

Shaban, Omar

## Research Report

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# Unlocking the Gaza Strip's Economic Potential and Fostering Political Stability

Europeans Should Seize the Opportunity of the Rapprochement between Fatah and Hamas

*Omar Shaban*

Although the UN report of 2012 projected that Gaza would be uninhabitable by 2020, Gaza is likely to collapse into a state of chaos domestically and renewed military confrontation with Israel much earlier. Gaza's current reality is shaped by the aftermath of military clashes between Israel and Palestinian groups, the tightening of the blockade by Israel in 2007, the closure of the Rafah Crossing by Egypt, and the international community's no-contact policy towards Hamas. This has created a situation of isolation, in which the infrastructure as well as the social and political fabrics in the Gaza Strip have suffered. Gaza's once export-oriented economy is now largely defunct, with the population impoverished and dependent on foreign aid. These factors pose serious threats to domestic stability, to Palestinian unity, and to the stability of the sub-region. Immediate intervention by the EU is needed to alleviate the humanitarian crisis, advance Palestinian reconciliation, and lift the Israeli blockade. The current rapprochement between Fatah and Hamas offers opportunities for the Europeans to engage.

Over the last 10 years, the Israeli-imposed blockade and the Palestinian factional division have strongly impacted Gaza's economy and society and have negatively affected the Palestinian national project. In January 2006, Hamas (the Islamic Resistance Movement) had won the second legislative elections and then formed its first-ever government in March 2006, ending the dominance of its rival Fatah movement over the Palestinian leadership since the 1960s. Subsequently, large parts of the international community announced a "no contact policy" towards the Hamas-led government in re-

sponse to its refusal to abide with the three conditions set by the Middle East Quartet (composed of the United States, Russia, the UN, and the EU), that is, the recognition of Israel, the renunciation of violence, and the adherence to all previously signed agreements between Israel and the Palestine Liberation Organization. In addition, the Israeli government declared a full blockade of Gaza in the middle of June 2007, thus restricting even further the import and export of goods and the movement of people.

The small coastal strip (Gaza has an area of only 362 km<sup>2</sup>) is densely inhabited by

1.94 million people, with a strong population growth (3.3 per cent). It is estimated that its population will reach 3 million by 2030 and 4.8 million by 2050; 69 per cent of the population are refugees. Gaza is surrounded by Israel, Egypt, and the Mediterranean Sea.

For its population, there are only two ways to exit: The first one is through the Erez Crossing, which connects Gaza with Israel and, therefore, theoretically enables travel to the West Bank, Jordan, and the world. However, since 2007 the Israeli authorities have allowed Palestinians to exit via Erez only in “exceptional humanitarian cases”, with an emphasis on urgent medical cases. Whereas in 2000 around half a million inhabitants left Gaza every month through this checkpoint, this number declined to 144,000 in 2016. Although Israel’s blockade policy has gone through different phases, it has never been oriented towards Gazans’ needs.

The second way to exit Gaza is through the Rafah Crossing, which connects Gaza with Egypt’s Sinai Peninsula. Although the crossing has been sealed by the Egyptian authorities on principle since mid-2007, due to its non-recognition of and enmity with Hamas, Cairo has occasionally opened the crossing for humanitarian purposes. Thus, since then, the Rafah Crossing has operated for three to five days every two or three months, with individuals meeting certain criteria (e.g. for pilgrimages, students in a third country, medical reasons, etc.) being allowed to exit. Whereas the monthly average number of entries and exits through the Rafah Crossing reached about 40,000 per month in 2005, it declined to 3,520 entries and exits per month in 2016.

### **Economic and Social Impact**

The blockade of the Gaza Strip has not only imposed severe restrictions on the movement of people, but it has also dramatically decreased the influx of goods. Israel has limited or denied entry for all materials that can be considered “dual-use”, meaning

that they could be used for civilian purposes such as reconstruction as well as the manufacturing of weapons. The import of wood, cement, iron, and many other goods has therefore been highly restricted. In 2006, Dov Weisglass, then a senior advisor to Prime Minister Ehud Olmert, explained that the Israeli policy towards Gaza in reaction to Hamas’ election victory was designed “to put the Palestinians on a diet, but not to make them die of hunger”. In 2012, an Israeli court ordered the release of a government document that detailed “the number of calories Palestinians in Gaza need to consume to avoid malnutrition”, a document that had served as a guideline to calculate the volume of imports allowed into Gaza. In addition, next to all export of goods has been banned.

After the 2014 military confrontations, the Israeli government agreed to what became known as the “Gaza Reconstruction Mechanism” (GRM), which was administered by the UN and was to regulate and supervise the flow of commodities into Gaza. Through the GRM, some construction materials have been allowed into Gaza, but sever restrictions remain. All in all, according to a report by the Israeli NGO Gisha, the volume of imports has increased gradually since the worst years of the closure (2007–2010), when everyday items such as children’s toys and paper were blocked.

### **From Legal to Black Economy**

Israel and the West Bank used to be Gaza’s main commercial partners. Cutting these economic ties by way of the blockade has resulted in a significant decrease in the production levels of the local industries. They were replaced by organised smuggling through a complex system of tunnels under the Rafah border. Thus, the economic restrictions imposed by Israel led to a fundamental shift: It pushed the Gazan population to depend on tunnels to obtain all types of goods, ranging from milk and cement to stationery, clothes, and even fuel and cars.

Until June 2013, the number of tunnels was estimated to range from 450 to 1,200 beneath the 12-km-long Gaza-Egypt border. The tunnels shifted the economic centre of the Gaza Strip from Gaza City to Rafah and triggered the emergence of a new business class, which made huge profits out of the tunnel trade and whose members came to be known as “the new millionaires”. The change from a legal to an illegal economy also affected the values and social principles that govern Gaza’s society. Although the latter perceived the tunnel trade to be illegal in the beginning, the business was promoted as a tool to challenge Israel’s occupation and, thus, started to gradually gain social acceptance.

Realising that the tunnel trade could be a source of revenue that would enable it to overcome the financial boycott by the Palestinian Authority (PA) and many in the international community, the Hamas-led government started to regulate the tunnel business by charging commissions on the smuggling as a replacement for regular income taxes. For example, from 2008 to 2013, Hamas collected a tax of 10 shekel (\$2.50) for one ton of gravel, 20 shekel (\$5) for one ton of cement, and 50 shekel (\$12.50) for one ton of metal. The launch of a new tunnel was taxed with around \$2,800, and the tax for a smuggled car of around \$6,000 in value was \$1,000. All in all, it was estimated that the Gazan government collected around half a billion US dollars per year from various types of tunnel taxes.

The tunnels thus became a major source of income for the Hamas-led government. Yet, starting in July 2013, the new leadership in Egypt, headed by Abdel Fattah al-Sisi, ordered the tunnels to be destroyed. This campaign was aimed at exerting pressure on Hamas. Since then, the Hamas-led government has suffered from a severe financial crisis, to the point that, in the last months, it has been unable to pay the salaries of its 40,000 public servants on time. To replace this source of revenue, it felt compelled to impose several types of

other taxes, which has caused enormous resentment among the population and led to a decrease in the government’s popularity.

### **Palestinian Civil Society: Deepening Polarisation, New Roles**

The Palestinian factional division has put civil society’s independence to the test, as the rivalling parties have each applied pressure to gain support for their cause and delegitimize their rival. At the same time, the split has reshaped civil society, confronted it with new tasks, and equipped it with new tools.

Many civil society organisations have tried to make use of their positions as non-partisan mediators and grassroots mobilisers in favour of reconciliation and overcoming the intra-Palestinian split. Adapting their priorities, they have focussed on preventing negative effects of Palestinian divisions on society at large. The new functions of civil society that arose thus were mediation, bridge-building efforts, and the provision of visions, plans, and forums for debate on how to overcome the divide between the PA and Hamas. At the same time, many NGOs engaged in advocacy activities such as demonstrations, vigils, and the creation of networks and coalitions; capacity-building; and trainings aimed at overall sensitisation for a culture of tolerance between the two camps. Palestinian civil society has therefore played a constructive role in achieving a modicum of stability and moderation and in maintaining diversity.

Yet, the factional split made the situation worse for civil society on many levels. The internal division led to the suspension of elections, to a significant increase in human rights violations by the two rivalling authorities, and to a curtailing of civil society activities. As a result, donor funding-priorities changed, too: More funds were directed to the PA in the West Bank and to humanitarian organisations, so as to bypass the Hamas-led government. In addition, banking was strongly affected by regulations from the two rivalling author-

ities as well as third parties such as the United States and the EU, thus making financial transfers to civil society organisations in Gaza more difficult. Consequently, Palestinian civil society is today far less able to defend the people's rights and cater to their needs than a decade ago. To continue fulfilling a moderating and balancing role, it needs financial and diplomatic support.

### **Youth: From an Asset to a Burden**

Gaza's youth – some 72 per cent of the population are younger than 30 years – have been particularly strongly affected by the Palestinian factional division and the blockade. The suspension of regular elections and of the work of the Palestinian Legislative Council (PLC) has deprived the youth of being able to actively participate politically and make their voices heard. Gaza's youth have felt marginalised and neglected by the competing authorities. In addition, as Israel's blockade policies generally deny youth to travel, they have been deprived from interacting with the outside world and from upgrading and modernising their knowledge and skills. Frustration, anger, and desperation are the main side-effects. The lack of interaction with the outside world has also furthered fatalism and radicalisation among Gaza's youth.

### **No "Palestinian Spring"**

The Palestinian youth closely followed the youth-led upheavals of the so-called Arab Spring with great admiration. They hurried to copy the protests and methods, with the aim of bringing positive change to their environment. One of the first concrete actions was to call for mass protests – by using social media, as had been done in many other parts of the Arab world – to end the factional division. On 15 March 2011, thousands of Palestinian youth gathered in the West Bank and Gaza, calling primarily to end the then four-year-old division. This outbreak of youth activism was positively welcomed by Palestinian society in general,

but it was met with significant suspicion from the two authorities, which imposed severe restrictions that halted the movement.

Another call to demonstrations was initiated online on 11 November 2013 under the name "Tamarod" (Arabic for rebellion). The Tamarod movement was a copy-and-paste attempt of the 2013 Egyptian experience that brought about the downfall of the Mohammed Mursi presidency. Yet, it failed to consider the Gaza Strip's specificities – above all, the exclusive control of Hamas – and thus was not successful either.

In general, the failure to bring about change through a "Palestinian Spring" was due to the inability of Palestinian youth to form a clear vision for the future, the lack of coordination between Gaza and West Bank youth, and the failure to agree upon demands and their prioritisation. Unlike their Arab counterparts, who confronted a single government in their endeavours to improve their situation, Palestinian youth were caught between the Israeli occupation, Fatah in the West Bank, and Hamas in Gaza.

### **Despair Leads to Emigration and Suicide**

The continuous failure of Palestinian youth to improve their lot has pushed them to become increasingly frustrated. A survey published by the Palestinian Central Bureau of Statistics in August 2017 confirms that there is a growing desire among Palestinian youth to emigrate: About 24 per cent of the 15- to 29-year-olds have a desire to emigrate. In Gaza, the percentage is even higher, at 37 per cent, compared to only 15 per cent of the West Bank youth. To date, hundreds of Gazan youth have succeeded in escaping through the underground tunnels, seeking to migrate to Europe through the Alexandria seaport. According to media accounts, in 2014 around 400 Palestinians lost their lives when their boats, bound for Europe, sank in the Mediterranean Sea. Another growing phenomenon in that context is that young people looking for jobs escape into Israel by jumping over – or cutting

through – the barbed wire fence surrounding the Strip.

Yet another effect of the Gazan reality is a growing tendency among youth to commit suicide. In August 2017, Mohammed Younis, a 22-year-old pharmacology student, voluntarily ended his life. Shockingly, a considerable number of Mohammed's peers supported this decision. The incident came after a similar case in which a talented cartoonist, Moaz al-Hajj, hanged himself. These two incidents upset Gaza's society and further highlighted the crisis Gazans are undergoing.

### **Youth Turn to Radicalism**

As Palestinian youth realise that their efforts to change their situation by peaceful means have failed, many lose faith in moderation. This creates an environment in which radical groups can easily attract youth to their ideology. Some of these youth are invited by radical groups operating in the Sinai Peninsula to join them, either to fight against the Egyptian authorities or to travel on to fight in Iraq and Syria. Sinai also provides a training ground for those who escape Gaza through the tunnels to spread a jihadi ideology upon their return. According to the online platform Al-Monitor, an estimated 100 young Gazans are reported to have joined the so-called Islamic State in Iraq and Syria. The same report speaks of more than 1,000 young Gazans who are ready to join the organisation, once they have the chance to exit Gaza.

### **Dispute over Representing Political Islam**

In recent years, tensions between Hamas and radical Salafi groups have been growing and repeated clashes between them have occurred, followed by the arrests of hundreds of their members by Hamas forces. Open conflict broke out in August 2009, when a group announced their affiliation with Al-Qaeda and declared the establishment of an Islamic emirate in a

mosque in Rafah city. Hamas attacked the group, killed 21 of them, and damaged the mosque. Repeated attacks by these groups followed against internet cafés, women coiffeurs, sport clubs, summer camps, and the French cultural centre, aimed at challenging Hamas' authority. On 17 August 2017, a radical Salafist committed a suicide operation at the Rafah Crossing. He exploded himself after approaching a Hamas border police officer in Rafah, killing one Hamas official. After each of these incidents Hamas has demonstrated its control with a wave of arrests among Salafists in Gaza, exacerbating the existing frictions. These incidents, as well as Hamas' reactions to them, have led to a state of fear among the people of Gaza.

### **Disintegration of the Palestinian National Project**

Over the last decade, due to the factional division and the lack of substantial interaction between the two authorities and populations, the political, social, and economic differences between Gaza and the West Bank have increased significantly, despite them having been foreseen as one political entity, according to the Oslo Accords from the 1990s. The division between Hamas and the PA has exceeded the political realm and brought about changes in other domains as well. It has had legal, economic, social, and cultural repercussions and has negatively impacted on the Palestinian national project.

Since 2007 more than 150 decrees have been issued by PA President Mahmoud Abbas, while the Hamas bloc in the PLC, which has continued to meet as a rump parliament, has issued and validated 50 decrees. These decrees have created legal divisions between the two areas.

At the same time, Gaza's economy continues to weaken vis-à-vis the West Bank's: The GDP per capita in Gaza is only 45 per cent that of the West Bank's; the unemployment in Gaza has reached 42 per cent (whereas it is 18 per cent in the West Bank); and

the poverty rate in Gaza is around 40 per cent, but 19 per cent in the West Bank. Food insecurity affects 47 per cent of the households in Gaza, whereas in the West Bank it affects 16 per cent.

Moreover, Gazan society has grown apart from the rest of Palestinian society. The policy of restricting people's movement between the Gaza Strip and the West Bank has led, among other effects, to a significant decrease in contact between Palestinians in the two parts of the Palestinian territory: Gaza and West Bank. There has been a growing feeling among the population in Gaza that they are no longer an integral part of the Palestinian national project. This has again triggered the debate about whether Gaza can be a separate political and territorial entity as a "mini" Palestinian state. In reality, the continued separation of the two Palestinian territories must be considered a serious threat to the unity – and the success – of the Palestinian national project.

#### **Regional Spillover Effects**

Gaza is too small, too dependent on its neighbours for resources and access, and too poor to cope with all of the abovementioned problems by itself. Also, Gaza's problems cannot be contained within the Strip, especially as most of them are either generated or accelerated by external factors. Against the backdrop of high population growth, low economic performance, unemployment, increasing radicalism, and the heavy presence of militant and armed groups, Gaza is on the brink of exploding internally – internal turmoil might come in the form of clashes between the people, armed groups, and the Hamas-led authority – or externally, as a new round of hostilities with Israel is very likely. In this context, radical groups have been trying to trigger a reaction from Israel by repeatedly launching homemade rockets into southern Israel.

#### **The Prospect of the Two-state Settlement**

The hope for a two-state solution will vanish if the Palestinian leadership remains divided – with Hamas being considered a terrorist organisation by Israel and Egypt as well as other key international actors, and the PA not being able to claim to represent the Palestinian people and territories. Thus, in order to progress towards – and be able to implement – a two-state solution, Palestinian unity must be reached first and bring about a unified Palestinian leadership, one that would represent all Palestinians and be able to reach a final agreement with Israel to bring an end to the conflict.

#### **Reconciliation Efforts under Egyptian Lead**

During the period from June to September 2017, surprising developments took place that might lead to positive changes: The Hamas leadership was twice invited to Cairo. During the first visit in June, they met with the Egyptian authorities and – even more astonishing – with their rival Mohammed Dahlan, the former Fatah security chief of Gaza, who had played a key role in triggering the armed clashes between Fatah and Hamas in 2007.

Cairo aimed to utilise the financial crises of Hamas and its regional isolation to bring Hamas closer to its position and to distance it from its former ally, Qatar. In addition, Egypt changed its approach from viewing Hamas as an enemy to seeing it as a potential ally in fighting terrorism in Sinai. Hamas was offered a regular opening of the Rafah Crossing, the provision of fuel for the Gaza power plant, and international travel of its cadres via Egypt. In exchange, Hamas promised cooperation in securing the border with Sinai.

During the second invitation to Cairo in September 2017, Hamas was also allowed to convene a meeting of its Political Bureau, including Hamas officials from the diaspora. After that meeting, Hamas announced the dissolution of its administrative committee, which had been formed in March 2017 to

govern the Gaza Strip and was perceived by the PA as a shadow government. In response, the PA took a series of severe measures against Gaza, for example the reduction of PA employees' salaries by 30 per cent and decreasing the subsidies for Gaza's electricity bill. The decision of Hamas to dissolve the administrative committee opened the way for the so-called consensus government of Rami Hamdallah to govern Gaza. Then, on 11 October, a reconciliation deal between Hamas and Fatah was reached through Egyptian mediation. The deal provides for the PA to take over the government of Gaza as well as the deployment of the Presidential Guard to the Gaza crossings.

Despite all these positive developments, the road to reconciliation is still long. All past experiences and efforts to bridge the divide, such as the Mecca Agreement (February 2007), the Sanaa Declaration (March 2008), the Cairo Agreement (May 2011), the Doha Declaration (February 2012), and the Shati Agreement (April 2014), were not successful in healing the rift. Still, the recent rapprochement between Hamas and Egypt and the reconciliation agreement between Hamas and Fatah are significant, as they can help contribute towards defusing the tension between Hamas and the PA. If continued, these meetings might mark the beginning of a reconciliation process, especially if they entail elections for the parliament and the presidency.

### **Unlocking Gaza's Economic Potential**

Despite all the man-made problems and challenges, Gaza has many assets that offer the potential for prosperity. Gaza lies at the crossroads between Asia and Europe and its population has a highly entrepreneurial spirit and a competent workforce with modern skills, often acquired during earlier employment at Israeli companies. Before the blockade, the comparatively modern agricultural sector exported large amounts of cash crops, such as carnations, strawberries, and vegetables, to the Israeli and

European markets. Furniture and garments were manufactured and exported as well.

The Strip could be turned into a haven of stability and prosperity rather than being aid-dependent and a threat to its neighbours. "Global Palestine, Connected Gaza" – a study led by the Palestinian private sector with technical support from an international consulting firm – envisages Gaza as a globally relevant, knowledge-based, and resource-efficient economy pursuing opportunities in high value-added services and niche manufacturing, trade, and transport, with tourism and agricultural activities expected to play an important role. Ultimately, Gaza could also be developed into a regional hub for IT industries, as there already are several small companies in Gaza that have established cooperation agreements with big IT companies such as Microsoft and Google.

In addition, Gaza boasts natural gas resources, both inland and offshore, with two gas reservoirs already having been discovered in the Mediterranean. The idea of expanding Gaza by building small islands in the Mediterranean has been debated domestically and internationally. Those small islands would help to ease pressures resulting from the population density and could be used for production facilities and tourism.

To revive and utilise its potential, Gaza must be reopened for trade, including by building a small port and a regional airport that would connect Gaza to the rest of the world. A significant Palestinian diaspora would be ready to invest in – and contribute to – the development of Gaza and the Palestinian territories, once the current obstacles have been removed.

### **Recommendations**

The blockade imposed by Israel, the Palestinian factional division, and the severe humanitarian crisis in Gaza are not natural disasters that must be accepted. The international community should intervene in a determined and swift fashion to prevent the collapse of Gaza. Given the opportunity



offered by steps towards reconciliation between Hamas and the PA, this might just be the right moment for the EU to act. Germany is in a good position to start and lead such an initiative, utilising its central position within the EU and international politics, its unique relations with Israel, and the very positive image that Germany has acquired in the Middle East due to its welcoming policy towards refugees in 2015. Two types of simultaneous interventions are advisable: at the humanitarian and developmental as well as the political levels.

of elections, political movements should transform themselves into legal political parties with clear and written bylaws. The would-be elected Palestinian leadership should declare its readiness to enter into peace negotiations with Israel that aim to reach a final agreement and end the conflict.

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**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3-4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

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### **Humanitarian and Developmental**

Immediate intervention is needed to sustainably solve the crisis concerning the water and electricity supply in Gaza, the lack of medical facilities, and to address the high level of youth unemployment. In this context, it is key to lift the blockade, that is, to allow the movement of people and reopen Gaza for trade; support projects that promote green, self-sufficient energy sources (such as solar energy); and support the private sector, which would create jobs. Also, support for Palestinian civil society – aimed at restoring civic education and advocacy for reconciliation, peace, and human rights – is important to rebuild the fabric of Palestinian society.

In addition, steps should be taken to unlock Gaza's full economic potential. In this regard, reconstruction of a Gazan seaport, exploration of the gas fields, and jump-starting the export industry are among the key measures to be supported.

### **Support for the Domestic Political Process**

The international community should help Palestinian factions to see the implementation of reconciliation agreements through. This includes elections that would restore the democratic process and bring new legitimacy to the PA, the PLC, and the Presidency. In this context, the PA should promulgate the draft law that would regulate the formation of political parties. Ahead