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CHANGE

Assessing the Economic Impact of Easing Measures for the Gaza Strip

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MIDDLE EAST

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FOREWORD

BY TONY BLAIR, FORMER UK PRIME MINISTER AND EXECUTIVE CHAIRMAN OF THE TONY BLAIR INSTITUTE FOR GLOBAL CHANGE

This past year has seen Gaza brought repeatedly to the brink of all-out conflict—and this week was another stark reminder of the fragility of the situation. We have seen a return of rocket fire, sending thousands of Israelis back into shelters, and retaliatory strikes that have wreaked havoc and further destruction in Gaza. Months of violent—and deadly—protests on the security fence with Israel have left over 200 Palestinians dead and thousands wounded. Israelis in the south of the country have had their livelihoods damaged as incendiary devices set fire to hundreds of acres of agricultural land, often close to residential areas. All of this and more seemed to herald that another war was about to erupt.

The economic situation in Gaza is dire but not yet beyond repair. Taking immediate steps such as ensuring the regular payment of public-sector salaries, increasing the electricity supply, and facilitating access to Gaza through Israel and Egypt could turn around the lives of many Gazans.

Repeatedly, thankfully, arrangements to de-escalate were put in place, as mediators persuaded the sides to back down, to suspend provocations, and understandings were reached. Gazans and Israelis could heave another sigh of relief—but such respite is too often

short lived, and within a short space in time, we may once again be back on the brink with yet another major flare-up.

People in Gaza and Israel deserve better than this. Residents of southern Israel should not have to constantly remain close to shelters, watch their farmland and nature reserves be reduced to cinders and suffer from plumes of acrid smoke as tyres burn during protests in Gaza. Residents of Gaza should be allowed to live and move about freely, have access to clean water, electricity, jobs and a future that is open to the outside world. The absurdity of the situation is that everyone knows something must be done to bring about long-term calm for Gaza—but still we remain constantly on the edge of disaster.

For over a decade since leaving office, I have been involved closely in efforts to bring about a two-state reality between Israel and the Palestinians. For the vast majority of that time, Gaza has been a major issue that eluded significant progress. It should be a source of ignominy for all involved that Gaza is still closed off, still a source of serious security concerns for Israel and the Egyptians, with the majority of its 2 million citizens living off aid. And meanwhile, conditions on the ground continue to deteriorate in the absence of a political horizon.

The situation may appear intractable—but the fact is that alongside the efforts by Egypt and the UN to bring about a long-term truce between Israel and Gaza and to reconcile Palestinian politics, with emergency aid provided by Qatar for fuel and salaries to support this process, there are already a host of measures that are agreeable to the sides that can be implemented immediately. The paper we publish today shows how, despite the current economic crisis in Gaza, the economy can actually be put on a path to growth, and even show signs of recovery within just two years. But this will only be possible if there is peace and calm coming out of Gaza, not rockets and violence.

If there is calm, by implementing measures such as ensuring salaries are paid to the public sector, electricity is increased, and access through Israel and Egypt is improved, Gaza's GDP—which is virtually stagnant at 1 per cent—could increase by 39 per cent. Indeed, restoring full, regular functioning of the border crossings must be a priority. This research found that normalising the

operation of Gaza's crossings with Israel for imports and exports of goods, and for the movement of people, would yield the greatest economic benefits. It is also a key enabler for realising the full economic potential of other easing measures. Improved access through Israel alone would triple Gaza's exports and increase its imports by 30 per cent.

In addition, we found that some 85 per cent of family income and purchasing power currently depends on public employees' salaries; ensuring the payment of public-sector salaries is therefore essential, and the full, regular payment of these salaries would generate greater economic value than ad hoc humanitarian payments. The Palestinian Authority (PA) must avoid taking further measures to reduce public employees' salaries or force more workers into early retirement, otherwise it will make it all the more difficult to prevent a humanitarian crisis.

While it is possible to implement these easing measures without a reconciliation agreement between Hamas and Fatah, this paper notes that for long-term economic recovery and growth to really flourish, unity within Palestinian politics is absolutely necessary—and indeed a prerequisite to advance the national interests of the Palestinian people. Inaction, and hoping that the precarious status quo in Gaza can continue perpetually, is not really an option, and our analysis finds it would lead to unemployment rising by a further 8 per cent, and GDP contracting by 5 per cent. Another armed conflict, as well as a further cut in PA spending in Gaza, would spell the final collapse of Gaza, with unemployment rising by 39 per cent and a 12 per cent fall in GDP.

The current international efforts to restore the calm that followed the 2014 conflict should open up an opportunity to put in place the measures we outline here today, as well as others aimed at long-term recovery for Gaza. The impact of efforts by Egypt to facilitate movement of people and goods through its border with Gaza, as well as active interventions by the Gulf states, including Qatar, Saudi Arabia and the UAE, are felt almost immediately when carried out. More is needed, however, to go beyond a short-term de-escalation and stabilisation. The analysis presented in this paper provides an assessment of the measures needed for sustainable

economic recovery, to help Gaza, and its neighbours, escape from the recurring cycle of crises and short-lived calm.

EXECUTIVE SUMMARY

Gaza's economy has collapsed. Since Israel's disengagement from the Gaza Strip in August 2005 and Hamas's takeover of the area from the Palestinian Authority (PA) in June 2007, Gaza's gross domestic product (GDP) has grown by an average of only 1 per cent a year, compared with 6 per cent in the West Bank.

The combined effect of almost-stagnant GDP growth and an annual population increase of 3.5 per cent has been a sharp drop in Gaza's GDP per capita, which was 25 per cent lower in 2017 than it had been in 2005. The population depends almost entirely on foreign aid and the continuing payment of public-employee salaries, which account for about 85 per cent of family income. Unemployment is around 55 per cent, and over the past year, the population's purchasing power has been severely hit by the PA's decision to cut the salaries of public-sector workers and force many to take early retirement.

This situation, however, can be reversed in just two years. Taking immediate measures such as ensuring the regular payment of public-sector salaries, increasing the electricity supply, and enabling movement and access to Gaza through Israel and Egypt could turn around the lives of many Gazans.

KEY FINDINGS

- **Implementing a range of easing measures would result in considerable economic benefits for Gaza.** These include a 39 per cent increase in GDP, a 55 per cent increase in households' purchasing power, a 23 per cent drop in unemployment, a 625 per cent increase in exports and a 105 per cent increase in imports.
- **These benefits can be achieved without a reconciliation agreement between Hamas and Fatah.** But an agreement between the factions would be an important cornerstone for a sustainable economic recovery for Gaza in the longer term.
- **Restoring regular functioning of the border crossings should be a priority.** Normalising the operation of Gaza's crossings with Israel for imports and exports of goods, and for the movement

of people, would yield the greatest economic benefits. This is also a key enabler for realising the full economic potential of other easing measures.

- **Ensuring the payment of public-sector salaries is essential.**

About 85 per cent of family income and purchasing power currently depends on public employees' salaries, making the continuation of these payments vital. The payment of salaries would generate greater economic value than ad hoc humanitarian payments. A donor commitment through a dedicated humanitarian fund could ensure the payment of supplementary salaries and humanitarian payments at a monthly cost of \$20 million a month. However, if the PA further reduces the payments of salaries to its public employees in Gaza, donor aid will have to increase accordingly.

- **Permitting Gazans to work again in Israel would be a major boost to the economy.** Allowing the employment of Gazan labourers in Israel—even in limited numbers and following vetting by the Israeli security services—would have a significant economic impact. The Israeli labour market can easily absorb these numbers, and wages in Israel are about seven times higher than average salaries in the private sector in Gaza.

- **Other proposed measures would have a much lower impact in the short term.** Providing aid to the health and water sectors in Gaza is essential to maintaining health and well-being in Gaza, but it would not have a measurable economic impact in the short term. Likewise, the establishment of a seaport in Gaza, although important in the long run, would offer no short-term economic gain.

Without immediate action by Israel, Egypt and the PA, backed by the international community, another considerable deterioration is virtually inevitable. The need for intervention is therefore beyond pressing. But concerted economic steps can halt the freefall of the Gazan economy and put it on a course to recovery and growth. The benefits could be seen as soon as 2020.

INTRODUCTION

It is clear to all involved that the situation in Gaza is beyond dire. The economy has collapsed. The population depends almost entirely on foreign aid and the continuing payment of public-employee salaries, which account for about 85 per cent of family income.¹ An estimated 70 per cent of the population receives aid from the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which employs 13,000 people.² In total, there are 118,620 employees in the public sector and related services, including municipal services and UNRWA.³ In most cases, these employees support their extended families as well as their immediate circle.

This unsustainable situation could spiral into a serious humanitarian crisis in the short term. Should the PA act on its threats to further reduce public-employee salaries or force more into early retirement, an imminent humanitarian crisis would be virtually inevitable. Such scenarios would likely escalate border violence with Israel and drive the region towards an armed conflict.

The situation is not beyond repair, however. The implementation of immediate, targeted easing measures would stop the freefall of Gaza's economy and put it on a course to recovery by 2020.

This paper examines widely accepted measures—along the lines of those proposed by the World Bank, the International Monetary Fund (IMF), the Office of the United Nations Special Coordinator for the Middle East Peace Process, the Office of the Quartet and others working on Gaza—and assesses what impact they could have on the situation in Gaza over the next two years. These measures include immediate decisions on six issues:

1. ensuring regular salary and humanitarian payments;
2. increasing the electricity supply;

1 Authors' calculations based on Palestinian Central Bureau of Statistics (PCBS) data.

2 "In figures", UNRWA Communications Divisions, June 2017, https://www.unrwa.org/sites/default/files/content/resources/unrwa_in_figures_2017_english.pdf.

3 Authors' calculations based on data from the PA Ministry of Finance and UNRWA.

3. facilitating movement and access through Israel and Egypt;
4. expanding agriculture and fisheries;
5. advancing reconstruction and housing; and
6. allowing Gazans to work in Israel.

The paper provides a snapshot of the dire economic situation in Gaza and, using this as a reference point, assesses the individual and cumulative economic impact of the proposed easing measures on five economic indicators:

1. GDP;
2. employment;
3. purchasing power;
4. exports; and
5. imports.

Based on this economic assessment, the final chapter presents four possible political scenarios for Gaza—two positive, two negative—and the impact these would have on economic recovery. The first scenario is the implementation of the proposed easing measures without a further reduction in PA public spending or donor aid to Gaza. The second is the implementation of the easing measures coupled with Palestinian reconciliation.

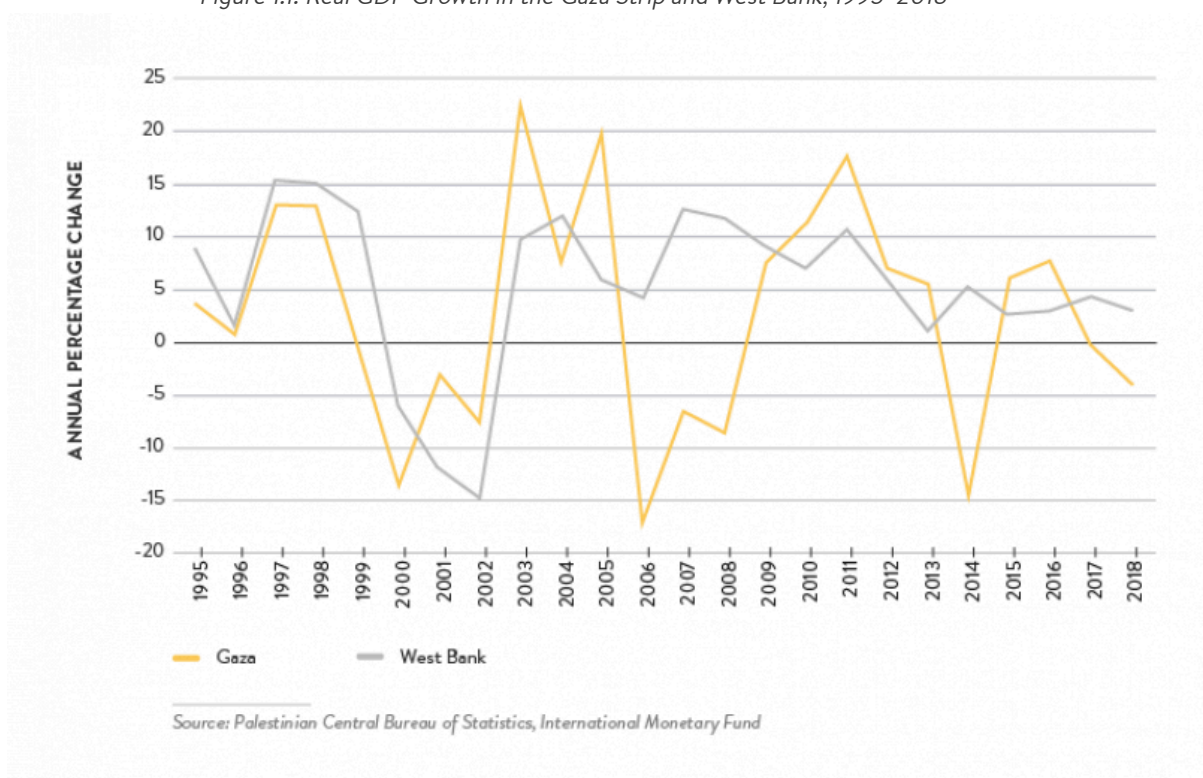
The third scenario is a continuation of the status quo without implementation of the proposed easing measures. The final—and worst—outcome is an escalation that includes increased violence, a further reduction in PA public spending, Hamas being unable to pay salaries to its staff and UNRWA being forced to stop its employment programmes.

THE ECONOMIC SITUATION IN GAZA

GDP GROWTH

Since Israel's disengagement from the Gaza Strip in August 2005 and Hamas's takeover of it from the PA in June 2007, Gaza's real GDP growth has averaged only 1 per cent a year, compared with 6 per cent in the West Bank (see figure 1.1). The combined effect of almost-stagnant GDP growth and a high population increase of 3.5 per cent has been a sharp drop in GDP per capita. In 2017, GDP per capita in Gaza was 25 per cent lower than in 2005, while that in the West Bank was 50 per cent higher.⁴

Figure 1.1: Real GDP Growth in the Gaza Strip and West Bank, 1995–2018



4 Calculated by the authors from Palestinian Central Bureau of Statistics (PCBS) national accounts statistics, various years (see the 2016 report at <http://www.pcbs.gov.ps/Downloads/book2344.pdf>); and “West Bank and Gaza Report to the Ad Hoc Liaison Committee”, International Monetary Fund, 9 March 2018, 10, <https://www.imf.org/en/Publications/CR/Issues/2018/03/16/west-bank-and-gaza-report-to-the-ad-hoc-liaison-committee>.

Since April 2017, the PA has made a series of cuts in its transfers to Gaza, including by gradually reducing public employees' salaries by up to 50 per cent; forcing more than 20,000 public employees into early retirement; and reducing the supply of electricity, fuel and health services to the Gaza Strip's population.⁵

These measures, in addition to a further decline in international aid to Gaza, have crippled the Gazan economy. They ended a short period of modest economic recovery that followed Israel's Protective Edge Operation in July–August 2014 and the start of the Gaza reconstruction effort in 2015–2016. The IMF estimates that real GDP growth in Gaza declined from 6–8 per cent a year in 2015–2016 to zero in 2017, and forecasts that it will decline by 4 per cent in 2018.⁶

In previous periods, when the security situation was better and there were fewer restrictions in place, Gaza's economy witnessed relatively high growth rates: 10 per cent on average in 1997–1999, and 17 per cent on average in 2003–2005. In 2005, GDP per capita in Gaza was only 10 per cent lower than in the West Bank.⁷

PRODUCTIVITY AND EMPLOYMENT

After the Hamas takeover in 2007, Israel placed severe restrictions on Gaza's imports of inputs for production and imposed a near-total ban on exports. These measures had a devastating impact on Gaza's manufacturing industry and other productive sectors such as agriculture and construction. As early as December 2008, 95 per cent of the 3,900 industrial businesses that had been

5 "Economic Monitoring Report to the Ad Hoc Liaison Committee", World Bank, 27 September 2018, 22, <http://documents.worldbank.org/curated/en/413851537281565349/pdf/129986-REVISED-World-Bank-Sept-2018-AHLC-Report-final.pdf>; "West Bank and Gaza Report to the Ad Hoc Liaison Committee", International Monetary Fund, 6 September 2018, 6, https://www.un.org/unispal/wp-content/uploads/2018/09/IMFAHLCREPORT_SEPT18.pdf.

6 "West Bank and Gaza Report to the Ad Hoc Liaison Committee", International Monetary Fund, 6 September 2018, 22, https://www.un.org/unispal/wp-content/uploads/2018/09/IMFAHLCREPORT_SEPT18.pdf.

7 Calculated by the author from Palestinian Central Bureau of Statistics (PCBS) national accounts statistics, new series of 1994–2016 data, released in 2017.

active in Gaza in 2005 ceased operation. The number of industrial employees dropped by a similar rate—from 35,000 in 2005 to only 2,000 by the end of 2008.⁸

Some industrial businesses, however, resumed operations in 2009, initially by importing inputs for production such as raw materials, machinery and spare parts from Egypt through tunnels. A partial easing of the restrictions on imports of inputs from Israel in 2010 helped the situation too. Yet the effect of these improvements has been limited. In June 2010, the number of people employed in Gaza's manufacturing industries was below 8,000, and in 2014 it was still as low as 11,000.⁹

A further relaxation of Israeli restrictions on imports in 2015 led to another partial recovery of private-sector activity. As of 2015, 16,000 people were employed in industry, including mining and quarrying, in Gaza; this number grew to 21,000 by the third quarter of 2016. Measured as a percentage of all employed people, work in the manufacturing industry accounted for no more than 7 per cent in Gaza, compared with 17 per cent in the West Bank.¹⁰

In April 2017, the PA began to introduce successive policies that cut funding to Gaza after Hamas's decision to form an Administrative Committee, which the PA viewed as a shadow government in contravention of agreements between the two sides. The economic decline that followed resulted in a considerable weakening of Gaza's productive sectors due to the sharp drop in PA public spending and ensuing decrease in purchasing power. The number of people employed in industry fell by 20 per cent between 2016 and the first half of 2018—from close to 19,000 to around 15,000. The total number of employees in industry, agriculture and construction fell by one-quarter, from above 50,000 in 2016 to below 40,000 in the second quarter of 2018 (see figure 1.2). As of

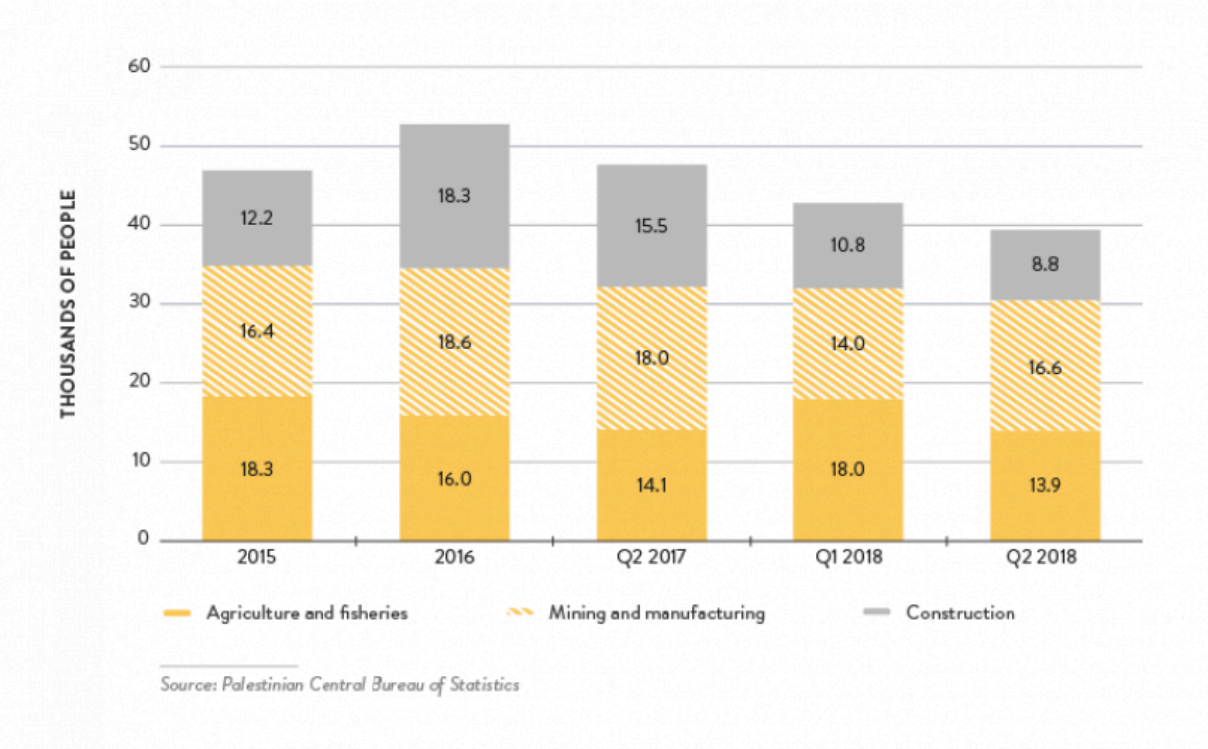
8 "The Palestinian Economy 20 years after Oslo: The Underlying Dynamics of Economic Underperformance and Unsustainability", Office of the Quartet, unpublished paper, September 2015, 62.

9 "Palestine Economic Bulletin - Economic Feature: The private Sector in Gaza", The Portland Trust, December 2010, 3; "Global Palestine, Connecting Gaza: A Spatial Vision for the Gaza Governorates", The Portland Trust, April 2016, 79.

10 Calculated from "Labor Force Survey 2015", Palestinian Central Bureau of Statistics (PCBS), 9–17, 58–59 and 86–87, http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_10-11-2016press_e.pdf.

the second quarter of 2018, the number of public employees in Gaza was more than three times those in agriculture, industry and construction. In 2016, that ratio was 2.5.¹¹

Figure 1.2: Number of People Employed in Gaza in Industry, Agriculture and Construction, 2015–2018

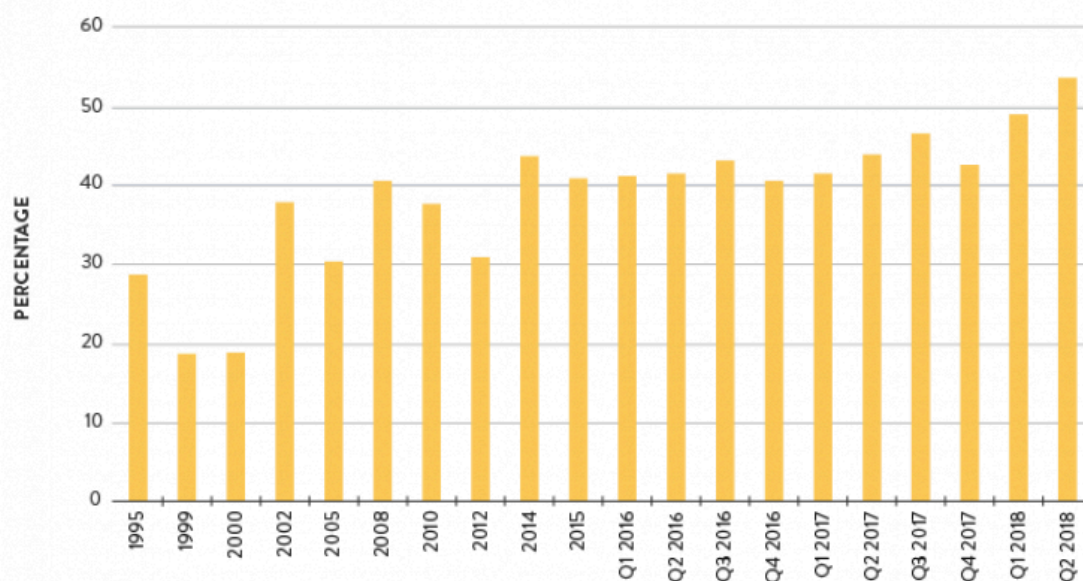


The PA sanctions also resulted in a rapid increase in unemployment rates, from around 40 per cent in 2015–2016 to over 50 per cent in the second quarter of 2018 (see figure 1.3).¹²

¹¹ Authors' calculations.

¹² According to the International Labour Organisation, only people who are actively looking for work (or declare that) are registered as unemployed. Those who would work if appropriate jobs were available for them are not considered part of the labour force, and are not counted as unemployed.

Figure 1.3: Formal Unemployment Rate in Gaza, 1995–2018



Source: Palestinian Central Bureau of Statistics

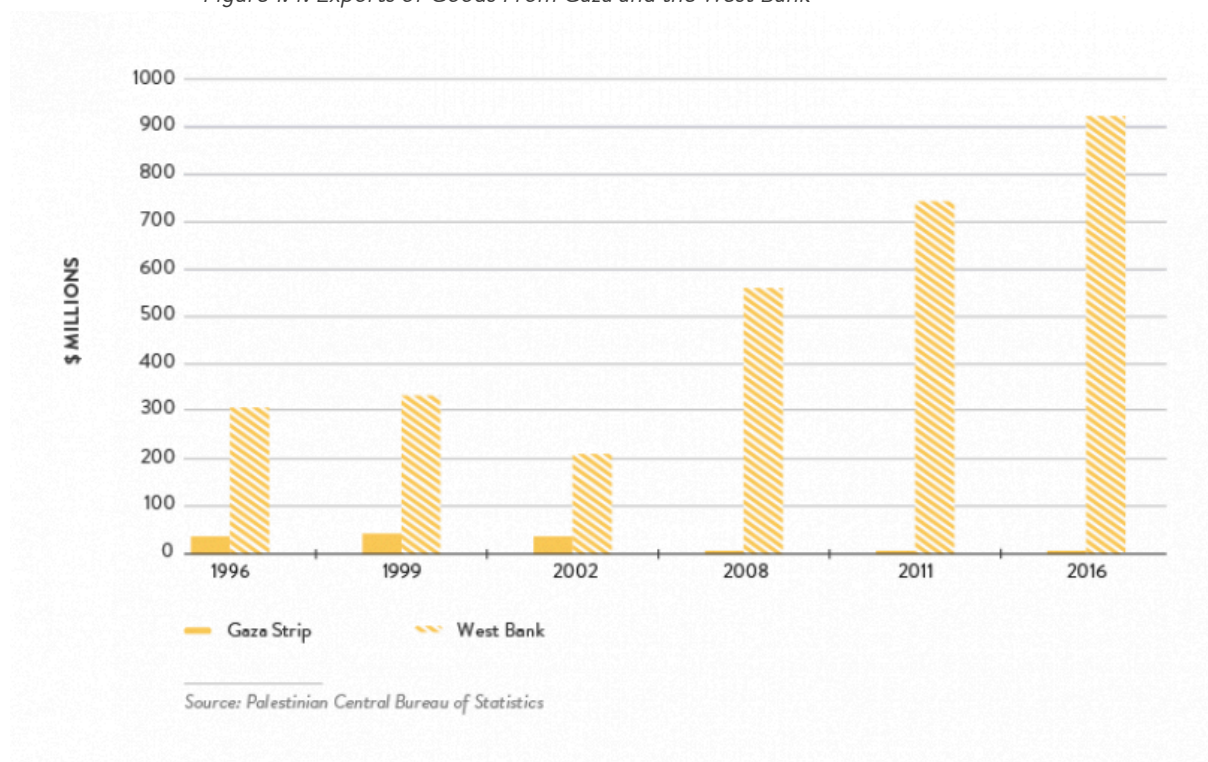
These developments resulted in a sharp drop—around 15 per cent—in household incomes.¹³

EXPORTS AND IMPORTS

Exports from Gaza, which ranged between \$30 million and \$40 million a year in 1996–2006, halted almost entirely after Hamas took over Gaza in 2007 (see figure 1.4). Since 2010, despite a partial relaxation of restrictions on Gaza, exports have remained insignificant, at an annual level of around \$4 million.

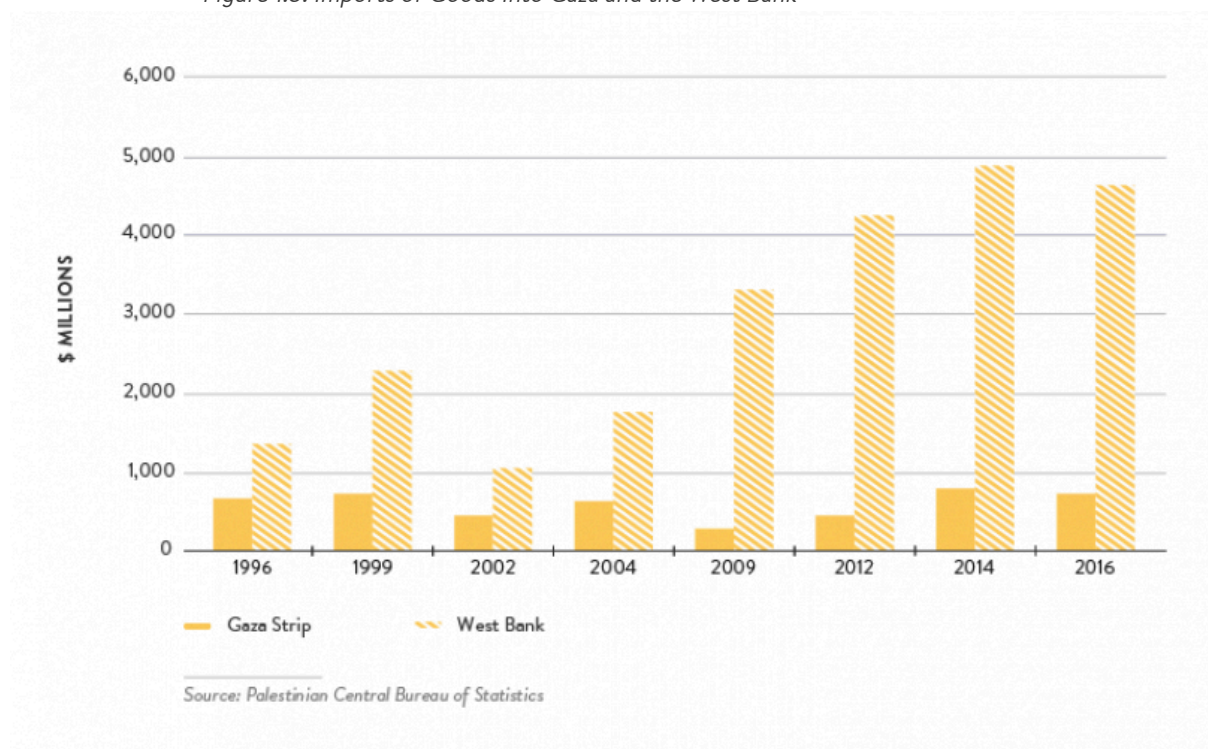
¹³ Authors' calculations.

Figure 1.4: Exports of Goods From Gaza and the West Bank



Gaza's economic hardships under Hamas have severely affected the Strip's imports as well: despite the partial removal of constraints on imports after 2010, annual imports in 2014–2016 were of the same magnitude as in 1999 (see figure 1.5).

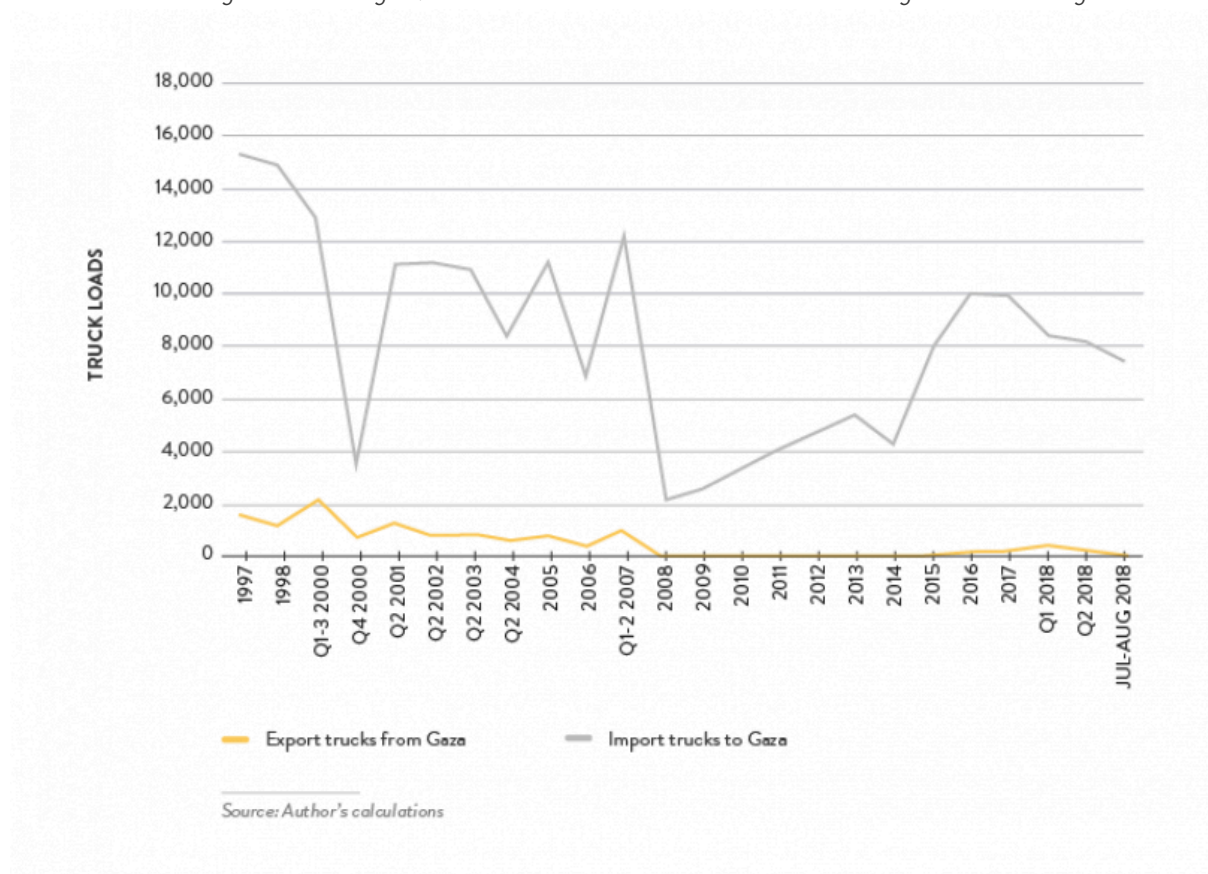
Figure 1.5: Imports of Goods Into Gaza and the West Bank



As detailed trade statistics are published with some delay, truck shipment statistics into and out of the Gaza Strip can offer a better understanding of the full picture. The number of trucks entering Gaza from Israel continued to increase between 2012 and 2016, plateauing in 2017 at around 10,000 trucks per month (see figure 1.6). In 2018, the number started to decrease to below 8,500 trucks a month in the first quarter, then to 7,400 a month by July–August. The increase in the number of export truck loads also halted in 2017.¹⁴

¹⁴ Authors' calculations from UN Office for the Coordination of Humanitarian Affairs (2017–2018), IMF and Office of the UN Special Coordinator for the Middle East Peace Process (1997–2005, 2007), and Paltrade (1996, 2008–2016). Data on imports from Israel to Gaza in 2001–2004 relate to the Karni Crossing only. Data on exports from Gaza to and through Israel in 1997–2016 (including shipments to West Bank) are calculated from the Paltrade Monitoring Report for July 2016: <https://www.paltrade.org/upload/multimedia/admin/2016/08/57a880e192058.pdf>. The years 2000 and 2007 were split into two periods each to reflect the start of the Second Intifada in September 2000 and the takeover of Gaza by Hamas in mid-2007.

Figure 1.6: Average Number of Truck Loads to and From Gaza Through Israeli Crossings



PROPOSED EASING MEASURES AND THEIR ECONOMIC IMPACT

Implementing immediate targeted easing measures in six areas can significantly improve the economic situation in Gaza in the short term—from now until 2020—and set it on a path towards economic recovery and growth. These measures are:

1. making regular salary and humanitarian payments;
2. increasing the electricity supply;
3. facilitating movement and access through Israel and Egypt;
4. expanding agriculture and fisheries;
5. advancing reconstruction and housing; and
6. allowing Gazans to work in Israel.

These measures are in line with the expert consensus on the types of steps needed to take Gaza out of its ongoing crisis. The tables below show the impact of each individual measure on key economic indicators, as well as the combined impact of implementing some of them together. In many cases, an individual measure would not have a great enough effect if implemented in isolation from other steps.

Of these measures, normalising the operation of Israeli crossings for imports and exports of goods, and for the movement of passengers, would yield the greatest economic benefits. It is also a key enabler for realising the full economic potential of other easing measures, as shown below in the assessment of their combined impact.

Most Gazans' family income and purchasing power depends on public employees' salaries, so it is essential to ensure the continuation of these payments. The regular payment of salaries would generate greater economic value than ad hoc humanitarian payments would.

Other important proposed measures, including on health and water, and the possible creation of a seaport would play a smaller role. Although providing aid to the health and water sectors in Gaza is essential to maintaining Gazans' health and well-being, it does not have a measurable economic impact in the short term. Similarly, the

establishment of a seaport in Gaza, although important in the long run, would not have a short-term economic benefit.

MAKING REGULAR SALARY AND HUMANITARIAN PAYMENTS

This measure has two components. The first is to ensure regular payments of salaries to 20,000 PA public employees at a cost of \$10 million a month. Since April 2017, the salaries of public-sector employees have been slashed by 50 per cent as part of attempts to pressure Hamas to reach a reconciliation agreement and relinquish control over Gaza. Some 85 per cent of Gazan households depend on these salaries.

Guaranteeing regular salary payments would lead to a 13.5 per cent increase in employment and a 10.6 per cent rise in purchasing power, among other benefits. Combined with facilitating access through Israel, the impact would be even greater (see table 2.1). Payment of more or fewer salaries would have a proportional impact.

Table 2.1: Short-Term Economic Impact for Gaza of Regular Salary Payments

Economic Indicator	Individual Impact		Combined Impact	
	Increase	Change %	Increase	Change %
GDP	\$165 million	5.0%	\$165 million	5.0%
Employment	33,000 people	13.5%	42,000 people	17.2%
Purchasing power	\$122 million	10.6%	\$122 million	10.6%
Exports	Insignificant	Insignificant	Insignificant	Insignificant
Imports	\$30 million	5.0%	\$90 million	15.0%

The second element consists of ad hoc humanitarian payments to 20,000 aid recipients, at a cost of \$10 million a month. Many Gazan residents rely on aid, so it is essential in the short term to ensure ad hoc, need-based payments to help increase families' purchasing power and kick-start economic activity.

Taken in isolation, emergency humanitarian payments would result in a 10 per cent increase in Gaza's imports—a figure that rises to 14.2 per cent if this measure is combined with facilitating access through Israel (see table 2.2). More or fewer payments would have a proportional impact.

Table 2.2: Short-Term Economic Impact for Gaza of Emergency Humanitarian Payments

Economic Indicator	Individual Impact		Combined Impact	
	Increase	Change %	Increase	Change %
GDP	\$66 million	2.0%	\$66 million	2.0%
Employment	4,000 people	1.6%	4,000 people	1.6%
Purchasing power	\$122 million	10.6%	\$122 million	10.6%
Exports	Insignificant	Insignificant	Insignificant	Insignificant
Imports	\$60 million	10.0%	\$85 million	14.2%

INCREASING THE ELECTRICITY SUPPLY

Gaza suffers from crippling power cuts: its sole power plant operates well below capacity, and the Strip relies almost entirely on fuel imports with limited power from feeder lines from Israel and Egypt. Several options for increasing the electricity supply to Gaza are under discussion; the key is to gradually increase the supply to

ensure that industrial and economic projects receive eight to 12 hours of power a day.

Doing so would add some \$18 million to Gaza's imports and \$50 million to its GDP. Those figures rise to \$29 million and \$80 million, respectively, if a reliable electricity supply is combined with facilitating access through Israel (see table 2.3).

Table 2.3: Short-Term Economic Impact for Gaza of Increasing the Electricity Supply

Economic Indicator	Individual Impact		Combined Impact	
	Increase	Change %	Increase	Change %
GDP	\$50 million	1.5%	\$80 million	2.4%
Employment	3,000 people	1.2%	5,000 people	1.9%
Purchasing power	\$6 million	0.5%	\$9 million	0.8%
Exports	Insignificant	Insignificant	Should be combined with movement and access	
Imports	\$18 million	3.0%	\$29 million	4.8%

FACILITATING MOVEMENT AND ACCESS THROUGH ISRAEL AND EGYPT

Movement and access for residents of Gaza remains a major issue, and the severe system of restrictions on goods coming into and leaving Gaza has had a detrimental effect on the economy. Opening up Gaza to enable more of the Strip's 2 million residents to travel for work, study and healthcare would have a significant impact on daily life as well as the economy. Measures should include

expanding the operation of the Rafah Border Crossing with Egypt to cover movement of goods and materials for reconstruction and infrastructure projects, and re-establishing a regular access arrangement to the West Bank, especially for businesspeople, patients and students.

Access Through Israel

Since the 2005 Israeli disengagement from Gaza and the 2007 Hamas takeover of the Strip, a strict regime has been in place limiting imports and exports with Gaza, as well as severely limiting the passage of civilians through the Erez Crossing with Israel.

Facilitating access through Israel would be a threefold measure. First, it would enable the import of machinery and associated parts and materials to selected vetted companies and bodies, including ad hoc inspections.

Second, it would enable the transfer of goods such as agricultural produce, textiles and light manufacturing to the West Bank and exports to Jordan, with a set number of truck loads or containers per month.

Third, it would re-establish a regular access arrangement to the West Bank, especially for businesspeople, patients and students.

These steps alone would triple Gaza's exports and increase its imports by 30 per cent. Taken together with the other measures outlined in this paper, facilitating access through Israel would raise exports sixfold and imports by over a half (see table 2.4).

Table 2.4: Short-Term Economic Impact for Gaza of Facilitating Access Through Israel

Economic Indicator	Individual Impact		Combined Impact	
	Increase	Change %	Increase	Change %
GDP	\$396 million	12.0%	\$660 million	20.0%

Economic Indicator	Individual Impact		Combined Impact	
	Increase	Change %	Increase	Change %
Employment	24,000 people	10.0%	41,000 people	16.6%
Purchasing power	\$68 million	5.9%	\$90 million	10.2%
Exports	\$8 million	200.0%	\$20 million	500.0%
Imports	\$180 million	30.0%	\$324 million	54.0%

Access Through Egypt

The Rafah Border Crossing with Egypt is the other main point of passage for Gaza. The crossing is open only sporadically, and in particular since 2013 there have been long periods when the crossing was closed. As a result, there is only a limited amount of trade through the Salah a-Din gate at the crossing. Facilitating access through Egypt would consist of expanding the operation of the Rafah Crossing to allow for a greater volume of passengers as well as movement of goods and materials for reconstruction and infrastructure projects under Egyptian supervision.

The effects of easing access through Egypt would include a \$5 million boost to Gaza's exports and an \$81 million rise in Gazans' purchasing power (see table 2.5).

Table 2.5: Short-Term Economic Impact for Gaza of Facilitating Access Through Egypt

Economic Indicator	Increase	Change
GDP	\$66 million	2.0%

Economic Indicator	Increase	Change
Employment	4,000 people	1.6%
Purchasing power	\$81 million	7.0%
Exports	\$5 million	125.0%
Imports	\$24 million	4.0%

EXPANDING AGRICULTURE AND FISHERIES

Gaza's fishing and agricultural sectors were once important areas for small businesses and the local economy, and agricultural products were a major sector for exports. Currently, Gaza's farmers are not allowed to develop their lands close to the border with Israel, which are among the most suitable for farming. The limit of Gaza's approved fishing zone is 6 nautical miles, but it is sometimes cut to 3 nautical miles when tensions rise (under the Oslo Accords, the limit was set at 20 nautical miles). As a result of these restrictions, these traditional sectors have been decimated, with unemployment rife.

To alleviate this situation, agricultural cultivation should be approved in designated areas along the buffer zone, while the approved fishing zone should gradually be increased. Expanding Gaza's agriculture and fisheries would add \$17 million a year to its GDP and create 1,000 jobs by 2020 (see table 2.6). Projects in these sectors are labour intensive, do not require long training periods, and would create jobs and increase families' purchasing power in a relatively short space of time. Industrial projects, in comparison, would take longer to build, launch and operate, so the benefits would only really be seen in the medium to longer term.

Table 2.6: Short-Term Economic Impact for Gaza of Expanding Agricultural Cultivation

Economic Indicator	Increase	Change
GDP	\$17 million	0.5%
Employment	1,000 people	0.4%
Purchasing power	Insignificant	Insignificant
Exports	Insignificant	Insignificant
Imports	Insignificant	Insignificant

ADVANCING RECONSTRUCTION AND HOUSING

International donors should contribute to funding the outstanding reconstruction of 2,600 housing units demolished during the 2014 conflict, at a cost of about \$100 million, and enable the construction of 3,000 low-income housing units, at an annual cost of \$120 million. Such construction projects would have an immediate impact on Gaza's employment levels, help deal with its housing shortage and quickly increase cash flows in the Strip (see table 2.7).

Table 2.7: Short-Term Economic Impact for Gaza of Advancing Reconstruction and New Housing

Economic Indicator	Increase	Change
GDP	\$132 million	4.0%
Employment	8,000 people	3.2%
Purchasing power	\$16 million	1.4%
Exports	Insignificant	Insignificant

Economic Indicator	Increase	Change
Imports	\$60 million	10.0%

ALLOWING GAZANS TO WORK IN ISRAEL

Wages in Israel are about seven times higher than average salaries in the private sector in Gaza, and work in Israel was once the major source of income for Gazans. Since March 2006, Israel has forbidden the entry of workers from Gaza, dealing a massive blow to the Strip's economy. The approval of 10,000 vetted labourers to work in Israel would raise Gazans' purchasing power by just over 14 per cent and add \$100 million to Gaza's GDP (see table 2.8). The Israeli labour market can easily absorb these numbers. The impact of approving more or fewer labourers would be proportional.

Table 2.8: Short-Term Economic Impact for Gaza of Allowing Gazans to Work in Israel

Economic Indicator	Increase	Change
GDP	\$100 million	3.0%
Employment	10,000 people	4.1%
Purchasing power	\$162 million	14.1%
Exports	Insignificant	Insignificant
Imports	\$15 million	2.5%

IMPACT OF EASING MEASURES BY ECONOMIC INDICATOR

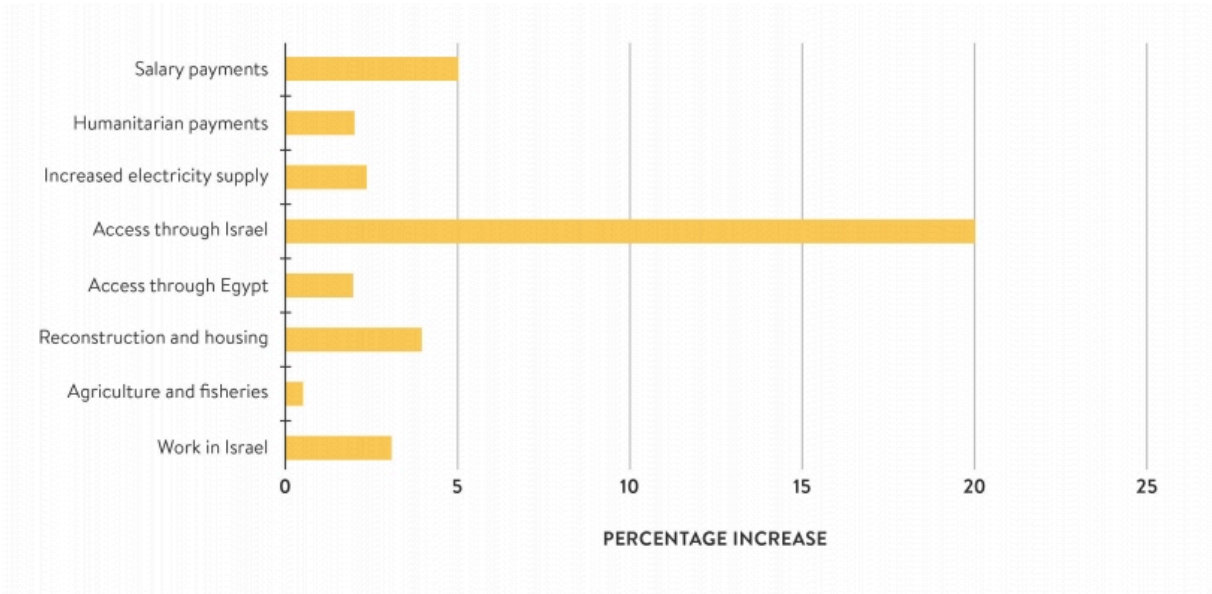
The graphs below illustrate the combined effect of the proposed easing measures and demonstrate how, if implemented together,

they could lead to a significant shift in Gaza’s economic fortunes by 2020. In many cases, implementing a measure in isolation from the others would not have the impact need to kick-start economic activity.

GDP

The biggest contributing factor to boosting GDP is access to Israel, which would bring about a 20 per cent increase when put together with the other easing measures. Securing regular salary payments for public-sector employees would raise GDP by 5 per cent, while other steps would have a lower impact (see figure 2.9).

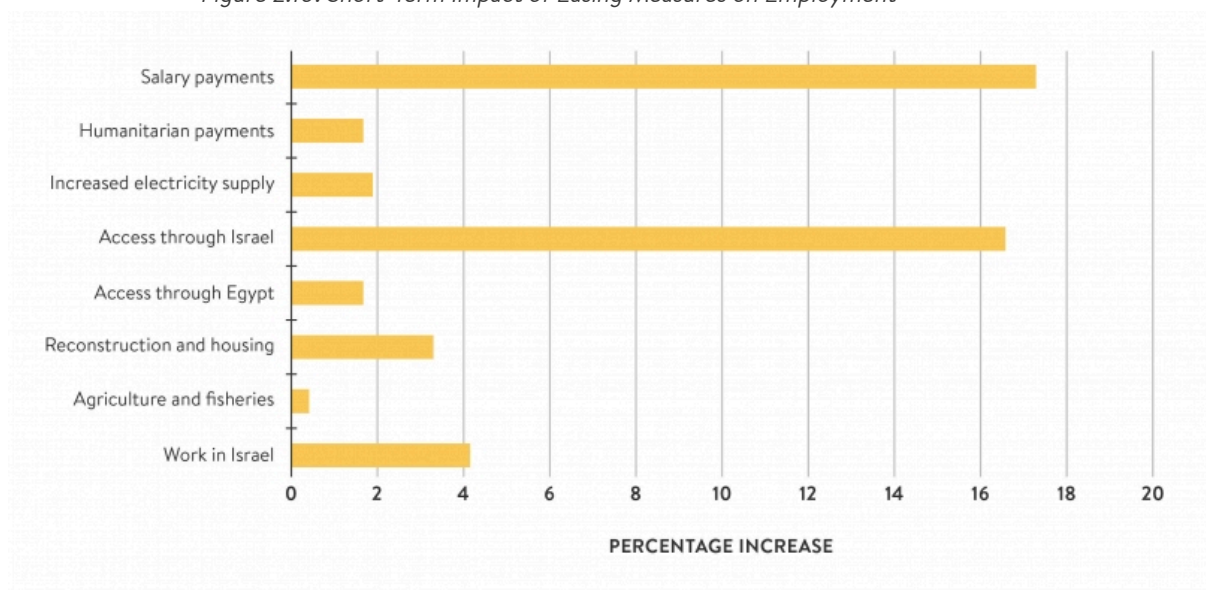
Figure 2.9: Short-Term Impact of Easing Measures on GDP



Employment

Enabling access through Israel and ensuring salary payments for public-sector workers would have the most significant impact on employment levels in Gaza, leading to increases of between 16 and 18 per cent by 2020 when combined with the other measures (see figure 2.10).

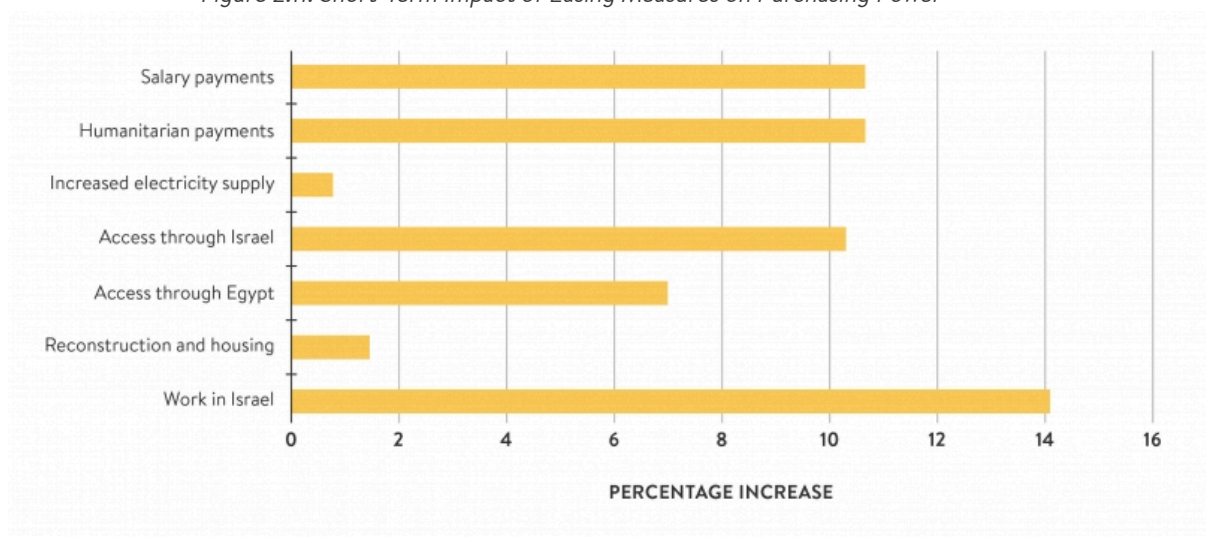
Figure 2.10: Short-Term Impact of Easing Measures on Employment



Purchasing Power

To increase Gazans' purchasing power, enabling them to return to work in Israel (even in limited numbers) would have the biggest impact, followed by ensuring salary and humanitarian payments to Gaza. Access through Israel, especially for businesspeople, would also have an important impact (see figure 2.11).

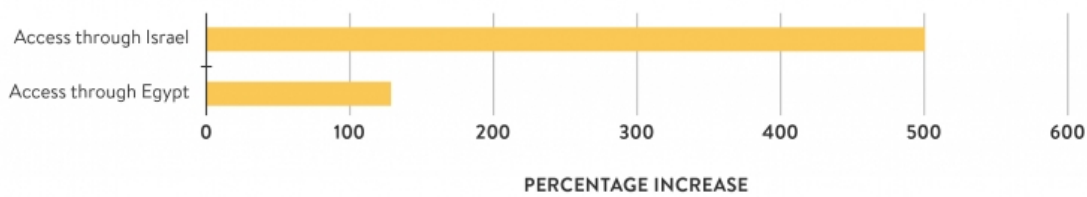
Figure 2.11: Short-Term Impact of Easing Measures on Purchasing Power



Exports

In terms of increasing exports, ensuring access through Israel for goods produced in Gaza would be the most important factor, leading to a 500 per cent rise by 2020 in combination with other measures. That would allow Gaza to reconnect with its traditional markets, including Israel, the West Bank and foreign markets, especially for agricultural products. Facilitating access through Egypt would result in a smaller but still significant jump of 125 per cent (see figure 2.12). The other easing measures outlined in this paper would have a negligible effect on Gaza’s exports.

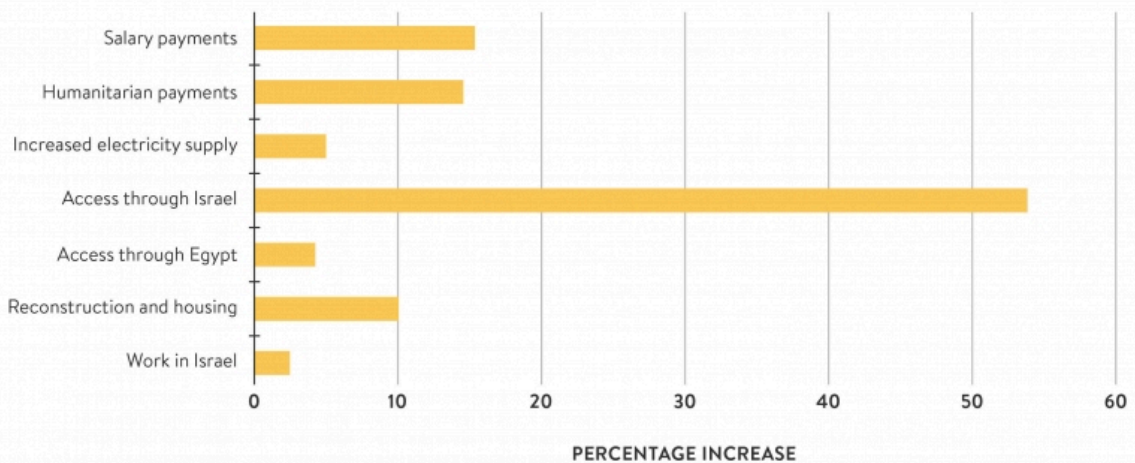
Figure 2.12: Short-Term Impact of Easing Measures on Exports



Imports

For imports as for exports, access through Israel would be the most important factor in boosting Gaza’s economic prospects, accounting for a 54 per cent rise if carried out alongside other measures. Ensuring the regular payment of public-sector salaries and releasing ad hoc humanitarian payments to aid recipients would result in more modest increases of around 15 per cent by 2020 (see figure 2.13).

Figure 2.13: Short-Term Impact of Easing Measures on Imports



POSSIBLE SCENARIOS FOR GAZA

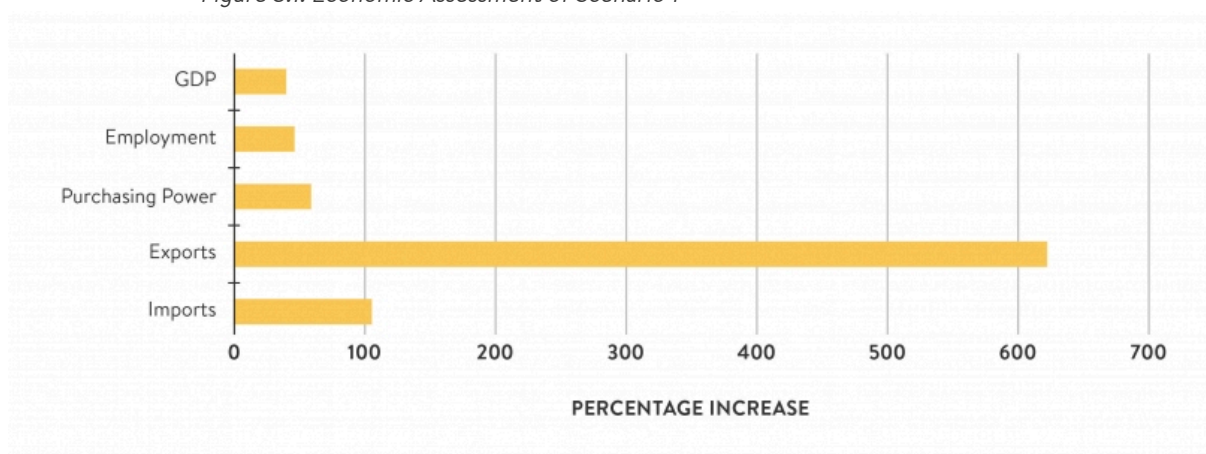
Depending on whether the easing measures discussed above are implemented and what other developments take place, there are four political scenarios that could unfold in Gaza over the coming period. Two are positive; two are negative.

POSITIVE SCENARIOS

Scenario 1: Easing Measures Only

This scenario envisages implementation of the easing measures discussed above without a further reduction in PA public spending or donor aid to Gaza. In these circumstances, Gaza would see a 625 per cent increase in exports and a 105 per cent increase in imports. The Strip's GDP, employment level and purchasing power would also enjoy a fillip (see figure 3.1).

Figure 3.1: Economic Assessment of Scenario 1



Scenario 2: Easing Measures and Palestinian Reconciliation

This scenario foresees implementation of the easing measures coupled with Palestinian reconciliation. This eventuality assumes that the Palestinian factions of Fatah and Hamas reconcile, the PA increases public spending in Gaza to pre-2017 figures, UNRWA can continue to operate its employment and aid programmes, and Gaza signs a truce agreement with Israel that includes the implementation of the easing measures (except the salary and humanitarian payments, which would be made by the PA).

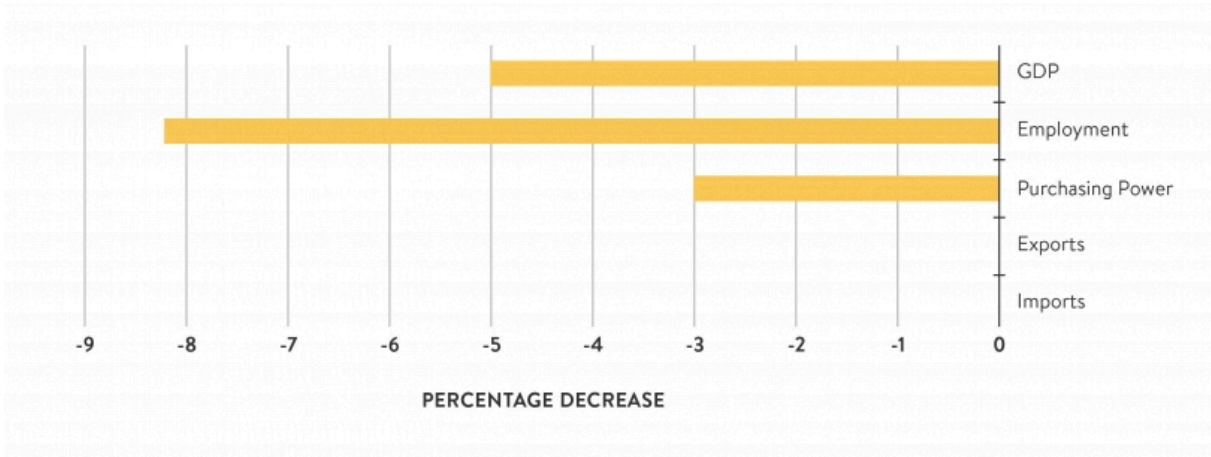
The economic impact of this scenario in the short term—from 2018 to 2020—would be identical to that in scenario 1, but it would lay the groundwork for a far more sustainable economic recovery for Gaza in the longer term.¹⁵

NEGATIVE SCENARIOS

Scenario 3: The Status Quo

In this scenario, the status quo would continue, without implementation of the easing measures. If this were to happen, Gaza’s employment would fall by over 8 per cent, GDP would shrink by 5 per cent and purchasing power would decline by 3 per cent. Exports and imports would remain constant under a continuation of the status quo (see figure 3.2).

Figure 3.2: Economic Assessment of Scenario 3



Scenario 4: A Worsening of the Status Quo

In the most negative outcome, not only would the easing measures not be implemented but there would also be an increase in violence and a further reduction in PA public spending. Hamas would be unable to pay salaries to its staff, and UNRWA would be forced to stop its employment programmes.

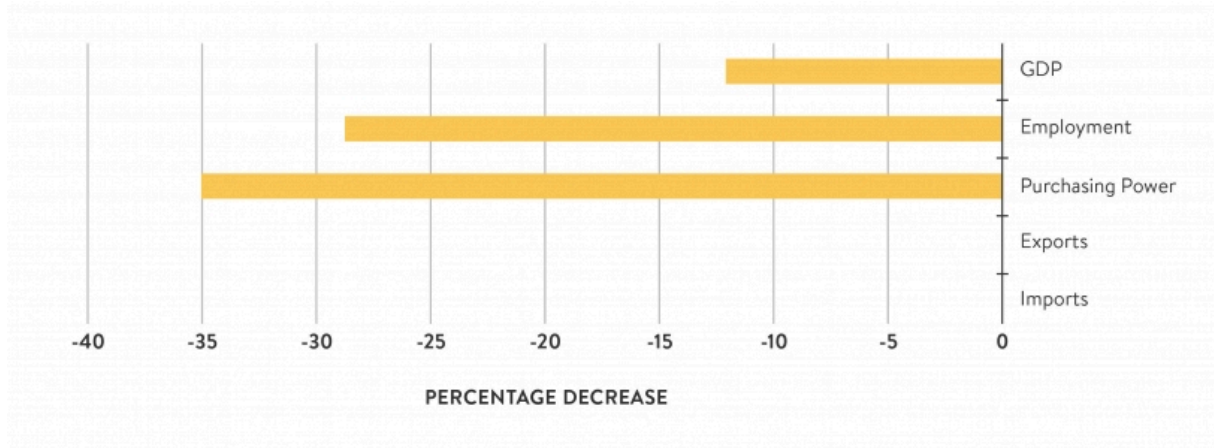
This scenario assumes that 40,000 public-sector employees, including in UNRWA, would lose their jobs and that the PA would

15 See “Beyond Aid: A Palestinian Private Sector Initiative for Investment, Growth and Employment”, The Portland Trust, November 2013.

further reduce the payment of salaries to remaining public-sector employees by 20 per cent.

Under these circumstances, Gaza's purchasing power would fall by 35 per cent, employment by 29 per cent and GDP by 12 per cent (see figure 3.3).

Figure 3.3: Economic Assessment of Scenario 4



CONCLUSION

Immediate intervention by Israel, the PA and Egypt, backed by the international community, is required to avoid an immediate deterioration into a serious humanitarian crisis in the Gaza Strip. While the situation in Gaza is dire, immediate measures that already have a broad consensus can help alleviate the situation. The implementation of such targeted easing measures could stop the freefall of Gaza's economy and change its course in the short term.

Of the measures proposed, normalising the operation of Gaza's crossings with Israel for imports and exports of goods, and for the movement of passengers, would yield the greatest economic benefits. It is also a key enabler for realising the full economic potential of other easing measures.

As most family income and purchasing power currently depends on public employees' salaries, it is essential to ensure the continuation of these payments. In the long run, however, this dependence is not a sustainable foundation for economic prosperity. The PA must avoid taking further measures to reduce public employees' salaries or force more workers into early retirement. If it does so, it will further complicate an already severe situation and make it much harder to prevent a humanitarian crisis. Such scenarios are likely to escalate border violence with Israel and drive the region towards an armed conflict.

Israel and Egypt have very real security concerns that have led them to impose severe restrictions on Gaza and its borders. But without some relief for Gaza, a serious deterioration becomes more probable. The negative scenarios examined above would speed up Gaza's worrying decline and likely lead to a new round of violence more serious than anything witnessed before.

The economic situation in Gaza is dire but not yet beyond repair. Taking immediate steps such as ensuring the regular payment of public-sector salaries, increasing the electricity supply, and facilitating access to Gaza through Israel and Egypt could turn around the lives of many Gazans.

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