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The Economics of the Gaza Situation: A Crucial Element in the Conflict and the Resolution

Eran Yashiv

Even in changing regional circumstances, Hamas has consistently demonstrated resolute persistence in its struggle against Israel. The most recent round of fighting between Israel and Hamas, which erupted following the abduction and murder of the three teenagers; IDF actions in Operation Brother's Keeper, including the arrest of some of those released in the Shalit deal; and the revenge murder of the Arab youth occurred in an already tense environment. At the same time, the economics of the Gaza Strip has been a critical element in the events of the past month, and therefore, it is likewise a crucial piece of any lasting resolution.

The Economic Situation in Gaza on the Eve of the Campaign

The Gaza population numbers 1.76 million people, with some 4,800 people per square kilometer, the third highest population density in the world. The infrastructures in Gaza are in poor condition and thus even in normal times there are rampant problems, particularly with electricity, water, and sewage systems. Power outages of 7-8 hours, for example, are a regular occurrence. In addition, unemployment is high: approximately 41 percent of those 15 or over were unemployed in the first quarter of 2014, as opposed to 26 percent in the West Bank. Among young people in the 15 to 29 age bracket, only 39 percent are in the work force. Of these, 32 percent are employed, 10 percent are underemployed, and 58 percent are unemployed. The corresponding figures for the West Bank are 42 percent participation, with 63 percent of these employed, 9 percent underemployed, and 29 percent unemployed.

Under these conditions, there is no possibility of production on a significant scale. According to World Bank statistics, the per capita GDP in Gaza is some $1,500-1,600 a year, versus some $3,100-3,200 in the West Bank. On a worldwide scale, Gaza ranks 174 out of 223 countries. Israel, which is ranked 32 on this scale, has a GDP of some $36,000 per capita (all of these figures are at market prices).

The poverty statistics follow from the above: The incidence of poverty is 39 percent (as compared to 18 percent in the West Bank), and the poverty line is 2,293 shekels per month for a five-person household. The incidence of acute poverty is 21 percent (compared to 8 percent in the West Bank), with the poverty line 1,832 shekels a month. Clearly with the per capita income of 400 shekels a month (about $4 a day), the standard of living is generally very low.

The Economic Situation as Motivation for War

Often economic hardship pushes nations toward military conflict or other aggression. In Gaza, the already grave economic situation deteriorated recently following the change in government in Egypt, the new government's regulations on border crossings and operations against the tunnels (which have been a "natural" response to the state of economic isolation) and stricter restrictions imposed by Israel. Indeed, Gaza is subject to a serious regime of economic sanctions imposed by Egypt and Israel. Moreover, there has been a decline in financial support for Hamas from Iran and Syria, and this has made it difficult for the government in Gaza to pay public sector salaries.

Hamas demands that a ceasefire is conditioned on lifting the siege of Gaza – demands also sounded in the negotiations with Fatah on the reconciliation government – must be seen in light of the economic plight in Gaza. It is possible that Israeli measures that intensified the deterioration of the economic situation and the lack of proactive solutions are policy errors.

The Role of Demography

The population in Gaza is young: the median age is seventeen, and three-fourths of the population is under 29. Most of the population has experienced Gaza solely as an economic backwater and a place of conflict with Israel. On the eve of the first intifada, which erupted nearly 27 years ago, more than 50 percent of the men in Gaza who were employed worked in Israel; this was an important source of income for the Gazan economy. The several bloody conflicts since then – the second intifada, Operation Cast Lead, and Operation Pillar of Defense, as well as the legacy of the Second Lebanon War – undermine efforts to lower the intensity of the conflict and achieve peace, given the cumulative impression these events have made on the young population.

Proposals for a Viable Solution

Any viable, long term solution necessarily involves a significant improvement in the economic situation. If Gazans have something to lose, their willingness to engage in conflict will be greatly diminished. Economic prosperity may well also decrease the power of Hamas and other Islamic movements.

Gaza has economic possibilities: development of tourism along the coast, development of services (including entry into hi tech, like Israeli Arabs in the north), and production of natural gas (since a significant maritime gas field was discovered in 1999). In the short and medium term, large investments and employment of workers can be directed to developing physical infrastructures and public services.

However, a fundamental change in the economic situation means a real improvement, not just the siege lifted and some border crossings opened. Small steps will not achieve the real objective and in the long run will make matters worse. New international mechanisms, not under Hamas or Israel auspices, must be established to implement the change. These mechanisms require agreement by a number of states and international bodies to mobilize seriously for the task. This means establishing dedicated agencies with manpower and professional know-how. If a framework is not spelled out concretely, any measures will dissolve and the necessary change will not take place.

To this end, the following elements are required:
International intervention: The parties generally active in the region cannot set the tone. Only an international framework that will ensure quiet and provide the necessary expertise will make possible the fundamental change required.

Infrastructure construction and restoration: The ruins of July-August 2014 should be addressed as well as the restoration and construction of infrastructures. An international agency, such as the World Bank, can set up a task force that will review the situation and set priorities over time. Within three years after work is begun, Gaza can be expected to be in reasonable shape in terms of economic infrastructures, and within 6-8 years, in good shape. This can be done, inter alia, by employing local unemployed workers. It is very important for this mechanism to be under international control, to make use of outside experts, and to publish progress reports clearly and transparently. This will promote the change in mindset that is necessary for economic advancement in the Gaza Strip. Beyond the cost of reconstructing houses and buildings that were destroyed, an investment in infrastructures of $800 million-$1 billion is needed in each of the next three years, as well as an investment of some half a billion dollars per year for 3-5 years thereafter. A positive step would be to rebuild destroyed houses and buildings so that they are of a higher standard than they were prior to their destruction. Such an action could lead to a great change in the support of the population for economic development.

Funding to advance Gaza’s economy will come from Arab states and from wealthy Western countries. It is important to have a variety of donor countries in order to diversify the risks of funding. Initially, this can be done by means of an emergency fund managed by the World Bank. In the medium and long term, a specific bank can be established for the development of Gaza using the format for such institutions around the world, like those established in Eastern Europe in the 1990s after the fall of the Soviet Union.

Oversight of inputs: A key issue in Israeli policy is the fear that material reaching Gaza will be exploited for military purposes. This fear was realized, even during the Israeli siege, when building materials were used to produce dozens of terror tunnels. This issue, however, is resolvable. The World Bank and other institutions have not infrequently discovered that aid reaches corrupt rulers or interest groups rather than its intended recipients. As a result, mechanisms have been developed for transferring economic aid, generally in the form of direct transfer to recipients, with receipt of the aid made conditional on the stages of progress in the project. Regarding Gaza as well, such methods can be used through moderate Arab officials and international agencies.

Security: These measures cannot be implemented if there is continued violence. An international police force can be of great assistance in the early years, particularly if it cooperates with the mechanisms mentioned above, for example, with the World Bank's task force.

Actions by Palestinian Prime Minister Fayyad in the West Bank between 2007 and 2013 are proof that there can be significant economic progress when professionals lead the processes. The idea that economic advancement prevents war is rooted in Europe and was successfully applied in the second half of the twentieth century after two world wars in the first half of the century. The converse is also true: economic hardship often leads to conflict and to bloodshed.