
Chapter Two: Towards an independent Palestinian economy in the Gaza Strip – Obstacles and options

If one turns to the media to try to understand what life is like in the Gaza Strip today, how its residents make a living and what the economic situation is there, two different and opposing pictures emerge, especially in the past year. In one image Gaza is a giant prison, and its residents, malnourished and helpless, face a severe humanitarian crisis. In the second image, Gaza is portrayed as experiencing economic growth, even a construction boom, following Israel's removal of the closure. The truth, as usual, does not lie in either of these extreme versions of the story. While it is true that there is no shortage of food in Gaza, poverty has intensified due to years of closure and restrictions on movement. More than 70 percent of Gaza residents receive humanitarian aid today¹⁹, and the official unemployment rate is at 28 percent and rising²⁰.

In this chapter we will attempt to show what led to this situation. We will survey the political, diplomatic and security-related circumstances that influenced the economy in the Palestinian territory, looking in particular at the economy of the Gaza Strip from 1967 to the present day and offering data to illustrate the changes that took place. This overview will encompass five periods, which we have defined on the basis of events that are generally considered milestones in Israel's policy toward the Palestinian territory. A truly comprehensive and in-depth analysis would require a much broader scope than is afforded by a single chapter in a report such as this one. We will concentrate here on restrictions on movement into and out of the Gaza Strip, their influence on Gaza's economy and on potential for economic development should restrictions be lifted.

Our central argument in this chapter is that the ability to engage in long-term economic development has been denied to Gaza's residents for the entire period of Israel's rule over the area. At the end of the chapter, we will present a series of recommendations we have compiled from experts concerning the ways in which Israel could act to remove the remaining obstacles to Gaza's economic development, thus allowing creative and productive forces in Gaza to usher in a new horizon of prosperity and well-being for its residents.

19 Analysis and cross-checking from the World Food Programme (WFP) and from the United Nations Relief and Works Agency (UNRWA).

20 As of the third quarter of 2011; source: Palestinian Central Bureau of Statistics (PCBS).

Restrictions on movement 1991 – 2011 vs. GDP per capita in US dollars

1991 Revocation of the “general exit permit” from the occupied Palestinian territory. Palestinian residents are required to obtain individual permits in order to enter Israel.

1993 The Oslo Accords. Agreement on arrangements for securing freedom of movement. In practice: a wave of terrorist attacks and full closure on the occupied Palestinian territory.

1995 Electric fence built around the Gaza Strip. **Full closure** is periodically imposed on the Gaza Strip (until 2000).

2000 The Second Intifada. Cancellation of all existing exit permits. New permits are issued only for laborers, merchants and patients undergoing treatment in Israeli hospitals. Increased restrictions on transport of goods.

2001 Gaza's international airport is bombed.

2005 The Gaza “Disengagement Plan” is implemented. Control over land crossings, airspace and territorial waters continues.

2006 Hamas wins elections. Increased restrictions imposed on movement of people: “Residents of the Gaza Strip are to be denied entry other than for exceptional humanitarian reasons”.

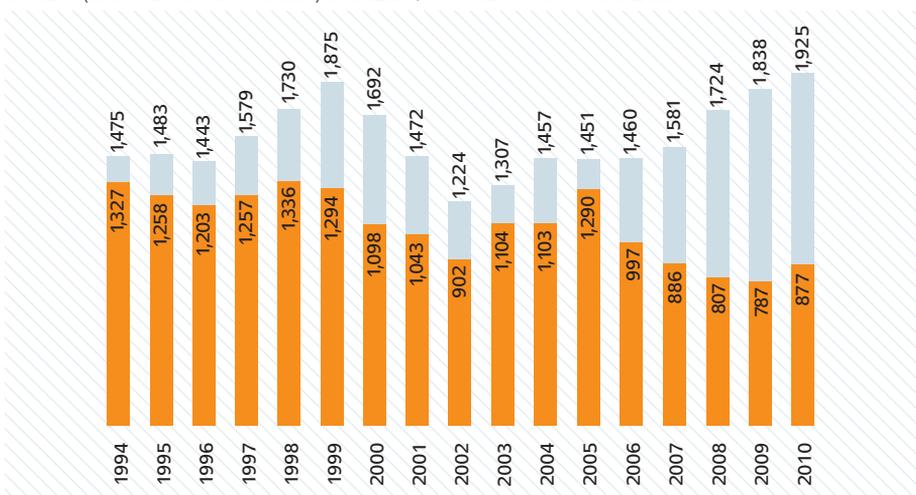
June 2007 Following Hamas' takeover of Gaza. Closure as part of an “economic warfare” policy which includes severe restrictions on the transport of goods into and out of the Gaza Strip.

December 2008 Cast Lead. Widespread destruction of infrastructure in the Strip.

June 2010 Following the Gaza flotilla. The security cabinet announces a number of measures easing the closure.

December 2011 Restrictions continue on marketing goods to the West Bank and Israel, on movement of people between Gaza and the West Bank and entrance of building materials into the Gaza Strip.

■ GDP (Gross Domestic Product) in Gaza | ■ GDP in the West Bank



Source: Palestinian Central Bureau of Statistics (PCBS)

1967-1991 - Fostering dependence between Gaza's economy and that of Israel

The occupation of the West Bank and the Gaza Strip in 1967 sparked a debate in Israel over the economic policy Israel ought to pursue vis-à-vis the Palestinian territory. The approach taken by

then-Minister of Defense Moshe Dayan envisioned interaction between the two economies, whereas the approach preferred by then-Finance Minister Pinchas Sapir supported segregation between them. Dayan's approach won out eventually and the connections between the two economies deepened. Israel, via its Civil Administration, collected taxes and provided basic services, but the level of investment in infrastructure remained relatively low.

A key characteristic of that period was the freedom of movement enjoyed by people and vehicles throughout the area under Israel's control. This reality led to tens of thousands of Palestinians' working within the Green Line (i.e., in Israel within its pre-1967 borders), mainly in the construction industry. Nonetheless, commercial freedom was not total. Pressure from various sectors in Israel led to a policy of protectionism and defending Israeli products from Palestinian competition.

The absence of restrictions on the labor force had a positive influence on the Palestinian economy - Palestinian laborers returned home from jobs in Israel with cash in hand. This income, for various reasons, was invested mainly in building homes. Over the years, the Palestinian economy became increasingly dependent on Israel and also highly vulnerable to economic fluctuations in Israel and to security-related and other restrictions that Israel imposed.

1991-2000 - First steps to separate the economies

In the early 1990s, Israel's policy underwent a change with respect to the Palestinian territory. Following the start of the First Intifada in 1987, Israel began placing restrictions on the freedom of movement of people and on the transfer of goods. In 1991, Israel canceled the "general exit permit" and began demanding that Palestinian residents acquire individual permits in order to leave Gaza²¹. Under the Oslo Accords signed in 1994, it was decided that there would be a phased transfer of power to the Palestinian Authority, including concerning decisions about financial policy in the territory. In addition, it was decided that the area within 20 nautical miles of the Gaza coast would be open to Palestinian use for fishing, recreation and economic activity²². Since it was agreed by both sides that determination of the border between Israel and the Palestinian Authority would be postponed until final status talks, it was not possible to create separate customs regions²³. Hence it was decided that the two regions would share a joint "customs envelope" and that Israel would collect customs duties and value-added tax on imports to the Authority's territory on behalf of the PA, monies which until then had been added to Israel's treasury²⁴. According to Prof. Ephraim Kleiman, who was a member of the Israeli negotiating team, the agreement was signed because both sides had an interest in the economic development of the Palestinian territory.

21 From a joint report by PHR-Israel and Gisha, "Rafah Crossing: Who holds the keys?" March 2009, which may be downloaded from Gisha's website at www.gisha.org. (hereinafter: Rafah Crossing).

22 From a report by the United Nations' Office for Coordination of Humanitarian Affairs, "Between the Fence and a Hard Place" August 2010: http://www.ochaopt.org/documents/ocha_opt_special_focus_2010_08_19_english.pdf (hereinafter: Between the Fence and a Hard Place).

23 From an interview with Prof. Ephraim Kleiman by Gisha representatives, 14.9.2011.

24 The tax monies that the Civil Administration collected and the VAT on sales by Palestinians to Israelis were added to the treasury of the Civil Administration; the tax monies that Israel collected on imports via Israeli ports and the VAT on sales by Israelis to Palestinians were added to the Israeli treasury.

It was in this atmosphere of optimism, sometime later, that began a wave of suicide bombings and a closure of the Palestinian territory was declared. The closure on Gaza was enforced with particular effectiveness beginning in 1995, with the construction of an electronic fence around the Strip. Passage was also prevented from time to time even for permit holders, during the imposition of “absolute closures” on Gaza.

Restrictions on movement during the Oslo period were determined against the backdrop of two opposing trends in Israel. On the one hand, the political process aimed to partition the territory, while creating a zone relatively free of restrictions on the movement of goods and people. On the other hand, the volatile security situation put pressure on decision-makers and the security establishment to make increasing use of movement restrictions as a means of defense, deterrence and punishment.

2000-2006 - From an economic discourse to a security discourse

In 2000, with the failure of the Camp David talks and the outbreak of the Second Intifada, the peace process had reached an impasse and the economic discourse of the 1990s was replaced entirely with a security discourse. Existing exit permits held by Palestinians were cancelled, and new ones were issued only to workers, merchants and patients being treated in Israeli hospitals²⁵. More severe restrictions were also imposed on the passage of goods into and out of Gaza.

Restrictions on movement were imposed not only on the land-based crossings. In 2001, Israel shelled the Gaza airport, which had begun operating only in 1998, and since that time it has not resumed operations²⁶. Nor did Israel permit entry to or exit from Gaza via the sea²⁷, and fishing was restricted to a limit of 12 nautical miles from the coast. Finally, between 2003 and 2005, the wharf at Khan Yunis was closed for long periods and access to other coastal areas was frequently disrupted²⁸.

These restrictions took their toll on economic activity in Gaza. In 2001, the average daily number of workers leaving Gaza to work in Israel dropped to about a quarter of the average number prior to the Intifada, the number of trucks entering and leaving Gaza also dropped after 2000²⁹ and the unemployment rate meanwhile rose to 18.7 percent³⁰.

25 See Rafah Crossing.

26 The airport was inaugurated in 1998. Its operations were very restricted, and in 2001 stopped altogether. After it was shelled, negotiations were not renewed on its resumption of operations, contravening a stipulation in the Agreement on Movement and Access.

27 This prohibition has been in force since the occupation of the Gaza Strip in 1967. The Agreement on Movement and Access signed at the end of 2005 stated that construction of a Gaza seaport could begin and obligated Israel to assure donors funding its construction that it would not interfere with its operation. Israel did not provide such guarantees to donors, and the construction of the port never began (See Rafah Crossing).

28 See Between the Fence and a Hard Place.

29 The average daily number of workers in 2001 was 619, compared with 26,500 during the three months prior to the Second Intifada in 2000 (UNSCO). The average number of trucks entering and leaving daily dropped after 2000 (600-700 trucks compared with 450 trucks after 2000) (from “Gaza Strip Crossings: Israeli Policies in a Broader Perspective,” Peres Center for Peace, 2011 (hereinafter: Gaza Strip Crossings)).

30 Palestinian Central Bureau of Statistics (PCBS).

In September 2005, Israel implemented its "Disengagement Plan" for Gaza³¹. Even after that, however, Israel maintained sole control over Gaza's air space and territorial waters and sole control over transit between Gaza and the West Bank³².

2006-2010 - Development of the separation policy

During elections held in the Palestinian Authority in January 2006, Hamas won a majority of votes and control of the parliament. In the months following the Hamas victory, the United States and the European Union heavily pressured the Palestinian Authority and cut off the flow of direct donor funding to it. Furthermore, hostilities between Hamas and Israel intensified - Hamas fired rockets at Israeli communities and captured Gilad Shalit, and Israel conducted a military campaign in Gaza that lasted five months. At the end of the year, confrontations began between Hamas and Fatah, and it was against this backdrop in March 2007 that a unity government was set up in the Palestinian Authority, lasting three months. In June of that same year, Hamas took control of the internal governance apparatus in Gaza. Palestinian Authority President Mahmoud Abbas announced the dismantling of the unity government, and Hamas for its part declared an independent government in Gaza, free of the PA's control, the latter now reduced to ruling the West Bank. These dramatic events led to changes in the strategic discourse of international actors and of Israel vis-à-vis Palestinian rule in Gaza in the West Bank - changes that were then manifest in the principle of separation between Gaza and the West Bank. The foundation for this principle is the distinction made between the two Palestinian governments - the one in the West Bank, which forswore violence in favor of negotiations, versus that in Gaza, which refused to recognize Israel or prior agreements with Israel, and remained committed to the armed struggle. Accordingly, the principle of separation as a policy adopted by Israel is expressed differently toward the respective leaderships - continued security coordination and the development of political and economic ties with the PA, while refusing any direct connection with the government in Gaza. Among decisions-makers in Israel, the principle of separating Gaza from the West Bank was given a far-reaching interpretation, the significance of which was the complete isolation of the Gaza Strip from the rest of the world.

The policy of separation vis-à-vis the West Bank was manifest in the adoption of a discourse of economic development. At the beginning of 2008, Benjamin Netanyahu, as head of the opposition, began to talk about the interest in "economic peace"³³ with the West Bank and the need to develop its economy. The idea was rejected by then-Prime Minister, Ehud Olmert, but became government

31 This refers to Israel's removal of settlers from the Gush Katif settlements and withdrawal of its permanent military presence in Gaza. See: <http://www.mfa.gov.il/MFA/Peace+Process/Guide+to+the+Peace+Process/Israeli+Disengagement+Plan+20-Jan-2005.htm>

32 See the position paper "Scale of Control; Israel's Continued Responsibility in the Gaza Strip," November 2011, which may be downloaded at www.gisha.org

33 Netanyahu's speech to the Herzliya Conference, January 2008.

policy when Netanyahu took over as prime minister in 2009³⁴. The development policy included mainly the removal of restrictions on movement across the West Bank, a step that was largely implemented in June of 2009³⁵. But “economic peace” had more than one emissary. In 2010, Regional Development Minister Silvan Shalom argued that this was a policy that would “restore hope to young people and give them a reason to follow the right path, a humane and rational path”³⁶. Last year, the Governor of the Bank of Israel said that trade with the Palestinian Authority has great political importance and that the Palestinian economy is very far from realizing the potential it could achieve under conditions of peace³⁷. Some figures in the defense establishment also expressed the opinion that a reduction in poverty and unemployment among Palestinians is in Israel’s interest from a security standpoint: “A turn to radical Islam, arising from the high unemployment rates and from poverty, enhances the ability of the various terrorist organizations to operate within the civilian population and enhances the number of individuals willing and ready to participate in hostile activity”³⁸.

Pronouncements about economic development for the West Bank were actualized in part. The West Bank economy grew and Netanyahu was quick to take pride in that³⁹. But according to a recent study, the growth was short-lived, and based on external aid rather than on activity or investment in the private sector⁴⁰. As agreed in the Oslo Accords, Israel collects taxes on behalf of the Palestinian Authority and transfers the money to it, but in recent years Israel delayed the transfer of monies to the PA several times as a means of exerting pressure on it⁴¹.

Regarding Gaza, as noted, Israel and the international community made use of a completely different policy. International donors withdrew a large portion of their support for the development of Gaza and adopted, instead, a policy of humanitarian aid, intended to prevent a severe humanitarian crisis due to malnourishment or the outbreak of disease⁴². A further freeze on development was buttressed by the policy Israel opted to use and which it called “economic warfare”⁴³. This policy

34 See PM Ehud Olmert’s speech at the Institute for National Security Studies (INSS) Annual International Conference, December 2008, at:

http://www.mfa.gov.il/MFA/Government/Speeches+by+Israeli+leaders/2008/Address_PM_Olmert_TAU_INSS_Annual_Conference_18-Dec-2008

35 See OCHA’s movement and access update, June 2010 at:

<http://unispal.un.org/UNISPAL.NSF/0/4694C27BF640414685257744004ACE17>

36 Silvan Shalom’s speech to the Herzliya Conference, 2010.

37 Ynet, September 2011: <http://www.ynet.co.il/articles/0,7340,L-4118019,00.html> (Hebrew).

38 See a report on Palestinian labor written by Deputy Governor of the Bank of Israel, Dr. Zvi Eckstein, submitted in July 2011 to the Prime Minister. See also, The Marker, June 2011: <http://www.themarker.com/realestate/1.654815> (Hebrew).

39 See Netanyahu’s speech to the US Congress, May 2011:

http://www.mfa.gov.il/MFA/Government/Speeches+by+Israeli+leaders/2011/Speech_PM_Netanyahu_US_Congress_24-May-2011.htm

40 See article in MEMRI, December 2011: <http://www.memri.org/report/en/0/0/0/239/0/5888.htm>

41 See “Palestinian fury at Israeli refusal to unblock funds,” Khaleej Times, February 2006: http://www.khaleejtimes.com/DisplayArticle.aspx?file=data/business/2006/February/business_February58.xml§ion=business&col=; and May and November 2011: “UN chief presses Israel to release funds,” Guardian, May 2011: <http://www.guardian.co.uk/world/2011/may/08/israel-palestinian-authority-funds-un> and “Israel releases PA tax funds,” Jerusalem Post, November 2011 at: <http://www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=247629>

42 See Gaza Strip Crossings.

43 See the fact sheet “Guide to the Gaza closure in Israel’s own words,” September 2011, on Gisha’s website at www.gisha.org (hereinafter: Guide to the Gaza Closure).

included lowering the standard of living of the population to a “humanitarian minimum,” with the intention of pressuring Hamas⁴⁴. In June 2007, immediately after Hamas took control of Gaza, a closure was imposed on the Gaza Strip, and the Agreement on Movement and Access signed in 2005 collapsed once and for all. The closure included, inter alia, a prohibition on fishing at a distance greater than six nautical miles from the coast, imposed in June 2006⁴⁵; severe restrictions on the transfer of goods into and out of Gaza; and restrictions on access for people, already intensified in March 2006, such that “entrance shall not be permitted [to Israel or the West Bank] for residents of Gaza except for extraordinary humanitarian reasons”⁴⁶.

The closure almost completely shut down commerce between Gaza and the West Bank and Israel. Entry to Gaza was permitted to only a few dozen items, mainly for humanitarian needs⁴⁷, so that the average number of trucks entering monthly dropped by 95 percent⁴⁸. In addition, export from Gaza was prohibited altogether by Israel, apart from a negligible quantity of agricultural produce bound for Europe, although the West Bank and Israel are the traditional markets for goods from Gaza⁴⁹.

The failure of the closure policy

The economic warfare policy was implemented in contravention to international law, which forbids collective punishment of a civilian population as a means of warfare⁵⁰. But apart from being unlawful and unethical, the policy turned out to be ineffective as well, to put it mildly. Most of the Israeli commentators and experts who have spoken on the subject have held that pressure placed on the civilian population did not lead to any greater flexibility in Hamas positions vis-à-vis Israel, did not prevent the organization from acquiring weapons, and did not contribute to furthering negotiations on the release of Shalit⁵¹. In fact, there is broad agreement that the closure actually helped Hamas consolidate its control over the economy, over the import of basic necessities and other goods, over the job market and over education in the Gaza Strip. A central role in this process was played by the “tunnel economy” - a network of tunnels dug underneath the border with Egypt, mainly via private funding and under the auspices of the regime, and through which goods were imported into Gaza⁵². The Hamas government collected import duties and various other taxes on the incoming goods.

44 The official demand made of Hamas was that it accepts the three conditions of the Quartet, and an additional demand was the release of Gilad Shalit.

45 See *Between the Fence and a Hard Place*.

46 See *Rafah Crossing*.

47 A list of 40 “approved” items was expanded to 70 items during the latter half of 2009, and to some 108 items at the beginning of 2010. See Partial list of products whose import into the Gaza Strip is prohibited or permitted, from June 2010 on Gisha’s website, www.gisha.org

48 See *Gaza Strip Crossings*.

49 Between 2000 and 2005, 85 percent of the exports from Gaza were destined for Israel.

50 See *Guide to the Gaza Closure*.

51 See post entitled “More mainstream than mainstream” on the Gisha blog at www.gazagateway.org (hereinafter: *More mainstream than mainstream*).

52 Per the Office of Economics of the Palestinian Authority, during the first half of 2010, the number of tunnels operating was over 1,300, and more than 4,300 types of products were imported through them.



Hamas' budget in millions of dollars

■ 2006 ■ 2010

total **500**



40
million
dollars

150
foreign
contributions

50
local taxes
and fees

The goal of the closure: "to weaken Hamas financially"*

As of 2009-2010, more than **4,300** types of products
have been imported through **1,300** active tunnels.

These account for **80%** of the total import
into the Gaza Strip

300
the tunnel
economy



* Testimony of Israel's military advocate general to the Turkel commission,
August 2010

Source: Ministry of National Economy, Gaza Economic Strategy, March 2011; Gaza Strip Crossings: Israeli Policies in a Broader Perspective, Peres Center for Peace, 2011.

While Hamas was counting its profits from imports from the tunnels, the private sector in Gaza was shrinking. The number of active industrial enterprises dropped in 2007 by 95 percent in comparison with 2005, and the number of industrial workers dropped from 350,000 to 2,000⁵³. In July 2007, Director Ali Al Hayek of the Palestinian Businessmen Association described things this way: "The situation in which there is no possibility of importing raw materials into Gaza is paralyzing Palestinian industry. Israel is not punishing the government, but rather the people. We as the private sector are paying the price... There are a lot of people who have been harmed by this closure, who have lost their jobs, their livelihood"⁵⁴.

The collapse of the agreed-on "lull" in fighting - the tahadiya - between Israel and Hamas in November 2008 led to the military operation on Gaza known as Cast Lead, which continued for about a month, and destroyed a broad swath of infrastructure⁵⁵. Then in March 2009, Netanyahu was named prime minister and began easing restrictions on the import of goods into Gaza, leading to an increase in the types of goods permitted to enter Gaza as well as their quantity⁵⁶.

53 See Gaza Strip Crossings.

54 See the report "Commercial closure: Deleting Gaza's economy from the map," July 2007, on Gisha's website at www.gisha.org

55 See the report "Red Lines Crossed: Destruction of Gaza's Infrastructure," August 2009, on Gisha's website at www.gisha.org

56 See graphs on Gisha's website: http://www.gisha.org/graph.asp?lang_id=he&p_id=901

The ineffectiveness of the closure policy also manifested itself in damage to Israel's image worldwide. The flotilla incident in May 2010 only reinforced that damage⁵⁷. Overall, the outcomes of the policy led Netanyahu and other key policy-shapers to admit that the civilian closure wasn't working, and moreover damaged Israel's ability to enforce a "security blockade"⁵⁸.

2010 - The transition to the discourse of economic development for Gaza

In June 2010, after the flotilla to Gaza, the government of Israel announced a series of steps to ease the closure⁵⁹. The discourse of economic warfare was replaced by one of development, and over the course of that year, military and civilian actors made several declarations concerning the need to stimulate the economy of Gaza as well as Israel's commitment to doing so.

57 A flotilla that sailed from Turkey to Gaza was stopped by armed forces. A violent struggle ensued, culminating in the deaths of nine Turkish citizens and the injury of several Israeli soldiers. The incident sparked severe criticism of Israel around the world.

58 See More mainstream than mainstream.

59 See Security Cabinet decision:
http://www.mfa.gov.il/MFA/Government/Communiques/2010/Prime_Minister_Office_statement_20-Jun-2010.htm

On Israel's interest in economic growth in the Gaza Strip



The Cabinet's decision removes the civilian closure on Gaza and tightens the security closure.

PM Netanyahu at the Foreign Affairs and Defense Committee, June 21, 2010



We must distinguish between the civilian population and the terrorists.

COGAT, April 10, 2011



Expand operations at the existing operating land crossings, thereby enabling the processing of a significantly greater volume of goods through the crossings and the expansion of economic activity.

Security Cabinet statement, June 20, 2010



I thought... we wouldn't be able to bring Hamas down through the siege... this is why I thought it couldn't work and I'm sad to say it hasn't worked.

Minister Dan Meridor, Meet the Press, April 30, 2011



One way to increase stability is to continue the policy we have been implementing for the past two years – promoting Palestinian economic growth and development. It's good for them. It's good for us. There are a number of measures here that advance this objective.

PM Netanyahu, February 4, 2011



The Security Cabinet approved additional measures this morning to increase export from the Gaza Strip.

Government decision, December 8, 2010

According to the declarations quoted in the chart, members of the government and security officials believe that economic development for Gaza is clearly in Israel's interest. Just last September (2011), Foreign Minister Avigdor Lieberman announced that when the Palestinian GDP reaches \$15,000 per capita, a resolution of the conflict will be attainable⁶⁰. Likewise, Dr. Tomer Broude, senior lecturer on the law faculty and in the international relations department at Hebrew University, argued in an interview conducted for the purpose of writing this report that it would certainly be easier to reach an agreement and ensure its sustainability were there a more developed and flourishing Palestinian economy. In such a case, the Palestinian public would have a stronger

⁶⁰ See article in the National Post, September 2011: <http://fullcomment.nationalpost.com/2011/09/20/avigdor-lieberman-palestinian-statehood-would-set-a-dangerous-precedent/>

interest in preserving its own prosperity. Broude adds that more balance between the Israeli and the Palestinian economies would lessen Palestinians' feeling of dependence vis-à-vis the sense of Israeli economic hegemony.

An examination of what has been done in practice, in light of the declarations by these government and military figures, reveals that so far, several steps have been taken to ease the closure. Israel removed obstacles on the entry of all goods, except for goods that it defines as dual-use (i.e. having both civilian and military purposes) and on construction materials⁶¹. The transfer of construction materials is permitted only in cases in which the materials are intended for projects being carried out by an international organization and under the supervision of the Palestinian Authority. Export of agricultural produce (strawberries, flowers, peppers and cherry tomatoes), to Europe only, continues in larger quantities than in recent years⁶², and at present Israel claims that it, in principle, would also allow export to Europe of textiles and furniture. Nonetheless, Gaza merchants face difficulties in developing far-off European markets, a less natural destination for their products, and in practice, the quantity of export that Israel permits is only about 2 percent of the quantity that it obligated itself to allow in the framework of the 2005 Agreement on Movement and Access.

The number of exits permitted for businesspeople from Gaza traveling to the West Bank or Israel rose to 70 a day⁶³ according to the Coordinator of Government Activities in the Territories (COGAT). In a report published to mark the one-year anniversary of the announcement that conditions would be eased, COGAT proudly noted that nearly 30,000 permits were given since June 2010, but this number pales in comparison with the average of half a million exits a month for Palestinian workers in 2000⁶⁴. In addition, the permits granted today are intended for "senior merchants" only, defined as those whose exit will contribute to improving Gaza's economy. The few businesswomen in Gaza, and those few young merchants seeking to make commercial connections with Israel and the West Bank, do not receive permits⁶⁵. The data portrays a disregard for the commonly accepted notion that small businesses are a critically important sector driving the development and progress of an economy.

Over the last decade, Israel closed three of the five crossings between Gaza and Israel one by one, which had become the target of attacks by Palestinian militant organizations. They have not been reopened⁶⁶. In addition, since 2008, along most of Gaza's coast, access has been restricted

61 This list of products includes and even expands on the inspection list promulgated by the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies: <http://www.wassenaar.org/controllists/index.html>

62 Between November 2010 and May 2011, 290 trucks exited, while during the entire three years of the closure (June 2007 through June 2010), 255 trucks exited Gaza.

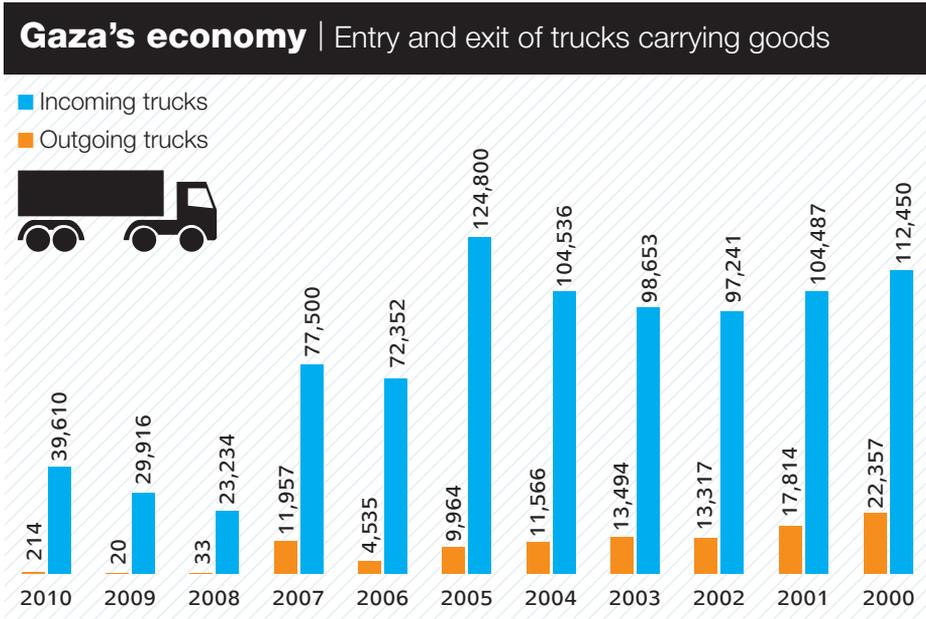
63 See Policy on the movement of people between the State of Israel and the Gaza Strip, Coordinator of Government Activities in the Territories, http://www.cogat.idf.il/Sip_Storage/FILES/3/2533.pdf

64 See at: <http://www.mfa.gov.il/NR/rdonlyres/EDD50D8A-E136-4C82-B7FC-9AB3CB463122/0/GazaImplementationCivilPolicy1year2.pdf>

65 See footnote 63 herein.

66 The Rafah crossing was closed to the movement of goods in 2005 and, at this writing, that closure is still in force; the Karni crossing was mostly closed in 2007 (although the conveyer belt at Karni was finally closed only in 2011); the Sufa crossing was closed in 2008; and the fuel terminal at Nahal Oz was closed in 2010. Remaining is the Kerem Shalom crossing which is located within Israel, next to the three-way border with Gaza and Egypt.

to three nautical miles. In the north, access for Palestinians has been restricted altogether along a section of coastline 1.5 nautical miles wide at the border with Israel, and in the southern Gaza Strip for one nautical mile along the border with Egypt⁶⁷. During the years 2009-2011, average fishing hauls were the lowest in the last decade⁶⁸. In fact, despite the minor economic improvements which took place in the wake of the eased restrictions, there remains a large disparity between current economic activity and that recorded in the years before the closure was instituted, and also in comparison with other measures of Gaza's economic potential (about which we expand further below).



Source: PalTrade and Israel Airports Authority

The path to economic recovery and development in Gaza is a long one yet, and though the easing measures to the closure policy can't be overlooked, the growth indicators of the last year do not point to long-term economic development for Gaza. The improvements recorded are the result of a combination of international aid, the continued transfer of monies from the Palestinian Authority to Gaza, and the growth of the public sector. Meanwhile, the components of an “engine” of economic development have been rendered virtually inactive. Among these we note the ability to market goods from Gaza to both the West Bank and Israel, the opportunity for workers and businesspeople to travel to the West Bank and Israel, the opportunity for students from Gaza to study in the West Bank, the strengthening of the rule of law to provide financial security for merchants and investors, and education for entrepreneurship and technological development.

67 See *Between the Fence and a Hard Place*.

68 See OCHA's monthly report from December 2011:

http://www.ochaopt.org/documents/ocha_opt_the_humanitarian_monitor_2011_12_15_english.pdf

As argued by Dr. Broude, in all these respects, the Israeli government and the private sector can contribute, not just from the standpoint of removing obstacles to development but also from a positive standpoint, by renewing commercial initiatives. The release of Gilad Shalit is a development that should signal a turning point in the government's actions vis-à-vis Gaza - and spur the actualization of its declared intentions to create a suitable infrastructure for the economic development of Gaza.

The potential for growth in Gaza's economy

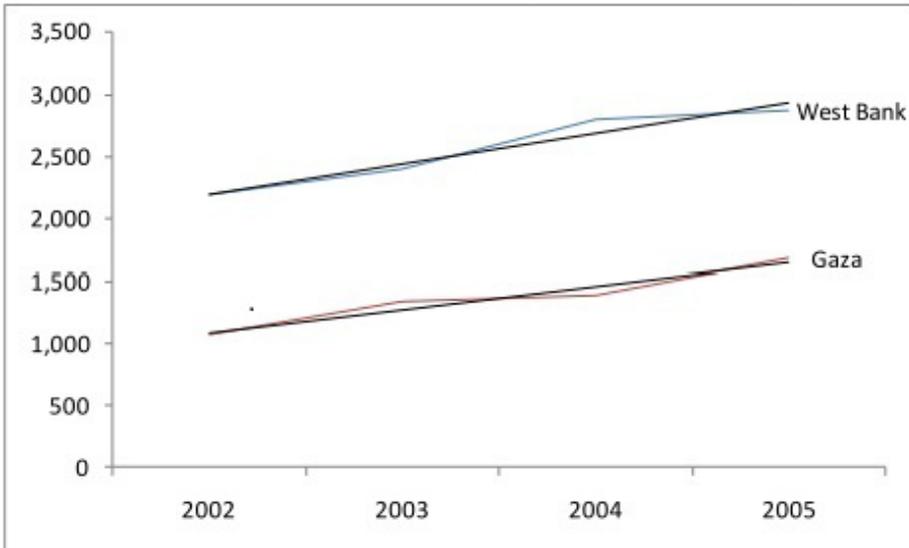
It is difficult to assess the precise growth potential of an economy; many factors are at play and cannot be considered simultaneously. This challenge is even more acute in the case of the Gaza Strip, given all the existing obstacles to development. To try to assess growth potential under these circumstances, we chose to present a number of possible approaches. It is important to note that in each assessment, restrictions on movement are not the only hindrances to development, but they are certainly considered to be among the principal obstacles.

The intuitive approach, and hence⁶⁹ the first, is to examine the scope of economic activity during the period before the closure, treating it as representing potential. This assessment is perhaps modest in comparison with projected growth under optimal circumstances, but it is reliable in that it is based on past experience. The chart showing GDP per capita before and after the closure best presents this assessment.

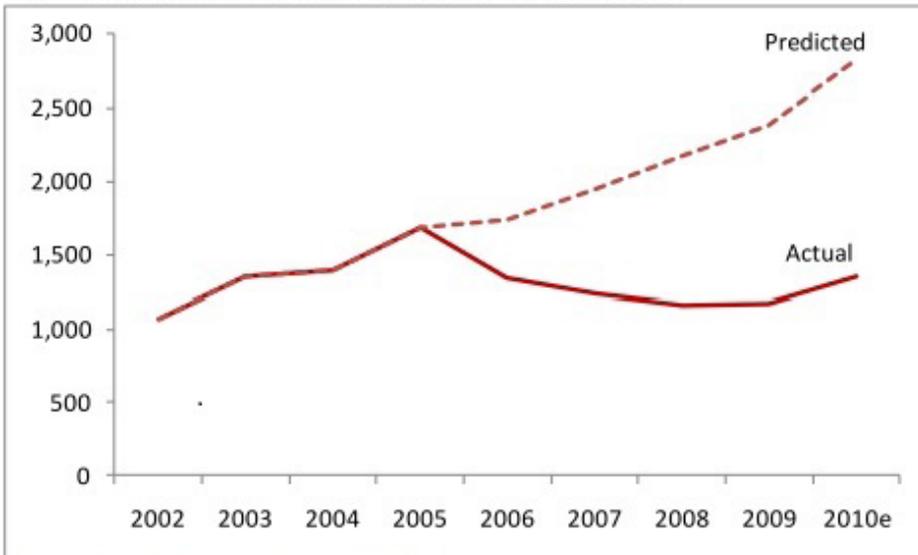
Another approach addresses the parallel growth that took place in the West Bank and in Gaza during the period prior to the closure, and in these terms, Gaza could have relative growth resembling that of the West Bank since 2007. The next chart demonstrates this approach.

69 See the IMF report from April 2011: <http://www.imf.org/external/country/WBG/RR/2011/041311.pdf>

a) Pre-blockade GDP, West Bank and Gaza (GDP in const USD mln)



b) Blockade effect, Gaza (GDP in USD million constant)



The economic costs of the Israeli occupation for the occupied Palestinian territory, the Palestinian Ministry of National Economy, Sept. 2011.

According to the International Monetary Fund, between 1968 and 1987 the growth in per capita income in the West Bank and the Gaza Strip stood at 4.4 percent per year, and between 1994 and 2010 it dropped to 0.6 percent per year. Had the rate remained, over the years, at 4.4 percent, the per capita GDP in 2010 would have been 88 percent greater than it is today.

Finally, the degree to which various sectors are positioned for increased economic activity is noteworthy. In a survey conducted among 188 manufacturing companies, 60 percent of them claimed that they were prepared to begin exporting within one month from receipt of the relevant permit. Manufacturers in Gaza estimate that opening the crossings for sale to Israel and the West Bank would generate an increase of 63 percent in sales, 51 percent in employment and 39 percent in investments⁷⁰.

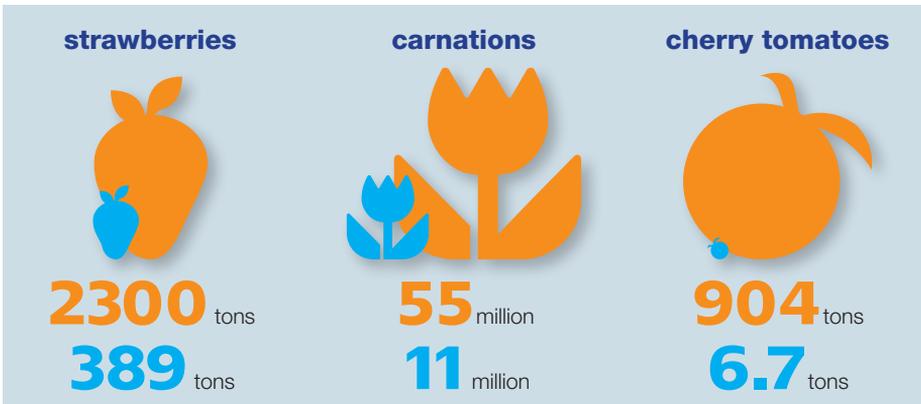
Company	Prior to 2007	June 2007 - July 2010	Since July 2010	Potential
Al-Amir Ice Cream Industries	Output of 85 percent, sale to West Bank represents 50 percent of all production	Ceased operating June 2007. Resumed production 2009 at 30 percent of work capacity	Working at approximately 30 percent capacity, without being able to sell to the West Bank	Factory manager estimates that plant could return to the standard pre-2007 production volume if restrictions on export to the WB were removed
Palestine Juice Concentrates Company	Sold 95 percent of production (equivalent to 3,500 tons annually) in Israel	Completely shut down in June 2007. Resumed working in 2008 at about 5 percent of typical pre-2007 production level	Scope of work 30 percent of typical pre-2007 level	Factory manager estimates that plant could return to the standard pre-2007 production capacity
Al-Radisi Factory: production of plastic bottles	Sale to Israel and the West Bank 50 percent of production	Completely shut down	Working at only 40 percent of capacity	Factor manager estimates that removal of restrictions would enable expanded production and additional production lines
Ajour Furniture Co.	Sale to Israel of 80 percent of production and to West Bank 20 percent	Completely shut down June 2007, resumed work with raw materials smuggled via the tunnels 2009, at lower than pre-2007 levels	Production capacity approximately 30 percent	Factory owner estimates that removal of restrictions would enable high production capacity and additional production lines

70 Per a joint report by the Quartet and PalTrade, March 2011: <http://www.paltrade.org/cms/images/enpublications/Tracking%20Changes%20in%20Major%20Industrial%20Sectors%20in%20Gaza.pdf>

Export potential | Industry and agriculture



■ Export potential per season ■ Actual export during the 2010-2011 season



Palestinian Federation of Industries; PalTrade

Recommendations

In the framework of the writing of this report, we consulted with experts in economics and in international law, and asked them to recommend steps towards the realization of Gaza's development potential; below are their recommendations.

Prof. Ephraim Kleiman, a professor of economics at Hebrew University, notes that there is need for construction projects and for projects to rehabilitate infrastructure and repair damage caused by Operation Cast Lead in the short-term. Beyond that, the first thing that governments can do for development is, in his words, to enable businesses to reach their markets. If Israel is interested in development for Gaza, it must remove restrictions, because people will not invest in Gaza if they are not certain that goods can reach the market and arrive on time; that raw materials can get to manufacturing facilities and that workers can get to work on time. Removing restrictions

that prevent investment means, first and foremost, allowing free movement of people and goods into and out of the area.

Prof. Kleiman also notes the option to market agricultural products from Gaza in Israel, and says that while the need for phytosanitary inspection designed to prevent the entry of agricultural pests to Israeli territory presents logistical challenges, solutions can be found to meet them. These recommendations coincide with those in a report published this year (2011) by the Peres Center for Peace⁷¹.

Dr. Tomer Broude, senior lecturer in law and in international relations at the Hebrew University, argues that the notion of absolute economic separation between the Israeli economy and the Palestinian economy is not optimal or even realistic, since the two economies are interwoven in practice and are in many respects complementary. Israel, he says, must develop sensitivity to Palestinian reservations concerning Israeli economic hegemony. For the Palestinians to accept that hegemony would simply emphasize their dependence on Israel, a dependence they seek to avoid. Thus, says Broude, in order to promote Israeli-Palestinian cooperation following a political agreement and maybe even before, the conditions required for economic development must be ensured. In order for this cooperation to take place, Palestinians must feel a greater sense of economic independence and Israel will need to feel a sense of security that will permit it to provide those conditions. Dr. Broude adds that in order to achieve better economic integration between the Israeli and the Palestinian economies, there is a need to work for the amalgamation of standards regarding public health, the environment, and so on. Relative integration may be attained via a third party (other countries or international organizations). Dr. Broude notes that one way to encourage Israel-Palestinian cooperation is by obtaining favorable import duties in external markets (such as the United States and the European Union) for goods produced in the framework of that cooperation⁷².

71 See Gaza Strip Crossings.

72 As in the "Qualified Industrial Zones" agreements (QIZ) signed with Jordan and the USA, and with Egypt and the USA: <http://www.moit.gov.il/NR/exeres/FB0AA59D-BA77-4C8A-ACC1-D3A19663BBBE.htm>