

The Portland Trust

The Private Sector in the Gaza Strip

In December 2007 we published a special feature on the Gazan private sector. This was six months into the closure regime which had followed Hamas's takeover of the Gaza Strip in June. At the time only 14 basic commodities were allowed into Gaza, and exports had been almost totally banned. We reported that construction had completely ceased, unemployment had soared and inflation for some goods was running at 200% per month. Already many were warning of the lasting damage to the private sector: some manufacturers had relocated their production lines to Egypt, Jordan or the West Bank and that looked set to continue. Before this period the vital furniture and textile sectors had been exporting 76% and 90% of their products to Israel respectively and Karni crossing was processing 400 truckloads of exports daily.

In June 2010 some restrictions were lifted to allow all civilian goods into Gaza, although a ban was maintained on dual-use items. In a subsequent feature in December 2010 we reported that the Government of Israel had authorised the export of agricultural, furniture and textile products out of the Gaza Strip, although it continued to prohibit exports to Israel and the West Bank, the traditional markets for Gazan goods. Three years of the blockade had taken their toll: unemployment was around 38% (over 50% for those under the age of 30) and per capita GDP was about 65% of the value it had been in 2005. We found that only a third of the companies that were operating in 2006 were still active in 2010, and of those that had survived most were operating at only one third capacity.

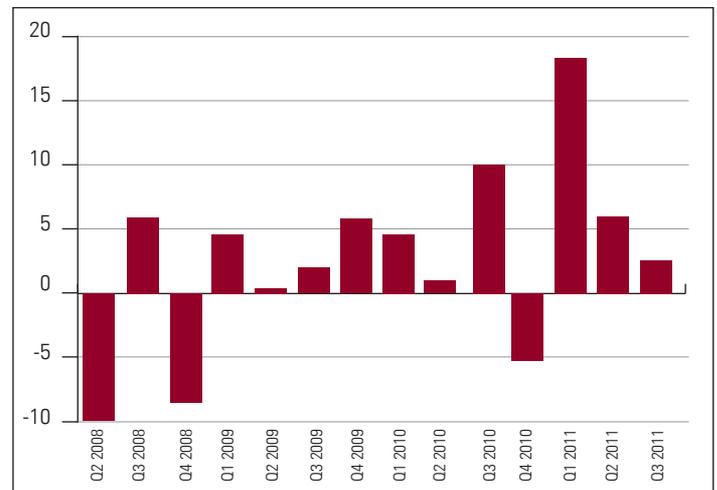
Economic Indicators

Since then there have been dramatic changes in some macroeconomic indicators, such as 28% growth in GDP over the first half of 2011, and a decrease in the unemployment rate from a peak of 45% in Q2 2008 to 28% in Q3 2011.¹ These are movements in the right direction, but much more needs to happen to bring the economy back even to June 2007 levels and then stimulate additional growth.

The Gaza Strip has historically represented an indispensable part of the Palestinian economy, accounting for 35% of total GDP in 2005 compared to 27% in Q3 2011.² Out of 4.2 million inhabitants in the Palestinian Territory, 1.6 million live in the Gaza Strip.³ The fertility rate in Gaza remains high at 4.9 in 2010, compared to 3.8 in the West Bank,⁴ and the population growth rate has increased in each of the last few years, from 3.23% in 2008 to 3.37% in 2011.⁵

Figure 1 illustrates the strong growth that Gaza has shown over recent quarters following the easing of the closure regime, although that follows several periods of severe contraction.⁶

Quarterly GDP Growth Rates (%) - The Gaza Strip 2008-2011



Source: PCBS

Recent positive trends do not mean that Gaza is prospering. Dr Firas Raad, Development Advisor at the Office of the Quartet Representative (OQR) in Jerusalem, notes that the yearly "double-digit growth observed in Gaza is from a very low base because of events in the middle of the last decade."

GDP per capita in Gaza (\$274 in Q3 2011) remains significantly lower than in the West Bank (\$498),⁷ and the IMF has recently calculated that it is likely to still be

1 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LaborForce_EQ32011E.pdf
 2 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/NatAccouQ32011E.pdf
 3 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/palestineEnd2011E.pdf
 4 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/palestineEnd2011E.pdf. The average number of children born to a woman over her lifetime.
 5 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1814.pdf
 6 Quarterly GDP statistics for Gaza are not available for the periods before 2008. For the annual change, see Bulletin 60, September 2011.

7 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/NatAccouQ32011E.pdf. Figures are in constant prices, base year 2004

10% below its 1994 level by 2013.⁸ It is true that the recent economic growth has led to a major improvement in the unemployment rate, which has fallen from a peak of 45% in Q2 2008 to 28% in Q3 2011.⁹ Nonetheless, Gaza's performance in this indicator remains significantly worse than the West Bank, which registered unemployment at 20% in Q3 2011.

Mr Abdullah Sha'rawi, Business Development Manager at PADICO, puts the growth down to four reasons: the Palestinian Authority's regular payment of salaries to its 63,000¹⁰ employees in Gaza; Hamas's salary payments to its public sector employees; funding from international, Arab and Islamic NGOs not present in the West Bank; and tunnel trading.

While experts on trade, real estate, and economic development agree that easing the blockade has somewhat facilitated growth, the effect has been limited due to the continued restrictions on exports, particularly to the West Bank and Israel.

The Tunnel Economy

The tunnel economy developed in Gaza after the Government of Israel prohibited the importing of almost all consumer goods in June 2007. By the end of 2008, estimates suggest that 90% of supplies to Gaza were arriving through tunnels from Egypt.¹¹ According to Mr Omar Shaban, Founder and Director of Palthink for Strategic Studies, since the easing of the closure regime, the need to smuggle regular commodities into Gaza has vanished as it is logistically easier and cheaper to obtain them from Israel. Therefore tunnel owners have diversified away from consumer goods to construction materials and fuel which continue to face restrictions by Israel. According to the Economic and Social Monitor 27, published by the Palestine Economic Policy Research Institute (MAS), the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA), the ability to import from Israel has also contributed to the number of tunnels being halved to around 200-300 in January 2011 compared to the year before.¹²

The value of the underground trade flow has been estimated at \$700m annually¹³ and there is evidence to suggest that while the number of tunnels might have declined, the capacity of those that remain has increased. Some even have the capability to import cars and SUVs.

According to PalTrade data, currently between 20 and 200 truckloads of imports enter Gaza through the tunnels every day. MAS quotes OCHA¹⁴, which estimates that on a monthly basis there are 18,000 tons of gravel, 1,600 tons of cement and 500 tons of solid iron coming through Israeli checkpoints, compared to 56,000 tons of gravel, 31,000 tons of cement and 11,000 tons of iron imported via tunnels. Mr Shaban told the Bulletin that these supplies are tested in laboratories for the purposes of quality assurance.

The tunnels are used overwhelmingly for importing goods, but there is some evidence that limited quantities of seafood and eggs are exported through them from Gaza, as are some Israeli goods that have come in via official checkpoints and are taken out through the tunnels for sale in the Egyptian market.

In addition to providing construction materials, the tunnels have had an overall positive effect on the trade sector, in the opinion of Mrs Hanan Taha, CEO of PalTrade.

Furthermore, the government in the Gaza Strip is formalising the tunnel economy by, for example, imposing taxes on goods imported through them. There is evidence that Hamas can earn between \$20-\$40,000 per car imported through the tunnels through customs duties, transportation and registration.

The following sections of this feature look at the recent trends in the major economic sectors in Gaza.

Construction

The construction sector has been one of the first to show signs of recovery, both as a result of the easing of the blockade and the increase in construction materials imported through the tunnels. This is essential to satisfy the very high demand for housing (the population of the Gaza Strip increased by about 100,000 between the end of 2006 and 2011).¹⁵ According to Mr Sha'rawi from PADICO, the real estate sector in Gaza is "booming".

The director of financial analysis and research at a major Palestinian real estate investment company told the Bulletin that most construction in recent months has been for housing. He said that Gazans pay for their new apartments in cash accumulated over recent years as a result of a severe lack of investment opportunities inside Gaza and difficulties transferring money outside.

Tens of new housing towers are presently under construction, each with 60-80 housing units. Average prices for apartments are about \$100,000, but they can reach \$200,000 due to low supply and high demand.

8 www.imf.org/external/country/WBG/RR/2011/091411.pdf

9 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LaborForce_EQ32011.pdf

10 Source: Ministry of Finance

11 www.merip.org/mer/mer261/gazas-tunnel-complex

12 www.mas.ps/Newsite/webfm_send/302

13 www.merip.org/mer/mer261/gazas-tunnel-complex

14 UN Office for the Coordination of Humanitarian Affairs

15 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/end_year06e.pdf and www.pcbs.gov.ps/Portals/_pcbs/PressRelease/palestineEnd2011E.pdf

In the first half of 2010 only 3,700 people were employed in the construction sector. This number increased dramatically in the next 12 months to reach 13,170, accounting for 27.7% of all job growth in the year-on-year period. However this is still lower than the 1999 figure of 13,850, and the total Gazan population has more than doubled since that year.¹⁶

Agriculture

There have been positive signs too in the agriculture sector in recent months. Throughout the blockade there have been very limited exports of agricultural produce to EU markets, on a tiny scale compared to pre-June 2007 levels. 214 truckloads were exported in 2010, 191 in 2011 and so far 63 have come out in 2012, about halfway through the export season.¹⁷ To put these numbers in context however, there were over 5,000 truckloads of exports ranging from agricultural produce to furniture and textiles in only the first half of 2007.

Out of about 34,000 new jobs created in the private sector in Gaza between the end of the first half of 2010 and the end of the same period in 2011, 6,400 were in the agricultural sector.¹⁸

Simon Boas, Head of the Food and Agriculture Organisation's Gaza sub-office told the Bulletin, "apart from cut flowers, agricultural exports are having a slightly better season this year and some cooperatives are starting to make deals with Israeli and international intermediaries to get exports out to Europe. However this represents only a marginal improvement from a very low base, and a fraction of the potential of this sector. The real difficulties are that around one third of Gaza's arable land remains dangerous or impossible to cultivate because of its proximity to the border, and local farmers are locked out of their traditional markets in Israel and the West Bank where they have a competitive advantage."

Industry

A recent report by the OQR and PalTrade, tracking changes in eleven industrial sub-sectors in Gaza between June 2010 and June 2011, concludes that the easing of the Israeli blockade has had an overall positive effect on manufacturing activities. However, the effect of the increased availability of cheaper raw materials with better quality has been partially offset by the stronger competition from imported goods. The continued inability to enter the West Bank and Israeli markets has also hindered the further development of Gazan businesses.

The report shows that between June 2010 and June 2011 average sales for the 188 industrial enterprises included in the survey increased by a seemingly impressive 58.4%, but the value of this growth was only NIS 64,000. Total employment in the eleven sub-sectors increased by 3.5%, creating only 105 new jobs in the 188 companies. Capacity utilization for enterprises grew by 32.4% to reach 45%. The study also reported that in June 2011, 33% of Gazan industrial companies were ready to export within a week, 26% within a month and 41% were not ready. Paltrade and the OQR found that construction, garments, paper, handicrafts, and wood and furniture were the sub-sectors which benefited the most from the easing of the blockade with improvements in all major business indicators.

Not one of the business indicators has returned to their pre-blockade levels. In June 2011 sales were 71.2% of the 2005 level, employment 58.5% and capacity utilization 56.3%.

Enterprises reported facing the same main challenges to conducting business: reliable supply of electricity, access to export markets, supply of raw materials, access to finance and supply of equipment and spare parts.

Services

The services sector has continued playing a major role in Gaza. In Q3 2011 it provided 52.8% of employment, an increase from 49.4% in 2005.¹⁹ Private services accounted for 17% of the newly created job opportunities in the first half of 2011.²⁰ In Q3 2011 the services sector contributed 29.5% of Gazan GDP²¹, compared to 25.5% in 2005.²²

Mr Halim Halabi from the Gaza office of DAI, a development consultancy, told the Bulletin that in the past 15 months investment in Gaza has been directed away from industry towards the services sector, especially restaurants, recreational facilities, recycling projects, mobile applications, professional training centres, small tourist villages and the new phenomenon of shopping malls. As a result, restaurants, stores and entertainment resources have turned into some of the most successful businesses. In Q3 2011, 18.8% of Gazan employees worked in commerce, restaurants and hotels and only 5.8% in mining, quarrying and manufacturing.²³

Challenges

The partial easing of the blockade in 2010 has generated growth and reduced some of the pressure on the labour market, but many obstacles remain.

16 www.unrwa.org/userfiles/20111207970.pdf

17 Source: OCHA

18 www.unrwa.org/userfiles/20111207970.pdf

19 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LaborForce_EQ32011.pdf

20 www.unrwa.org/userfiles/20111207970.pdf

21 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/NatAccouQ32011E.pdf

22 www.pcbs.gov.ps/Portals/_pcbs/NationalAccounts/B1%20percent%20const.htm

23 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LaborForce_EQ32011.pdf

The insufficient and unreliable supply of electricity is a severe infrastructural challenge. As this Special Feature went to press, the only power plant in Gaza had been shut down because of a lack of fuel. Regular electricity blackouts raise the cost of buildings as they have to be provided with a generator. Reliable access to water, waste management systems and good quality roads are all issues that need to be addressed.

According to Mr Shaban, the most devastating effect of the blockade has been the destruction of the social structure in Gaza in terms of politics, economics and education. Professors, university students and private-sector professionals have been unable to travel to the West Bank or abroad to attend exchange programs or training to share ideas with those outside and to update their skills.

Both Mrs Taha from PalTrade and Dr Raad underline the need to open the borders for any future economic growth in Gaza, especially in the sectors of agriculture, furniture and textiles. Mrs Taha stressed the importance of the West Bank and Israeli markets as currently Gazan products are not competitive in other markets due to high transport costs.

Nassim Nour, (Head of Private Sector Development for the UK's Department for International Development's programme in the Palestinian Territory) agrees, telling the Bulletin that "while some resilient Gaza businesses are working hard to try and fulfil the quality requirements of exporting to European and Arab countries, the only real way to achieve mass transformation in the Gazan economy is for its natural markets in Israel and the West Bank to be opened. They will need a great deal of support from donors, but donors need to coordinate their work and make sure their projects are targeted, complementary and do not create dependency."

The socio-economic situation in Gaza remains extremely challenging. In 2010 only 19% of the population was food secure (compared to 41% in the West Bank).²⁴ In addition, in the same year 38.0% of the Gazan population lived in poverty and 23.0% in deep poverty, compared to overall Palestinian rates of 25.7% and 14.1%, respectively.²⁵

The poor humanitarian conditions in Gaza have had a particular impact on the quality of life of children there. 51.5% of the Gazan population is under 18 years of age, and children in Gaza are twice as likely to live in poverty as children in the West Bank: 38.4% versus 19.0%.²⁶ In addition, infant mortality has reached 23.0% compared to an overall Palestinian rate of 19.4%, and as many as 25.6% of Gaza children (6-59 months) suffer from anaemia.

Unemployment in Gaza for those in the age group of 20-24 was still 50% in Q3 2011, and the average period of unemployment was 14.8 months in the same quarter compared to 6.7 months in the West Bank. The average daily wage was NIS 59.3 compared to NIS 84.3 in the West Bank.²⁷

Unemployment and poverty are likely to remain high unless decisive action is taken to stimulate a sustainable economic recovery.

24 home.wfp.org/stellent/groups/public/documents/ena/wfp232398.pdf

25 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/poor_E2010.pdf

26 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/child2011_E.pdf

27 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LaborForce_EQ32011.pdf

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