

The Gaza Private Sector

By Simon Boas, MAS Research Associate

The long walk from the Israeli border to the Palestinian guard post at Erez takes you through the remains of Gaza's once-thriving industrial estate. From 1999 until 2005, the 201 factories here were a perceived symbol of successful Palestinian-Israeli economic cooperation,¹ and as bulldozers demolish the last remaining structures, it is tempting to view this scene metaphorically too.

Gaza's economy is in ruins. "The situation is black, with no light at the end of the tunnel", says Faysal Shawa, General Secretary of the Palestinian Businessmen's Association in Gaza. The reason is the almost complete closure of the five crossings² linking the trade-dependent territory to Israel, Egypt and the outside world. This follows the Hamas takeover of the Gaza Strip in June and Israeli and international refusal to deal with Hamas until it recognises the three Quartet conditions. With the continuing Qassam rocket attacks into Southern Israel and Hamas' rejection of these demands, the closure policy is unlikely to change soon. As the blockade nears half a year old, the Bulletin visited Gaza to assess the damage to the private sector and ask what, if anything, can be done about it.

The list of items allowed into Gaza has dwindled to fourteen basic commodities (such as flour, salt, cooking oil, nappies), and apart from some limited consignments of agricultural produce, nothing is allowed out. This is a more comprehensive embargo than any of the 12 sanctions regimes currently imposed by the UN Security Council, including those on North Korea,³ and also harsher than recent EU measures against Burma.⁴ The result has been predictable; Gazan manufacturers import 95% of their inputs, and are heavily dependent on exports.⁵ As reported in the last issue of the Bulletin, construction has ceased totally, as has manufacturing of everything except a few food products, and agriculture is under threat.⁶ Shop shelves are bare, inflation for some goods is running at over 200% per month, and unemployment has soared. It is little wonder that all the businessmen and women who spoke to the Bulletin had one refrain in common when asked what could be done: Open the borders.

Lasting damage to the private sector

This alone is unlikely to be sufficient. As Hanan Taha, Director of PalTrade in Gaza points out, much of the damage will not easily be reversed. Investors have lost confidence and exporters have lost hard-won market share. Unlike previous shorter periods of closure, when sectors such as textiles and furniture rebounded quite quickly as Israeli companies took advantage of Gaza's skilled and relatively low-cost labour force, the prolonged closure has meant such firms have had to look elsewhere for other partners to fill their orders. Furthermore, many manufacturers have relocated to Egypt, Jordan or the West Bank – in recent weeks, for example, two major furniture firms and five garment makers have moved – and as Taha points out, once they have transferred their investments they are unlikely to return to the Strip. "To re-establish the manufacturing sector in Gaza would take years", she explained.

Ali Abu Shahla is one businessman exploring the possibility of opening a firm in the West Bank, but in his case it is to get round Israel's deletion of Gaza's customs codes. One of his three businesses imports machinery from Sweden, yet any goods destined for Gaza have been sitting at Ashdod port since the summer, accruing millions of dollars in demurrage and storage fees. By registering in Ramallah, he hopes to be able to circumvent the ban, although he is still unsure whether he can bring his giant pumping equipment into Gaza eventually. Indeed, many believe that the future of the Customs Union between Israel and the Palestinian Territory, established by the 1994 Paris Protocols, is now in question. Amr Hamad, head of the Palestinian Federation of Industries (PFI) in Gaza, expects Israel to formally end Gaza's involvement in the Union early in the new year. This would mean that Israel could impose duties on any Gazan exports it does allow out. And in the same vein, Gaza could tax Israeli imports as well.

Abu Shahla believes that the banking system in Gaza is close to collapse. Private sector customers are increasingly unable to keep up loan repayments, especially as the interest rate on shekel borrowing is over 20%, while those with savings are withdrawing them. A recent additional problem affecting confidence has been the shortage of dollars and dinars in the Strip, which has led to a black market exchange rate about 5% higher than the official one. Gazan banks require JD6-8m and US\$13-18m per day to meet the demands of the market,⁷ and the absence of cash further hurts businesses. Nabil Abu Moaliq, another successful Gazan businessman involved in contracting and financial services, told the Bulletin that banks will need external encouragement in order for them to assist the private sector. Underlining Gazan firms' need for cash, he explained "the patient needs oxygen – otherwise you're going to lose him". Unfortunately, the recently agreed loan guarantee scheme is unlikely to encourage banks in Gaza to extend any more credit at the minute; what are needed are soft loans to allow businesses to reschedule their existing debts.

Where now?

Most stakeholders agreed on the immediate need for low-interest credit in order to prevent firms from going under, but what else does Gaza's private sector need? Other short-term measures to alleviate the suffering suggested to the Bulletin include compensation for jobless private-sector workers, a rebate of some of the business taxes collected by Ramallah since 1994, and a one-off export of the \$18.1m worth of goods the PFI says is ready to move through Karni immediately. However, if rumours of a thaw in the West Bank government's attitude towards Gaza have any substance to them, or if an agreement leads to the re-opening of the crossings to commercial goods,⁸ how can the damage be repaired in the longer term? The World Bank warned in September of the 'hollowing out' of the Gazan economy, devoid of any residual production potential and driven by public-sector employment and humanitarian assistance.⁹

If the political situation improves and the closure is lifted, some sectors will recover more quickly than others. Construction, which has lost at least \$370m worth of projects since June,¹⁰ will be able to start almost as soon as the first truckload of cement is allowed in. Likewise, although machinery which has sat idle for months will need to be serviced and repaired, many factories will be able to restart manufacturing soon after the necessary inputs are allowed in. The food industry (about 20% of which is still running), and plastics and packaging firms (some of which managed to continue operating until October) are likely to be among the first to recover. Companies which manufacture products for the domestic market will be at an advantage, so chemicals and metalwork firms should also recover.

However, the vital furniture and textiles sectors (which export 76% and 90% of their products to Israel respectively) will need assistance to re-establish themselves. Schemes such as PalTrade's peer-to-peer programme to promote cooperation between Palestinian and Israeli firms (launched in 2006 but now suspended in Gaza) will play a vital role in restoring ties, although it will take years to restore exports to anything like the level of 400 truckloads per day which Karni processed at the end of 2006, or the 750 which it is capable of processing.

In the optimistic period leading up to the withdrawal of Israeli Gazan settlements in 2005, the PA produced the first and only Gaza Strip Economic Development Strategy, a \$2.4bn wish-list of 68 projects¹¹ of which only a handful was realised. Encouragingly, the upcoming Palestinian Reform and Development Plan will also emphasise the importance of stimulating Gaza's economy, although donors' private-sector development projects are still undoubtedly skewed towards the West Bank. PalTrade's Hanan Taha stressed the importance of donors and the PA listening particularly to the views of the private sector in Gaza; PalTrade is currently preparing a consultative process which will lead to the creation of a document representing its views on the current situation and possibilities for the future, and this could form the basis of a comprehensive new plan.

In the longer term, the private sector in Gaza will have to develop other markets than Israel, and the obvious place to look is south. "Rafah is the only alternative, I think," Faysal Shawa told the Bulletin. Discussions with Egypt in 2005 reached agreement on opening its border, which would give Gazan firms access to the airport at El-Arish and the sea port at Port Said. The Rafah terminal would need to be upgraded for commercial traffic, and some agreement reached which satisfied the security concerns of the three sides.¹² Under the defunct Agreement on Movement and Access (2005), the legal underpinnings are already in place to develop Rafah for exports, while the Arab League Agreement on Transit allows for duty-free passage of Palestinian goods through Egypt. This option needs to be further explored and developed.¹³

Many Gazans pointed out to the Bulletin that it would not be difficult to devise mechanisms to reopen all the terminals in a way that guaranteed Israeli security, and some even suggested concrete measures to do so. The current sanctions regime is a blunt instrument, which all private sector representatives interviewed by the Bulletin agreed was doing nothing to weaken the government in Gaza, only creating the despair and extremism associated with the destruction of economic life. Ultimately, however, what is required is a political settlement, first of the differences between Fatah and Hamas, and eventually between Palestine and Israel. In particular, the Agreement on Movement and Access (or something like it) should be instated as a matter of urgency. Until then, the moonscape of Erez Industrial Estate will serve as a reminder of the imminent fate of the rest of Gaza's private sector.

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Footnotes

¹ For more information, see the East-West Institute's 'The Erez and Gaza Industrial Estates: Catalysts for Development' (April 2005) (www.iewis.org/pdf/The%20Erez%20and%20Gaza%20Industrial%20Estates_April%202005.pdf)

² Karni, Sufa, Kerem Shalom, Erez and Rafah. Nahal Oz, used exclusively for fuel imports, were operating at reduced capacity at the time of writing, although fuel shortages were beginning to become common. For recent updates of the precise implementation of the closure regime, see www.paltrade.org

³ For a list with links to the relevant Resolutions, see www.watsoninstitute.org/tfs/CD/case.html

⁴ See www.reuters.com/article/mapNews/idUSL19999620071119

⁵ World Bank, 'Two Years after London: Restarting Palestinian Economic Recovery' (September 2007) (www.minfo.gov.ps/English/reports/Restarting%20Palestinian%20economy%20-%20World%20Bank.pdf)

⁶ Despite the recent decision to allow some consignments of the important cash crops out of the Strip, farmers still urgently require fertilizers, pesticides, packaging materials and protective plastic sheeting.

⁷ OCHA Gaza Situation Report, November 2007 (www.ochaopt.org/documents/Gaza_Sitrep_2007_11_05.pdf)

⁸ November's announcement of the creation of an independent Palestinian Crossings Authority may be a vital step towards reopening the borders, although the devil will be in the detail: who will guarantee the safety of the importers and the guards; who will collect the taxes?

⁹ World Bank, 'Two Years after London'

¹⁰ See ochaonline.un.org/OchaLinkClick.aspx?link=ocha&docId=1059290

¹¹ [www.thejerusalemfund.org/images/Gaza%20Economic%20Plan%20\(Sept%202005%20\(ENGLISH\).pdf](http://www.thejerusalemfund.org/images/Gaza%20Economic%20Plan%20(Sept%202005%20(ENGLISH).pdf)

¹² Theoretically, the termination of the Customs Union between Israel and Gaza would allow Egypt and the PA to negotiate an agreement directly over opening the crossing, but the likelihood that this could be achieved without Israeli approval is small. For more information, see Oxford Research Group 'Conflict, Economic, Closure, and Human Security in Gaza', (October 2007) (http://www.idf.ps/file/download/home_-_aid_publications/Oxford%20Research%20Group.pdf?version_id=86287) and

¹³ For more details, see World Bank 'Potential Alternatives for Palestinian Trade: Developing the Rafah Trade Corridor' (March 2007). (<http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/RafahCorridorMarch07.pdf>)