

# Economics and Politics in the Israeli Palestinian Conflict



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# **Some Economic Aspects of the Reconstruction of Gaza**

**The AIX Group**  
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## Executive Summary

This paper suggests that the effort of the reconstruction of Gaza should be supplemented by a number of measures that would enable the people of Gaza not only to rebuild their destroyed homes, but also to rebuild their destroyed economy. We show based on various studies, that the main reason for the economic decline of Gaza has been the siege policy that closed the Gaza strip almost completely since 2006. Hence, we suggest that the required immediate steps for economic recovery should be opening Gaza to movement of people and goods. These are mainly three measures. The first is to reopen the 'Safe Passage' from Gaza to the West Bank, which will operate by convoys. The second is to begin a gradual improvement of the Gaza port and to continue to a commercial port. The third is to rebuild the Gaza International Airport. All three measures were agreed in the past between Israel and the Palestinians, and implemented for limited periods of time. The paper then discusses the various security risks that these measures might create and how they can be dealt with. Finally the paper discusses the political concerns with respect to the opening of Gaza, which might appear as a concession to Hamas. It claims that since the siege policy failed, it should be stopped, since it is a harmful policy that punishes a large population and makes it hostile and radical. The paper also claims that opening Gaza in an agreement between Israel and the Unity Government might even weaken Hamas.

## 1. Introduction

Gaza suffered severe damage during the summer of 2014. To that we should add some of the destructions inflicted on Gaza during the wars of 2009 and in 2012, which have not been repaired yet. As a result, the need for an urgent thorough reconstruction for Gaza is obvious and recognized by almost everyone. A testimony for that has been the conference of many countries (more than 50) and international organizations in Cairo in October 2014 showed a wide support for this reconstruction and even committed to contribute \$5 billion to fund the reconstruction. The main decision of the conference was that the reconstruction will be led and implemented mainly by the Government of Palestine, and will be supported by the UN, which plays a prominent role in the Gaza Strip, mainly through UNRWA. In this document, we focus on some important additions to the reconstruction efforts, which will improve the economic situation. This will help the people of Gaza not only to reconstruct their houses, but also to rebuild their standard of living, which has been significantly deteriorated over the past twenty years of economic stagnation.

Our argument is based on three main steps. First, we claim, and support this claim by evidence, that the economic decline of income in Gaza has been caused mainly because of the closing of Gaza. Next, we suggest that the reconstruction should be complemented along with opening Gaza to mobility of people and goods. Accordingly, that should be done by renewing the 'Safe Passage' between Gaza strip and the West Bank through convoys, by rebuilding and operating the International Airport of Gaza, and by developing the Sea-Port of Gaza. In addition, to these three measures there is an urgent need to rebuild and even upgrade the infrastructure of Gaza, namely electricity, water and sewage. This renovation is part of the current reconstruction plan, but we think that it should be further expanded, not only to serve the population, but also to serve potential future economic development. Finally, our report addresses the potential political and security concerns.

Our call to accompany the reconstruction of Gaza by opening it for mobility of people and goods might raise many potential disagreements. We will deal with them in detail in the document, but we will outline the main points here.

1. Some Israelis may claim that opening Gaza will make it easier to enter weapons to Gaza strip and thus will be a continuous security threat to Israelis. We believe that after almost ten years of the full siege policy since 2006, it is quite clear that this policy has failed. During the siege period arms kept entering Gaza and the Hamas regime did not collapse. The siege did not give security to Israel, on the contrary. Violence broke out again and again, with increasing frequency and intensity. The last round has taken 2,200 Palestinian lives and 70 Israeli lives, more than ever before on both sides. The siege policy failed and it is time to consider a different new strategy.

2. We claim that opening Gaza is not going to increase security risks, but might even reduce them, as it will decrease the feeling of Gazans that they are living in a big jail. Furthermore, the security issues of opening Gaza can be dealt with using specific measures. All the steps we suggest were agreed upon between Israel and the Palestinians in the past and operated for some time. These security arrangements did not fail per se, but were interrupted as punishments for the Palestinians on unrelated events, like violence elsewhere, or the election of Hamas, or just as a way to exert pressure.

3. Some may claim that the budgets for reconstruction should go just to rebuild homes, schools and hospitals and not to reconstruct airport and port. However, we maintain that these latter costs are relatively low. We believe that people in Gaza strip need reintegration to the world, jobs, and decent living beside their residences.

4. Others might claim that opening Gaza strip has been the demand of Hamas for a long time and thus our proposal might benefit the Hamas, who is an enemy of the Two-States-Solution. This is of course a problematic argument. One should not oppose any good measure just because it is demanded by Hamas. Furthermore, opening Gaza should be done by the Compromise Unity Government of Palestine in an agreement with Israel, as otherwise it cannot be implemented. If such an opening will happen, it will strengthen the support for peace and coexistence, not weaken them.

5. Others might claim that what we suggest brings us back to the well-known myth of 'Economic Peace,' which is supposed to reduce current suffering and help postponing the political peace for a long time. The AIX Group is a solid supporter of the two-states-solution and of reaching it soon, not in the far future. But, we also think that reaching peace and Palestinian self-determination, should not be preconditions or stand in contradiction to the well-being of the people of Gaza. Furthermore, we don't think the Palestinian economy, in the West Bank and in Gaza, will enjoy sustainable development if there is no agreement in the horizon. Investors will not invest their money if they don't expect freedom as well as economic sovereignty soon. Our analysis therefore views the concept of 'economic peace' as wrong and we reject it. Hence, the measures we propose, should be viewed as first aid and not as a long-run solution. They cannot improve significantly the economic situation if they are accompanied by serious progress toward a final peace agreement.

The paper is constructed as follows. Section 2 describes briefly the history of Gaza and its economy. Section 3 tackles the argument that closing Gaza had a significant role in causing its economic decline. Section 4 describes the required measures to open Gaza and to repair and improve its infrastructure. Section 5 discusses the required ceasefire agreement. Section 6 deals with the security concerns. Section 7 deals with political concerns, and finally Section 8 concludes.

## 2. History of Gaza: Economics and Politics

In 1947, the Gaza Strip was mainly an agricultural area, with a population of around 75,000 people who live in an area of less than 370 square km (around 150 square miles). During the 1948 war, the population increased three times up to 225,000, due to many refugees who fled from the southern shore region and from the Beer Sheba area.<sup>1</sup> From the year 1949 to the year 1967, the Gaza Strip was under Egyptian control with a special status. Economic data from those days are scarce, as stressed by Gharaibeh (1985), but clearly the demographic changes of 1948 had huge impact that transformed the population from farmers (fellahin) to mainly wage earners. The economic situation in Gaza during the Egyptian period was harsh. The rate of unemployment was close to a third. Of the employed, a third worked in the public sector and

1. For a comprehensive history of Gaza see Filiu, (2014), Gaza: A History.



a third in agriculture and salaries were very low. Since 1949, UNRWA has been responsible for the refugees' housing, education, health and basic welfare. Thus, it became a central player in the public sector in Gaza. The first census in Gaza since 1948 was conducted under the Israeli military occupation in September 1967, and according to it, 350 thousand people lived in Gaza then, of which 200 thousands were refugees.

In the first two years, after 1967, the Israeli government made some decisions that shaped the economic dynamics in Gaza for a long period and to some extent until today.<sup>2</sup> The main decision was to enable Palestinians to work in Israel. A second decision, though less formal, was to deter investments in Gaza and in the Palestinian territory in general, in order to support purchase of Israeli goods. The resulting weakness of the local labor market in Gaza pushed Palestinians to seek work in Israel in large numbers. By the mid-of 1970s, third of employed Gazans worked in Israel and by the mid of -1980s more than 45%. These policies made Israel the major trading partner with Gaza. Its trade deficit (excluding remittances from work in Israel, formally called Factor Income from Abroad, FIA) became very high. The average trade deficit of Gaza during the years 1968-1987 was 68 percent of GDP, and 64 percent during the years 1988-1993. FIA financed 55 percent of the trade deficit from the year 1973 to 1987.

Following the first Intifada, which started in Gaza in December 1987, exports, imports and labor flows began to decrease.<sup>3</sup> But from 1991, this process intensifies as a result of a gradual closing of Gaza from Israel and from the West Bank, through closures and similar measures of separation. It began with the long closure of the Palestinian territory during the Gulf War of 1991, and it gathered momentum later with more closures over time until reaching full siege in 2006.

The Oslo Accord was signed in September 1993, followed by the Gaza-Jericho agreement in 1994 and its extension to the West Bank in 1995. These agreements raised dramatic hopes for rapid economic development in Palestine. The results have been very disappointing. Real GDP per capita in Gaza has grown from 1997 to 2013 at an average rate of 0.0 percent.<sup>4</sup> But, the picture has been much worse, since in the 1990s many Gazans worked in Israel, while since 2005 no one works in Israel. So, income per capita has dropped significantly. Since many of these workers now work in Gaza, it means that GDP per worker is much lower in Gaza now than in the mid 1990s. Indeed, we find in AIX (2015) that GDP per worker declined between 1995 and 2013 at an average annual rate of 3.4 percent. This was a huge decline in labor productivity.

The economic decline in Gaza was manifested not only in output, but in employment and income, while poverty rates soared. The total population of Gaza by mid-2014 was 1.76 million with 43.1 percent below the age 14 and 30 percent in ages 15-29. Approximately 68 percent of the people of Gaza are refugees. Employment was estimated at 449,500 in 2014 and the unemployment rate reached 44.5 percent. Youth unemployment, for age group from 15-24 was 57.2 percent in 2013, while for young women it was 86.3 percent. Of the 128,700 unemployed in Gaza in 2013, 80% were under the age of 35 years and 42 percent under the age of 25. Woman's situation in the labor market has been especially dismal. While less than 19 percent of the employed are woman, 31 percent of the unemployed are woman. To add to the frustration, the unemployed in Gaza have relatively high levels of educational attainment, especially women. 63 percent of unemployed men and 98 percent of unemployed women had 10 or more years

2 See a full description in Arnon et al (1997) and Arnon (2007).

3 See ICBS (1996) and Arnon et al (1997).

4 See AIX (2015).

of schooling on average in 2013. Of the employed, 40.7 percent worked in the public sector in 2014. This includes employees of the Palestinian Authority and of the Hamas government. By contrast, public sector employment in the West Bank accounted for only 15.6 percent in 2014. Note that some of the private employers, like UNRWA, are actually suppliers of public services as well.

Unemployment and general economic decline have real wages by 21.4 percent since 2005. The median monthly wage in Gaza in 2013 is about \$328.4, which is 18.3 percent below the legal monthly minimum wage in Palestine of \$375. More than 67 percent of the private sector wage employees in Gaza earned less than the minimum wage in 2013. Falling incomes have increased poverty dramatically. The estimated 2011 poverty lines for a household of two adults, and three children were \$637 in monthly household consumption, and the deep poverty line was \$509. PCBS estimated that 38.8 percent of people in Gaza consumed below the poverty line in 2013 and 21.1 percent consumed below the deep poverty line that year. This long process of increasing poverty, implies that Gaza's recovery and reconstruction must address not only the immediate impact of the war and the destruction it inflicted on Gaza, but also the reasons that led to the deterioration of the economy of Gaza prior to the war.

### 3. The Causes of the Economic Decline of Gaza

A recent study of AIX (2015), which tries to understand the lack of economic development in Palestine since 1993, has come to the conclusion that it can be attributed mainly to two types of obstacles imposed by the occupation regime. First, there are obstacles regarding mobility of goods and people, caused by checkpoints, walls, fences, siege and similar measures. These obstacles raise the cost of transportation and as a result, they reduce total factor productivity (TFP), which in turn reduces the output. Second, there are obstacles regarding investment, which can be either administrative or a result of the high risk due to the frequent outbursts of hostilities, and both deter investments. These obstacles have been much harsher in Gaza than in the West Bank. Gaza has become completely closed for labor in Israel already since the disengagement in 2005 and became under siege for people and commodities since 2006, just after Hamas won the election. The famous tunnel system that transported goods to and from Egypt, had limited capacity and was also very costly, so it did not change the siege in a significant way. In addition to the siege, the risks facing Gaza have been higher than the risks in the West Bank, especially in the last ten years, when Gaza went through a number of military confrontations, with increasing intensity, in 2006, 2009, 2012 and recently in 2014. These clashes caused increasing destruction and further deterred investment. These risks were amplified by the lack of hope for a political solution.

#### 3.1. The Siege and its Economic Effects

The 2008 World Bank Report "An Analysis of the Economic Restrictions Confronting the West Bank and Gaza" stated that the Israeli-imposed restrictions on mobility "extend to a system of physical, institutional and administrative restrictions that form an 'impermeable barrier' against the realization of Palestinian economic potential." That conclusion remains valid until today. The following list of the gates of Gaza makes this point clear:

**Beit Hanoun:** The only crossing for workers and traders with valid permits to enter Israel. Currently, the crossing is used by very few Palestinians, who can obtain permits to leave Gaza,

mainly for humanitarian reasons (like medical treatment), family visits, and by the staff of international organizations that provide humanitarian assistance to the Gaza Strip.

**Al-Montar (Erez):** This used to be commercial crossing in Gaza for goods and workers in the past. Al-Montar (Erez) crossing is closed since 11 June 2007. Its grain conveyor is closed since March 2011. Its cement lane has been completely closed since 29 October 2008.

**Sufa:** In the past, this crossing was open for some Palestinians who worked in agriculture. Since May 2004 the crossing was used only for importing construction materials, mainly gravel. Sufa crossing has been closed since September 2008 (exceptionally opened in March and April 2011).

**Nahal Oz:** Nahal Oz is a small crossing, and was used for importing fuel. It is closed since January 2010.

**Karm Abu Salem (Kerem Shalom):** This Crossing is located in the southern Gaza Strip, near the Israeli-Palestinian-Egyptian border. It operates since March 22, 2006 as a small and temporary crossing when Al Muntar (Erez) was closed. Now it is the only operational commercial crossing between Gaza and Israel. Only authorized imports and exports pass.

**Rafah:** This is a passengers' crossing between Gaza and Egypt that was severely limited during the Mubarak years. Since June 2013 it is limited again and open for medical and humanitarian cases only. In exceptional cases, the Egyptian authorities allow import of construction materials for the Qatari projects, but this has recently stopped.

The systematic constraints on mobility are clearly shown in the volumes of imports and exports as well. Since 1997, the number of imported truckloads to Gaza has decreased by 70%. In 1997, 119,000 trucks entered Gaza, while in 2014 this number was down to 36,419 trucks.<sup>5</sup> Of the goods imported, 51% came from Israel and 14% from the West Bank. The exports from Gaza experienced a far greater reduction. In 2014 only 84 trucks left Gaza with goods for export compared to 19,151 trucks in 1997. Indeed, during the seven years, from 2008 to 2014, only 951 trucks crossed the border from Gaza to Israel, mainly with agricultural produce.

These restrictions on mobility, contributed much to the economic decline of Gaza. In AIX (2015), we show that, between the years 2006 and 2008, the beginning years of the siege, labor productivity in Gaza declined by around 30 percent. A recent paper by Etkes and Zimring (2015) calculates the welfare decline in Gaza as a result of the siege. They use for this calculation mainly data on consumption. They find that, welfare in Gaza declined by more than 20%. They also identify a large decline in labor productivity and changes in allocation as well. For example, many workers have moved from manufacturing to services as a result of the siege. Another study, ARIJ (2011), estimated the economic cost of the siege on Gaza between 2007 and 2010 by \$1.9 billion, which is a quarter of total Palestinian GDP.

The siege also has a major impact on water supply and electricity production. According to a World Bank report, approximately 50% of households by the end of 2008 had no access to pipe water supply due to damages incurred by Israeli bombings during "Operation Cast Lead" in

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<sup>5</sup> The data in this section are mainly from Paltrade (2015).

December, 2008. These damages were never fixed, due to restrictions on the entry of various construction materials. Also, most water wells stopped working because of lack of spares for pumps, due to the blockade. Additionally, the power plant in Gaza was highly damaged by Israeli bombing at 2008, and is still suffering from the lack of spare parts and a shortage of diesel fuel which is imported from Israel, and is also restricted by the blockade. The severe fuel and electricity shortages have resulted in outages of up to 12 hours a day (UNOCHA, 2012). Gaza firms have reported estimated losses of 22 percent of sales caused by 232 hours of power outages on average each month (World Bank, 2014).

As a result of the above analysis, we reach a clear conclusion, which is that any economic improvement in Gaza, requires an immediate lifting of the siege and opening Gaza to movement of people and goods. This dramatic change in the policy of Israel toward Gaza is detailed below, we also discuss in length its security and political implications in the following sections of this paper.

### **3.2. The Impact of the Military Operations**

As explained above, the economic losses of Gaza were inflicted not only by the siege, but also by the repeated military confrontations. Those have caused immense direct damage to capital and infrastructure, and have also had an indirect effect by deterring investments. Next, we turn to a more detailed description of the recent three bursts of violence, Operation Cast Lead in 2008-2009, Operation Pillar of Defense in 2012 and Operation Protective Edge in 2014, which can actually be described as a war. Most of the damages caused by these military confrontations, even before 2014, has not been repaired yet.

#### **Operation Cast Lead:**

This military operation lasted from December 27, 2008 to January 18, 2009. It resulted with 1,440 Palestinians killed, 5,380 wounded and more than 100,000 displaced. According to the Palestinian Authority, 4,036 housing units were destroyed and a further 11,514 were partially damaged. More than 700 commercial, industrial and service businesses sustained direct damage, and 268 were totally destroyed. The sector that suffered most was industry, in particular construction, food processing and metal.

#### **Operation Pillar of Defence:**

This military operation lasted 8 days in November 2012 and resulted with 133 Palestinians killed and 840 wounded. The damage assessment conducted by the Islamic Development Bank found that 559 enterprises were affected, and estimated the loss in assets by \$13.7 million. The most damaged industrial sectors were metal, wood and furniture, and paper.

#### **The 2014 War:**

Operation Protective Edge, which lasted from mid June to mid August 2014, was the longest and the most devastating military operation on Gaza since 1967. During 51 days, 2,145 people were killed, of which 1,523 are believed to be civilians, including 581 children. According to UNOCHA, approximately 490,000 people, which is more than a fourth of the population, were displaced from their homes and 60,000 homes were destroyed.

We next turn to describe the economical damages of the war:

1. The agriculture sector in Gaza Strip is limited due to lack of land in this densely populated area, which is further intensified by access restrictions to areas designated as buffer zones with Israel. The sector consists of orchards, fruit plantations, oil producing palm trees, vegetables and other legumes, animal farming, cattle herding, poultry and offshore fishing. Total losses inflicted by the war on agriculture were estimated to be \$550 million.<sup>6</sup> This does not include future lost production due to destroyed orchards and plantations that take several years to repair. The losses and damages to plant infrastructure were 200 million USD, to animal production infrastructure \$81 million, to irrigation and to soil (hit area of 34 square kilometers) 68 million USD, and the opportunity costs were around \$200 million.

2. The tourism sector in Gaza has experienced some rise after the 2008-2009 war, despite the siege, with 45 new facilities and an improvement in quality of services at hotels, restaurants, and resorts. This was mainly for local tourism, but also for foreign visitors, international delegations, journalists, and solidarity campaigns that increased sharply. The damage to this sector was not severe, only \$3 million, since most tourism facilities are located in the west of Gaza, while the war was concentrated in its east side.

3. The ICT sector in Gaza has much potential due to the high education levels of the population and also because it enables exports without crossing borders. According to PCBS (2011), 46.5% of the households in Gaza have a computer, 30% are connected to the Internet and 94.7% have mobile phones. The Ministry of Telecommunication and PITA (Palestinian Information Telecommunication Association of Companies) have conducted damage assessment for the ICT sector that includes both direct and indirect damages. According to this assessment, the losses to telecommunications infrastructure and to the ITC sector exceeded 34 million USD, 92 percent of which in infrastructure.

4. The war of 2014 had a significant effect on unemployment as well. According to ILO figures the rate of unemployment increased significantly, as 6.4 percent of the previously employed in Gaza lost their jobs. This had created larger social costs that added to the direct economic costs. We can add to that other social costs, as a result of scarcity of water, energy, food, and shelter. Up to 30% of water and sewage networks were damaged, and only 50% of waste-water is now treated. A large number of 450,000 people, do not have access to municipal water. The damage resulting from the war only compounds the difficult living conditions that already existed in Gaza previously. When discussing the social conditions in Gaza, it is important to note the high resilience of people in Gaza, who survive terrible conditions, which only become worse over time. But this resilience has a negative impact as well, since people who become used to live in such abnormal conditions might lose the ability to live differently, or even believe that different life is possible.

This section therefore shows that the economic decline in Gaza was a result of two main factors. The first is the closing of Gaza, which reduces productivity and output significantly. The other was the increasing of military risk, which deters investment and thus further reduces output. Therefore, we conclude that the way out from this trap is to open Gaza to mobility and to solidify the ceasefire agreement. These recommendations are discussed in the following sections.

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6 Source: Ministry of Agriculture, Palestinian Authority.

## 4. Required Steps to Economic Recovery

It is important to stress that our specific suggestions do not replace in any way the reconstruction plan made by the Palestinian Unity Government. We only add two types of measures. One, in Sub-Sections 4.1 and 4.2, consists of improvements in the infrastructure system, mainly to make it more resilient to potential future waves of violence. The second, which is described in Sub-Sections 4.3-4.5, consists of all measures that are needed to open the Gaza economy to mobility of people and goods.

### 4.1 Reconstructing and Improving Electricity Supply

There are three sources of electricity for Gaza: Israeli imported electricity (120 MW) from the Israeli Electricity Company (IEC); imports from Egypt (32 MW) and the Gaza Power Plant (GPP) which had as a capacity of 140MW until it was damaged by Israel in 2006. Before the recent war, GPP provided 30-60 MW, depending on the availability of diesel. The total consumption of electricity in Gaza was in the range of 182 to 212 MW before the recent conflict. Also, some 30 percent of the electricity was wasted due to inadequate distribution equipment. The overall damage to the electricity network in the war of 2014 was assessed to be \$ 42.5 million, not including damage to the Gaza Power Plant and other sources of local electricity generation.

The overall total financing required to recover full electricity supply to Gaza, including repair and increasing generation capacity, is estimated by the PA to be 180 million USD.<sup>7</sup> In the words of the Palestinian Recovery Plan for Gaza: “planned early recovery will see the restoration of the main power lines for supply from Israel and the provision of electrical materials to repair networks. These plans are estimated to cost \$32 million during the early recovery stage and \$153 million during the reconstruction stage, which should bring Gaza’s energy infrastructure to better terms than the previous status quo.”<sup>8</sup>

The shortage of electricity has a severe impact on the Palestinian economy and on the humanitarian and environmental situation in Gaza. The World Bank began in 2012 a project for Gaza Electricity Network Rehabilitation. Until October 2014, it had some achievements: new distribution and transmission lines were constructed, pre-paid meters were purchased and tariff collection increased.<sup>9</sup> The 2014 war set back these achievements. According to the World Bank, the reconstruction of the electric system can have the following benefits:

- Currently 190,000 people, 97 water pumping stations, nine hospitals/clinics and 950 commercial consumers are not connected to electricity and would be re-connected.
- Around 1.8 million people currently receive only six hours of electricity per day in areas where distribution infrastructure was not hurt. For them the reliability of electricity supply will be improved.
- Basic humanitarian services providers, who rely on electricity like hospitals, water supply and waste-water treatment plants, will improve their services.
- Gaza Electric Company (GEDCO) has lost all equipment and materials required to repair and maintain the electricity system, due to the destruction of the GEDCO warehouse. The reconstruction should improve its functioning.

<sup>7</sup> See World Bank (2014), Report No: PAD1143.

<sup>8</sup> Palestinian National and Early Recovery Plan for Gaza, Oct. 2014

<sup>9</sup> See International Development Association Project Paper on a proposed additional grant from the trust fund for Gaza and West Bank in the amount of US\$15 million for the Gaza Electricity Network Rehabilitation Project. Report no: PAD1143, October 17, 2014.

- Furthermore, hiring locals for this reconstruction will provide them with technical experience and skills required for sustained maintenance and expansion of the electricity networks in Gaza, and raise specific human capital. It would also contribute indirectly through improved electricity to the economy.<sup>10</sup>

In general we believe that the 2014 plans of the Palestinian Unity Government for reconstruction of the electricity system are sound. We only suggest that they should examine the possibility of putting as many lines as possible underground, to make them less vulnerable to war activities.

## **4.2 The Water Crisis and the Need for Infrastructure Rehabilitation**

According to a World Bank 2012 Report, the water situation in Gaza has been acute already then. It finds that 95 percent of the water demand in Gaza is supplied by the Gaza aquifer. It also states that “the over-drafting of the aquifer is causing a rapid decline of the groundwater table, seawater intrusion, and deterioration of the aquifer’s water quality... Most households in Gaza are connected to the water supply networks, however, the water supply is intermittent: A household’s average access to piped water is less than eight hours daily and so the population relies mainly on rooftop water tanks.”<sup>11</sup> Moreover, years of neglect and destruction of the water system added to the limited supply a great waste of water. A research on Rafah, Khan Younis and Deir Al Balah governorates, estimated losses of up to 39 percent of water supply in 2012 (Abdullah, 2012). Note that there is a strong relation between the supply of water and electric power supply, since operation of water pumps and sewage facilities is dependent on a regular supply of electricity.

The 2014 war inflicted an estimated damage of \$34 million on the water system, out of which \$17 million are required for most urgent repairs. But, the reconstruction should not only repair the damages from this summer. It should improve access to reliable water supply and to sanitation services, in order to minimize consequential public health negative effects. Another important indirect effect of such improvement could be on the environment, by reducing uncontrolled disposal of untreated or partially treated sewage.

Reconstruction of the infrastructure of water can meet not only important and urgent humanitarian needs, but also contribute to the Gaza economy. In the short term, it will create jobs and increase local demand. In the long term it will reduce manufacturing costs, meet the water and sanitation requirement of commercial and industrial enterprises and of public services, and thus, it will benefit the entire economy.

## **4.3 A Safe Passage between the West Bank and Gaza strip**

The Palestinian West Bank and the Gaza Strip have been separated geographically after 1949, when Jordan gained control over the West Bank, and Egypt over the Gaza Strip. Following the Israeli occupation of the Territories in 1967, Palestinians enjoyed fairly free mobility between the two regions in 1967-91. Since 1991 mobility restrictions increased, and after the disengagement from Gaza in 2005 and especially since 2007’s Hamas takeover, the two regions have been completely cut off from one another. The lack of mobility between the West Bank and Gaza is a clear violation of the Oslo Accords that recognizes the West Bank and Gaza as a single territorial unit and promises a ‘safe passage’ between the two regions.

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<sup>10</sup> Ibid.

<sup>11</sup> See World Bank (2012), Stagnation or Revival? Palestinian Economic Prospects.

The physical separation between Gaza and the West Bank is not only a violation of the agreements, but a major cause for economic decline in Gaza and it affects the West Bank as well. The West Bank, which is a land-locked territory, needs the connection with Gaza, although clearly the lack of it affects Gaza even more. The widening of trading possibilities is critical for the Palestinian economy, which due to its small size and limited resources is highly dependent on trade. Expansion of foreign and internal trade can reduce dependence on Israel as a main trade partner and reduce vulnerability to political and security shocks.

The economic benefits for Gaza from opening a passage to the West Bank would be great. Such a connection could reduce the price that consumers in Gaza pay for the West Bank exports of olives, fruits, vegetables and limestone and increase the returns of producers from Gaza for their principal exports of citrus, flowers, and textiles. Extensive trade between the two regions can lead to more specialization and thus to increased production. Gaza can become a principal provider of perishable products such as vegetables and fish, requiring fast transit to the West Bank, thus, eliminating the need for Israeli products. Moreover, Gaza could become the main supplier of sand to the Palestinian construction sector, again cutting costs and reducing dependence on Israel. The safe passage will provide a pathway between the economy of the West Bank and future seaport and airport in Gaza, and reduce transaction costs. The free flow of goods between the two regions, will also reduce dependence on Israeli raw materials and industrial inputs.<sup>12</sup> In addition to goods, movement of workers between the two regions can reduce unemployment, raise wages in Gaza, and support the private sector by higher flows of human capital.

The AIX Group dealt before with the connection between Gaza and the West Bank, in AIX (2010), which analyzes the issue of the territorial link in the final peace agreement. That research suggested that the link should be constructed as a vehicular road between the Karni Crossing and El Majed Crossing. The construction of such a route should cost \$700 million, with additional \$180 Million for the expected security measures. Since implementing this route might take several years, AIX (2010) recommended that construction should start immediately at the present. But the work on the road has not yet started and if we wish to reduce a bit the current suffering of Gaza, we need to issue an immediate solution. This brings us back to the old solution of the 'safe passage,' that functioned in the past some of the time, where the last agreement on it has been the 2005 Access and Movement Agreement (AMA). This is done by using an existing road between Erez and Tarkumiya, and by operating regular authorized convoys. Those will transfer passengers and will be escorted by the Israeli military to prevent militant acts or illegal immigration. The convoys would also transport goods in containers that would be scanned and sealed at the exit points.

#### **4.4 Gaza Commercial Seaport**

The need for a seaport in Gaza has been recognized by Israel already in the Declaration of Principles (DOP), signed first in Oslo and then in Washington on September 13th 1993.<sup>13</sup> It was reaffirmed in the interim agreement (1994) where it was stated that "plans for the establishment of a port in the Gaza Strip in accordance with the DOP... will be discussed and agreed upon between Israel and the Council." The 2005 Access and Movement Agreement (AMA) identified six border crossings for commercial and traveler use, as well as the international airport and a seaport. Israel's commitment in that matter was to "assure donors that it will not interfere

<sup>12</sup> See Aix (2010).

<sup>13</sup> "co-operation in the field of transport and communications, including a Program, which will define guidelines for the establishment of a Gaza Sea Port Area."



with operation of the port. The parties will establish a U.S. led tripartite committee to develop security and other relevant arrangements for the port prior to its opening.”

The Israeli-Palestinian custom union, which was established in the Paris Protocol in 1994, was supposed to improve Palestinians’ terms of trade through Israel. However, security measures taken by Israel have in general discriminated Palestinian products at the Israeli ports and airport. In addition, Israeli standards requirements have changed several times with no prior notice to the Palestinian side. The JEC (Joint Economic Committee), which was supposed to decide on these kind of matter jointly, has met irregularly throughout the years and did not prove to be effective in such decisions.

As a result, transaction costs for Palestinian trade increased significantly. A survey in 2004 estimated that Palestinian enterprises faced prohibitive transaction costs at least 30 percent higher than those accrued by their Israeli counterparts (UNCTAD, 2004). More recent data taken from the report “Doing Business,” published jointly by the World Bank and the International Finance Corporation in 2015, enables a more precise comparison of trading costs between Israel and Palestine. While the overall cost of exporting a container costs Israelis is \$820 on average, it costs Palestinians \$1,980 on average. Similarly, importing a container costs Israelis \$ 665, while it costs Palestinians \$1,805 on average. Palestinian Trade faces also higher additional costs in terms of time of exporting and importing. Exporting a container takes 10 days on average for an Israeli, while 23 days for a Palestinian. Importing takes 10 days for an Israeli and 38 days for a Palestinian. Note, that both exports and imports are implemented at the same ports, using the same shipping lines, and formally within the same trade regime, due to the Paris Protocol. However, the security checks and other restrictions raise the difference between Israel and Palestine to be far higher than the estimates in 2004. Exporting a container costs Palestinians 140 percent more than exporting an Israeli one and importers pay 170 percent more.

AIX (2015) shows that such large additional transaction costs cause a significant decline in productivity, which is part of the explanation for the terrible record of economic growth in Palestine in general and especially in Gaza. Hence, the facts on the high costs facing Palestinian exporters and importers, and the significant effects of these costs call for an immediate action plan that will provide Palestinians with an independent seaport. This is the only way to improve Palestinian market access and competitiveness.

Our recommendations are based on plans from the last decade for the establishment of a commercial seaport in Gaza. We do not ignore the question of Israeli security concerns, which is of utmost importance, but we address it separately in Section 6. Here we outline the main stages of building such a seaport. The first and immediate measure should be to repair and upgrade the current fishing port, which will boost development of the fishing sector. This stage requires a deepening and protecting of the harbor’s basin, fortifying the breakwater structure, and repairing the northern coast in order to stop erosion in the area of Ash-Shati’ refugee camp. The cost of this stage is estimated to be \$16 million.

The next steps should be construction of a deep-water seaport. In 2000, the European Gaza development group signed a contract with the Gaza Seaport Authority. The funding to the project, was estimated at about \$68.5 million, of which the Dutch government pledged to donate 23 million Euros, and France pledged another 20 million Euros. The rest was to be funded with

a loan from the European Investment Bank in addition to contribution from the PA(UNCTAD, 2004). The location of the deep-water seaport was planned 5 kilometers south of Gaza city. The seaport was planned to serve not only Palestine, but Jordan as well, providing Jordanian traders with an alternative corridor to Europe and North America (Awadallah, 2011) The Seaport Authority was planned to own the infrastructure and the intermodal transport system inside and outside the port area, but port operations were planned to be privatized. The construction of the seaport began in July 2000 and the first phase was scheduled to be completed within 25 months. Construction was stopped with the breaking of the second Intifada. By the end of 2002, the Israeli forces completely damaged the seaport facilities that were built and the installations on the construction site. International contractors withdrew from construction and donors froze the implementation of the project. Direct damages were estimated at \$1.56 million, while indirect damages reached 11.02 million.

Relying on the previous construction plans, we can outline the main steps in building a deep-water seaport. The first step includes a 730m long breakwater, a General cargo terminal (Lift-on/lift-off) of 200m long and a Roll-on/Roll-off terminal with length of 140m. The Depth of water should be around 11m, so that 15-25 thousand ton ships can be served and a total of 12 million ton will be handled each year. In the second and third steps, the port should reach water depth of 14 meters, a berth of 600 meters and a Container terminal with capacity of 500,000 TEU per year. Finally, it will become a multi-purposes port: electrical substation, communication system, water supply system, surface water drainage system, waste disposal facility, storage facilities, and access roads. An industrial zone, including cement and other heavy industries was also considered. The planned total cost of the Deep-Sea Port is estimated at US\$220 million.<sup>14</sup>

#### **4.5 Gaza International Airport**

The Gaza International Airport in Dahaniya was opened in November 24, 1998 in a ceremony participated by the PLO Chairman Yasser Arafat and by the President of the USA Bill Clinton. It was opened for three years until Israel began to demolish it on December 2001, during the Second Intifada. The Palestinian Civil Aviation Authority (CAA) was created to administer and operate the airport. CAA also owned Palestinian Airlines (PAL), which was operating from Al-Areesh from 1997 to 1999, until regular flights from GIA began. The airport had one runway, which was 3080 meters long and 60 meters wide asphalt pavement. The Palestinian Airlines owned and operated three airplanes. Most flights were either to Cairo or to Amman, but they also had limited scheduled flights to Doha in Qatar, Abu Dhabi and Dubai in the United Arab Emirates, Jeddah in Saudi Arabia, Larnaca in Cyprus, and Istanbul (Awadallah, 2011). GIA's capacity was about 650 thousand passengers per year, however only a third of the Palestinians had access to the airport and due to additional Israeli restrictions the airport operated in low capacity utilization of around 9% during 1999 (Abu-Eisheh, 2004). Palestinian Airlines data on number of passengers, shows the development of avian traffic before using GIA (1998), during its two years of operation (1999-2000) and after, it was banned from operating and damaged by the Israeli army (2001). The most important figure is that in the year of 1999 the number of passengers that passed through Gaza International Airport was 87,036. Namely, the GIA showed potential for high activity.

The reconstruction of the Airport is estimated to cost at least \$86 million. Immediate priorities in the reconstruction plan are to repair the damaged parts of the GIA to enable it to resume operations, to introduce a computerized system in the operation of the airport and the Civil

14 See PECDAR (2014), Rehabilitation and Development Plan in Gaza - Rebuilding the Gaza Strip.

Aviation Authority, and to carry out technical training programs for the GIA staff. According to the Palestinian National Development plan for 2014-2016, the Ministry of Transportation is planning to rehabilitate 75% of the airport in 2014, 90% in 2015 and 100% in 2016.

## 5. Reconstruction and a Comprehensive Ceasefire Agreement

The reconstruction of Gaza cannot begin without a more comprehensive ceasefire agreement between Gaza and Israel. Such an agreement was briefly on the table at the end of the 2014 Gaza War, but the negotiations on its completion stopped and it was not finalized. Reaching a solid, comprehensive, and more stable agreement is crucial for two main reasons. First, as long as there is no sustainable ceasefire agreement, the possibility of repeated, frequent, new eruptions of hostility puts into risk all the efforts of reconstruction. The private residences and the public structures and infrastructure that will be built might be bombed and destroyed again. The second reason is that extending reconstruction to economic progress is impossible without agreement of Israel. The new 'safe passage' between Gaza and the West Bank should pass within Israel, which can close it at any time. It therefore cannot function without reaching a solid ceasefire agreement that includes also renewal of this passage. The widening of the sea port and the reconstruction of the airport also depend on an agreement, since Israel fully controls the sea outside Gaza and it fully controls the sky above Gaza. Rebuilding and upgrading the infrastructure of Gaza, namely electricity, water and sewage, can be done to some extent without an agreement with Israel, but only to a very limited extent. Israel controls entry of all construction materials into Gaza, and has the ability to destroy every project within Gaza and might even do it, if it views such a project as constituting security risk. Hence, both the opening of Gaza and the reconstruction of its infrastructure require an Israeli-Palestinian agreement on a long-run ceasefire between the two sides.

One of the main problems with previous ceasefire agreements was their implementation. There are four main reasons for such failures in implementation, and understanding them might help in avoiding their collapse. One reason is the coexistence of many fighting organizations in Gaza. Another reason has been the different policies applied by Israel in Gaza and in the West Bank. Even if Israel respects the ceasefire in Gaza, but operates against the Hamas in the West Bank, it might break the status quo in Gaza, as happened in 2014. The third reason for the collapses in the ceasefire has been what Israel saw as violation of the spirit of the ceasefire agreements by Hamas, in its continuing efforts of armament during ceasefires. The fourth reason is related to the non-military aspects of the ceasefires, mainly with respect to the siege on Gaza. The ceasefire agreements in 2008, 2009, 2012, and 2014 contained a component relating to lifting the siege and enabling mobility of people and goods, to be finalized through additional negotiations. This part in the agreements was never concluded finally and never implemented by Israel. Clearly, these four problems need to be confronted in order to reach a stable ceasefire agreement, in order to avoid suffering of the populations on both sides of the border and to enable reconstruction. There are two main channels to tackle these four problems. One is to make the ceasefire agreement not between Israel and Hamas, but between Israel and the Unity Government. The latter has higher authority, will be able to keep the ceasefire agreement better than Hamas. The second way to improve the ceasefire agreement is that both Israel and Hamas should change their policies and attitudes with respect to such an agreement. Israel should accept the lifting of the siege and Hamas should stop the process of armament during the

ceasefires. In other words, both sides should learn how to respect the agreement not only by the letter, but by its spirit as well.

## 6. Security Concerns

Our proposal to open Gaza Strip immediately to mobility of goods and people raises a number of concerns, mainly on the side of Israel, but also on the Palestinian side. We turn here to address these concerns. First, is the security concern, which is considered to be the top one among the Israeli concerns. Although we are not experts in matters of security, as our main specialty is Economics, we try to analyze this issue in a direct and logical way, to the best of our understanding. We believe that such an analysis is possible. In the following sub-sections we discuss separately the opening of the land passage and each of the other openings. We then add some general comments on the issue of security.

### 6.1. The Land Passage

We turn first to the opening of the land 'safe passage' between Gaza and the West Bank. The main security risks that might arise as a result of this opening are three:

1. Infiltration of armed people into Israel.
2. Passage of weapons and explosives from Gaza to the West Bank and back.
3. Passage of people who pose a security risk from Gaza to the West Bank and back.

We suggest that the safe passage will operate in daily convoys from Gaza to the West Bank and back. The convoys will be checked at the point of exit. To avoid costly and time consuming Back to Back methods, the cargo trucks should use containers that can be checked by special equipment that is already available. The convoys will also be escorted by military forces throughout their journey to avoid any infiltration into the Israeli territory when the convoy passes through it. We anticipate that these measures can handle the three potential risks mentioned above. This is not just a wishful thinking, but it is based on many agreements for safe passage between the West Bank and Gaza that Israel signed with the Palestinian Authority, the last of them in November 15, 2005, following the Israeli disengagement from Gaza.<sup>15</sup> All these agreements were signed by Israel and were clearly authorized by the defense authorities. Hence, they were considered to be satisfactory in reducing the above risks. It is true that the implementation of these agreements stopped after some time, but it never stopped because the agreements failed, or because they became risky. In all cases the agreements were stopped due to Israeli counter-measures to eruption of violence elsewhere. The violence was not directly related to the 'safe passage' itself, but the ability to close it gave Israel an easy way to punish the Palestinians for any violence. Sometimes the reasons for closing the safe passage were not even directly defense related, like the victory of Hamas in the 2006 elections. We therefore assume that although the opening of a land passage between Gaza and the West Bank might create some security risks, they can be handled well by the measures described above, namely by checking the convoys and escorting them within the territory of Israel.

### 6.2. A Seaport in Gaza

A deep-sea port in Gaza might lead to a number of security concerns to Israel. The main risk is the possibility of entry of military equipment into Gaza through the port. Note that mobility of

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15 See Agreement on Movement and Access (2005).

people through the port is expected to be marginal, once there is land passage between Gaza and the West Bank.<sup>16</sup> Hence this analysis focuses mainly on imports of goods to the port. There are three main possible ways to cope with such security risks:

1. The expansion of the port should be done in three main stages. In the first stage, the port will be expanded to a port that transports commodities, but not in containers. In that case, search in sea and similar security checks of incoming and outgoing ships will be possible at relatively low costs. After some period of operation the port will go into a second phase of reconstruction and a container terminal will be added to the port. At this second stage, containers will be used only for exports, but not for imports. Only after some period of operation of the agreement, specified in time, but also in levels of adherence and performance, the port will move to the third stage of using containers for incoming cargo as well.
2. Boats and ships entering the port of Gaza will be searched in sea for military material by the Israeli Navy. The search can be of every boat and ship at the beginning, and later only a sample of the sea vessels will be searched. This search is more effective and less costly if the cargo is not in containers. Once the container terminal in Gaza will begin to operate for incoming imports, the search methods should adjust to it.<sup>17</sup>

There is a possibility to monitor shipped imports by making ships first dock in Greece, Cyprus or Turkey for inspection and only then allow and escort them into Gaza waters.

### 6.3. Airport in Dahaniya

The Gaza International Airport at Dahaniya was opened in November 24, 1998. The construction of the airport was agreed between Israel and the Palestinians in the Oslo II Agreement of 1995. This agreement shows that the security aspects were taken care of by the Israeli defense authorities, which found appropriate solutions to the security problems raised by the operation of the airport. As shown above more than 100,000 Palestinians passed through the airport. It operated for 2 years, until October 2000, and then it closed operation shortly after the outbreak of the Second Intifada. Again, the closing and destruction of the airport was not done due to breaches of security in the airport, but as a general punishment to the PA. The operation of the airport for 2 years indicates that the specific security issues received a reasonable solution at the time.

The initial security arrangements in 1998 were very strict. All travelers on the scheduled flights had to go to the Rafah border crossing in a bus before entering the airplane or after landing. The Rafah border control is about one kilometer from the airport and it was then under full Israeli control. At the Rafah border control, the passengers and their luggage were checked by Israeli border control personnel. Clearly, such measures are impossible today, as Israeli personnel cannot enter Gaza or the Rafah passage any longer on a regular basis. Clearly, alternative ways to deal with potential security risks connected with the airport could be found. We cannot supply a full list of such ways but we can mention two. One possibility is that foreign inspectors can monitor the operation of the airport. Another possibility can use the fact that most of the

<sup>16</sup> A possible security concern that might arise from mobility of people from the port to other countries is ability of people wanted by the Israeli security services to escape. This is less a direct security risk, as it is mainly related to the ability of Israel to impose punishment. Another possible concern is that a port might enable transfer of a kidnapped soldier like Shalit to other countries. One way to cope with such complications is to add to the ceasefire agreement clauses related to such events.

<sup>17</sup> We assume that search within containers in sea is possible, though might be more costly. In cases of severe suspicion the ship can be taken to Ashdod Port for inspection.

incoming flights to Gaza are expected to be from the near Arab countries, like Egypt, Jordan, Saudi Arabia and the Gulf countries. Israel can reach agreements with these countries on monitoring incoming passengers to Gaza and their luggage. Two of these countries have formal relations with Israel, while the others have informal relations with Israel.

#### **6.4. Some General Comments on Security**

We would like to use this opportunity to broaden the scope of the discussion on security. Israel follows a very clear policy with respect to security, which is based on two main pillars. One is sharp and immediate punishments, both personal and collective, on any act of Palestinian violence. Such punishments sometimes seem to be out of proportion with respect to the initial act of violence, but that is part of their logic. This policy is called in Israel deterrence. The other pillar of the security policy, which is less in the open but is also very prominent, and has increased over the years, is that there is a very tight control over the Palestinians. The security services, the military, the Civil Administration, the army intelligence, all are checking and monitoring Palestinians, their moves, their activities, etc. This second pillar of the security policy is the one that might be affected by the opening of Gaza. Of course, the effect of this opening on Israeli control is limited, as Israel will still retain many alternative means of control, and some of the lost control can be restored through different means, as described above. But the possibility of opening Gaza supplies a good opportunity to discuss the efficiency of this policy of control, its successes and its limitations.

Any control of a nation of around 5 million people must be partial, since following everyone permanently is far too costly. Thus, Israeli forces monitor a statistical sample of people, not random of course, but still a sample. As a result, the ability to fully detect every hostile activity is far from full.<sup>18</sup> Hence, a change in the degree of control should not be discussed in absolute terms, but rather as a change of the degree of monitoring and control. In economic terms, the cost of opening Gaza is not a total loss of security, but a marginal reduction of security due to reduced control. However, the marginal cost should be compared to the marginal security benefits of the opening of Gaza and these are two. First, is the improvement in standards of living it, will bring with it to many people, especially young, which might also lead to reduce the incentive to participate in armed activities. Second, benefit to security aspect, leads to reduction in control itself. The tight control imposed on Palestinians in general, and on Gaza in particular is a terrible suffocating burden on them. Their inability to join family, to see friends, to get required healthcare, to continue studies, and even to move around, are provoking great anger. This anger is a boost to the deep hostility among the Palestinian side and to the ease with which eruptions of fighting occur so often. When all these issues are taken into consideration, we believe that the bottom line calculation of the marginal costs and benefits to security tilts strongly in favor of opening Gaza.

This question also brings us back to one of the basic concepts of The AIX Group, namely reverse engineering. We have long reached the conclusion that the best way to reach a permanent agreement and to implement it, is to first outline the contours of the final agreement and then to derive from that the road from here to there. This holds for economic issues and many other issues, but it holds for security as well. At the end of the day, if there will be a Two-State-Solution, control should disappear from the picture, since it is completely in contradiction with Palestinian independence. Israel's security will depend on its ability to defend itself along its borders on the one hand, and on the willingness of Palestinians to avoid hostility toward their

<sup>18</sup> This is especially true in the context of Gaza, as all the control measures imposed on Gaza did not stop arms smuggling, tunnel building, rocket construction, etc. This has been true both before and after the disengagement from Gaza.

neighbors for various reasons.<sup>19</sup> If this is how the end of the process will look like, and if Israel has an honest intention to reach this endgame, it should begin to build new tenets of security policy already today, so that when the final agreement is reached and control has to end, the new tools will already be in operation.

## 7. Political Considerations

The closing of Gaza has been a long process, beginning in 1991, as described in Section 2. The closing intensified after the victory of Hamas in the Palestinian elections of 2006 and it became a complete siege after Hamas took over Gaza in 2007. Hence the siege could be viewed as a punishment to Hamas. The Israeli opposition to Hamas is mainly because of its adherence to the armed struggle, and its ideological opposition to the right of self-determination of Israel, to the Two-State-Solution and to the Oslo accords. The policy of closing Gaza fully as a measure against Hamas was performed to a large extent by Israel, but it was supported, at least during the first part of the period, by the US, Egypt, the EU, the Quartet, UN and Russia. This policy therefore follows a wide consensus among many powers inside and outside the region that oppose any strengthening of Hamas.

When this document suggests to stop the siege on Gaza, and to open it to movement of people and goods, we are aware that this has also been a major demand of Hamas throughout the past ten years. It therefore raises the question whether opening Gaza might be viewed as giving up to Hamas. The AIX Group is a think-tank that is committed to the Two-States-Solution. Hence, we also view Hamas as an important opposition to this political solution. If so, we would like to explain why we support the opening of Gaza, when it seems to some as a measure that can strengthen Hamas. In the rest of this section we offer three explanations, going from the more formal to the more substantial.

### 7.1. The Unity Government

The Palestinian Unity Government was born on June 2, 2014 following an agreement of unity between the two leading movements in the Palestinian public, Fatah and Hamas. This agreement was reached after many previous failed attempts. Surprisingly, despite the difficult history of the relations between the two movements, and despite the harsh steps Israel has taken against the Unity Government, it has survived until now and is operating fairly well under the circumstances of geographical separation. Actually, during the negotiations on ceasefire in August 2014 in Cairo, Israel negotiated intensively, though indirectly, with a delegation of the Unity Government. All the current negotiations and agreements on the reconstruction of Gaza acknowledge that this job will be performed by the Unity Government and not by Hamas. Clearly, Hamas has a stake at the Unity Government, but it is definitely not his alone, as it is a government of technocrats with no representative of Hamas. Furthermore, the government has at least two members close to Fatah, so that it has a much closer to Fatah than to Hamas. But the operation of the Unity Government in Gaza, if it develops and deepens, means a weakening of Hamas in Gaza. Until the founding of this government, Hamas was the only ruler of Gaza, while the operation of the Unity Government in Gaza will take the harness from Hamas, gradually but persistently. There are many signs that Hamas is aware of and worried by this potential development. Hence, we have many reasons to conclude that the opening of Gaza and its reconstruction will not strengthen Hamas, but might even reduce its control over Gaza.

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<sup>19</sup> Like being busy in economic development, having too much to lose, etc.

## 7.2. The Failure of the Siege Policy

Israel has tightened the closure on Gaza since 1991, but this policy has become harsher after the victory of Hamas in the Palestinian elections in 2006 and became a complete siege after the full control of Gaza by Hamas in 2007. This policy was aimed to punish the population in Gaza for their support to Hamas and to lead to the collapse of Hamas and of its control over Gaza. None of these goals was achieved. Hamas still controls Gaza and its population still supports it. This reaction can be attributed partly to coercion, but mainly to the natural reaction of people who are punished and direct their anger towards those who punish them, not at those whom they elected. The policy of siege lasts for almost ten years, and Gaza did not become quiet but more and more rebellious. It is time to change a failing policy, and shift to an alternative. Actually, this document claims, that removing the siege might yield an opposite result to what we have experienced so far. We claim that it is likely to weaken Hamas rather than to solidify it.

## 7.3. Reducing Support for Hamas

The repeated eruptions of fighting in Gaza since 2005 have, revealed that the population of Gaza supports the struggle and supports Hamas, mainly its military wing, Ezzedine al-Qassam Brigades. This support is a result of a number of deep reasons. The first is the high percentage of refugees in Gaza, which are usually poorer, more desperate and tend as a result to be more supportive of the armed struggle. To this we can add the fact that Gaza is very densely populated with fewer sources of employment and income than the West Bank, so that it is much poorer. Poverty and hopelessness tend to breed anger and violence. Gaza has also suffered much from the siege and as shown in Section 3, it deteriorated its economy and reduced income significantly. Also, the support for Hamas in Gaza is also fed by the fact that the population is traditional and religious. Even so, no one can claim that the harsh economic situation did not contribute significantly to the support to Hamas, combined with the desperation of being locked in a small area for so long. The great project of reconstruction of Gaza, upgrading its infrastructure, and opening it to mobility of goods and people, is supposed to boost its economic situation, both at the short and at the long-run. In the short-run the large investments will increase aggregate demand, which will improve employment in the narrow strip significantly. In the long-run these investments will increase the stock of capital in Gaza, both public and private, and will thus boost production from the supply-side. The ceasefire and reconstruction agreement will not only improve the economic situation in Gaza, but will also improve the general mood, as people will be able to travel more, to meet family and friends, and to feel freer in general.

All these improvements will reduce the active support for Hamas. This is true, especially if these improvements result from an agreement with Israel. One of the main reasons to the success of Hamas in the 2006 elections, was the failure of the PLO to end the occupation by diplomatic means. Hence, the support for Hamas can be reduced only if there will be signs that negotiations can work and can lead to improvements. Economic improvement by itself will not be sufficient, since people care also about their freedom. But, an economic improvement that is a result of a significant change in Israel's policy, which is reflected in an agreement on ceasefire and reconstruction, can shift political support from Hamas to other parties.

## 8. Conclusions

This document presents a contribution to the ongoing international discussion on the reconstruction of Gaza, after the war at the summer of 2014. We claim that reconstruction should include necessary measures that will contribute to improvement of the economic situation in Gaza and even



lay foundations for future economic growth. More specifically we raise the following main points:

1. The siege on Gaza is a major obstacle to economic improvement. Any attempt to improve the standard of living in Gaza must include opening Gaza to mobility of people and goods.
2. This opening will consist of renewing the old 'safe passage' between Gaza and the West Bank, through convoys from Erez to Tarkumiya, expansion and development of the sea port in Gaza and reconstruction and operation of Gaza International Airport. All these measures are part of the Oslo Agreements.
3. In addition, a large effort should be made to renovate and improve the failing infrastructure in Gaza, namely Electricity, water, sewage, and communication.
4. The opening of Gaza raises some security concerns on the Israeli side, but these concerns can be dealt with in reasonable ways.
5. Although the opening of Gaza should not be interpreted as giving up to Hamas. It is giving up on a policy to fight Hamas, which failed miserably. After more than ten years of siege it is clearly a failed policy. Removing the siege in an agreement with the Palestinian government might be a much better policy to reduce the power of Hamas and to increase the support for negotiation with Israel among Palestinians.

One important issue that should be further discussed is the relation between the proposals we raise and the final peace agreement. Our proposals are short-run and can be implemented without reaching the final agreement. But their implementation will contribute significantly to the advancing of this long-term agreement in two main ways. First, it will improve the economic situation in Gaza to some extent. This is a very densely populated and very poor region that needs every source of income. Improving the standard of living in Gaza will increase moderation and will increase the support for the peace process in Gaza. But economic progress in Gaza and the moderation that comes with it will also reduce hostilities and armed clashes with Israel. This will make life of Israelis in the South safer and will therefore encourage them to support the peace process more than today. Some might worry of course whether economic improvements might reduce the need and urge to pursue peace. To that we can only say that there are some things money cannot buy. Even if their economic situation will improve, Palestinians will not give up their dream to be free and independent, and Israelis will not give up their dream to live securely in peace.

The reconstruction of Gaza is stalling and faces severe difficulties. The money was promised, but the implementation has hardly begun and it is running at a very slow pace. At this situation, adding more tasks to the reconstruction might look unrealistic. Being aware of it, we still believe that the role of a professional analysis is to point at the full set of policies that are required. Supplying houses to the people of Gaza who lost their homes is very important, but giving them also better options to alleviate themselves out of extreme poverty is important just as well. What this paper shows is that this can be done and that the cost in terms of finance, security and politics is rather low. We therefore put the issue on the agenda and at the doorsteps of our leaders and policy-makers. This is what we can do and this is what we should do.

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The Aix Group's previous publications include the "Economic Road Map" (2004); "Israel and Palestine: Between Disengagement and the Economic Road Map" (2005); "Economic Dimensions of a Two-State Agreement between Israel and Palestine" (2007); "Economic Dimensions of a Two-State Agreement, vol.II" (2010) and "The Arab Peace Initiative and Israeli-Palestinian Peace: The Political Economy of a New Period" (2012).

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The Aix Group was formed in 2002 by Professor Gilbert Benhayoun, under the auspices of the Université Paul Cézanne-Aix-Marseille III in France and in coordination with Peres Center for Peace in Israel and DATA Center for Studies and Research in Palestine.

In 2015 the Aix Group, headed by its five Steering Committee members, began its sixth stage of research entitled "Politics & Economics in the Israeli-Palestinian Conflict" by tackling the following seven topics: (1) Twenty Years after Oslo and the Paris Protocol: The Protocol on Economic Relations between Israel and PLO - Analysis of its Weakness and Proposed Modifications; (2) Palestinian Economic Development: The Destructive Effect of Occupation; (3) The Economic Costs of the Conflict to Israel: The Burden and Potential Risks; (4) The Role of Economics in the Israeli-Palestinian Conflict: Analysis from Dayan's to Kerry's Economic Plan; (5) Looking Ahead - Palestinian Economy under Restrictions, Where Do We Go From Here?; (6) Alternative Strategies towards a Final Status Agreement; (7) Some Economic Aspects of the Reconstruction of Gaza.

The Aix Group held several meetings, two roundtables and ongoing consultations with Israeli, Palestinian, and international experts, academics, members of economic organizations, and officials from national governments and international institutions. The Aix Group has published this comprehensive yet concrete analysis with hope of providing key decision makers within the region and internationally with a solid basis from which to make future policy decisions. The research papers presented in this book take into account Palestinian, Israeli and international perspectives, ensuring that the research and analysis are as impartial as possible.



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