Iqtisadi

Middle East Economy

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The Socio-Economic Crisis in Syria
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With up to 2,000 dead and thousands imprisoned, the crisis in Syria is now pushing the international community towards wider sanctions against the Assad regime. As revenues from tourism and transit trade collapse, the economic crisis is worsening and this is likely to deepen domestic tensions still further. If those groups that have in recent years thrived as a result of liberalization and cronyism feel threatened, their loyalty to the regime will be undermined.

The main architect of the more open economy, `Abdullah al-Dardari, deputy prime minister for economic affairs since 2005, was among those sacked in the recent government reshuffle. He was not popular among ordinary Syrians who paid the price for the liberalization when subsidies for fuel and state provision of education and healthcare were reduced. Dardari's recently unveiled five-year-plan aimed at increasing employment and improving infrastructure, but it was based on large inflows of foreign funds. These are unlikely to materialize. The liberalization of the economy has already been partly reversed with an increase in subsidies.

Unlike Egypt, where the urban upper-middle class played a major role in bringing down Mubarek, many of Syria's urban-dwellers have experienced improvements in their standard of living in recent years. In the countryside, most of the population has experienced rapidly increasing fuel and food prices, drought and falling living standards. As a result of liberalization, Syrian markets have been flooded with foreign goods and that has made manufacturing less profitable. The poor in smaller towns have been driving the protest movement as the result of economic pressures and it was these sections of the population that Assad sought to win over when in April he announced higher wages for civil servants, new jobs, more subsidies, and the creation of a social fund.

The protests have caused other problems. The trucks that transport goods through Syria to the Arabian Peninsula have slowed to a trickle, cutting off a valuable source of revenue in border taxes. Consumer confidence has declined and so has demand in the economy. In order to pay higher wages and cover the cost of higher salaries without new sources of income, the government has announced it will increase the state budget deficit.

The apparent end of liberalization means that structural problems will persist. With the root causes of Syria's economic malaise not dealt with and no prospect of significant capital inflows, it is hard to know how economic growth can be restarted.

The continuing unrest reflects deep resentment of the Alawite-dominated regime by many of the majority Sunni Muslim population. Syria has a multi-religious and ethnically diverse population, with a Sunni Muslim majority. President Bashar al-Assad belongs to the Alawite sect. Christians and other minorities, who account for the rest of the population, have also shown support for Assad, who has defended secularism. Many are worried about the possibility that political upheaval will empower Islamists. Nearly one million Iraqi refugees live in Syria; a reminder to Syrians of how regime-change can go wrong. Syrian Kurds were in conflict with the government even before the current conflict began.

During his decade in power, Assad strengthened the alliance between the urban Sunni merchant class and the Alawite-dominated army. Having been brought up in privilege in Damascus, he has more in common with the capital's elite than he does with the Alawites of the mountains in the northwest of the country. When Assad took office in 2000, he began liberalizing the economy. As a result, Syria became a much more comfortable country for the better off; mainly Sunni merchants and Alawite army officers. For the majority, however, little has changed. The poor come from all ethnic and religious groups. Ethnic resentments do not, therefore, coincide with economic ones, which of course work in the regime's favor.

Syria's mid-2011 population is estimated at 22.5 million and is growing at nearly 2.5 percent a year. Partly due to the large influx of refugees from Iraq following the 2003 war, growth in population accelerated from

2000-2005. By way of comparison, the average per annum in less developed countries during the last decade was 1.5 percent.

As in other Arab countries, the growth of the labor force has been even higher, a consequence of the expanding numbers of people in the 15-24 cohort. In 1990 they amounted to 2.5 million people, in 2000 there were 3.8 million, and in 2010 an estimated 4.6 million. The economy therefore needs to generate up to 400,000 new jobs a year just to prevent unemployment from increasing. However, its ability to do this has been limited and has now been even further reduced, something that will increase tensions in the future.

Since 2006, there have been four consecutive years of drought, with that of 2007-2008 being devastating. Wheat is Syria’s the main food crop and in 2007-2008, production was 35 percent lower than the average in the two preceding years. Although there was a recovery in 2009, it was still 25 percent below its 2006 peak. As the population had increased by over 1.5 million, more wheat had to be imported: 302,000 tons in 2008 and 1.65 million in 2009. While the government claims that Syria is self-sufficient, in wheat, production has not matched demand. The 2010 wheat yield was 3.3 million tons, 500,000 tons less than demand.

This has affected food security and has pushed 2-3 million people into extreme poverty; 800,000 people had their livelihoods ruined by drought, mainly in the northeast of the country, but also in Dar`a province, population 300,000. Small-scale farmers have been the worst affected; many have not been able to grow enough food or earn enough money to feed their families. As a result, tens of thousands have left the northeast and now inhabit informal settlements or camps close to Damascus. Water sources have also been ruined, with farmers being compelled to use wells to draw on groundwater resources due to a lack of rainfall. The situation has been greatly exacerbated by the inefficient use of water.

Syrian agriculture is suffering from the country’s move to a so-called "social market economy” and the introduction of a new subsidy regime in compliance with international trade agreements, including the Association Agreement with the European Union (which Syria has still not ratified). The previous agricultural policy was highly interventionist, ensuring (at great cost) the country's food security and providing the population with cheap access to food items. In recent years it was replaced with a more liberal one that had harsh consequences for farmers and peasants, who account for about 20 percent of the country's GDP and its workforce.

Since 2005 the economy has grown at about 5 percent a year, but the bulk of the population has not benefited. Most are struggling to survive in a liberalized system that does not produce enough jobs, while reducing the employment opportunities in the still-large public sector. Moreover, many in the middle class are being pushed towards the poverty line because their incomes have not kept up with inflation that reached 17 percent in 2008. In 2009, inflation declined but it has since accelerated again following the sharp rise in international food prices. Increasing inflation was also due to a speculative real estate boom and the partial removal of subsidies. Wealth gaps and inequality have continuously increased in recent years and unemployment has risen to an estimated 20-25 percent. The government promised the creation of 250,000 jobs every year in the current five year plan, but that is not being realized. Privatization policies, while detrimental to the large majority, have mainly benefited a few individuals close to the regime. In 2003-2004, nearly two million people, or 11.4 percent of the population, lived below the official *extreme poverty line:* those whose incomes were so low that they spent a maximum of £S 1,458 ($32) per month on basic needs. A total of 5.3 million people or 30 percent of the population lived below the official *poverty line:* those whose incomes enabled them to spend up to £S 2,250 ($49) per month on basic needs. By 2007, 12.3 percent of the population lived in extreme poverty and the poverty rate had reached 33 percent. Since then, poverty rates have risen still further.

In early 2008, fuel subsidies were abolished and, as a result, the price of diesel fuel tripled overnight. Consequently the price of basic foodstuffs rose sharply and was further exasperated by the drought. In 2009, the global financial crisis reduced the volume of remittances coming into Syria. In 2011, the government responded to growing socio-economic pressures and created a national fund worth $250 million to help 420,000 families in need. It has increased public sector salaries by 20-25 percent, raised heating allowances by 72 percent for public servants and pensioners (about two million people), and has announced a series of measures to bring down prices of basic foodstuffs. Nonetheless, these measures have not staved off unrest.

Syrian industry is hampered by a lack of investment, technology and management know-how, and has been restricted by a choking bureaucracy, widespread corruption, and, in recent years, by foreign competition. In 2011 the World Bank ranked Syria 144 out of 183 countries in its ease of doing business category. (Singapore came first; Israel was ranked 29; Egypt 94 and Jordan 111.) These factors, together with uneasy relations with neighboring countries, have also discouraged investors. Recently there has been an increase in investments from other nations in the Arab world, but these investments have mainly been in real estate. As a result of the conflict, a Qatar-based company recently scrapped plans for a $900 million project to build power plants in Syria.

One sector that did well in recent years was tourism, bringing in $4.4 billion in 2008 (this was the figure registered in the balance of payments). The total number of tourists rose from 5.8 million in 2005 to 6.7 million in 2009, and up to 16 percent of the labor force were employed in that sector. The majority were Arabs, Iranians and Turks, but there was also a rapid increase in the numbers from other countries – mainly in Europe – from 440,000 to 1.1 million. Foreign tourism has now ceased, with severe consequences for output, employment, and the balance of payments.

Syria is subject to US sanctions, which have a deleterious effect on the economy. These prohibit the export to Syria of any items on the US munitions list, or those on the Commerce Department's list of items with dual civilian-military applications. There is a ban on the export to Syria of

US products other than food or medicine; aircraft owned or controlled by the Syrian government are banned from the United States; US financial institutions are required to sever correspondent accounts with the Commercial Bank of Syria based on money-laundering concerns; and assets of key Syrian individuals and government entities within US jurisdiction have been frozen. These measures have not prevented economic growth in Syria (nor have they substantially altered Syrian foreign policy), but they have discouraged investment in industry. Canada has just announced that it will implement sanctions against Syria and the recent G8 statement increases the likelihood of multilateral action by the United Nations.

The Syrian economy is highly reliant on the oil sector. In 2004, oil supplied 11.2 percent of government revenues but in 2010, despite higher oil prices, only 5.4 percent due to declining production. In 2010, 400,000 barrels a day (b/d) were produced and the forecast for 2011 is the same. This compares with the peak of 610,000 b/d in 1995 and 500,000 in 2005. In 2010, exports were 155,000 b/d, a 46 percent fall on 2005. The long-run decline in oil production means that high international oil prices will increasingly affect Syria negatively as it becomes a net energy importer. The government is aware of the problem and has tried to boost the hydrocarbons sector with foreign direct investment and by substituting oil with natural gas in domestic power production, but this is threatened by the current political turmoil.

While high oil prices, substantial foreign exchange reserves, and manageable levels of domestic and external debts have helped maintain a degree of macro-economic stability, this is now breaking down. In April, the International Monetary Fund lowered its estimate of Syria's 2011 economic growth rate from 5.5 percent to 3 percent. The International Institute of Finance forecasts that GDP could contract by as much as 3 percent in fiscal 2011. Economic growth was decelerating prior to the current conflict: GDP fell from 6 percent in 2009 to 3.2 percent in 2010 and the balance of payments current account deficit tripled to almost $2 billion in 2008. The IMF forecasts a further deterioration in its 2010 report on the Syrian economy but the outlook is now much worse.

The worsening economic situation coupled with the abandonment of liberalization will alienate the middle classes without necessarily generating support among the masses. This may prove to be as big a threat to the regime as the protestors that it has been killing.

"The Gates of Gaza" and the Economic Power of Hamas

Yitzhak Gal

"…and (Samson) took the doors of the gate of the city (of Gaza) …., and put (them) upon his shoulders, and carried them…" (Judges 16, 3)

The Egyptian authorities' decision to re-open the Rafah Crossing between Egypt and the Gaza Strip has drawn renewed attention to the policies concerning access and movement into Gaza. The possibility of a second flotilla originating from Turkey has also put the spotlight on the Gaza Strip.

According to the new Egyptian policy, the Rafah Crossing opens six days a week, from nine o'clock a.m. to five o'clock p.m., and is closed on Fridays and official holidays. There is no visa requirement for Palestinian women, and men below 18 and over 40. Palestinian men between the ages of 18 and 40 need prior approval, and their crossing is, reportedly, limited to those listed in the Israeli-controlled population registry. In practice, the majority of Palestinian men are required to arrange advance permission for passage through Rafah, and many are not permitted to pass at all.

This new policy does not include the movement of goods. Thus, while the policy has contributed to a feeling of relief that the siege has ended, it has neither affected the economy nor Hamas's control. However, if the new policy is expanded to trade as well, this may change. While, as shown in the analysis below, the Rafah Crossing can serve only as a supplementary trade route for Gaza, its opening for cargo will have a significantly negative impact on the "tunnel trade." As a result, Hamas' economic grip on Gaza may substantially weaken.

The volume of freight movements in and out of Gaza needed to support "normal economic activity" is estimated at over 1,000 truckloads per day in 2010. In the pre-2000 period - prior to the Second Intifada - the total number of daily truckloads of imports and exports averaged at 600-700, with peaks of close to 1,000 trucks in certain periods. From the end of 2000 until June 2007, tougher Israeli restrictions and intensified conflict resulted in a decline to an average of approximately 450 truckloads. In periods of heightened violence even more extreme falls occurred, as shown in Chart 1 below (400-plus import trucks into Gaza, and 30-40 export trucks).

Since Hamas' takeover of Gaza in June 2007, Israel's restrictions on movement and access to Gaza intensified considerably. Exports from

Gaza were practically banned, except for the occasional export of a few truckloads of agricultural cash crops, and only a few items were allowed entry as imports, primarily on a humanitarian basis. The number of import truckloads fell by 95 percent: from above 450/day in the first five months of 2007 to below 20/day in the second half of 2007. Then, it increased to 90-100/day, on average, for 2008, 2009, and the first half of 2010 (except for the most violent periods, when the number of truckloads would drop to as low as 20/50 per day).

At this rate of 90-100 import truckloads/day, Israeli-controlled passages supplied Gaza with less than 10 percent of the imports needed for normal economic activity; and less than one quarter of the greatly suppressed demands of Gaza in the pre-June 2007 period.

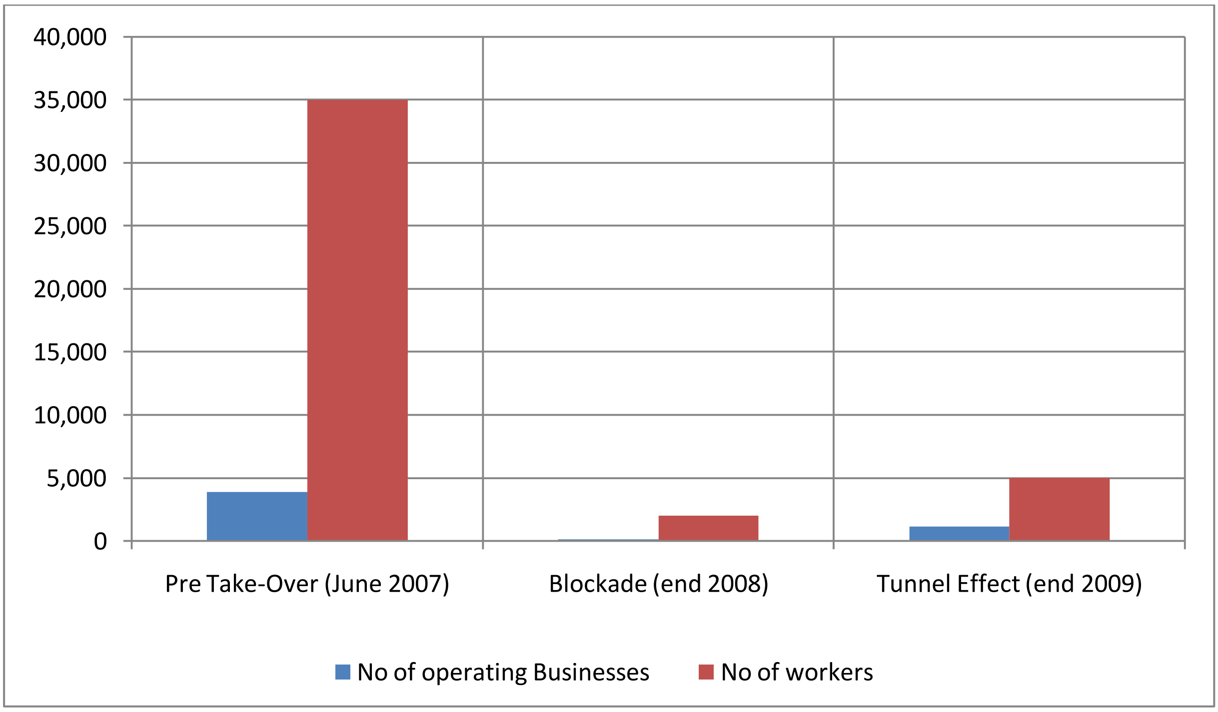
Import of fuel products from Israel was restricted as well. Supply fluctuated considerably from month to month, became highly unreliable, and, in certain periods or for certain fuel products, was entirely stopped. In May 2008, a monitoring report prepared for the World Bank estimated the supply of petrol at slightly more than 10 percent of the needed quantity, diesel fuel at approximately 25 percent, and cooking gas at about 40 percent of the needed quantity.

Chart 1: Freight Movement between Gaza and Israel 1998 – 2010: Daily Average (1) (Number of truckloads – all shipments excluding fuels, through all Israel-Gaza passages)

Note: Daily average - computed by the author from annual / monthly / weekly summaries.

Since the few items allowed for import from Israel included mainly "humanitarian" goods required for supporting the most basic needs of the population, critical inputs needed for industrial and agricultural production and construction have become almost unavailable. The lack of inputs, combined with the ban on exports, devastated Gaza's manufacturing industry. In December 2008, 95 percent of the 3,900 industrial businesses, which had been active in Gaza in 2005 ceased operation, and the number of operating businesses fell to 117. The number of industrial employees fell at a similar rate – from 35,000 in 2005 to only 2,000 by the end of 2008.

Chart 2: Number of Operating Industrial Businesses and Employed Workers in Gaza: 2007 – 2009



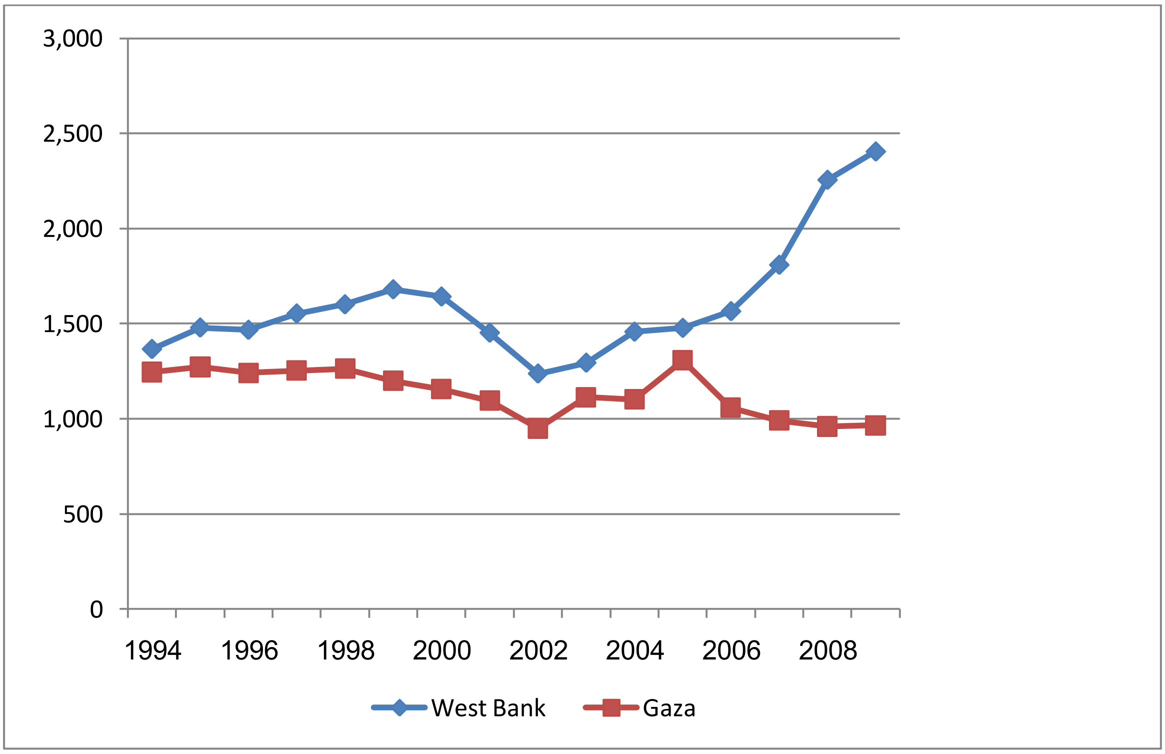
These developments were reflected in a steep fall by one third in Gaza's GDP in real terms, between 2005 and 2009, compared to a 42 percent real growth in the West Bank. GDP per capita dropped accordingly, in contrast to the recovery in the West Bank. The West Bank GDP per capita, which, in 2005, had been only 13 percent larger than the GDP of Gaza, was, by 2009, 2.5 times higher (see Chart 3 below).

The impact on employment was calamitous. More than 100,000 private sector workers lost their jobs – about 70,000 in industry and trade, and tens of thousands in agriculture (mostly self-employed), and in construction. In spite of a few tens of thousands of new jobs supplied by Hamas's armed forces, by 2009, about 40 percent of the workforce was unemployed, and the youth unemployment rate was above 50 percent.

According to the latest poverty survey, the poverty rate in Gaza, after peaking at 50 percent in 2007, fell to 38 percent in 2009. In comparison, that in the West Bank declined from 20 percent in 2007 to 19 percent in 2009. High poverty rates in Gaza have been measured after allowing for humanitarian support from the international community. In fact, international donors took upon themselves the role of supplying the Gaza population with a basic social security net through a host of welfare-supply mechanisms. By the end of 2007, 80 percent of Gaza's families relied on the humanitarian aid of international donors.

Chart 3: Gaza and the West Bank GDP per Capita at Current Prices: 1994 – 2009

(USD)



Note: WB - excluding East Jerusalem; 2009 figures- preliminary.

The Hamas regime has coped quite effectively with Israeli passage restrictions, and succeeded in manipulating these restrictions into a major source of economic power for itself. It responded to the coordinated

Israeli-Egyptian blockade with the development of an extensive tunnel system between the Palestinian side of Rafah and the Egyptian side of Rafah that serves as an alternative route for imports. This tunnel system, which started in the early 2000s as a route for smuggling weapons and explosives from Sinai to Gaza, was "upgraded" by Hamas into a massive trade route. By licensing and registering the tunnels, its infrastructure and labor, as well as licensing and registering the goods imported through the tunnels, Hamas "institutionalized" the "tunnel business" and brought it under its complete control.

Hamas enabled the newly-licensed "tunnel importers" to bring in a myriad of goods, including: construction materials, fuel products, cars and all other consumption imports, with none of the bureaucracy required to navigate the maze of Israeli, PNA and Hamas border controls. It upgraded the electricity grid to power hundreds of hoists, and established a Tunnel Affairs Commission to regulate import growth.

According to the Palestinian Authority's Ministry of National Economy, by the first half of 2010, the number of tunnels in operation was over 1,300; and more than 4,300 different items were imported through this huge system (compared to the 108 "approved" items which were allowed to enter through the Israeli-controlled crossings). As Israel tightened its restrictions on fuel supplies, tunnels provided relief for these essential products, as well; first at four times the Israeli-supplied prices, but soon, via pipelines at a much lower price than the Israeli supplier charged (by smuggling heavily subsidized Egyptian fuel products). By mid-2009, most of petrol and diesel fuel supply in Gaza (used mainly for transportation, and hence considered "unessential products" by Israeli authorities) came from Egypt through the tunnels at a rate as high as 200,000 liters/day. "Essential" fuel products, cooking gas and industrial gasoline (for the Gaza Power Plant), which Israel has continued to supply, were not imported in significant volume through the tunnels.

The tunnel trade has enriched a few new "tunnel owners" and "tunnel traders." It has also fueled a process of major socioeconomic change in Gaza: the accumulation of wealth in the hands of Hamas-supported and Hamas-sponsored businesspersons controlling the tunnel economy.

The legitimate business sector of Gaza, which, historically, had primarily been producing for export to Israel, and had been maintaining the import lifeline from Israel of most products consumed or processed in Gaza, was ruined. Many businesspersons were sinking into impoverishment, together with the workers and family members supported by them. By 2008, most former, private sector workers were pushed into deeper poverty and to dependence on the donor social security net for their daily sustenance. Only Hamas-controlled public sector workers and “tunnel economy” employees were able to support their families and subsidize unemployed relatives.

Most importantly, Hamas has leveraged its control over Gaza’s external trade, through the tunnels, to develop a system of tax income. This includes: import taxes and fees, and custom duties and other import revenues, all of which became the Hamas government's main source of income.

Furthermore, the Palestinian Authority (PA) has continued payment of salaries to most public servants. In actual numbers, the PA funds the salaries of, roughly, 70,000 PA employees in Gaza hired before December 2005 (part of them not actually working), and other on-going public service expenses, at a total of close to USD 1 billion/year.

This huge amount has made the PA's payroll the largest in Gaza, and the most important economic revenue source of Hamas-ruled Gaza. It financed the salaries of most public servants in civilian ministries, municipal councils, and many civilian agencies, which maintain basic public services, as well as running costs of the health and education systems. In effect, the PA's contributions combined with international aid programs have largely released the Hamas government from the the financial burden involved in the maintenance of civilian public services and the welfare needs of Gaza’s poor.

Granted, the aforementioned PA policies and international aid were necessary to prevent an economic meltdown and humanitarian crisis in Gaza. Yet, as a consequence of these policies Hamas was free to use its own financial resources to develop and maintain its own military and internal security forces; as well as finance the salaries of Hamas loyalists positioned in the management level of various ministries, or certain, select, key government activities.

Thanks to Hamas' burgeoning revenues from the tunnel trade, it was able to increase its military and semi-military personnel from 4,000 to 7,000 in 2005, to 35,000 employees in 2009 - among them about 20,000-plus armed personnel. In addition, Hamas has been able to tap into financial resources transferred by the Palestinian Authority and aid agencies for payments to its loyalists and supporters who have replaced Fatah loyalists in government jobs, as well as to thousands of Hamas members, including military personnel with false civilian positions.

Furthermore, Hamas has used its control over military and internal security organizations and agencies to put these forces under its command. As a result, Hamas has effectively added the 10,000-strong "blue" police, and other security organizations to the armed forces under its monopolistic command. Meanwhile, their PA pays their salaries.

The large volume of consumer products imported through the tunnels has brought great relief to the better-off who have the means to purchase more than basic needs products. Moreover, the tunnels supplied the local market with essential products like fuels, construction materials, and other items, which could be sold in relatively large quantities in Gaza. These imports enabled normal functioning of transportation; and limited revival of trade, construction, and certain other economic activities.

The productive sectors, however, could benefit from this supply route only to a very limited degree, as tunnel traders were unable to serve the industrialists' requirements for specific raw materials, semi-finished items, and other inputs needed for production processes. Hence, as shown in Chart 2 above, some of the industrial businesses resumed operation in 2009 thanks to the tunnel system of import. While the number of operating businesses grew significantly, most of them were working at only 10 to 20 percent of capacity.

Since July 2010, Israel has lifted some restrictions on imports of consumer goods, as well as inputs for donor-supervised public investment and reconstruction projects. However, the new policy maintains most restrictions on exports, as well as restrictions on non-donor and private sector imports of capital goods, raw materials, and inputs classified as "dual-use" items, including construction materials and other investment inputs (according to a "negative list" of prohibited items).

The new Israeli passage policy has enhanced trade and economic activity. In the wake of the new policy, the number of import truckloads into Gaza increased by about two-thirds, about 160 truckloads/day in the second half of 2010. Nevertheless, after the initial leap that followed the mid-2010 policy change, monthly data for the last quarter of 2010 and the first months of 2011 show no added increase. This new level of around 160 truckloads/day, from July 2010, is less than 40 percent of the pre-June 2007 average. This is explained mainly by the prohibition on the import of construction materials, raw materials, and other inputs to the private sector. These prohibited items accounted for nearly two-thirds of import shipments to Gaza in the pre-June 2007 period.

In spite of the limited scope of Israel's policy change in mid-2010, a study of Gaza's business sector found that the partial easing of economic restrictions has had immediate and significant effect on business activity. Average sales increased by 27 percent from June 2010 to January 2011; and reported capacity utilization grew from 34 to 40 percent. This impressive positive trend was also reflected in a 15 percent hike in real GDP, in 2010, as shown in Chart 4 below.

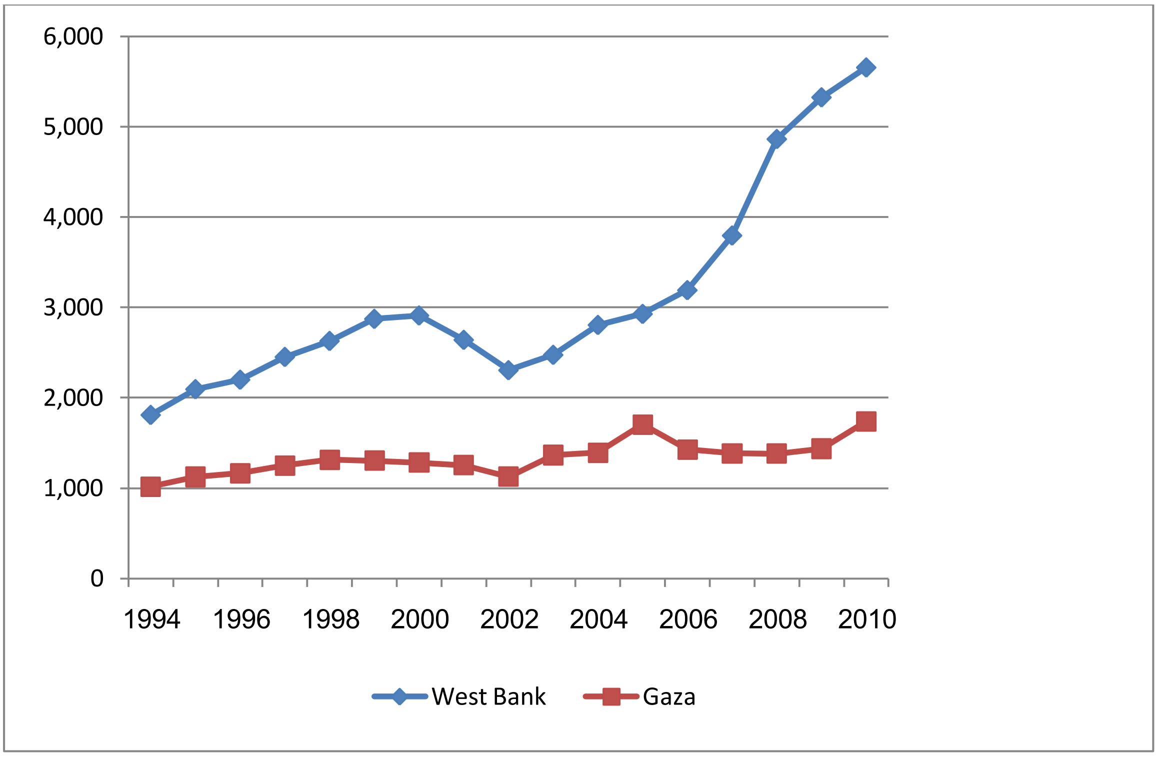
However, growth concentrated in sectors that sell mainly to the local market in Gaza (such as food products), reflecting enhanced production attributed to the entry of raw materials from Israel. Export-oriented industrial sectors (garments, etc.) have shown negative growth, as the Israeli ban on export was not removed. On the other hand, the local market in Gaza has been opened to competitive imports from and through Israel. Hence, the survey found that, in spite of the remarkable improvement, industrial sales in January 2011 were only 58 percent of the sales levels in 2005; mirroring mainly the effect of the continued ban on exports. The survey found that, according to Gaza's industrialists, the impact of opening the passages for export from Gaza to Israel and the

West Bank is predicted to yield a 60 percent increase in sales, and more than a 50 percent increase in employment.

All in all, the change in Israeli policy, since June 2010, has affected, positively and significantly, the legitimate private sector industrialists and traders, enabling them to compete with the tunnel traders. Nevertheless, only if free and continuous supply of inputs and raw materials is allowed, in addition to lifting the ban on exports, a viable recovery process for the legitimate private sector business operation will be able to take place.

Chart 4: Gaza and the West Bank GDP at Current Prices: 1994 – 2010

(USD millions)



Note: WB - excluding East Jerusalem; 2009-2010 figures- preliminary

According to some reports, tunnel trade has been reduced since June 2010. However, since import volumes through the legitimate Gaza-Israel crossings are much below local demand, and Israel still prohibits import of capital goods, raw materials and inputs, there is still much space for the tunnel business. Moreover, tunnel traders effectively compete with Israel's imports of diesel fuel, petrol and various consumer goods, which they smuggle in at lower prices from Egypt.

The June 2010 change in Israeli policy had little effect on both the fundamentals of Gaza's economy under Hamas, and its control over the economy and the use of this power to maintain its grip on Gaza.

This may change through the combined effect of the following possible developments:

a) A series of steps, agreed upon in February 2011 between the Quartet Representative and Israel, that will further normalize economic conditions in Gaza, focusing on gradual expansion of exports from Gaza, and continued easing of restrictions on import of inputs into Gaza. (It should be noted that imports into Gaza through legitimate crossings are taxed by Israel on behalf of the PA, and import revenues go to the PA; while imports through the tunnels are "taxed" by Hamas).
b) The opening of the Rafah Crossing by Egypt to movement of cargo, if approved by Egypt, will reduce smuggling of goods from Egypt to Gaza through the tunnels. Egypt has an interest in restricting the smuggling of heavily-subsidized fuels, or heavily-taxed products like cigarettes, which contribute tremendously to Hamas's revenues from the tunnel trade, at the expense of the Egyptian treasury.

The combined effect of these two changes, if implemented, would significantly reduce Hamas's income from the tunnel trade; and, in turn, would weaken its economic power and limit its financial abilities. As a result, Hamas will face more difficulties in financing and maintaining its present military and security forces, as well as its other military expenditures.

This article is based on a research prepared for the Peres Center for Peace.

For the previous issue of Iqtisadi, Press here.