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Gaza War Economy Brief

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Fundamental Shocks Pushed the Gazan Economy to the Brink of Collapse on the Eve of the War

It can be concluded from this Brief that with the Gazan economy ceasing activity in Q4 2023 indefinitely, combined with the destruction of the economic and residential infrastructure (continuing unabated for weeks, if not months), any discussion of economic 'losses' is unrealistic, useless and unhelpful. Gaza is a war between two powers, one of which is a military giant, driven by an economy 150 times larger than the size of the exhausted Palestinian economy in Gaza. The goal of restoring the Gaza Strip's economy to what it was before 2023 is insufficient. It will not be possible to restart commodity trading and services - and mobilize finance - at the end of this war as long as the unprecedented (and as yet unknown scale of) humanitarian needs, namely, to feed, shelter, and care for more than two million displaced, wounded and traumatized persons in the Gaza Strip (already suffering from significant deterioration since 2007). The levels of destruction and deprivation that will result from this war are simply unimaginable.

1. Background and Rationale

This summary monitors trends in Gazan economic indicators, identifying economic fluctuations and shocks during 2000-22, in order to clarify imbalances that already exist in the Gaza Strip's economy on the eve of the start of the war. It highlights shocks that caused fundamental changes in the performance of the Palestinian economy, the decline in its indicators, and the scale of the impact of these shocks on the local economy.

This methodology adopts a comparative, statistical approach covering Israel, Gaza, and the West Bank, based on international and global sources, various reports, and local studies. This summary tells the story of the deterioration of the Gazan economy during 2000-22, aiming to identify the 'baseline scenario' that prevailed before the war. No single Palestinian party can reconstruct the Gaza Strip after the war, or restore its devastated economy, in the absence of generous international aid.

2. The Tale of Economic Deterioration in the Gaza Strip Since 2000

Economic indicators outlined in multiple studies show that the Palestinian economy realized a qualitative leap from 1994 to 2000. This is evident in GDP growth for both the West Bank and the Gaza Strip - the latter's share accounted for about 35% of total GDP. Public revenues increased steadily, to the point where they reached a surplus, complemented by institutional development and improvements in both physical infrastructure and the legal and regulatory framework for managing economic activities. This included developing overseas trade management systems, expanding import and export markets, and developing numerous essential productive and services sectors. It is worth noting that international aid helped to underwrite these achievements, amounting to about USD 3 Billion during 1994-2000, or about 14% of Palestine's GNI.

This rosy economic reality did not continue. This first shock was the Al-Aqsa Intifada, which started in October 2000. This marked the beginning of a fundamental shift to a negative reality, given the tightening of Israeli restrictions on Palestinian economic activities. The created distortions in Palestinian economic recovery and growth between the two regions of the occupied Palestinian territories (oPt) while suffocating Palestinian economic and trade policies. Gradually, hopes began to fade in the restoration of economic conditions to their previous state. International aid (largely unsustainable relief aid) began to gradually decline. All these factors plunged the Palestinian economy into successive economic crises.

The crises experienced by the Palestinian economy (after 2000) further increased its fragility and weakness, and its dependence on the Israeli economy. This decline continued in a somewhat balanced manner across the West Bank and the Gaza Strip, despite the gap in economic indicators between the two areas, a gap that was reasonable given the historic circumstances of weak economic and social structures.

After 2006 and the cementing of Palestinian divisions, a further turn for the worse commenced for Palestinian economic indicators, which took a fundamentally negative trajectory in light of the blockade. This led to a significant decline in the Gaza Strip's contribution to GDP, leading to a further widening of the gap between Gaza and the West Bank. It also led to a major imbalance in the general budget and an exacerbation of the budget deficit, further entrenching the state of economic crisis.

Subsequently, major shocks and divisive developments followed, placing the Gazan economy in a state of great weakness, increasing its fragility, and deepening the economic gap between the West Bank and Gaza. Five destructive wars on the Gaza Strip followed, in addition to the ongoing siege and almost complete closure of the Gaza Strip. In parallel, the increase in resistance in the West Bank, the occupation's restrictions and repeated closures, settler violence, and the adoption of numerous unjust policies towards Palestinian economic activities in the West Bank, all led to a significant decline in economic indicators and large losses resulting from war.

Resultantly, the Gaza Strip's 2023 economic and social indicators are at their historically lowest levels compared to the West Bank, affecting all Palestinian economic indicators. In conclusion, the Palestinian economy is fragile and weak, and dependent on foreign aid under normal circumstances, that is, in the absence of war. Therefore, given the Gazan economy's exposure to five wars, unsurprisingly, the result has been a sharp decline across all economic indicators. The term coined by the United Nations some 15 years ago describing the Palestinian economy as "war-torn" today rings terribly true.

The following data and analysis illustrate the impact of these fundamental turning points that led to a decline in economic indicators, and a widening of the gap between the West Bank and Gaza while examining the further impact of wars and political conditions on the Palestinian economy's performance indicators.

3. Major Shocks to the Gazan Economy

The Gazan economy has received seven major economic shocks since 2000, starting with the Al-Aqsa Intifada and the severe restrictions that followed, then the division of 2007, followed by five wars, the most recent of which is the current war. It should be noted that there occurred smaller, recurring shocks resulting from sporadic military operations, within the framework of the almost hermetic closure and siege of the Gaza Strip. After Israel disengaged from Gaza in 2005, it intensified its military policies towards it, with temporary closures and military incursions. After 2007, Israel declared Gaza to be 'enemy territory'. The siege and successive wars inflicted significant (direct and indirect) economic losses on the Gaza Strip, estimated by the UN to amount to about USD 16.5 Billion for 2007-18.[1]

It is difficult to detail all the studies estimating the economic value of Palestinian losses resulting from wars and sieges, as these vary. Here, we cite select international estimates in a report submitted to the UN General Assembly on economic losses from previous wars:

"The World Bank stated that 2014 wiped out USD 460 million from the Gaza economy, although removing restrictions in place at that time could have generated 32% cumulative growth until 2025.[2] UNCTAD indicates that direct economic losses resulting from the 2008 war amounted to $2.5 billion and that losses in assets damaged between the 2012 and 2014 wars amounted to USD 2.7 Billion. The Palestinian Authority estimates reconstruction needs at USD 3.9 Billion".[3]

Therefore, Gaza has been exposed to more than five wars that resulted in significant direct and indirect economic losses. Estimates of direct economic losses are outlined in the table below:

Year(s)	Length of War (days)	Estimating direct economic losses to Gaza
2008-9	23 days	USD 1.9 Billion
2012	8 days	USD 370 Million
2014	51 days	USD 460 Million
2021	5 days	USD 500 Million
2023	21 days (as of October 28)	?

Source: World Bank, UNCTAD, UN, and MAS (see 'References' section)

4. Economic Gaps between Israel and each of the West Bank and the Gaza Strip

The data presented in the following figures illustrates the significant gap between the Israeli and Palestinian economies, based on time series data from 2002 to 2022. The following can be deduced from this data:

1 UNCTAD (2020). Economic costs of the Israeli occupation for the Palestinian people: the Gaza Strip under closure and restrictions. (A/75/310, August 2020).

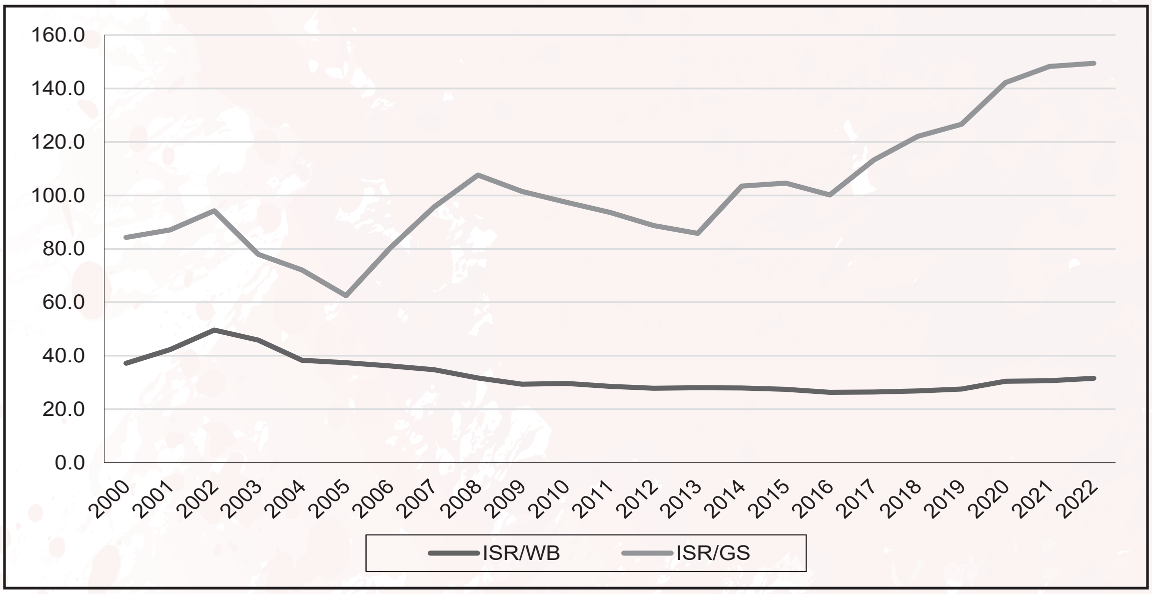
2 World Bank (2017). Unlocking the Trade Potential of the Palestinian Economy: Immediate Measures and a Long-Term Vision to Improve Palestinian Trade and Economic Outcomes. (Report No. ACS22471).

3 UNCTAD (2017). State of Palestine: Ministerial Committee for the Reconstruction of Gaza. Detailed Needs Assessment (DNA) and Recovery Framework for Gaza Reconstruction, 2015. (TDB/B/56/3, 62/3, Washington, D.C.)

- **GDP Gap**

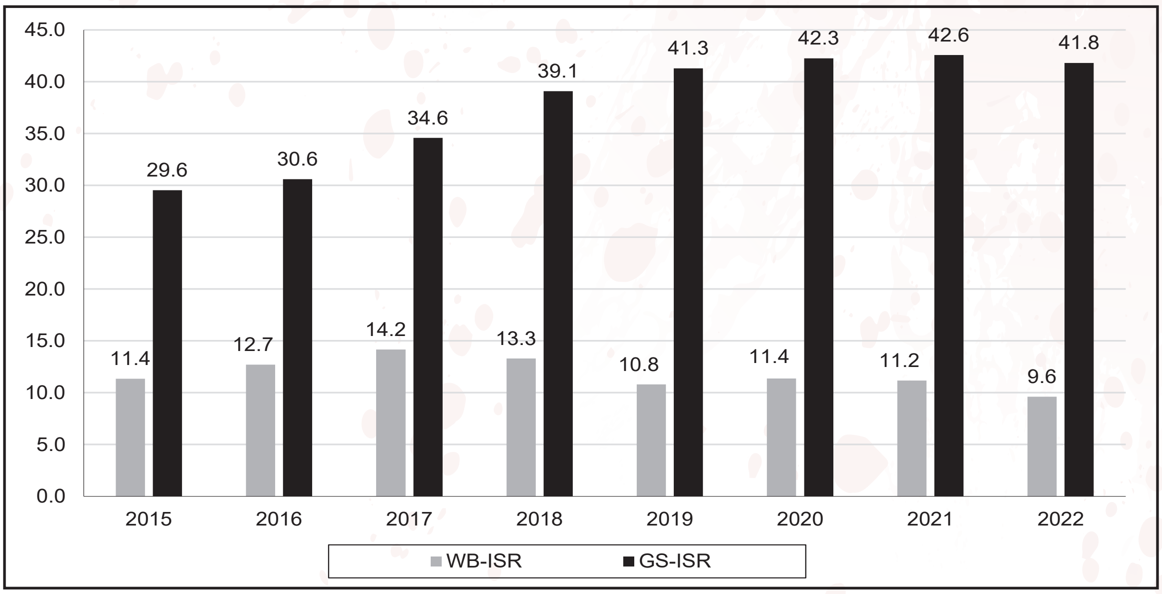
    - Available data highlights the existence of a large gap between the Palestinian and Israeli economies, which has not diminished over the passage of time, especially when comparing Israel to the Gaza Strip specifically. Israel's GDP is about 25 times larger than Palestinian GDP, (an average for the period 2000-22). The gap between the Israeli and Gazan economies is steadily widening: the former was 75 times larger during 2000-06, widening further to reach 150 times that of Gaza Strip in 2022.

Figure 1: The GDP Ratio between Israel and the West Bank/Gaza



    - As for GDP per capita, its value in Israel is rising, unlike Palestine, due to growth factors that the Israeli economy enjoys, while curbing the growth of the Palestinian economy. GDP per capita in Israel increased from 18 times the size of Palestine's GDP per capita in 2000 to 32 times in 2022. Income per capita in Israel increased from 44 times that of the Gaza Strip in 2000 to 146 times in 2022.
    - As for unemployment, there are stark differences: the unemployment rate in Palestine is 13% higher than in Israel. In the Gaza Strip, it has increased significantly, reaching 42% in the last five years when compared to Israel.

Figure 2: The Ratio in Unemployment Rates between Israel and the West Bank/Gaza



- **Other Gaps: Supply of Water and Electricity**

  - Water

    - Average per capita water consumption, according to the World Health Organization (WHO), is 100 liters per day. In the Palestinian case, the individual consumes an average of 86.3 liters of water per day, as a result of the occupation's control over 85% of Palestinian water sources. The average per capita water consumption in the West Bank is 89 liters, compared to 82.7 liters in the Gaza Strip.[4] However, the per capita share of fresh water in the Gaza Strip is only about 21.3, given the fact that more than 97% of the water extracted from the coastal basin in the Gaza Strip is unfit for human consumption by WHO standards.[5]
    - On the other hand, the consumption rate for Israeli settlers is three times higher than the Palestinian consumption rate, reaching 300 liters per day, and 816 liters per day in some areas.[6]
    - In the recent aggression on the Gaza Strip, the per capita share of water decreased by about 30% as a result of the targeting of about 110 water infrastructure sites.[7] In the West Bank, since 2009, the occupation has destroyed more than 800 water, sanitation, and hygiene (WASH) facilities.[8]

  - Electricity

    - The Palestinian per capita share of electricity hardly exceeds 15% of the Israeli share.[9]
    - The maximum recorded and estimated electricity load in Palestine is 675 megawatts, of which 435 megawatts are for the West Bank and 230 megawatts for the Gaza Strip.[10] The West Bank consumes 1,000-1,200 MGW megawatts, compared to 400-450 megawatts in the Gaza Strip.[11]
    - The volume of electricity supplied to the Gaza Strip is only about 190 megawatts, even though the required quantity is estimated at 430 megawatts. In terms of differences at the national level, Palestinian families in Gaza spent a higher proportion of their monthly income on electricity than in the West Bank, ranging between NIS 150 and NIS 300 per month, equivalent to one-fifth of average, monthly family income in the Gaza Strip in 2021. [12] Daily electricity consumption is 10 hours less in the Gaza Strip relative to the West Bank, reaching between 4-8 hours a day in the Strip.[13]

5. Economic Gaps between the Gaza Strip and the West Bank

- Contribution to GDP

  - The Gaza Strip contributed about one-third of Palestinian GDP (and a similar share across most economic indicators) until 2005, noting that its population represents 40% of the total population of Palestine. The contribution of the Gazan economy to Palestinian GDP began to decline after 2006, from about 35% to 25% in 2013. After 2014, it reached about 19%, declining further to 17% in 2022. This meant that the Gaza Strip's contribution to GDP declined about 20% since 2005.
  - As a result, domestic production became concentrated in the West Bank, which accounted for about 83% of Palestine's domestic output. This does not mean that the West Bank's economy grew significantly, but rather, it indicates that the decline in the contribution of the Gazan economy led to an increase in the percent contribution of the West Bank's economy to GDP.
  - The GDP gap between the West Bank and Gaza has steadily widened, as a result of growth in output in the West Bank combined with the sharp decline in the Gaza Strip due to the erosion of the local,

4 https://www.pcbs.gov.ps/postar.aspx?lang=ar&ItemID=4467
5 https://www.pcbs.gov.ps/postar.aspx?lang=ar&ItemID=4467
6 https://jerusaleminstitute.org.il/en/blog/water_consumption/.
7 https://www.arij.org/wp-content/uploads/2022/07/water_land-Evidence-based-report.pdf
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industrial production base. Gaza's exports have been weak in recent years due to the blockade; in some years, export revenues hardly exceeded a few hundred-thousand U.S. dollars.

Figure 3: West Bank and Gaza Strip: Shares of Contribution to GDP

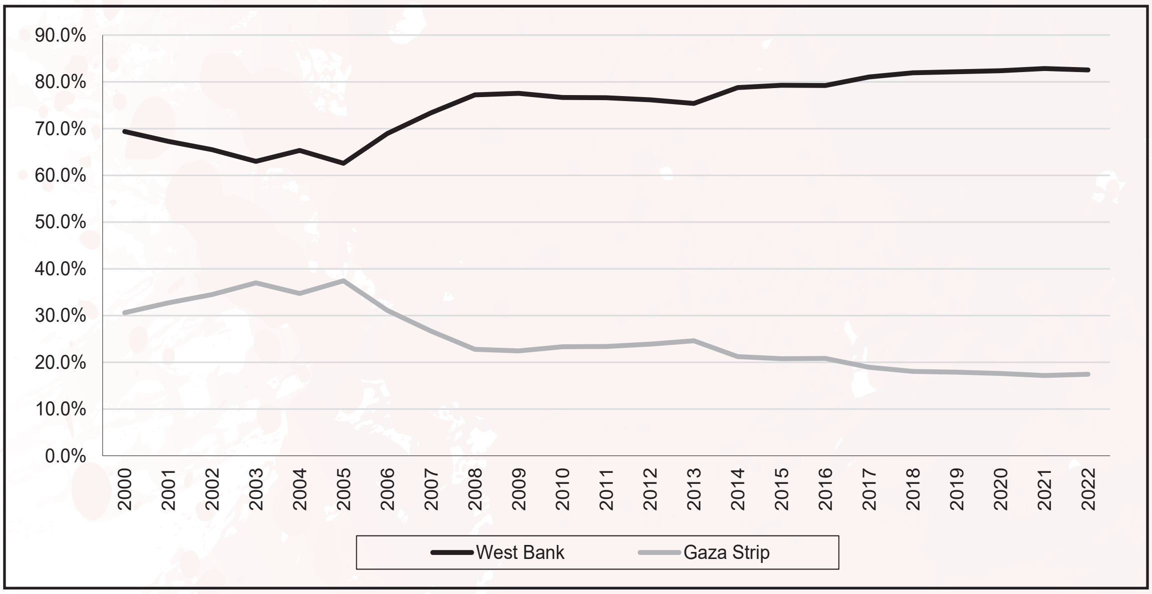
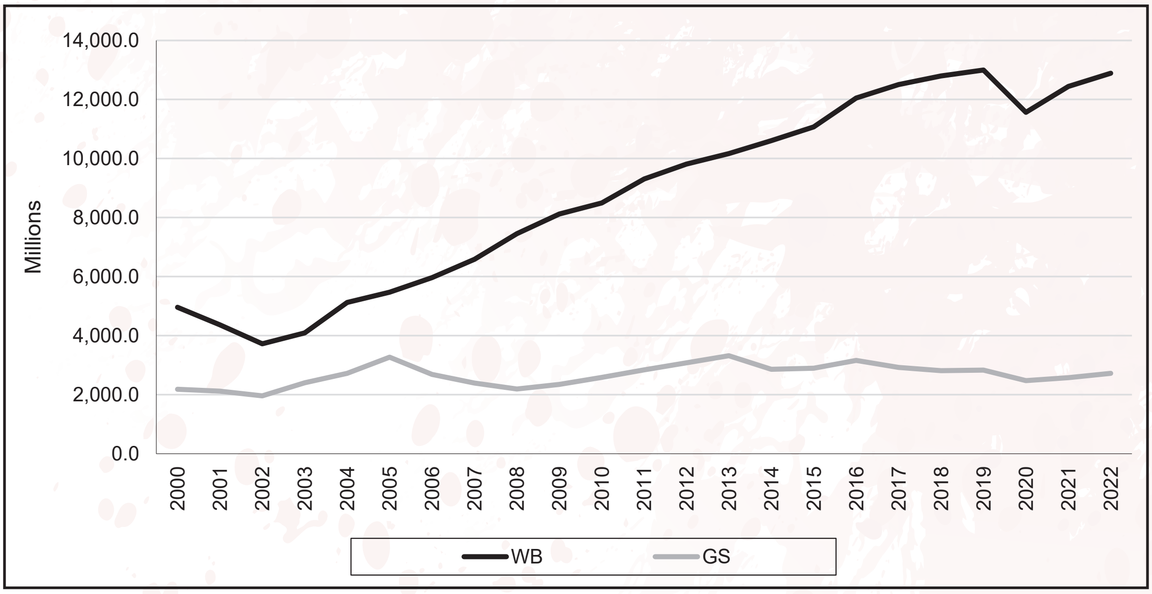


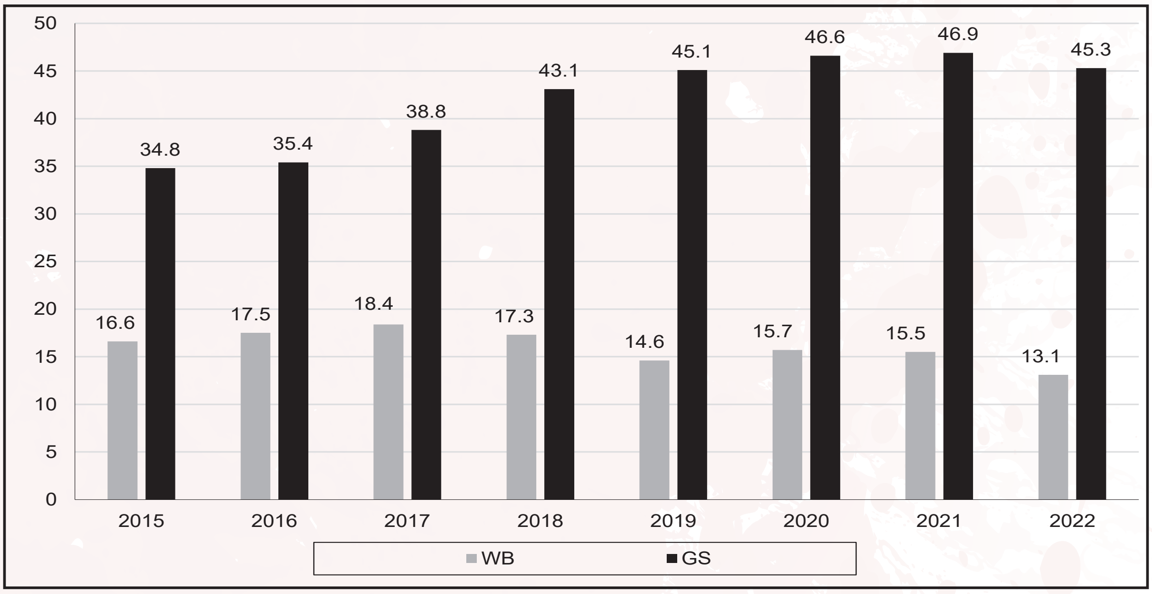
Figure 4: Comparing the West Bank and the Gaza Strip's GDP (constant 2015 US Dollars)



- **Gap in Unemployment**

Prevailing conditions in the Gaza Strip, combined with the decline in economic indicators, play a direct role in raising unemployment. After 2014, unemployment ranged between 38% and 45%. Such unemployment rates are unprecedented in the economic literature, highlighting severe poverty and low purchasing power. However, the unemployment rate in the West Bank has averaged 17% in recent years, with a noticeable improvement in 2022, declining to 13%.

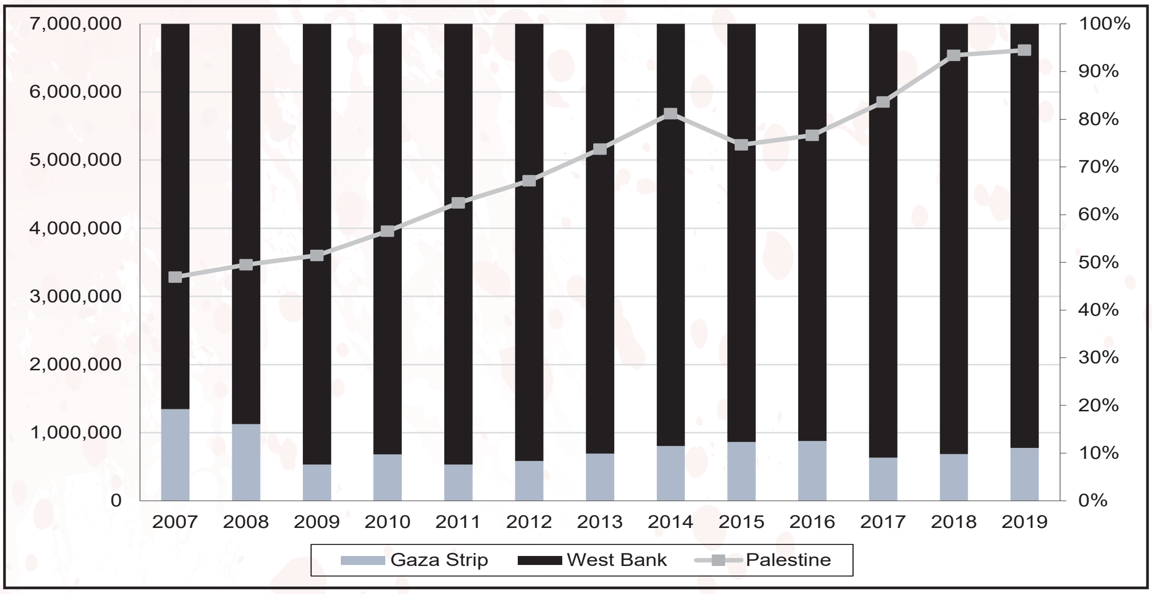
Figure 5: Comparing Unemployment Rates between the West Bank and Gaza Strip



- **Gap in International Trade**

  - West Bank imports constitute, on average, 89% of Palestine's total imports (11% for Gaza only). There has been a significant increase in the growth of West Bank imports, which rose from USD 2.6 Billion in 2007 to about USD 6.1 Billion in 2022. Gaza's imports remained (almost) constant, with a slight increase from USD 631 Million in 2007 to USD 770 Million in 2022.
  - This slight increase in imports is not proportional to the distribution of population between Gaza and the West Bank. The Gaza Strip's imports should be at least 35% of Palestine's total imports, instead of 11%. As things stand now, 60% of Palestine's population accounts for 89% of imports, with the remaining 40% of the population importing only 11%.

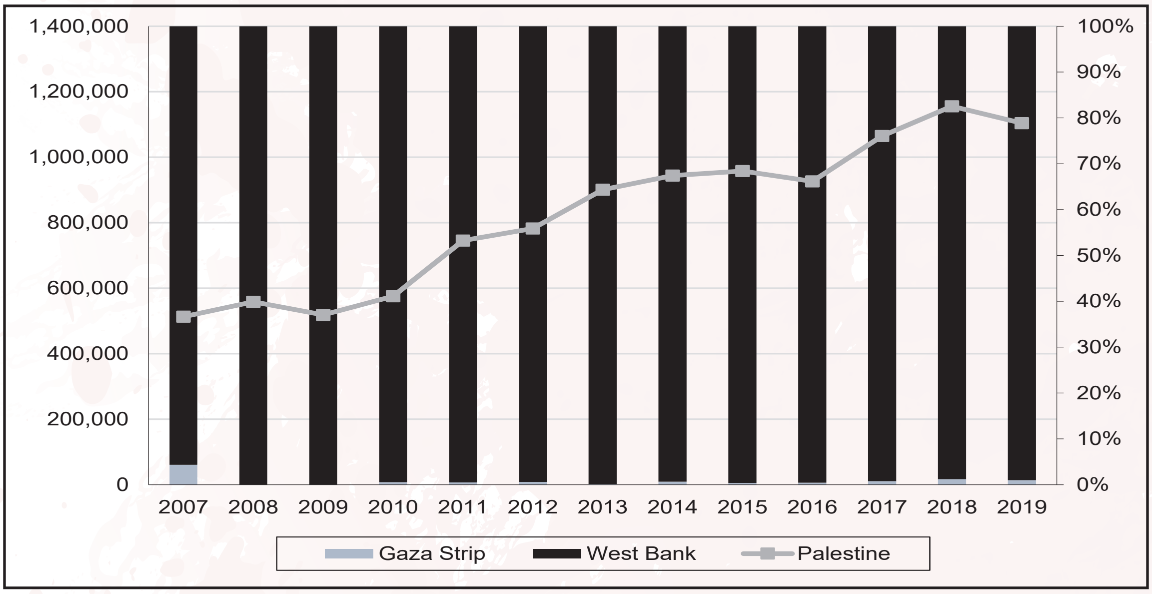
Figure 6: Total Value of Commodity Imports in Palestine (West Bank and Gaza Strip) and Their Relative Distribution (USD thousands) (2007-19)



Source: PCBS. Foreign trade data.

  - In 2022, Palestinian exports amounted to more than USD 1.2 Billion. The West Bank accounted for 99% of exports, and the Gaza Strip for the remaining 1%. Gaza's exports decreased significantly due to the siege and wars, peaking at USD 11 Million in 2019. Gaza's export sector had already been eliminated before this war; if conditions were normal, as before 2000, Gaza's exports could have reached up to USD 550 Million, in line with Gaza's expected contribution to foreign trade.

Figure 7: Total Value of Commodity Exports in Palestine and Their Relative Distribution (USD thousands) (2007-19)



Source: PCBS. Foreign trade data.

6. Conclusions and Basic Facts: the Numbers Recount the Story of the Isolation and Marginalization of Gaza Strip

This Brief has emphasized important realities when considering future economic and living conditions for Gaza's 2.2 million residents:

- Gaza's economy began to decline sharply after 2006 due to the siege and wars;
- The Gazan economy suffered losses of more than USD 16.5 Billion as a result of the occupation during the last 15 years (before the current war);
- The unemployment rate in Gaza is the highest in the world, at about 45% over the past ten years, today close to 100%.
- The Gazan economy cannot be compared to the Israeli economy, highlighting the scale of violations practiced by Israeli economic juggernaut against the tiny Palestinian economy of densely-populated communities that are among some of the poorest locations in the world.
- There are evident differences in the main economic indicators between the West Bank and Gaza, resulting from the political conditions to which each is exposed. The size of the Israeli economy is 150 times that of the Gazan economy.
- Gaza's exports have become almost non-existent, due to the siege and the almost complete closure of the Gaza Strip.
- Israel's per capita share of fresh water is more than three times that of Palestinian citizens overall, and up to five times that of Gazans. The Palestinians' per capita share of electricity does not exceed 15% of Israel's.

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