



RETHINKING GAZA'S RECONSTRUCTION

With living conditions in the Palestinian enclave fast approaching breaking point, anything short of a comprehensive approach to peacebuilding and reconstruction will not work

By Mohammed Samhour

For over a decade now, a crippling Israeli economic blockade, internal Palestinian political division, and three major Israeli military operations against Hamas-ruled Gaza have all pushed the tiny Palestinian enclave to the edge of collapse. The international response, although vital in providing desperately needed relief aid to meet the most basic human needs of Gaza's two million inhabitants, has so far been unable to articulate clear policy solutions to address the enclave's continued economic and humanitarian decline.

Past experience has shown that technical solutions to Gaza's complex problems, barring a supportive political and security environment, are not enough to lift it out of its dire conditions and put it on a trajectory of sustained recovery and high economic growth. The policy implication is clear: in order for any future intervention to be effective in dealing with Gaza's mounting socioeconomic difficulties, its political and security conditions have to be firmly stabilized. This implication by its very nature necessitates a strategic shift in the current thinking about Gaza, and calls for the adoption of a new strategic approach to rebuild the embattled Palestinian territory. Such an initiative would look at Gaza as a strategic development project that requires the adoption of a long-term vision, rather than as a humanitarian operation that mostly focuses on immediate and short-term basic needs. This essay proposes such an approach.

A Series of Shocks Causing Gaza's Predicament

Gaza's current predicament can be traced back to the largely inauspicious political and security situation in place since the Israeli unilateral disengagement from the Strip in September 2005. In the years that followed, a series of highly disruptive and destructive events came together, over a decade, to produce a dire humanitarian and economic condition that is unprecedented in Gaza's modern history.

◀ A Palestinian boy carries family belongings from the rubble of homes destroyed by Israeli air strikes in Beit Hanun town, northern Gaza Strip, August 7, 2014. *Sameh Rahmi/EPA*

Each one of these events represented a powerful shock to Gaza's small and largely underdeveloped economy that was barely recovering from three years of sharp decline during the second Palestinian Intifada (2000–2005). Collectively, these adverse shocks, one after the other, created a series of crises, with the size, scope, and complexity of each crisis ramping up over time, impacting economic, social, environmental, institutional, and infrastructure conditions. For a place of Gaza's size, with a total land area of 365 square kilometers, these adverse developments proved to be very costly for the Strip's small population at each and every conceivable level.

Gaza's current troubles started in early 2006 when the Islamic resistance movement, Hamas, emerged victorious in the Palestinian legislative elections held in January of that year. This largely unexpected political development represented the first shock to hit post-disengagement Gaza. The second blow came the following year when Hamas violently took over the entire Strip in June 2007, marking the beginning of a bitter internal political division between Gaza and the West Bank-based Palestinian Authority (PA)—a rift that continues unresolved until today.

In response to Hamas's control of Gaza, Israel immediately imposed a sweeping blockade on the Strip, the third powerful shock to hit it within an eighteen-month period. A series of other powerful shocks continued to rock Gaza, this time caused by the launching of three major Israeli military operations during the period between 2008 and 2014. The total cost of the *direct* economic losses of the three wars combined was estimated by UNCTAD to be nearly three times the size of Gaza's annual Gross Domestic Product (GDP).

The last war was the deadliest and most devastating of all. It lasted fifty-one days on end from July 8 to August 26, 2014, wrought unprecedented carnage on Gaza's civilian population, and brought down massive devastation on

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its already weak economy and failing civilian infrastructure. Over 60 percent of Gaza's housing stock sustained significant damage, with entire neighborhoods along the eastern part of the Strip reduced to rubble or rendered uninhabitable. Damage assessment was estimated at \$4.5 billion, with 85 percent of Gaza's capital stock wiped out by the war. The psychological trauma to those who survived the Israeli onslaught was no less painful.

Five years after the war ended, according to a UN report, an estimated 210,000 people in Gaza—over one in ten residents—suffer from severe or moderate mental and psycho-social health disorders as a result of the continued violence.

On the economic front, the negative impact of the twelve-year Israeli blockade and repeated military campaigns against Gaza, along with the internal Palestinian political split, on the performance, size, and structure of Gaza's economy since 2007, is enormous. During the entire post-2007 period, Gaza's economic growth was extremely volatile, averaging less than 1 percent annually. This resulted in a sharp decline in per capita income; a diminishing of Gaza's contribution to Palestine's total GDP from 37 percent in 2005 to an estimated low of 24 percent in 2016; and the erosion of Gaza's economic productive base, with the share of the manufacturing and agriculture sectors in Gaza's GDP falling to 8 and 5 percent, respectively, in 2018.

Post-war Fragility

Five years after the 2014 war, overall conditions in the Gaza Strip are looking increasingly grim. The underlying factors that brought all aspects of life in Gaza to the brink of collapse on the eve of the last war—mainly the suffocating Israeli blockade from land, air, and sea, and the internal Palestinian political chasm—remain largely unchanged. Isolated and battered by severe restrictions on movement of people and trade, Gaza's economic troubles are further compounded by chronic and persistent shortages in electricity and potable water that have already reached crisis level, dilapidated civilian infrastructure, and intermittent bouts of cross-border armed violence—all adding to the hardship and suffering of the Strip's besieged population.

Worse still, post-war attempts to give Gaza much-needed breathing space all fell short. Post-war reconstruction and economic recovery remain an incomplete process, with only half of the \$3.5 billion of the pledges made at the 2014 Cairo donor conference on rebuilding Gaza delivered. The Gaza Reconstruction Mechanism—a short-term UN-brokered agreement between Israel and the PA reached in September 2014 to allow for the entry of restricted building materials and other “dual-use items” from Israel—was ineffective and gave Israel near-total control over Gaza's reconstruction. Reconciliation talks to bridge the Palestinian political division showed no progress despite the signing of the latest agreement between Fatah and Hamas in October 2017 in Cairo. And the Israeli measures to ease stiff restrictions on access and movement in and out of Gaza introduced after each spike in cross-border violence, and subsequent short-term ceasefire agreements, are still grossly inadequate to make a real difference in Gaza's dire living conditions.

Unlivable by 2020

The latest statistics on Gaza's socioeconomic conditions are very troubling and reveal a bleak picture. More families are falling below the poverty line (53 percent in 2017, up from 39 percent in 2011), and are increasingly becoming food insecure (68 percent in 2018, compared with 59 percent in 2014, with 47 percent of households becoming severely food insecure). Over 80 percent of

Gaza's population continues to rely on foreign handouts and other forms of social transfers for basic survival. More adults remain out of work, desperately looking for jobs that do not exist. The general unemployment rate at the end of 2018 was estimated at 50 percent—up from 41 percent in 2016, with youth unemployment reaching a staggering 70 percent—and is even higher among women.

Gaza's private sector is yet to recover from the losses sustained from the war's extensive and widespread damage to its productive assets. Many of the destroyed economic facilities in the agricultural and manufacturing sectors are still largely standing idle, awaiting repair after reconstruction funds dried up. Continued severe restrictions on Gaza's imports and exports have driven some local firms out of business and forced others to relocate to neighboring Arab countries, while those that remained open are operating well below their capacity. Isolated and cut off from the supply chain, their struggle to stay in business is exacerbated by the continued acute shortages in electricity, water, and fuel supplies, and by an odd regulatory and governing environment caused by twelve years of internal Palestinian political division.

Gaza's population, meanwhile, is growing at a fast rate of 3.6 percent a year—one of the highest in the world. With 65 percent of the population under the age of twenty-five, Gaza's young labor force is growing even faster. New entrants to the labor market are joining the long unemployment lines in a virtually stagnant, if not collapsing, economy. With opportunities for a better future outside of Gaza virtually nonexistent for most people, the only hope for a different future remains within Gaza's private sector. This sector must become the engine of

sustained economic growth in order to absorb the annual increase in labor force and reduce the high unemployment rate.

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Five years after the war, Gaza remains a war-torn area, an open-air prison, besieged and isolated from the rest of the world. Its economy is devastated, its people traumatized, and its civilian infrastructure and basic public services are largely dysfunctional.

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Halfway International Response

Despite continued international assistance to Gaza, little, if anything, has been done on the policy front to address its grave living conditions, with donors' efforts proving more unlikely to succeed over time. Two post-war international conferences on Gaza's reconstruction, in March 2009 in Sharm El-Sheikh and in October 2014 in Cairo, have both failed to produce sustained economic

recovery beyond the partial reconstruction of the damage caused by the wars.

Moreover, international organizations' appeals for funds to provide humanitarian relief to Gaza are persistently missing the target. While, for example, 57 percent of the money needed in 2015 to fund the UN "Humanitarian Response Plan for the Palestinian Territories" was secured, this figure dropped to 46 percent in 2018. Additionally, vital international projects to repair, rehabilitate, and upgrade Gaza's crumbling infrastructure, and to improve the provision of essential public services, are routinely delayed—or not implemented altogether—either due to the insufficiency of funds or due to Israel's procrastination in allowing the entry of construction materials, technical experts, essential equipment, and spare parts, all of which require prior Israeli approval.

Under these extremely harsh conditions, Gaza's recovery remains a distant goal. When such recovery occurs, it is usually short-lived, disrupted by a new round of cross-border violence and the tightening of Israeli restrictions on movement and trade, which has been the hallmark of the post-2014 period. Long-term development under status-quo conditions is not even on the map. And yet, inaction is not an option, and will only lead to more hardships such as higher unemployment, poverty, and food insecurity rates; dwindling basic public services; continued environmental degradation; and deepened institutional decay.

For years, the international community, in addition to providing badly-needed humanitarian aid, has been providing financial and technical support in an attempt to mitigate the impact of the stringent conditions in Gaza. And yet, crucial as foreign assistance has been, donors' incremental, project-based, ad hoc approach has not succeeded in making a durable, positive difference in Gaza's rapidly vanishing economy or to save its dying private sector.

What is urgently needed now is a fundamental strategic shift in the way the international community has been dealing with Gaza: a new approach within which short-term relief intervention measures represent only one component of the solution, and not the whole gamut. In this new approach, Gaza needs to be looked at as a strategic development project rather than as a humanitarian operation. This alternative approach should be driven not by the urgent need to mitigate the deteriorating humanitarian conditions that are pushing Gaza fast to the precipice, but by the strong will to prevent the situation there from becoming yet another troubled hotspot in the currently lurching regional political and security order.

Shifting the Debate on Gaza

The future of the Gaza Strip will ultimately depend on building a vibrant and dynamic private sector-led economy, fully integrated with the rest of

the Palestinian hinterland, and efficiently operating in an open business environment. It will also depend on having close and mutually rewarding trade relations with the stronger, more developed, and technically advanced Israeli economy. For that to happen, and to unlock Gaza's potential, the freedom of movement of people and goods in and out of Gaza must be secured. Also, the use of Gaza's economic resources, including the natural gas fields located off the coast of Gaza, must be unrestricted, and its access to domestic, regional, and international markets unhindered.

The starting point in realizing this vision for Gaza is the focus on its struggling economy in order to prepare it for the crucial task of leading the way beyond post-war reconstruction and short-term recovery, into the medium- and long-term goal of sustained growth and development. This strategic shift is consistent with the "Building Back Better" principle—one of many guiding principles in the literature on post-conflict reconstruction—and intends to take the discussion about Gaza a step further toward the eventual building of a strong, vibrant, and private sector-led economy.

More specifically, the required strategic shift in thinking should take the debate about Gaza from the *standard* questions of "what happened five years after the war," and "what has been accomplished so far," to the more *central* and *challenging* question of "what needs, could, and should be done" in order to *fundamentally* address and ultimately resolve Gaza's ever-deepening multiple crises: from the staggering rates of unemployment and poverty, to the crumbling state of basic services and physical infrastructure, to the need to reduce, and ultimately end, Gaza's chronic dependence on foreign handouts. This is the crux of the matter.

Rebuilding Gaza: Toward an Integrated Approach

The proposed new approach to rebuilding Gaza is centered around three key pillars, which are all equally vital, all integrated in one policy package, and should all be pursued concurrently—not independently or in sequence. These three pillars are: the continued provision of short-term financial and technical support to address Gaza's urgent economic and humanitarian needs; the design of a comprehensive plan for medium- and long-term development of Gaza's private-sector-led economy; and the stabilization of Gaza's political and security setting to allow for the return of the PA to Gaza and the removal of the Israeli blockade.

Short-term Intervention Measures

The first pillar of the proposed new approach deals with addressing immediate and short-term issues, and focuses entirely on the critical need for continued delivery of emergency humanitarian assistance to ensure the survival of Gaza's population. In this regard, it is especially crucial to ease the liquidity crisis

currently facing Gaza since the U.S. administration's 2018 decision to end its funding for UNRWA, the UN agency responsible for Palestinian refugees since 1949, and the suspension of all USAID projects in the Palestinian territories, and also due to the PA's punitive measures against Hamas-controlled Gaza, which began in March 2017, and the drying up of post-war reconstruction funds.

The first component also calls for enhanced and accelerated support to Gaza's embattled private sector so as to address the immediate—and so far grossly underfunded—priority needs of Gaza's strained business community. The list of short-term intervention measures is largely known and has been amply highlighted in the PA's post-war recovery and reconstruction plan for Gaza, and in World Bank and UN reports presented biannually to the meetings of the Ad Hoc Liaison Committee, AHLC, the international donor group for Palestine. The latest example of such measures is the UN urgent humanitarian and economic package for Gaza presented to, and approved by, the AHLC in September 2018, and endorsed again at the AHLC meeting on April 30, 2019. This package, among other things, includes interventions to alleviate the energy crisis; address the collapsing healthcare system; and increase access to clean water and sanitation.

To be successful, however, short-term intervention measures should not be stand-alone steps, but part of a long-term strategic developmental approach led by a revived and empowered private sector (the second pillar) and implemented in the context of a persistent international drive to stabilize Gaza's fragile political and security conditions (the third pillar). A 2016 study on spatial development of Gaza titled "Global Palestine, Connected Gaza" has emphasized such a need to link short-term intervention measures with long-term strategic vision. According to the study, "Without a long-term perspective, urgently needed investments can unintentionally be made in ways that are inefficient or compromise longer-term opportunities".

Long-term Development Plan

The second pillar of the proposed new approach focuses on the need to design a strategic plan for medium- and long-term growth and development for Gaza's economy. The plan should start with an in-depth survey analysis of Gaza's current business and investment climate in order to identify existing bottlenecks and key impediments that delay short-term recovery and hinder long-term growth. The outcome of such analysis should help to pinpoint areas of possible policy interventions by policymakers, national or international, independently or jointly in partnership with Gaza's private sector, in order to address, and ultimately fix, the weak aspects of the business climate conditions.

A careful study of each one of Gaza's business sectors/subsectors should then

follow. The aim here is to assess existing conditions of these sectors, gauge their future potential, and weigh their possible contribution to Gaza's long-term prosperity. The sectoral strategies produced should be all integrated in one strategic plan that ensures that policy actions taken in each sector are consistent with the overall strategic development vision of Gaza.

Once constructed, the strategic development plan should be used as a basic guide for future national and international interventions that mean to improve Gaza's business climate, and extend technical and financial support to existing and new enterprises.

Stabilizing the Political and Security Situation

This third pillar of the proposed comprehensive approach to Gaza's reconstruction addresses the internal (political) and external (security) constraints that are the principal causes of Gaza's continued humanitarian and economic decline. It calls for a persistent and coordinated drive by the international community to work closely with the immediate parties involved in the Gaza conflict in order to end the internal political division so as to reintegrate Gaza back into the PA's governing structure, and then stabilize the security front between Gaza and Israel to make possible the complete lifting of the economic blockade and secure the freedom of movement and access to resources and markets. This is

a *sine qua non* component of the proposed approach; without it, nothing of a lasting impact can be achieved.

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The logic behind this third pillar is simple: for short-term measures (the first component) to be effective, and for the medium- and long-term strategic development plan (the second component) to have any chance of successful implementation, the political and security context within which these policy interventions

should take place must be stabilized. Post-war economic recovery and longer-term growth and development of the Gaza Strip cannot possibly be realized or sustained before the right political and security conditions are in place. Gaza, after all, cannot be rebuilt while key players—Israel, the PA, and most donor countries—refuse to deal with the de facto authority in Gaza. By the same token, donor-funded reconstruction cannot be expected to take place in the presence of tight restrictions on access and movement, and amid continued conflict conditions that will always put rebuilt projects at the risk of destruction again!

The implication of this is clear: without a Palestinian political reconciliation that unifies Gaza and the West Bank under one legitimate, internationally recognized

governing authority, and without reaching a permanent and durable ceasefire arrangement between Israel and all Palestinian militant factions in Gaza, not only will Gaza be unable to rebuild and regain its lost ground, but the current conditions will continue to further worsen even amid continued provision of short-term relief aid by the international community.

By contrast, stabilizing the political and security fronts is expected to produce immense economic benefits for Gaza. According to World Bank analysis, the impact of progress toward PA– Hamas reconciliation on real GDP in Gaza is estimated to result in a cumulative growth of about 30 percent by 2025, while the removal of the Israeli blockade would lead to additional cumulative impact of 32 percent by 2025. Over the medium term, the World Bank further shows, progress on the political and security issues will encourage additional foreign direct investment and private capital inflows, along with aid from international donors. Meanwhile, growth in GDP will lead to an increase in private savings and investment, and the whole economy will progress in a virtuous cycle toward sustained growth.

A Prescient Warning

Stabilizing the political and security environment of Gaza is not an easy task. If it were, it would have been done long ago. The process of getting there is complicated, and the impediments are real. Neither the sticking issues that have eluded Palestinian reconciliation for over a decade now (mainly, the question of Hamas representation in the PLO, and the fate of Hamas-affiliated armed militants in Gaza), nor the nature of Israeli coalition politics that has been shifting to the right of the political spectrum—with hardliners and settler leaders increasingly assuming powerful positions in government—will allow political and security stabilization to go far in the short run. This is a bad omen for Gaza's future.

And yet, there is no other way out. If the root causes of Gaza's continued economic and humanitarian decline are politically and security driven, then this is where the solution lies, and where it should eventually be found. Recent UN-led efforts to reach interim modus vivendi arrangements that aim to maintain calm between Israel and Hamas in exchange for some form of humanitarian palliatives to Gaza's already worn down population may buy some time, but they are not, and cannot, by any means, constitute an alternative to a more substantive policy action.

Looking ahead ten years, when the population of Gaza is projected to reach three million by 2030, trying to predict the future of the Gaza Strip under unchanging, or worsening, political and security conditions is certain to be an extremely unpleasant exercise. And when the UN is projecting an implosion in Gaza by the year 2020, we must come to grips with the pressing stakes for the future in the tiny Palestinian coastal enclave. 