causing injuries or damages. Israel generally responded to the rocket launchings with airstrikes and artillery fire, mainly targeting military positions of Hamas.

Municipal elections originally set for October 2016 were postponed ... for four months after the Palestinian High Court ruled against the Government’s arrangement for conducting the elections in Gaza. In January, the Palestinian Government established a designated electoral court to resolve the issue of the “illegal” courts in Gaza, as highlighted by the High Court. Hamas rejected this decision and expressed its dissatisfaction with the Government’s failure to hold the municipal elections in 2016. As a result, preparations are underway for municipal elections that are expected to be held



exclusively in the West Bank on 13 May 2017, as agreement on the mechanics of holding the elections in Gaza and Ramallah was not reached.

Meanwhile, continuing efforts to reconcile Fatah and Hamas have failed. In October 2016 President Abbas met with Hamas Politburo Chairman Mashal in Qatar. In January 2017, representatives of PLO, Hamas and Islamic Jihad agreed in a meeting in Beirut in January on the need to start consultations to form a national unity government that would work to implement previous reconciliation deals, end the Palestinian division and prepare general elections. Also in that month, Russia hosted Palestinian factions in an effort to achieve reconciliation. Despite these meetings, the two sides were unable to agree on unity. In another setback to achieving unity, Hamas established the so-called Administrative Committee, a parallel institution to run local ministries in Gaza on 16 March 2017. The Palestinian Authority (PA) was reportedly not consulted about the move and, in a statement, rejected any formula that administers ministries in Gaza independently from the Government of National Consensus. Disputes between the PA and Hamas over responsibilities in Gaza aggravated the electricity crisis in the Strip.”

Israel has been blamed by many for the current situation because it exercises control on the flow of goods, services, and people crossing its border into Gaza. This control should be seen in the context of constant military conflict in the region, including three wars. Israel has banned trade in items that it considers “dual use;” materials that it believes could be used to contribute to a military threat. But the problem is that nearly everything can be dual use. Electricity is used to drill tunnels designed for military attacks by Hamas on Israel and so it can be considered dual use. On the other hand, the electricity crisis in Gaza, that also affects the supply of water, is considered by some to be one of the main factors behind the desperation felt by so many Gazans. They not only despair about the future, but find the current conditions intolerable. People with nothing to lose can be tempted by extremists.

Israel has not attempted, in any of the three rounds of fighting, to remove the Hamas from power. Some say that this is because it fears that Hamas would be replaced by even more extremist Islamist groups, while others say that it is in Israel’s interest that Hamas does not unify with Fatah and form a more powerful Palestinian Authority. Hamas will do all it can to remain in power and if this means using desperately needed resources for war or to prepare for war, then it will not hesitate to do so, as it has done so often in the past. The Palestinian population in Gaza is therefore politically trapped and their economic fate is an outcome of a conflict that has at least three sides.

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