ANALYSIS

PEACE AND SECURITY

RESTORING PALESTINIAN ECONOMIC UNITY

Palestinian Perspectives on the Reconstruction of Gaza

Misyef Jamel Misyef
October 2024

This analysis emphasises that resolving the Palestinian political division is crucial for achieving economic reunification between the West Bank and Gaza. A unified political system is essential for fostering economic growth and integration, as the division hampers progress.

Strategic interventions are needed to address the economic deterioration in both regions. These include legal, financial and private sector strategies, alongside engaging the Palestinian diaspora and ensuring geographical and commercial interconnection.

The author highlights the mutual benefits of economic unity, stressing the importance of utilising resources from both the West Bank and Gaza to revive their economies through a large-scale national project.

FRIEDRICH EBERT STIFTUNG

RESTORING PALESTINIAN ECONOMIC UNITY

Palestinian Perspectives on the Reconstruction of Gaza

The Palestinian economy was geographically and politically divided between the West Bank and Gaza even before the division that occurred in 2007. Still, any decline or growth in one area affects the other. A decline in Gaza's economic indicators leads to the obliteration of growth in the West Bank's economy, and thus a decline in the indicators of the Palestinian economy as a whole. Therefore, revitalising Gaza's economy will help the revitalisation of the West Bank's economy, and vice versa.

This paper aims to present the most prominent policy interventions, strategies and approaches aimed at restoring Palestinian economic relations between Gaza and the West bank and enhancing internal trade relations across all provinces of the two regions. In doing so, it focuses on interventions which are within Palestinian capacities. Good governance and economic management that prioritise national interests are essential for this endeavour.

The challenges are significant and diverse. The principal external challenge is the occupation, which is beyond Palestinian control. Internal challenges stem primarily from division, which should be addressed, working towards a resolution. All available Palestinian human capital, as well as internal and external resources must be utilised within the framework of confidence-building with all parties. Amongst other approaches, it is important to develop a strategically planned infrastructure network of roads and crossings that establish crucial connections between the West Bank and Gaza Strip.

Further information on the topic can be found here:
https://palestine.fes.de/topics/palestinian-perspectives-on-the-reconstruction-of-gaza

FRIEDRICH EBERT STIFTUNG

PEACE AND SECURITY

RESTORING PALESTINIAN ECONOMIC UNITY

Palestinian Perspectives on the Reconstruction of Gaza

In cooperation with:

Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

Content

1

INTRODUCTION

This paper addresses policy and strategic interventions in areas that have been neglected for many years and have not received attention from Palestinian decision-makers since the division in 2007 up to today. The vital and strategic economic dimension of the organisation and integration of economic relations between the West Bank and the Gaza Strip has been neglected because of Palestinian political division. This division has inflicted negative economic impacts on economic growth indicators, especially in the Gaza Strip. Additionally, the successive wars that the Gaza economy has faced have led to unprecedented destruction and very low levels of all economic indicators. This decline and regression occurred even before the war that began after 7 October 2023, which led to the destruction of all aspects of life, including the near-total disruption of economic activity and the eradication of the Palestinian production base in the Gaza Strip (MAS 2014).

This entire situation has plunged Gaza's economy into a significant economic catastrophe, unfolding in two stages. The first stage spanned from 2006 to 2023, characterised by political division, the Israeli blockade on Gaza, and successive wars during this period. The second stage began after 7 October and continues to this day. The economic catastrophe brought about by political division and wars has resulted in an enormous economic cost. This cost is no less perilous for the future than the political and human costs. It has become an existential threat to the foundations of life and any opportunities for achieving economic development and social justice.

In order to bridge the significant and devastating economic gap in Gaza, it is essential to develop deep and comprehensive policies and strategies in line with the current level of economic decline. The aim is to restore economic relations between the West Bank and Gaza to their state before 2006, as the losses in Gaza's economy are losses for the Palestinian economy. The main characteristics and indicators of the Gazan economy in comparison with the West Bank economy before internal division in 2006, and Israel's withdrawal from the Strip can be described as follows:[1]

– Gaza's economy accounted for more than one-third of the Palestinian economy (36 per cent of GDP). By 2022, this share had dropped to only 17 per cent. The contribution of Gaza's revenues to the public treasury was 30 per cent, but fell to 10 per cent in 2022. Unemployment in Gaza was 26 per cent, but over the past 15 years, the rate has averaged 45 per cent. All productive economic sectors in Gaza were negatively impacted between 2005 and 2022. Industrial production losses amounted to approximately $4.9 billion, while the agricultural sector experienced losses of around $1.3 billion during the same period.

– Gaza's imports of intermediate goods and raw materials from Israel and other countries amounted to approximately $775 million before 2005. By 2022, however, it did not exceed $165 million, leading to a decline in productivity. Additionally, Gaza's exports have fallen to nearly zero, whereas they averaged about $325 million annually before 2006.

In continuation of the previous wars and division, the current devastating war has dealt a final, catastrophic blow to all economic and social indicators and obliterated most aspects of life, making the Gaza Strip an unliveable place, due to destruction, forced displacement, and the disruption of the industrial production machinery and service infrastructure. As a result, Gaza's local output has plunged by 80 per cent, and unemployment has nearly become absolute (PCBS 2024).

The recent aggression on Palestine has shattered record lows across all Palestinian economic and social indicators, reflecting a long history of fragmentation and separation. These conditions led to the and disrupt all Palestinian development efforts. Currently, due to the fierce war raging since 7 October 2023, accompanied by political stagnation, Israeli intransigence, and unprecedented oppressive practices in all the Palestinian territories, several outlooks have emerged, some cautiously optimistic, others deeply pessimistic. Some believe that a real economic turnaround for Palestine is a remote prospect, while others see crises as opportunities for transformation and change. Ultimately, a specific economic model or framework need to be explored that may provide future visions for the Palestinian economy, regardless of the requirements of the current stage, which call for inevitable change and the restructuring of an economic and political

1 Various studies issued by the Palestine Economic Policy Research Institute (MAS), and official statistics from the Palestinian Central Bureau of Statistics (PCBS).

model different from before, utilising Palestinian resources and capabilities.

The points mentioned above provide sufficient and compelling justification to reconsider several strategic issues related to reorganising and strengthening economic and trade relations between the West Bank and Gaza within the framework of a new context without division, as such division does not exempt the conflicting parties (Fatah and Hamas) from their responsibility towards the people, the future of the cause, and national unity. What is needed, before, now and in the future, is a strategy that facilitates economic recovery, restores the minimum previous conditions, and builds upon Palestinian capabilities across all provinces, while utilising available resources. This should also involve external support, activating the private sector, and engaging Palestinians in the diaspora.

This paper aims to present the most prominent policy interventions, strategies and approaches aimed at restoring Palestinian economic relations between the two regions and enhancing internal trade relations across all provinces of Gaza and the West Bank within Palestinian capacities. To achieve this goal, the focus will be on fundamental principles and axes on which it will be possible to build:

– The Palestinian economy should be considered a unified entity, and any negative impact on one of the governorates is reflected directly and indirectly affects the others, with devastating economic repercussions in both the short and long term.

– The challenges are significant and diverse. The principal external challenge of course is the occupation, which is beyond Palestinian control, while internal challenges stem primarily from division, which can be managed, working towards a resolution.

– Dealing with the crucial political dimensions is urgent because of their impact on economic issues. Without a doubt, avoiding negative political developments serves the developmental economic dimension across all governorates of Palestine.

– The Palestinian economy was geographically and politically divided between the West Bank and Gaza even before the division that occurred in 2007. There is a clear separation between these economies due to political circumstances, and any decline or growth in one sector affects the other. It is important to note that a decline in Gaza's economic indicators leads to the obliteration of growth in the West Bank's economy, and thus a decline in the indicators of the Palestinian economy as a whole. Therefore, revitalising Gaza's economy should lead to the revitalisation of the West Bank's economy, and vice versa.

– All available Palestinian human capital, as well as internal and external resources must be utilised within the framework of confidence-building with all parties.

2

EFFECTS OF POLITICAL DIVISION ON THE PALESTINIAN ECONOMY

This section briefly outlines the negative impacts of wars and political division on the economic situation before and after the October 2023 war, as follows:

ECONOMIC IMPACTS AND DOWNTURNS AFFECTING GAZA'S ECONOMY BEFORE THE OCTOBER 2023 WAR

The Gaza Strip is considered a vital part of the Palestinian economy. Official statistical data from the Palestinian Central Bureau of Statistics indicate that it constitutes one-third of the Palestinian economy. Additionally, its population comprises 40 per cent of the population of the occupied Palestinian territories. However, the political and economic conditions that Palestine, and particularly Gaza (post-division), have experienced have adversely affected Palestinian economic growth, leading to the specific deterioration of Gaza across all levels.

The major challenges facing production and services in Gaza include the prolonged blockade, economic and trade restrictions, limitations on mobility, and repeated Israeli airstrikes over the past 17 years (UN 2020). Since the beginning of the blockade, Israel has largely controlled Gaza's maritime, airspace and land borders, severely restricting both internal and external trade. This control has significantly reduced trade revenues and hindered sectors from developing markets and revenues. Trade and production, especially resources and input materials, have been greatly constrained since 2006.

These restrictions, challenges and wars have limited the ability of factories to produce regularly and efficiently, as well as to expand, maintain competitive prices and create job opportunities. Most raw materials and necessary production equipment across all industries (inputs), such as fertilisers, pesticides, seeds, spare parts, wired and wireless communication devices, steel pipes, chemicals, construction materials, water pumps, medical equipment, and gas, are subject to Israeli restrictions. These items fall under the category of »dual-use goods« and Israel prohibits Palestinians from importing them, claiming they could be used for military purposes (UNCTAD 2020). Furthermore, Israel's control over its borders prevents Gaza from accessing the West Bank market, which is crucial for Gaza's economy.

What happens to the Palestinian economy in Gaza has a negative impact on employment. According to World Bank estimates, the unemployment rate reached 50 per cent in 2021, compared with 47 per cent in 2020. This significantly affected overall economic indicators across all regions and sectors of the Palestinian economy, resulting in extensive and immeasurable losses. There was a slight improvement after the Covid-19 pandemic.

Overall, it is difficult to accurately estimate and quantify the total losses caused by the Israeli blockade and the four military attacks on the economy of Gaza. Studies seeking to assess the overall impact of the restrictions are limited. According to UNCTAD (2020), the four Israeli military attacks (in 2008, 2012, 2014, 2023–24), along with the continuous blockade over the past 15 years, have destroyed the productive base of both the agricultural and industrial sectors in Gaza. The Israeli blockade of Gaza since 2007 has also led to a significant industrial decline due to shortages of essential resources necessary for producing textiles, furniture, agricultural products, foodstuffs, construction materials, and other things. This shortage of materials has affected industries such as gas, pipes, machinery parts, and raw materials essential for manufacturing. It has also restricted exports to neighbouring markets, including Israel and the West Bank.

THE IMPACT OF DIVISION AND POLITICAL DISPUTES ON ECONOMIC CONDITIONS

Over approximately the past 17 years since the internal division began, many political, security and economic events have occurred, impacting Palestinians everywhere, particularly in Gaza. During this period, various attempts have been made to end the conflict and internal division that casts a negative shadow over all aspects of life in Gaza. Unfortunately, all these efforts have failed, deepening the crisis amidst a state of fragmentation and internal Palestinian division. Despite multiple reconciliation agreements, they have all failed miserably. On the contrary, they have led to repressive measures by the Palestinian Authority in Ramallah, notably salary deductions for employees, severely affecting the already fragile economic conditions and purchasing power, especially in Gaza.

The Palestinian division has cost Gaza substantial amounts of aid and investment due to donor countries' reluctance for political reasons. As well as the decline in international aid, the Palestinian treasury has dwindled to unprecedented levels in the past decade (Shaban 2027).

The repercussions of the blockade and division on Gaza's economy can be summarised as follows:[2]

1. The disruption and decline of trade between the Gaza Strip and the West Bank. Statistics show that before 2006, Gaza exported between 30 and 35 per cent of its production to the West Bank, amounting to approximately 350–400 trucks per month. Since then, however, the number of trucks has become very limited and does not exceed 50 trucks per month. Additionally, the Gaza Strip is an important market for West Bank products, representing about 25–28 per cent of its imports from Gaza in terms of food products, stone and marble, medicines, chemical and plastics, and other industries (MAS 2015–2017).

2. Conversely, the Palestinian market used to be interconnected between the regions, and Gaza was not isolated in terms of trade with the West Bank markets. However, the division led to political conflicts and disputes that directly affected such trade. As a result of such conflicts, economic decisions were issued that were specific to each region, including decisions related to the de facto government in Gaza imposing taxes as it deemed appropriate. This situation led to double taxation, which is commercially unacceptable and violates the rules of internal trade in a unified market between the Palestinian governorates (MAS 2015–2017).

3. The socioeconomic pyramid was disrupted between 2006 and 2013 due to tunnel trading, which marginalised traditional and legitimate businesses. The tunnel economy generated a wealthy class (made up of persons who were previously not integrated into the business landscape) protected by the political system.

4. External investment ceased, and the Gaza Strip did not witness significant developmental investments during the years of the blockade. International foreign aid shifted primarily towards relief efforts, in addition to Qatari projects focusing on infrastructure, housing units, hospitals, schools, and ambulances. As a result, numerous productive projects closed, prompting many business owners to relocate their capital to investment outside Gaza.

5. The legal status and environment of the Gaza Strip differ from those of the West Bank. In September 2007, the Israeli government declared the Gaza Strip a »hostile entity«. This forced Israeli institutions to cease direct dealings with Gaza. Israeli banks stopped transactions with their counterparts in Gaza. and the flow of Israeli currency into Gaza decreased significantly. This triggered an ongoing liquidity crisis in the Gaza Strip.

6. There is a division in the financial and administrative system between the Gaza Strip and the West Bank. Since the division, Gaza has had a separate general budget, presented by the Hamas government, independent of the Palestinian Authority's budget.

   In 2014, the Hamas government's budget in Gaza was approximately \$895 million, with about 51,000 employees, roughly a third of whom work for the Ministry of Interior (MAS 2019). Expenditure on the Gaza Strip amounted to around USD 200 million a month (on average over the past 10 years), USD 73 million on wages. In 2021, for example, wage bill spending in the West Bank and Gaza represented 75 per cent of the PA's total wage bill (25 per cent total wage bill for 39,200 employees in 2021). This share has increased over time, the West Bank wage bill increasing 87 per cent between 2011 and 2021 at an average annual growth rate of 7 per cent. In contrast, the Gaza wage bill declined by 27 per cent over the same period, with the most significant decline taking place in 2017–2018 as Gaza salaries were reduced to 70 per cent (World Bank 2022). Concerning the negative impact on revenues and expenditures, PA spending on Gaza constituted more than 40 per cent of the total budget until 2005 but has decreased to approximately 25 per cent in recent years. This shift is attributed to financial constraints in the Palestinian general budget and shifting priorities following the division. Gaza's share of total revenues also declined from 30 to 10 per cent, leading to a shortfall in meeting essential population needs. Simultaneously, international aid to Palestine has declined. This reduction in both spending and revenues has directly affected economic activities and purchasing power, exacerbating economic stagnation in Gaza. It is a significant factor in the high unemployment rate, which has reached around 50 per cent in Gaza (MAS 2019).

ECONOMIC IMPACTS IN THE WAKE OF THE OCTOBER 2023 WAR

October 7 unleashed a catastrophic war on the Gaza Strip, described as unprecedented in modern history. This war has seen widespread destruction of people, buildings, trees and natural resources, both above and below ground. It has resulted in the near-total devastation of construction, water, electricity, buildings, economic and service facilities, universities, schools, and health-care facilities All of this has been accompanied by forced displacement from one area to another within the Gaza Strip and the confinement of the population in narrow spaces, devoid of most of the necessities of life. The following is a brief overview of the repercussions (MAS 2024) of this aggression, which indicates its unparalleled scale and nature compared with previous wars. The economic repercussions to date can be summarised as follows:

2 Cf. various studies issued by the Palestine Economic Policy Research Institute (MAS).

- More than 1.7 million people have been forcibly displaced in Gaza after the destruction of over 62 per cent of residential and vital infrastructure. According to the Palestinian Central Bureau of Statistics, two-thirds of private sector establishments ceased production across Palestine due to an almost complete halt in production at approximately 56,000 establishments in Gaza alone. Most of the workforce in Gaza, totalling over 147,000 workers, has experienced disruptions, excluding those employed in health care and the humanitarian relief sector.

- According to the World Bank's analysis of the economic impact of the conflict, the Palestinian economy has experienced one of the largest recorded shocks in modern economic history. GDP in Gaza has fallen by over 80 per cent, and the majority of economic activities have come to a halt. The report underscores the absence of any indicators suggesting imminent improvement in the near future (World Bank 2024).

- More than 120,000 workers have been laid off, indicating near-absolute unemployment rates that could reach up to 90 per cent.

- The economic situation in the West Bank has certainly been affected by the war in Gaza. Due to the occupation's measures designed to oppress the Palestinian people, many shops have closed, medium-sized and small projects have been halted, and imports and exports have been halted. The situation also affects merchants, manufacturers, craftsmen, farmers, and workers whose work permits have been suspended by Israel and replaced with Indian and foreign workers. This situation has led to a decline in all economic indicators in the West Bank. For example, during the past 10 months unemployment has risen to 37 per cent, imports have decreased by 25 per cent, exports have decreased by 30 per cent, and 30 per cent of firms have closed or are operating only partially (PCBS, MAS 2024).

Everyone in the West Bank is suffering and the crisis has worsened with the continued closure and Israeli restrictions on movements of goods and individuals.

All this illustrates the repercussions of the blockade, division and wars on West Bank and Gaza's economy, highlighting the magnitude of the recent war's calamities and the destruction that is irreparable within a limited timeframe and with merely ordinary efforts. Given this extraordinary and exceptional situation, addressing it requires extraordinary measures. Foremost among these efforts is the organisation of Palestinian internal affairs and the establishment of a unified political framework that accommodates all Palestinians, wherever they reside. This entails adherence to the following strategic principles in order to move towards change and devise a clear roadmap, both politically and economically. It is considered a necessary condition for moving forward.

3

INTEGRATING THE PALESTINIAN ECONOMY

Israel has imposed significant economic separation between the West Bank and the Gaza Strip, resulting in a wide disparity in living standards and economic development. Following the 2006 division, they were almost completely separated economically and geographically. Re-establishing economic integration or economic unity between these two parts will be one of the most critical challenges facing the Palestinian state. The ability to strengthen economic ties and link the West Bank's economy with Gaza's is crucial to establishing a fully functional state. Economic growth, too, hinges on this economic unity. The World Bank has explicitly stated this strategic goal: »The strategic goal of establishing a viable Palestinian state cannot be achieved unless the West Bank and Gaza remain together in a cohesive economic unit« (World Bank 2008).

In this context, it is necessary to clarify the concept of economic unity or economic integration among regions within a single state. Here, the term refers to a situation in which several conditions are met:

1. convergence of living standards among residents in different parts of the state;
2. a high level of financial integration, ensuring effective transfer of financial resources from wealthier to poorer regions;
3. a unified market, monetary policy, trade regulations, and economic legislation across all regions;
4. equal economic opportunities available to individuals across different regions;
5. integration in production pathways based on comparative advantages for each region (MAS 2011).

Achieving all the aforementioned conditions in pursuit of economic unity may indeed be challenging, but partial fulfilment is feasible with gradual progress towards meeting the remaining conditions. This process involves reshaping the current political landscape, attaining Palestinian sovereignty, and laying the foundations for a future Palestinian economy within an independent state. This shift will inevitably foster a new economic climate distinct from that of the past three decades.

THE DIRECT IMPACT AND BENEFITS OF ECONOMIC INTEGRATION BETWEEN THE WEST BANK AND GAZA

This section outlines the benefits and gains that can be realised from re-establishing economic connectivity between the West Bank and Gaza. It will focus on these advantages within the framework of fairly broad categories.

– The integration of the West Bank with Gaza would make it possible to break the West Bank's isolation as a landlocked geographical area and Gaza's isolation from the West Bank and the outside world. This would create additional advantages for West Bank products destined for export and for imported products by reducing export and import costs through Israeli ports. Studies have confirmed that using Gaza's ports could save up to 50 per cent on shipping costs. This of course would enhance utilisation of Gaza as a coastal area and boost commercial productivity and service activities within the sector as well.

– The West Bank and the Gaza Strip are small economic regions, and their integration would bring economic gains by creating a market with a more substantial capacity with regard to goods, services and factors of production. This would help to attract both local and foreign investments, leading to the construction of a new economy.

– There is a significant difference between the topographies of the West Bank and Gaza, as well as differences in population distribution, particularly the high population density and the proportion of urban dwellers (compared with rural inhabitants) in Gaza. Additionally, there is a contrast in agricultural production methods, with the West Bank relying on rain-fed agriculture in contrast to irrigated farming in Gaza.

– With regard to diversity of resources between the West Bank and Gaza, varied human resources and low-cost labour area available in Gaza due to the high unemployment rate. These can be used to reduce production costs and foster productive and service-oriented investments. It's worth noting that there is no difference in labour productivity between the West Bank and Gaza;

the disparity lies solely in wages. These wage differences will require time to balance out in the market, during which the economy can strengthen its capabilities and reduce unemployment. Achieving wage parity between the West Bank and Gaza is crucial to mitigating the economic and social disparities between the two regions. This can be accomplished by integrating workers from Gaza into the West Bank, particularly in sectors such as tourism, restaurants and furniture, in which the West Bank is suffering from labour shortages (MAS 2017).

In addition to the variation in natural resources between these regions, the most prominent resources are as follows:

– The agricultural lands in the southern and northern Gaza Strip cultivate seasonal crops that are not grown in the West Bank. Similarly, the West Bank offers a variety of agricultural products during different seasons that are not produced in Gaza. This diversity is attributable to climatic conditions, geographical factors and the nature of the agricultural land.

– The presence of gas fields in the waters off Gaza is a significant economic advantage, and their exploitation could accelerate Palestinian economic growth. UNCTAD anticipates in its studies that tapping these gas fields could increase Palestinian GDP with high growth rates, potentially up to 16 per cent. This would propel the Palestinian economy to a completely new level, with positive implications, such as reducing production costs, lowering the prices of essential commodities such as electricity, easing the burden on the public budget, and creating opportunities for government development spending (UNCTAD 2019a).

– The agreement resulting from the Oslo Peace Process signed on 13 September 1993 between the Palestinians and Israel stipulated that the Palestinian Authority has rights to Palestinian commercial gas resources. It was anticipated that this field would yield between USD 700 to 800 million annually for the Palestinian Authority. Other estimates suggest that the gas reserves could meet Palestine's needs for the next 25 years (UNCTAD 2019b). Additionally, the Gaza Marine Field is one of the oldest in the Eastern Mediterranean region. It was discovered by BP in 1999 and is also one of the closest to the shore, approximately 30 kilometres from the Gaza coast. It thus falls within Palestinian commercial waters. It is estimated to contain around 1.5 trillion cubic feet of gas. According to a study by the UN Conference on Trade and Development (UNCTAD) published in 2019, if we assume that gas prices will remain at their lowest levels, the Palestinians have lost approximately USD 2.57 billion because they have been prevented from exploiting their gas resources in the Gaza fields over the past two decades. In this context, an UNCTAD study estimates that there are approximately 1.5 billion barrels of oil in the Majd Field in the West Bank, in addition to quantities of gas. Although Israel claims that extraction occurs west of the Green Line, most of the field is located in the West Bank. The exploitation of petroleum fields in the West Bank would yield positive outcomes similar to the gas fields in Gaza. It would contribute added value to the new Palestinian economy, establishing a foundation for a future economic phase that benefits all components of GDP and improves all economic and social indicators.

There are many other advantages that cannot be detailed here, such as the benefits of natural resources from the Dead Sea, metals and stone in the West Bank, sand, and the fisheries wealth of Gaza. Additionally, there is potential in both the West Bank and Gaza as tourist destinations. All of these things could positively impact production patterns and trade, and enhance services in both the West Bank and the Gaza Strip.

The process of reconnecting the economy is a major national project with political, economic and other positive dimensions. Both in principle and in practice, there are significant economic opportunities that can propel the Palestinian economy towards rapid growth if economic integration between the West Bank and Gaza is achieved. The integration of the two areas would provide better opportunities for sustainable development, even if the future state is geographically separate but interconnected by a network of roads or passages between the two areas. The key is to establish a foundation to strengthen and formalise economic and trade relations, and to fully exploit the potential in the Palestinian territories. This foundation cannot be laid without resolving the political tensions and partisan disputes, however, necessitating the establishment of a consensus-based and democratic political system. Good governance and economic management that prioritise national interests are essential for this endeavour.

4

POLICIES AND INTERVENTIONS AT THE STRATEGIC LEVEL

Based on the previous points, it's imperative that a clear vision be articulated for the identity of the Palestinian economy and its trade and economic relations with its surroundings. This particularly concerns clear foundations for reuniting the Palestinian economy, especially the economic integration of Gaza with the West Bank. This calls for short- and long-term strategies and policies upon which economic decision-makers and economists can agree.

The success of these interventions hinges on two factors: first, the evolution of the political landscape over time (ending division, establishing a mutually agreed political system), recognising that transformation cannot occur abruptly. Second, an executable, practical and legal framework encompassing policies, tools and mechanisms that streamline economic and geographical integration. This framework is essential and complementary to advancing Palestinian economic development across all regions. Below, we outline the necessary interventions within a strategic policy framework:

First: The legal, economic and financial framework, which requires implementation of the following policies:

1. Reformulating a clear economic and commercial legal framework for the private sector that does not differentiate between Palestinian markets and considers the movement of goods between the governorates of Gaza and the West Bank subject to the rules of internal trade.

2. Reunifying the general budget and allocating a reasonable portion for development and investment spending with a focus on investment in infrastructure, education and health projects, and giving the largest share to the Gaza Strip.

3. Establishing exceptional trade and investment facilities for the Gaza Strip that go beyond what is stated in the Investment Promotion Law to attract local and foreign capital for investment.

4. Identifying a list of strategic, productive, industrial and agricultural projects and determining what the government should do, what should take the form of a partnership between the public and private sectors, and what should be left to the private sector to implement.

   This situation requires a policy and legal framework, especially with regard to partnership between the two sectors.

Second, the framework and strategy for engaging with the Palestinian private sector and feasible projects are as follows:

1. Directing the private sector to capitalise on relative advantages and investment opportunities in each governorate, supported by the public sector in policy formulation and guidance for the development process, helps to avoid overlaps in economic activity, reduces internal competition, and minimises sectoral conflicts. This approach leads to a strategic delineation of the economic roles of each region, carefully planned and structured. It is essential to empower local authorities in planning and formulating local policies. The relevant perspective is economic integration between the regions, leveraging both backward and forward linkages of the productive economic cycle. This would foster convergence of living standards, bridge income and labour wage gaps between regions, and reduce developmental disparities by reallocating financial resources from one region to another, thereby achieving developmental balance.

   This mechanism would achieve specialisation and division of labour in each region, which complement each other in the trade of goods and services, population movements and factors of production. This may simultaneously require resource transfers through government policy, for example, taxes and public spending.

2. To enhance investment and imports, a significant role should be assigned to the private sector, overseen by government and supported through the implementation of policies that encourage and safeguard private goods. These policies could specifically designate certain Gaza governorates entirely tax-exempt free-zones for industry and commerce. Such measures would aim at attracting investors from the West Bank to these regions, fostering increased trade and economic ties between the West Bank and Gaza.

3. Implementing the above framework necessitates the establishment of a development planning commission

by legal mandate and introduction of a new legal framework outlining the authorities of local bodies. Additionally, a legal policy framework is essential to facilitate partnerships between local government and the private sector. It's important to note that this framework differs from the public–private partnership framework mentioned earlier.

Within this framework, the following projects can be undertaken:

- Projects addressing health care, education, infrastructure and housing, especially in Gaza, which has been severely impacted by ongoing conflicts.

- Directing investments towards productive projects in Gaza due to high unemployment rates (there is a significant disparity with northern regions), requiring substantial investment across various sectors, especially agriculture and industry. Gaza continues to face ongoing destructive conflicts.

- Directing investments into banking, financial intermediation, and transportation services in Gaza due to clear deficiencies in these areas. The commercial activities and population density necessitate services commensurate with their scale.

- Utilising agricultural land and its fertility, as well as livestock wealth, by directing investments into agriculture and related industries such as grain cultivation, feed factories, and food processing industries derived from animal products such as dairy, cheese, and milk. Investment in high-value crops and lands is also crucial, leveraging the abundant olive trees in the region for olive oil production.

- Domestic and foreign investment in exploiting gas and petroleum fields and implementing contracts with external entities, contingent upon political solutions with Israel.

Thirdly: Framework and strategy for activating work with the Palestinian diaspora

And here we can discuss expatriates who have the right to return to Palestine and can remain there, or those who wish to direct their investments there even if they are unable or unwilling to return to Palestine.

The Palestinian diaspora is focused primarily on awareness-raising and solidarity activities, such as conferences and solidarity initiatives carried out by Palestinian communities in various countries. Despite encompassing a wide range of activists, thinkers, financiers, and scholars, this engagement has not had a significant positive impact on the Palestinian economy. Such an impact will materialise only with exceptional incentives and the creation of a supportive environment for diaspora Palestinians, particularly in terms of capital and human resources. What is required from the diaspora is not just media and awareness-raising solidarity, but an economic contribution. Maximising such a contribution requires a conducive environment to be provided by the political and legal system. Working with the Palestinian diaspora must thus start with the establishment of a legal framework. It is essential to develop specific investment incentives and guarantees to help to attract diaspora Palestinians or their investments for mutual benefit and to enhance local development opportunities.

In addition, embassies and representatives of Palestinian communities abroad must be activated and an international conference must be held for all Palestinian communities. This conference should produce actionable recommendations and strategies to serve the Palestinian economy across all Palestinian territories.

Here, the role of the government or regional council would play a crucial role in identifying deficiencies and correcting them, offering exceptional incentives to attract both local and foreign investors. This would provide specialised facilitation and streamlining procedures, directing investment policies and developmental expenditures from the general budget. This can also involve collaborative projects between the public and private sectors. In this context, we outline an example of key areas with development gaps with promising investment potential for inclusion in the investment map.

The investment opportunities are significant and diverse but require a fundamental change in economic and administrative policies. However, there are challenges due to Israeli occupation in general and negative impacts associated with the Paris Economic Agreement that regulates the economic relationship between Israel and the Palestinian Authority. Additionally, resources such as the Dead Sea minerals, natural gas off the coast of Gaza, and petroleum in the northern West Bank remain underutilised. Some international investment opportunities also require the end of occupation to be fully realised. With current possibilities, efforts are being made to overcome internal difficulties, enhance current capabilities, and work towards economic advancement.

Fourthly, consideration of the geographical and commercial linkages between the West Bank and the Gaza Strip is essential.

Freedom and ease of movement for individuals, capital and goods between regions are crucial for fostering economic and commercial activity. However, achieving this requires robust infrastructural, logistical and procedural frameworks. This infrastructure includes well-developed internal transportation networks and capable facilities that connect Palestinian cities, as well as establish links between the West Bank and Gaza Strip. Reflecting on Palestine's historical context, before the 1948 Nakba, Palestine boasted one of the most accessible regions in the Middle East, characterised by seamless mobility, diverse transportation facilities, and extensive connectivity.

Currently, due to occupation, recurrent wars and the fragmentation of Palestinian territories into isolated cantons due to settlements, movement has become nearly impossible. The absence of airports, seaports and a railway network further complicates transportation, especially between the West Bank and Gaza Strip. Adding to this challenge is the complete blockade and closure of Gaza since 2006.

To address this situation, it is crucial to develop a well-designed and strategically planned infrastructure network of roads and crossings that establish clear connections between the West Bank and Gaza Strip. The aim would be to restore the unity of the Palestinian economy as it existed in the past. Various proposals have been put forward for geographical connectivity between the West Bank and Gaza, including an underground passage or tunnel. However, these options raise concerns regarding cost and passenger safety. Therefore, more feasible proposals emphasise the need for an above-ground transportation corridor linking the West Bank and Gaza at surface level (at-grade).

5

CONCLUSION AND RECOMMENDATIONS

Achieving strategic objectives and implementing the required policies involves tackling or mitigating challenges. Setting aside the political factors related to Israeli occupation, significant challenges remain, both currently and in the future.

ON THE PALESTINIAN SIDE

– Creating coherence in the Palestinian political system and bureaucratic apparatus involves overcoming the challenges involved in reintegrating and harmonising the economies of Gaza and the West Bank, which have been separated by blockade and division. Gaza is in urgent need of many products produced in the West Bank, and vice versa.

– Achieving substantial change in the Palestinian economy, both presently and in the future, hinges on harnessing its resources, such as energy, gas and petroleum, as well as leveraging its geographical position and climatic conditions in both the West Bank and Gaza. This underscores the critical challenge of designing and executing a national Palestinian initiative founded on economic unity, while navigating internal and external political obstacles.

– Another challenge is the activation of private sector institutions, civil society organisations, and the international community.

– The ultimate challenge lies in the willingness to implement the strategic frameworks mentioned above, and the readiness and commitment of all parties involved over the long term.

– Finding solutions to the real challenges faced by the private sector in Gaza, and bridging government perspectives between Gaza and Ramallah, is of the utmost importance. This would lead to realistic and mutually agreed-upon solutions from all parties involved.

Another significant challenge lies in the inability to utilise Palestinian resources, such as oil and gas fields in both the West Bank and Gaza. Unfortunately, due to Israeli control, these resources cannot contribute to Palestinian development efforts. This issue would require a separate paper. If access is granted to exploit these resources, they could significantly impact the Palestinian economic landscape. For that reason, this discussion did not go into them extensively, focusing instead on achievable goals given the current circumstances.

ON THE INTERNATIONAL AND ISRAELI SIDE

Interventions by the Palestinian side alone are not sufficient to bring about real change on the ground. Such interventions need strong support from the international community and establishment of an understanding with and facilitation from the Israeli government. This can be achieved by obliging both sides to adhere to the principles of the Oslo Accords and the Paris Protocol on Economic Relations, which were agreed with the Israelis. This would also strengthen the objective foundations of these agreements, paving the way for a mapping of the terrain for the next stage, while considering the adverse developments that have taken place in recent years. In other words, we need to draw on previous lessons to enhance the growth of the Palestinian economy.

Achieving these goals requires working to lay the foundations for a true peace process. For this purpose the following are required.

– The involvement and intervention of the international community, especially the Quartet, activating it in order to move forward to improve the current situation and help the PA through development projects and supporting the development budget.

– Resumption of negotiations under the supervision of the Quartet and pressuring Israel to adhere to previous commitments, in addition to putting a clear agenda on the negotiating table concerning top priority economic and trade interventions for the Palestinian economy, within a specific timeline and binding on all parties, especially in relation to natural resources, such as gas and petroleum.

– A mechanism established and agreed with the Israeli side and the international community for the movement and transportation of goods between the West Bank and the Gaza Strip, which more than anything else depends on the good will of the Israeli side.

Developing a unified aid programme or mechanism among donor countries to support the Palestinian economy and identify the needs of both the public and the private sectors, in addition to the urgent social needs in the West Bank. Noting that the AHLC already exists but support needs to go beyond the normal.

As for the Gaza Strip, handling the current situation is a much bigger challenge that needs more than particular interventions. It needs a large, active international community to provide generous support to rebuild and meet the basic needs of the people of Gaza.

REFERENCES

Palestine Economic Policy Research Institute (MAS) (2011): Trade Relations between the West Bank and Gaza and the Disparities in Economic Structures [in Arabic], http://www.mas.ps.

Palestine Economic Policy Research Institute (MAS) (2015–2017): Palestinian Trade Policy Options, 2017, Sectoral Studies Series, http://www.mas.ps.

Palestine Economic Policy Research Institute (MAS) (2019): Roundtable Session – Public Budget Analysis, http://www.mas.ps.

Palestine Economic Policy Research Institute (MAS) (2024): Summaries on the Impact of the War on Gaza, http://www.mas.ps.

Palestinian Central Bureau of Statistics (PCBS) (2024): https://www.pcbs.gov.ps.

Shaban, Omar (2017): Three years since the Cairo Conference for the Reconstruction of the Gaza Strip: Between funding promises, the UN mechanism, and the continuation of suffering [in Arabic], https://palthink.org/2017/10/2336/.

United Nations (UN) (2020): UN report: The economic losses of the Gaza Strip resulting from a decade of Israeli occupation and blockade have exceeded $16.5 billion [in Arabic], https://news.un.org/ar/story/2020/11/1066492.

United Nations Conference on Trade and Development (UNCTAD) (2019a): The Economic Costs of the Israeli Occupation for the Palestinian People: The Unrealized Oil and Natural Gas Potential, https://unctad.org/system/files/official-document/gdsapp2019d1_en.pdf.

United Nations Conference on Trade and Development (UNCTAD) (2019b): Trade and Development Report 2019, https://unctad.org/system/files/official-document/tdr2019_en.pdf.

United Nations Conference on Trade and Development (UNCTAD) (2020): Trade and Development Report 2020, https://unctad.org/system/files/official-document/tdr2020_en.pdf.

World Bank (2008): An Analysis of the Economic Restrictions Confronting the West Bank and Gaza, The World Bank, Washington, D..C

World Bank (2008): Improving Trade and Transport for Landlocked Developing Countries, World Bank contributions to implementing the Almaty Programme of Action, The World Bank, Washington, DC.

World Bank (2022): Wage Bill and Employment Diagnostic: Key Drivers and Policy Recommendations, https://documents1.worldbank.org/curated/en/099320012152224196/pdf/P17870707ee3d60d0b5460a16a39379461.pdf.

World Bank (2024): Note on the Impacts of the Conflict in the Middle East on the Palestinian Economy, *World Bank Economic Monitoring Report*, p. 3, February 2024.

ABOUT THE AUTHOR

Misyef Jamel Misyef has been chief economic researcher at the Palestine Economic Policy Research Institute (MAS) for ten years, with a master's degree in economics. Prior to joining MAS, he held several positions at the Ministry of Finance relating to economic and commercial affairs for over twenty years. His work concentrates on the study of the structural foundations of the Palestinian economy, especially regarding trade policies, public finance, and trade relations between the Palestinian and Israeli economies, as well as with other Arab countries.

ABOUT THE PROJECT

»Palestinian Perspectives on the Reconstruction of Gaza« is a joint project carried out by the Friedrich-Ebert-Stiftung (FES) and the Stiftung Wissenschaft und Politik (SWP), the German Institute for International and Security Affairs. The papers published within the framework of this project focus on Palestinian needs and priorities with regard to a range of topics linked to early recovery and reconstruction of Gaza after the 2023/2024 war.

In this context, they do not regard the Gaza Strip as a separate entity, but as part of the Palestinian territories occupied by Israel since 1967. They also hold that all approaches, be they short or long term, should be compatible with the principle of Palestinian self-determination. The objective is to highlight key insights from Palestinian experiences and expertise and introduce them into the international debate. Papers cover aspects such as security arrangements, governance, the role of women and urban planning for recovery and reconstruction. They reflect the author's views only.

Editorial team: Usama Antar, Friederike Stolleis and Konstantin Witschel (FES), Muriel Asseburg (SWP), Omar Shaban (PalThink)

IMPRINT

Published by:
Friedrich-Ebert-Stiftung e. V.
Godesberger Allee 149
53175 Bonn
Germany
Email: **info@fes.de**

Issuing Department:
Friedrich-Ebert-Stiftung | Department for Middle East and North Africa | Hiroshimastr. 28 | 10785 Berlin | Germany

Responsibility for content and editing:
Elisabeth Braune, Head of Department
for Middle East and North Africa

Contact/Order: **info.nahost@fes.de**

Copyediting: James Patterson
Design: pertext | www.pertext.de

ISBN 978-3-98628-602-6

www.fes.de/bibliothek/fes-publikationen