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An analysis on the
economy of the Gaza
Strip under Hamas:

15 years under economic blockade

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1. ABSTRACT

The objective of this paper is to provide a detailed analysis on the economic activity of the Gaza Strip since the Islamic group Hamas came to power in 2007 and Israel imposed an economic blockade on the enclave. For this purpose, we will provide some historical and economic context on the Israeli-Palestinian issue and the division of Palestine into the West Bank and the Gaza Strip since the Battle of Gaza (2007), then we will examine what leading scholars have researched about Gaza's situation in the last fifteen years. Following this introduction, we will provide an analysis on the economic activity of the Gaza Strip in both the private and public sector and will include relevant strategies of resistance used by Hamas to secure its power and legitimacy in the Gaza Strip in the face of Israeli economic warfare.

El objetivo de este trabajo es ofrecer un análisis detallado sobre la actividad económica de la Franja de Gaza desde que el grupo islámico Hamás llegó al poder en el año 2007 e Israel impuso un bloqueo económico sobre el enclave. Para ello, proporcionaremos algo de contexto histórico y económico sobre la cuestión israelí-palestina y la división de Palestina en Cisjordania y la Franja de Gaza desde la Batalla de Gaza (2007), y luego examinaremos lo que los principales académicos han investigado sobre la situación de Gaza en los últimos quince años. Tras esta introducción, ofreceremos un análisis sobre la actividad económica de la Franja de Gaza, tanto en el sector privado como en el público, e incluiremos las estrategias relevantes de resistencia utilizadas por Hamás para asegurar su poder y legitimidad en la Franja de Gaza frente a la guerra económica israelí.

Keywords: Gaza, Hamas, economy, Palestine, blockade, Israel

Palabras clave: Gaza, Hamás, economía, Palestina, bloqueo, Israel

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List of acronyms

BGG: BG Group

DOP: Declaration of Principles

EU: European Union

GDP: Gross Domestic Product

GNI: Gross National Income

GPP: Gaza Power Plant

FDI: Foreign Direct Investment

HDI: Human Development Index

ICT: Information and Communication Technologies

IMF: International Monetary Fund

IEC: Israel Electric Corporation

OECD: Organization for Economic Co-operation and Development

MENA: Middle East/North Africa

NGO: non-governmental organisation

PCBS: Palestinian Central Bureau of Statistics

PCHR: Palestinian Centre for Human Rights

PNA: Palestinian National Authority

OPT: Occupied Palestinian Territories

PLO: Palestinian Liberation Organisation

UN: United Nations

UNCLOS: United Nations Convention on the Law of the Sea

UNCTAD: United Nations Conference on Trade and Development

UNDP: The United Nations Development Programme

UNICEF: The United Nations International Children's Emergency Fund

UN OCHA: United Nation's Office for the Coordination of Humanitarian Affairs

UNRWA: United Nations Relief and Works Agency for Palestine Refugees in the Near East

USD: United States dollar

2. PURPOSE AND MOTIVES

On 10 May 2021, years after the last significant military conflict between the Islamic group Hamas and Israel, there was a new wave of violence between Israel and the Hamas-controlled Palestinian territory of Gaza. Reportedly, more than 2,000 rockets were launched from Gaza towards Israel, which reciprocated the attacks with airstrikes into the Gaza strip. This new outbreak of violence was the result of different points of tension during the preceding month, but it was arguably triggered by a protest held by Palestinians against an attempt by the Israeli authorities to evict six Palestinian families from their homes in Sheikh Jarrah following a decision by the Supreme Court of Israel. The Palestinian neighbourhood has been under dispute for years as both Palestinians and Israelis claim ownership over the area, which has now become a symbol of Israeli occupation. During these years, tensions have accumulated as Israeli courts have successively ruled in favour of Jewish settlers, granting them ownership rights over areas in which Palestinian families had traditionally lived for generations, thus forcing the latter to leave their homes under court orders of eviction. In May 2021 the tensions derived from Israel's efforts to evict Palestinian families from their homes added to Palestinians' complaints about Israel's hard policing in the sacred compound of Al-Aqsa Mosque. Hamas ultimately gave an ultimatum to Israel demanding it to withdraw its security forces from the mosque, where Israeli forces had been using tear gas and rubber bullets to disperse the crowds. When the time to respond to the ultimatum was over, rocket fire from Gaza began. According to the United Nations (UN), at least 222 people, including 63 children died in Gaza, and 12 people died in Israel during the violence exchange. Moreover, it is estimated that more than 450 buildings in the Gaza Strip were destroyed or damaged by missiles, of which six were hospitals, nine healthcare centres and one a water desalination plant, supplying around 250,000 Palestinians with drinking water. Although rockets launched from Gaza were numerous and caused the death of 12 people, including civilians, their damage was highly limited by Israel's air defence system, the Iron Dome. In fact, UN experts pointed at the "vast asymmetry of power" between Gaza

and Israel, which has translated into a disproportionate number of Palestinian victims and economic loss (United Nations Human Rights: Office of the High Commissioner, 2021).

This so-called asymmetry of power has been predominant throughout the Israeli-Palestinian conflict. Though shorter, this 11-day conflict marked by rocket and airstrike exchanges added to other periods of bloody, destructive wars between Hamas-controlled Gaza and Israel, such as Operation Cast Lead (2008-2009), Pillar of Defence (2012), and Protective Edge (2014), all of which have caused enormous humanitarian and economic damage in the Strip.

However, the cost of war with Israel is only part of the damage caused by the enmity between the Jewish State and the ruling faction of the Gaza Strip. Since Hamas won the Battle of Gaza (2007) against rival faction Fatah in 2007 and took power over the Strip, Israel and neighbouring Egypt have imposed a sea, land and air blockade on the enclave that restricts the free movement of people and goods, limits access to basic humanitarian necessities and prevents the Gaza Strip from freely managing its resources. The Israeli blockade has effectively stifled Gaza's economy and plunged the area into a structural state of humanitarian and economic crisis in which the average Gazan struggles daily to obtain such necessities as clean drinking water or electricity. According to a UN report, only since 2008 Gaza has suffered \$16.7 billion in economic losses from siege and occupation (United Nations General Assembly, 2020).

In sight of the precarious humanitarian and economic situation resulting from the Israeli blockade, many wonder how it is possible for Hamas' government to have stood in place and consolidated its control de facto over a territory that has been subject to international isolation and economic warfare over the past 15 years. Furthermore, Hamas has not only had to overcome Israel's hostility, but also ostracization by the West, which mostly considers the group to be a terrorist organization and limits foreign aid, and to enmity with rival Palestinian party Fatah, which partially rules the Palestinian areas of the West Bank under the official government of Palestine, the Palestinian National Authority (PNA).

The answer to how the Gazan economy is holding under Hamas' rule becomes even more complex and interesting after the events of 2011. Following political changes in the region after the Arab Springs, Hamas has suffered important disturbances in the support from many of its regional allies and neighbours. The most significant challenges for Hamas

regarding these political changes include the destruction of the Gazan-Egyptian network of smuggling tunnels that constituted the main source of income for Hamas' budget, and the disruption of financial aid flows from traditional allies such as Iran or Qatar on which the group is heavily reliant. In sight of all the cited difficulties, the ability of Hamas to resist in the face of hardship becomes ever increasingly impressive.

The objective of this work is first) to provide a detailed account on the economic activity in Gaza, both public and private, that in turn will show the effects of economic blockade, and second) to examine the political economy responses given by Hamas in an effort to ascertain how the group has resisted in power since isolation and siege began. In this regard, it is worth noting that the ability of an organization to exert de facto control over a territory is not limited to its capacity to produce economic growth. There are other reasons why a non-democratic regime might be able to control a territory and a population, ranging from military power to political, national or religious legitimacy. However, this work is not aimed at providing a full political analysis on these factors. Rather, the focus of this work is on the economic side of Hamas' rule over the Gaza Strip, without fully delving into the role that elements such as national identity, religion or military power might play.

3. OBJECTIVES, RESEARCH QUESTIONS AND HYPOTHESIS

The purpose of this work is twofold. First, the present analysis aims at providing a comprehensive and detailed overview of every major economic sector and activity in the Gaza Strip to ascertain how the Gazan economy has dealt with economic blockade for the past fifteen years. Secondly, this information will be complemented with some of Hamas' responses to the consequences of economic siege in these sectors to discuss whether Hamas' ability to stay in power despite hostile conditions owes to any specific policy.

In order to accomplish these objectives, the present work will seek to provide answers to the following questions i) what are Gaza's main economic sectors, and within these sectors, what are the most important economic activities? ii) how has Israeli occupation and economic blockade affected each of these economic activities? iii) how has Hamas responded to the economic consequences of the blockade?

This work is based on the hypothesis that first, occupation and siege have had an undeniably harmful impact on each and every sector of the Gazan economy, and that

Israeli efforts to blockade the Strip are an extension of Israel's wish to destroy Palestine beyond military means. As for Hamas' resilience, this paper holds the theory that much of Hamas' success is owed to its popularity, which Hamas derives from its ability to position itself as an essential provider of social welfare services, and mostly to a narrative that consolidates the group as the most capable Palestinian faction to fight Israel, both through military as well as political means, extending to the economy under the form of a resistance strategy.

4. THEORETICAL FRAMEWORK AND STATE OF THE ART

4.1. Theoretical framework

The overarching theme of Gaza's reality is the Israeli-Palestinian conflict, which is perhaps one of the world's longest-running and fitting into the explanation that realist thinkers provide on the international world order.

Realism is a theory of International Relations that stresses the "competitive and conflictual" side of international politics as opposed to cooperation. Realists consider that the main actors in International Relations are states, "which are concerned with their own security, act in pursuit of their own national interests, and struggle for power" (Korab-Karpowicz, 2018). For realists, international politics are dominated by chaos and there is no supranational form of justice that can be enforced on states. As a result, each state seeks to achieve power to ensure self-preservation (Goodin, 2010).

Both Gaza and Israel act on their own national interest and put self-preservation as a priority over other considerations. The story of Israel is in itself a story of survival. It was founded by the Jewish people who fled stigma, persecution, and genocide in the 20th Century as they returned to the holy Land of Israel from which they had been expelled 2,000 years earlier, according to the scriptures. However, what Zionists regard as a legitimate claim for the creation of a Jewish state on historically Israeli territory, Arab countries see as an invasion of Palestine and an existential threat to the sovereignty and security of the region. Israel is thus surrounded by its enemies and lives in a state of continuous struggle for its survival. For this reason, the country has sought to make its economic and military power disproportionate to its natural resources and population in order to exist in a hostile international environment. The survival of the state of Israel relies on building a sovereign Jewish state with control over its own destiny and, since

the Jewish state is located in a territory that is also claimed by Palestinians, the survival of the Israeli state requires the destruction of Palestine. This destructive effort has been mainly articulated in military offenses, but also in economic warfare through economic blockade. UN condemnations of Israeli occupation have in turn been ignored by Israel, while international law has proved impossible to impose on the country.

For its part, the national interest of Palestine regarding its territorial integrity, and the way to guarantee its self-preservation is the recognition of Palestine as a state. This objective has changed slightly in recent years. Since the creation of the State of Israel in 1948 Palestine has regarded the destruction of Israel as a prerequisite to ensure its existence, as literally declared by Hamas in its foundational charter. Like Israel, efforts for self-preservation on the Palestinian side have also surpassed any moral or ethical international rules in some cases. In line with realist principles, some examples include terrorist attacks by radical groups in Israel and abroad. Today, Palestine would be willing to accept the Two-state solution, thus accepting the existence of Israel, but in exchange for well-defined and respected borders.

In sum, the Israeli-Palestinian conflict can be defined in realist terms: it is a struggle for power between Israel and Palestine, both of which seek self-preservation at any cost in a chaotic environment where international law cannot be enforced. Understanding the realist framework is essential to the aim of this work; Israel seeks the destruction of the Gazan economy to achieve the larger destruction of Gaza on the grounds of the fight against Hamas' terrorism. Conversely, Hamas struggles to develop a narrative and a minimum level of economic activity to sustain its popularity in order to guarantee self-preservation domestically.

However, realism has some limitations when it comes to explaining the Israeli-Palestinian conflict and thus the situation in the Gaza Strip. Namely, that realism only considers states as the main actors in International Relations, whilst Palestine, and consequently the Gaza Strip, are not recognized as states. The controversy surrounding statehood is open to debate as the international community has long struggled to define this concept. In fact, despite including the statehood requirement as a precondition to join the UN, the organization does not provide a definition. It was not until 1933, in the Montevideo Convention on the Rights and Duties of States, that a definition of statehood would be codified as part of customary international law. The Convention defines a state as any person of international law possessing the following i) "a permanent population", ii) "a

defined territory”, iii) “a government” and iv) “capacity to enter into relations with the other states” (Seventh International Conference of American States, 1933). Following this broad definition, it has been argued that Palestine complies with all the criteria to become a state but is not recognized as such. In practice, it can only participate in the international community as a non-member observer state of the UN General Assembly.

Considering that the Palestinian territory has been both geographically and politically divided into two for fifteen years, with the ensuing economic and social differences that this division has generated, this work will treat the Gaza Strip as a de facto state on its own. In broad terms, the de facto state was defined in 1988 by Scott Peg in his book *International Society and the De Facto State* as a political entity that exerts control over a territory and a population but lacks international legitimacy and recognition (1988). Based on these criteria the Gaza Strip does fit into the de facto State label; Hamas acts as a political entity that exerts power over a defined Palestinian Arab people that share a culture, a history, a predominant religion and numerous customs that allow for their identification as a distinctive population.

In addition to the de facto state, it is also essential to define some concepts that will be extensively used throughout this work:

- **Occupied Territory:** this is the term used by the UN to define the status of both the Gaza Strip and the West Bank (including East Jerusalem) in relation to Israel. It is described as a territory that is “actually placed under the authority of a hostile army” (Fourth Hague Convention, 1907).
- **Economic blockade:** in International Relations, economic blockades are “an economic weapon used to change the behaviour of a target nation toward the direction of the blockading nation” (Mohamed). Economic blockade also refers to “an embargo of all trade with a country or region, intended to damage or dislodge the government” (Collins English Dictionary).
- **Economic warfare:** Economic warfare is an extension of traditional (military) warfare and it is distinctive in that it targets economic resources rather than military ones. As Førlund explains, economic war has been extensively used as a popular means of statecraft since the 1990’s and it frequently employs economic blockade as a tool (1993).

In this work we will examine what economic activities take place in both the private and public sector in Gaza which generate economic growth for Gaza and revenues for the government of Hamas. Ultimately, this analysis of economic activity in Gaza will be complemented by explanations on how Hamas has resisted in power for such a long time despite ruling under a land, air and sea economic blockade that is specifically targeted at destroying the economy of Gaza and achieving the fall of Hamas.

When referring to economic growth we mean “the expansion of the output of an economy, usually expressed in terms of the increase of national income” (Oxford Dictionary) as measured by the Gross Domestic Product (GDP), which considers the monetary value of final goods and services produced in a country within a given period of time. In turn, economic output per person is calculated as GDP per capita, which measures real GDP to the average population in a specific year as an indicator of individual income (Eurostat, 2022).

Nevertheless, GDP only considers the formal economy. This is “the part of an economy of which the government is fully aware and that is regulated by government authorities, particularly in the areas of contract and company law, taxation and labour law” (OECD), where “people work to receive a regular wage and are assured certain rights” (Dictionary University) and where wages are taxed (Dictionary University). On the other hand, the informal economy comprises all “activities that have market value and would add to tax revenue and GDP if they were recorded” (IMF). This is important because unofficial income is usually significant in low and middle-income countries like Gaza.

Finally, revenues are defined as “the income that a government or a company receives regularly” (Cambridge University Press), and this is the term that will be used to refer to the income perceived by Hamas as the ruler of Gaza.

4.2. State of the Art

According to this division of concepts the analysis of this work will be separated into two main categories: the private sector and the public sector. The objective is to provide a detailed account on the economic activity in Gaza during the last fifteen years and attempt to explain how Hamas has been able to resist economic siege and blockade from an economic point of view.

This work will bring an exclusively economic focus on the matter strictly linked to politics insofar the ability to provide certain economic prosperity is often linked to the survival of the ruler in a given territory. Besides, there already are several thorough studies that examine Hamas' rule from a purely political theory perspective by explaining the means used by the group to consolidate its political authority over the Gaza Strip. These include *Hamas rule in Gaza: three years on* by Yezid Sayigh (2010), *The growing Power of Hamas's Gaza leadership*, Jonathan Spyer (2012), *Gaza 2014: Hamas' strategic Calculus* by Glenn E. Robinson (2015) or *Can there be freedom, prosperity and democracy for Gaza?* by Zaha Hassan (2021). On the political side there have also been some studies on the relations between Israel and Hamas, of which *The Gaza Strip and the Israel-Hamas conflict: From 2008 until nowadays* is particularly worth mentioning because of the useful time frame it provides for relations between the two powers since Hama's rise to power until the 2021 hostilities (Tivadar, 2021).

Aside from the works on the subject that have been developed from a political science perspective, we also find some works on Gaza linked to the economic field. However, many of these focus on the study of development and reconstruction in Gaza rather than on the structure of its economy. This is the case of *Reconstruction under siege: the Gaza Strip since 2007* (Milton & Elkahlout, 2019), which deals with the way reconstruction efforts in Gaza have evolved since Hamas' rise to power. Other economic-related works on the topic have dealt more globally with the economic aspects of Palestine as a whole (Gaza and the West Bank) rather than Gaza in particular, as is the case with *Localising the Economy as a Resistance Response: A Contribution to the "Resistance Economy" Debate in the Occupied Palestinian Territories* by Tariq Dana (2020).

On the other hand, many of the works on the Palestinian economy have provided useful data on to the economic impact of the Israeli occupation by sector, as do most reports by international organisations, including *Trade Facilitation in the Occupied Palestinian Territory: Restrictions and Limitations* (Elagraa, Jamal, & Elkhafif, 2014) or *The Economic costs of Israeli Occupation for the Palestinian people: the impoverishment of Gaza under blockade* (UN, 2020). In fact, many of these reports have sought to bring an economic as well as humanitarian insight into the situation of the Gaza strip, sanctioned with the international legal authority that the UN and its agencies confer upon such documents in regard to the unlawful occupied status of the Gaza Strip.

The humanitarian problem has also been addressed by several authors such as Khalid Manzoor Butt and Anam Abid Butt in *Blockade on Gaza Strip: A Living Hell on Earth* (2016), as well as from an international legal perspective in *An Enduring Occupation: the status of the Gaza Strip from the perspective of International Humanitarian Law* (Darcy & Reynolds, 2010). While it is true that neither the humanitarian issue nor the legal status of Gaza are the focus of this work, these studies have been nevertheless essential in developing the economic analysis offered in this thesis, since it is not possible to separate the economic situation in Gaza from poverty and violations of international law. All the cited works on the matter, whether political, economic, humanitarian, or legal-focused have contributed decisively to the elaboration of the present analysis.

However, there are few works on the Gazan economy that also deal with Hamas' response to the economic blockade. One of the few that has addressed the matter from a perspective similar to the one intended in this work is *The economic experience of the Hamas government under blockade in the Gaza Strip* (2018) by Taher Labadi's, where three specific responses by the Hamas government in relation to economic blockade are discussed. This work will include some of Hamas' responses to the economic warfare waged by Israel too. Yet, the objective of this work is broader, as it also intends to give the reader a comprehensive and detailed overview of each economic sector in the Gaza Strip in an attempt to understand the magnitude of the economic damage caused on a besieged economy.

5. INTRODUCTION: HISTORICAL CONTEXT AND ECONOMIC PROFILE

5.1. Historical context

5.1.1. From 1922 to 2006: the British Mandate for Palestine and the Occupied Palestinian Territories

After World War I and the ensuing breakup of the Ottoman Empire, the League of Nations charged the United Kingdom with the administration of many of its former territories under the form of mandates. Thus, Palestine was placed under the administration of the British, who in 1917 had issued the *Balfour Declaration* expressing the support of the British government for the Zionist movement. The document encouraged “the establishment in Palestine of a national home for the Jewish people”, and committed the British government to “use their best endeavours to facilitate the achievement of this

object” (Balfour, 1917). This declaration was meant to gain the support of Jews against the powers of the axis during the war and to favour the geopolitical interests of the United Kingdom with regards to the Suez Canal (History, 2018). Yet, during the British mandate, British forces were subject to frequent attacks by violent Zionist terrorist groups such as the Irgun or Lehi. These groups targeted both British troops and Palestinian Arab civilians based on the idea that Jews had an ancestral right over the Land of Israel, which could only be reconquered through violence (Pellicer Balsalobre, 2019).

In line with the British commitment to contribute to the creation of a Jewish home, during the years of the Mandate (1922-1947) there was large-scale immigration of Jews into Palestine, mainly from Eastern European countries where widespread antisemitism had plunged Jewish people into stigmatisation and persecution. However, it was not until the 1930's that the number of Jews who left their home countries for Palestine really swelled. The rise of Nazism in Germany and the ensuing genocide of the Jewish people during the Holocaust forced many Jews to abandon their homes and look for the only place where they knew they would feel safe and protected. It is thought that around 6 million Jews were killed between 1933 and 1945 as part of the Nazi state-sponsored plan (Holocaust Museum Houston).

The arrival of mass Jewish immigration into Palestine soon raised tensions among the native Arab population, which began to demand independence and resisted the newly arrived. Tensions escalated into a full-scale rebellion in 1937, accompanied by violence on both sides. Facing this difficult situation, the United Kingdom handed Palestine over to the UN, which proposed ending the mandate and partitioning the territory into two independent states: one for the Palestinian Arab and the other for the Jewish, with Jerusalem remaining under international supervision (UN). The proposal was generally rejected by the Arab but accepted by Jewish leaders who, hours prior to the finalization of the British mandate on 14 May 1948, proclaimed the State of Israel with the immediate recognition of the United States and the Soviet Union. The same day that the British forces left Palestine, a coalition of Arab states launched an unsuccessful war against the newly created Jewish state. After the war, Israel expanded its territory to 78% of what had been Palestine until then, including the larger part of Jerusalem. Over half of the Palestinian Arab Population fled or were expelled following the 1948 conflict. The exodus was given the name of *Nakba*, which means “disaster”. The United Nations Relief

and Works Agency for Palestine Refugees in the Near East (UNRWA) calculates that there are 5 million Palestinian refugees in the world, with nearly a third living in refugee camps in neighbouring Arab countries as well as within the Gaza Strip and the West Bank (UNRWA). The status of Palestinian refugees and their right to return to Palestine has been one of the most contentious issues during negotiations on the Israeli-Palestinian conflict over the years.

The territories that were not taken by Israel in 1948 (Gaza, the West Bank and East Jerusalem) were placed under the administration of Egypt and Jordan but were also occupied by Israel in 1967 during the Six Day War, along with the Heights of Golan in Syria and the Sinai Peninsula in Egypt. In 1973, both Syria and Egypt launched the so-called Yom Kippur War in an unsuccessful attempt to recover the lost territory. Egypt would eventually regain the Sinai Peninsula thanks to a peace treaty signed as part of the Camp David Accords (1979), but Syria has lost the Golan Heights de facto after their annexation by Israel despite UN disapproval. As a result of Israeli occupation, Gaza is a part of what is now known as the Occupied Palestinian Territories (OPT) along with the West Bank and East Jerusalem. For their part, Palestinians in the OPT rose in violent protests against Israeli occupation during what was named the First Intifada (1987-1993) until the signature of the peace-seeking Oslo Accords (1993) and again during the Second Intifada (2000) due to disappointment on the peace process. Violence worsened further with Hamas' rise to power in Gaza in 2007, giving way to four major wars in the Gaza Strip: The Battle of Gaza (2007), the 2008-2009 Gaza War, the 2012 Israeli Operation in the Gaza Strip and the 2014 Gaza war.

Additionally, the proclamation of the State of Israel and its subsequent expansion into Palestinian territory led to the creation of violent Palestinian groups that have conducted terrorist attacks against Israeli authorities and civilians, as well as against people from other nationalities, to establish a Palestinian state. The number and intensity of attacks rose after the First Intifada and during the negotiation of the Oslo Accords as opposition to the peace process grew in some Palestinian sectors. Besides Hamas, some violent Palestinian groups that have used terrorist attacks against civilians include the Abu Nidal Organisation, the Al-Aqsa Martyrs Brigades or the Islamic Jihad Movement in Palestine.

Since the 1967 War the international community has repeatedly called for Israeli withdrawal from the OPT as stated in the UN Security Council resolution 242 (UN, 1967). However, little progress has been made in this regard. Neither has there been any advancements towards achievement of the “Two-state solution”, which envisages “a region where two states, Israel and Palestine, live side by side within secure and recognized borders” (UN, 2011).

The Two-state solution was initially proposed by the UN and plans for its implementation began in 1993 with the Oslo Accords. The Oslo peace process was conducted between the only internationally recognized representative of the Palestinian people, the Palestine Liberation Organization (PLO) and the government of Israel. Yasser Arafat, the leader of the PLO, and Isaac Rabin, from the Israeli government, thus negotiated a Declaration of Principles (DOP) which was expected to eventually culminate with the creation of a Palestinian state in coexistence with Israel (AbuZayyad, 2014). It is worth remarking that Rabin’s participation in the peace process was perceived by many right-wing Israeli nationalists as a betrayal to the Jewish state. This was so to the point where he was assassinated by an ultranationalist Israeli who opposed the Oslo Accords.

The DOP envisaged the development of Palestinian self-government over a transitional period of five years, after which more controversial issues such as Israeli settlements in Gaza and the West Bank or the return of Palestinian refugees would be discussed. In line with the Accords, Israel withdrew from Gaza and Jericho in 2005, whilst the PLO renounced terrorism. Additionally, the PNA was created as an interim form of autonomous government in those areas, later expanding to other Palestinian territories including the Palestinian parts of the West Bank. However, no final status agreement has been reached to this date.

Moreover, Israel has been allowing the building of an increasing number of Jewish settlements in Palestinian areas that the latter claim for the creation of a future Palestinian state. Any attempts at resuming peace talks to reach a solution have consistently failed over this issue during the last decade (Nichols & Charbonneau, 2016) to the point where there is currently “no realistic prospect of an end to the occupation and the realization of a Two-state solution”, as put by Tor Wennesland, the UN Special Coordinator for the Middle East Peace Process (United Nations, 2022).

5.1.2. From 2006 to 2007: Hamas' rise to power and the division of Palestine

Hamas, which stands for “Palestinian Islamic Resistance Movement,” is a Sunni-Islamic organization founded in 1987 as the political arm of the Muslim Brotherhood in Gaza. The group was created after the first Intifada by a Palestinian cleric named Ahmed Yassin who had been operating as a local activist for the organization in the area. The year after its creation Hamas published a charter where it outlined the goals of the organization, namely its commitment to the destruction of Israel and the establishment of an Islamic Society in historic Palestine (Hamas, 1988). In 1993, Hamas started to employ suicide bombers in protests to the signing of the Oslo Accords between the PLO and Israel and four years later, in 1997, the United States labelled Hamas a terrorist organization (Laub & Robinson, 2021). In 2004 Yassin was killed in an airstrike by Israeli helicopters as he left morning prayers in Gaza. His assassination sparked international condemnation of the attack and Yassin's funeral rallied thousands of Palestinians that mourned his death, turning the cleric into a symbol of resistance against Israel. In 2017 the group issued a new charter where it lowered its political demands to accepting a Palestinian state within pre-1967 borders, but still not recognizing Israel (Hamas, 2017).

Since its creation, Hamas has developed into three main organizational structures. In fact, some studies suggest that Hamas' organizational strength explains the group's popularity, as it is capable of effectively mobilising, educating, and training members for their internal structures who in turn mobilize the public in their local communities (Alsoos, 2021). These internal structures can be divided into three main levels:

Political level: Hamas was born as a political force in competition with the secular PLO. Its current objective is to govern Palestine and establish an Islamic society. The political wing is controlled by a consultative body named the politburo, which sets overall policy and resides in exile, whilst local committees run day-to-day business in the West Bank and Gaza (Laub & Robinson, 2021).

Military level: Hamas acts on a military level through the *Izz ad-Din al-Qassam* Brigades, which have been described as the “largest and best-equipped group operating in Gaza” (ECFR). The brigades were born in opposition to the Oslo Accords and have since claimed many attacks on Israeli targets. Over the years, the level of sophistication of Hamas' weapons and military arsenal has improved significantly as shown by the

enhanced range rockets launched into Israel during the 2021 conflict. The *Izz ad-Din al-Qassam* Brigades mostly operate in the Gaza Strip and, whilst clearly affiliated to Hamas, their level of dependence from the political branch of the group remains unclear.

Social welfare level: Hamas also acts on a social level named *Dawa*, which literally means “call to Islam” and mirrors the social welfare model established by the Muslim Brotherhood in Egypt. Its objective is to promote education and Islamic values, as well as to provide social services that build support and legitimacy for the organization among Palestinians (Pascovich, 2012). Some services include monetary support and militant programs at the Gaza University. Currently, these social services are only provided in Gaza, where Hamas is thought to be by far the largest provider of social services (Davis, 2016).

In 2005 Israel decided to unilaterally disengage from Gaza by withdrawing its armed forces and dismantling Jewish settlements in the area with the objective of improving the security of Israel and its international status. The same year, the main twelve Palestinian factions, including Hamas and Fatah, agreed to reinforce the legitimacy of the PLO as the sole representative of the Palestinian people. The following year Palestine held legislative elections and the Islamic political movement Hamas surprisingly obtained most of the votes to the detriment of the so far dominating secular party Fatah, the preferred faction by Israel and West allies.

The elections were judged free and fair by international observers but Israel, the United States and the European Union all feared that Hamas would undermine previous efforts to secure a democratic and peaceful government in Palestine. As a result, international aid halted and Israel imposed an economic blockade on the Gaza Strip, where Hamas had most power.

Fatah refused to join a national unity government with Hamas and disagreements between the two factions soon took a violent turn. Fatah’s president Mahmoud Abbas put the PNA’s security forces under his direct control and created a separate presidential guard, whilst Hamas resorted to the aforementioned Al-Qassam Brigades. Ultimately, altercations between supporters of each group escalated into a full-fledged military conflict in 2007 named the Battle of Gaza which resulted in Hamas’ seizure of the Gaza Strip and the eradication of Fatah in the area (Berti & Kurtz, 2017). As a result of the

2007 conflict, Hamas has ruled de facto over Gaza while the PNA, dominated by Fatah, controls the parts of the West Bank that are not under Israeli control.

In recent years, there have been some attempts at reconciliation between Hamas and Fatah, but PNA's President and Fatah leader Mahmoud Abbas has refused to come to an agreement with Hamas unless it surrenders the Gaza Strip and submits to the authority of the PNA. More recently, Fatah and Hamas agreed to hold new elections in 2020, but Abbas postponed them "indefinitely" over Israeli restrictions on Jerusalem residents voting (University College London, 2021).

It is worth noting that countries differ in their official stance towards Hamas. Since the United States labelled Hamas a terrorist organization many American allies in the West have adopted the same designation. Thus, the European Union (Council of the European Union, 2022) and Canada (Government of Canada, 2019) also consider Hamas a terrorist group, whilst others such as Australia or New Zealand have only given this classification to Hamas' military wing. In the case of the European Union, both the military wing and Hamas are blacklisted despite years of litigation against Hamas to take it off the list, whilst the United States only considers Hamas as the overarching entity (United States Department of State, 1997).

Changes in the categorization of the group have been common. The United Kingdom, for instance, used to only regard Hamas' military wing as a terrorist group, but gave the same label to the entire organization following the violent tensions with Israel in 2021 (BBC, 2021), whilst an Egyptian court recently overruled a previous decision to blacklist the group (Botelho, 2015).

On the other hand, there are also many other countries, including Switzerland and Norway, which do not consider Hamas a terrorist organization (Ehl, 2021). In fact, the lack of consensus over the designation led the UN General Assembly to reject a resolution proposed by the United States to condemn Hamas as a terrorist organisation (UN, 2018).

5.1.3. From 2007 to 2013: The Israeli blockade and the Arab Springs

After the Battle of Gaza Israel alleged that Hamas presented a security threat for the country and refused to recognize the organization's rule over the Gaza Strip as a matter of state survival. In response to the perceived security threat, Israel imposed a land, air and sea blockade over the Gaza Strip, to which Egypt adhered, aimed at strangling Gaza's

economy in order to force Hamas out. The effects of the blockade have been devastating for Gaza's economy and population, which finds itself trapped in a cycle of poverty and unemployment. According to UNICEF, the Palestinian people suffer from "chronic humanitarian concerns" (2021), and up to 80% of Gazans depend on aid because of occupation, internal divisions and blockade (European Commission, 2022), not to mention the human cost and capital destruction caused by the frequent armed conflicts against Israel over the last fifteen years.

However, despite international siege, occupation and lack of international recognition, the government of Hamas has managed to preserve its power over the Gaza Strip due in part to two major sources of revenue: the control over illicit trade through smuggling tunnels with Egypt and financial support from allies. This all changed, nonetheless, with the 2011 Arab Springs and their consequences, as the current government of Egypt put an end to illegal trade through the tunnels, and traditional alliances with important financial supporters such as Iran or Qatar deteriorated.

In Egypt, domestic protests forced Hosni Mubarak's resignation after 29 years in office and fostered democratic elections. Even though Mubarak's blind eye to illegal trade through the tunnels benefitted Hamas during the years of his rule, the group was never recognized by Egypt (Botelho, 2015). Therefore, when Mohamed Morsi from the Muslim Brotherhood was elected in 2012 the Hamas leadership saw a window of opportunity in an Egyptian government that, for the first time, shared a political and religious affiliation with Hamas. In fact, at the beginning of his presidency, Morsi relaxed controls on the Rafah crossing (Meringolo, 2015) and Hamas' popularity rose significantly (Carnegie, 2013). However, Hamas' expectations towards its new neighbour were never truly met (Meringolo, 2015). Morsi never openly supported Hamas and did not bring the expected facilitation of trade with Gaza that Hamas had foreseen (Reuters, 2013). In any case, Morsi was replaced the following year after a coup d'état by General Abdel Fattah El-Sisi and relations with Egypt worsened remarkably. El-Sisi, a declared enemy of the Muslim Brotherhood, destroyed most smuggling tunnels between Gaza and Egypt, which put Hamas under even harder economic strain than during Mubarak's presidency. Similarly, political changes in Syria and Yemen led to the breakup of ties between Hamas and traditionally supportive Iran, which provided the group with important military as well as financial support. This was so until Hamas broke its neutrality over the Syrian civil war in opposition to Al Assad and chose to support the Saudi-backed government in

Yemen, thus leading Iran to cut ties with the group. As a result, Hamas has faced great economic difficulties since 2013.

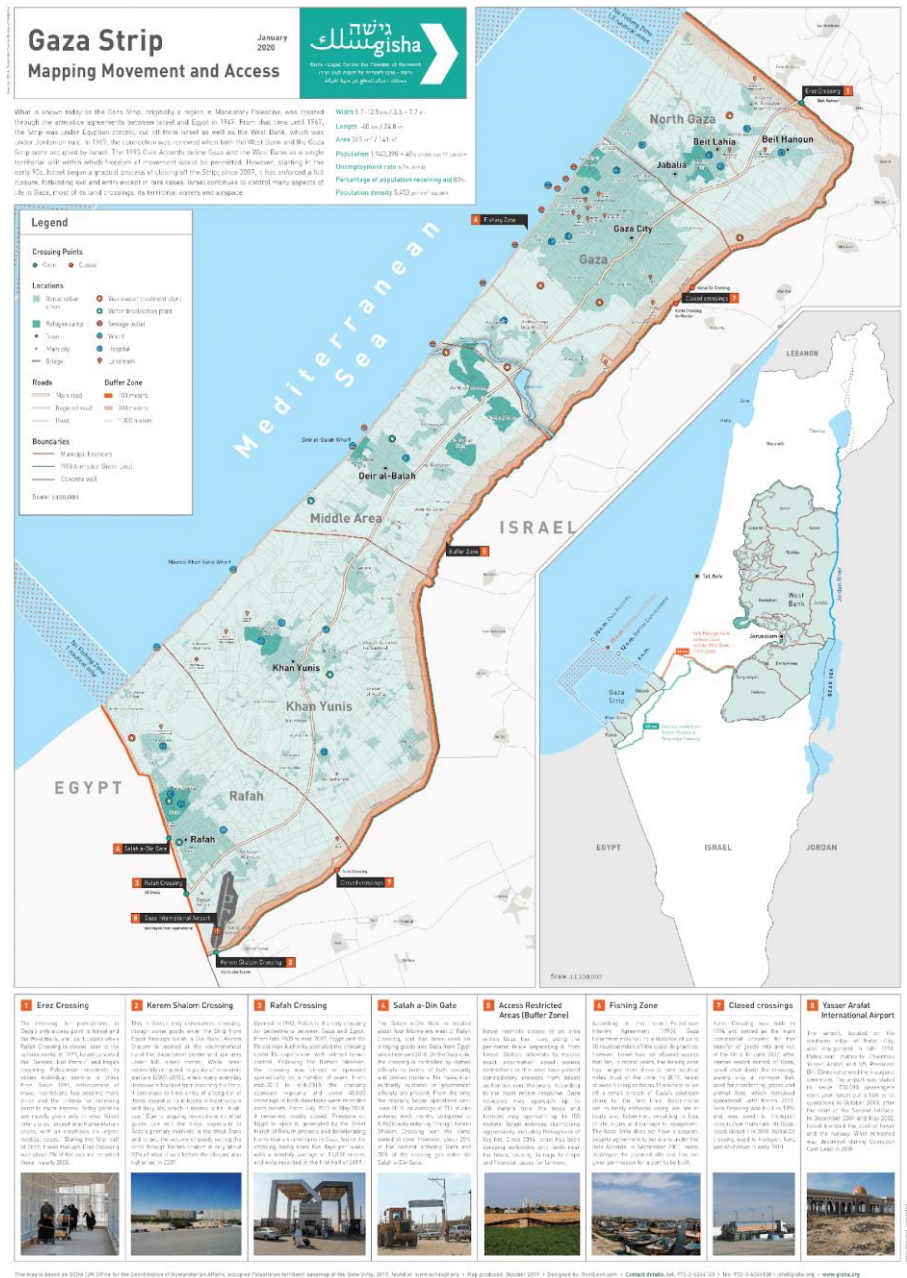
5.2. Gaza today: Gaza's economic profile

5.2.1. Geography and population of the Gaza Strip

Gaza is located on the Eastern coast of the Mediterranean Sea for 40 km of coastline and has a total area of 360 km² bordering with Egypt on the Southwest for 13km and with Israel on the East and North for a total of 5km.

Figure I

Gaza Strip – Communities and neighbourhoods



Published on January 24, 2009 by the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA, 2009)

According to the Palestinian Central Bureau of Statistics (PCBS) the population of the Gaza Strip is of 2,077, 357 people (2021) including some 1,4 million Palestinian refugees (UNRWA, 2021), all of whom live in a space of just 360km². This makes Gaza one of the most densely populated regions in the world at 6, 8498 persons/km² (PCBS, 2021).

This situation is further aggravated by a fast-growing population rate of 2,8% (2021) in an area where almost 70% of the population are below 25 years old (PCBS, 2021).

According to the same data, the poverty rate among Palestinians in 2021 was 29% in the whole of Palestine with great differences between the West Bank (14%) and the Gaza Strip (53%). Likewise, there is great variation in the extreme poverty rate between the West Bank (6%) and the Gaza Strip (34%), where over a third of the population live under extreme conditions of poverty.

5.2.2. Economic growth and development in the Gaza Strip

Certain economic indicators on the economy of the Gaza Strip are not easily accessible due to a variety of reasons; firstly, data are not always updated; secondly, most economic data on Palestine refers to combined data of both the West Bank and Gaza, which makes it difficult to investigate Gaza separately. Thirdly, official data do not record the size of the informal economy even though unofficial revenues are significant in the Gaza Strip.

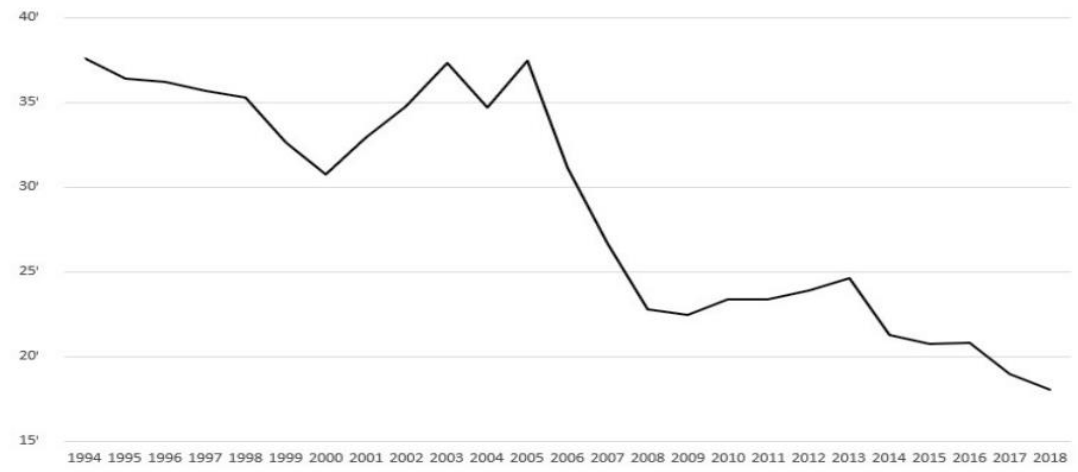
Having said this, the last data available on the World Bank webpage indicate that in 2020 the combined GDP of Gaza and the West Bank at constant prices (using 2015 as the baseline year) was 14,015 \$bn GDP (World Bank, 2021). This makes 2,922 USD as the GDP per capita for both the West Bank and the Gaza Strip (PCBS, 2021).

However, when we look separately at data on Gaza alone, we find that its regional economy has been declining for four years in a row and that GDP per capita is at a mere 1,000 USD. This is, a third of the GDP per capita figure registered in the West Bank (UNCTAD, 2021). In fact, the Gazan economy has experienced “one of the worst economic performances globally” in the period between 1994-2018 (UNCTAD, 2020).

Figure II

Gaza: share in the Palestinian economy

(percentage)



Published in 2019 by the PCBS as cited by UNCTAD (UNCTAD, 2019).

As shown in the graph, the Gazan economy follows a sustained downward trend with very few points of recovery, particularly since 2007. Estimations suggest that since Hamas’ rise to power and the imposition of the blockade the Gaza Strip has experienced, on average, 0.8% annual growth, in contrast to the West Bank where the lack of such economic restrictions has allowed for an annual GDP growth rate of 6.6% (UNCTAD, 2020).

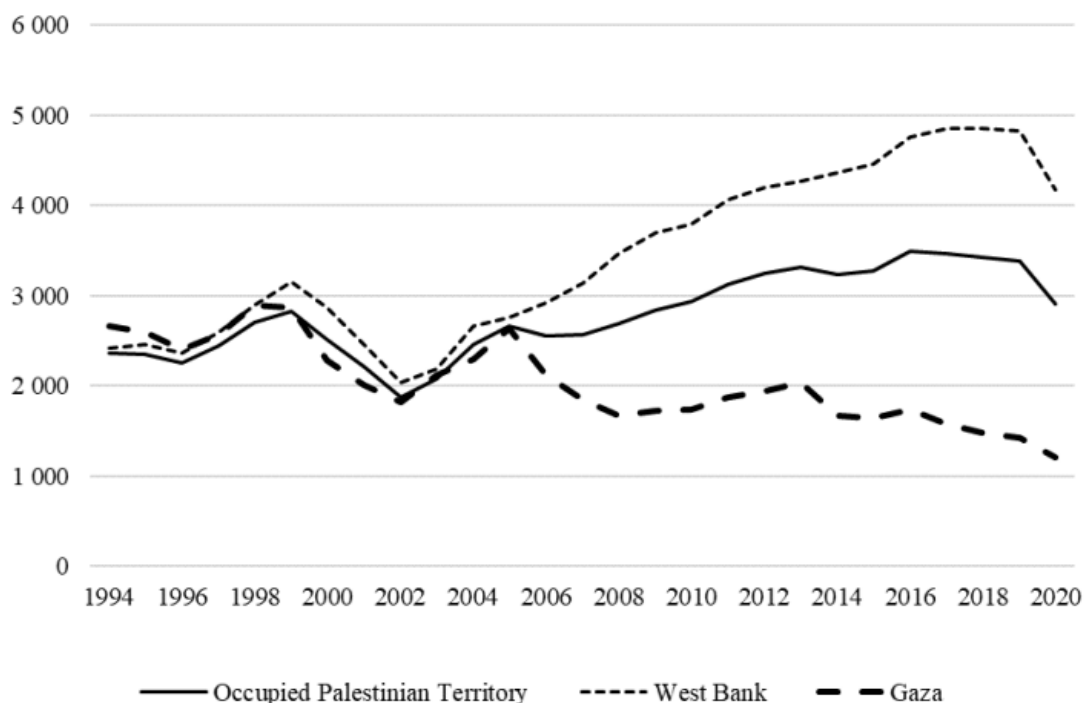
Beyond purely economic measurements, there are also some indicators that are useful to compare Gaza’s level of development to other countries and regions. The Human Development Index (HDI) is the most widely used measurement for economic development as it considers factors such as life expectancy, expected years of schooling and Gross National Income (GNI) per capita. The resulting figure ranges between 0-1, where the closer to 1 the greater the level of development. In 2020 the HDI of Palestine was 0.708, similarly to other countries like Egypt or South Africa (UNDP, 2022). For Gaza, the figure was smaller. According to Global Data Lab, the HDI of the districts of Gaza and North Gaza in the year 2018 (the latest available data) was 0.682 (2022), thus making the area comparable to countries such as Morocco or Guyana.

In sum, Israeli blockade and occupation are the single biggest obstacle to Gaza’s economic growth and development. As summarised in a UN report, “without occupation, the economy of the OPT could produce twice the GDP it currently generates; chronic trade and budget deficits, as well as poverty and unemployment, could recede; and economic dependence on Israel could end” (UNCTAD, 2016).

Figure III

Gross Domestic Product per capita, 1994-2020

(Constant 2015 United States dollars)



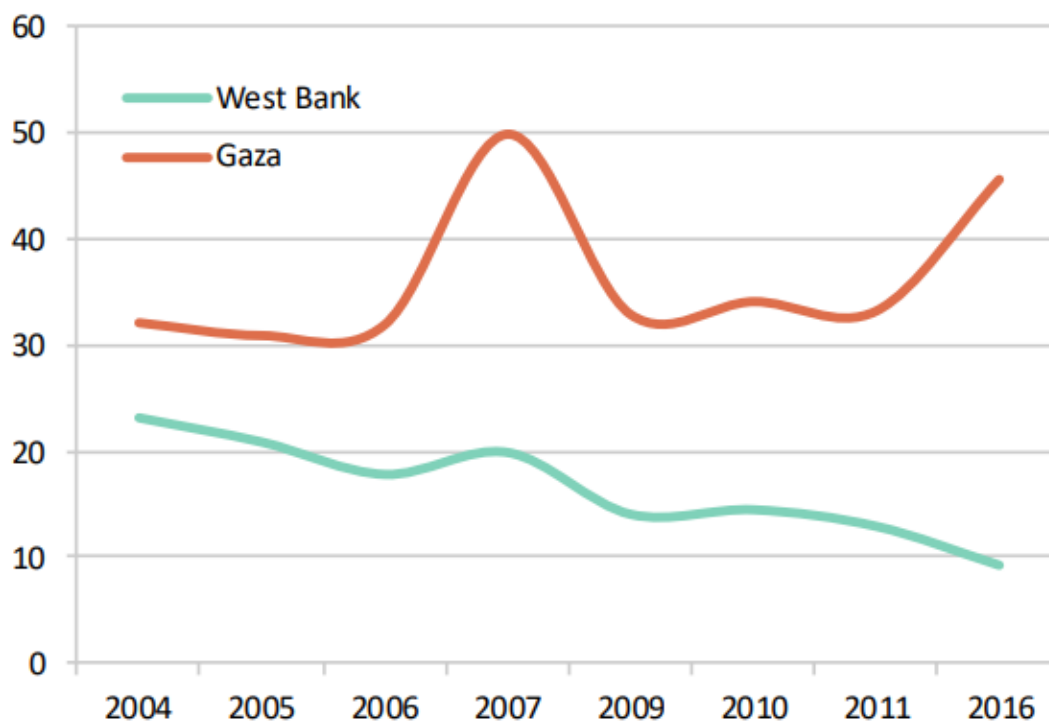
Published in 2021 by the United Nations Conference on Trade and Development (UNCTAD, 2021).

The worsening of conditions for the Gazan population can be seen in the fall of GDP per capita between 1994 and 2020. During this time, the GDP of Gaza has grown by 48% in real terms whilst its population has risen by 136%, thus resulting in a 44% decline in GDP per capita in what the UN has labelled a process of “de-development” (UNCTAD, 2020). As of today, Gaza’s GDP per capita is around \$1,000, down from almost \$3,000 in 1994. This places Gaza among the world’s low-income economies alongside other countries such as Guinea (\$984), Uganda (\$894) or Nepal (\$1,028) (World Bank, 2022).

Figure IV

Palestinian territories/ Poverty rate at 5.5 dollars per day (2011 PPPs)

Headcount rate, percent of population



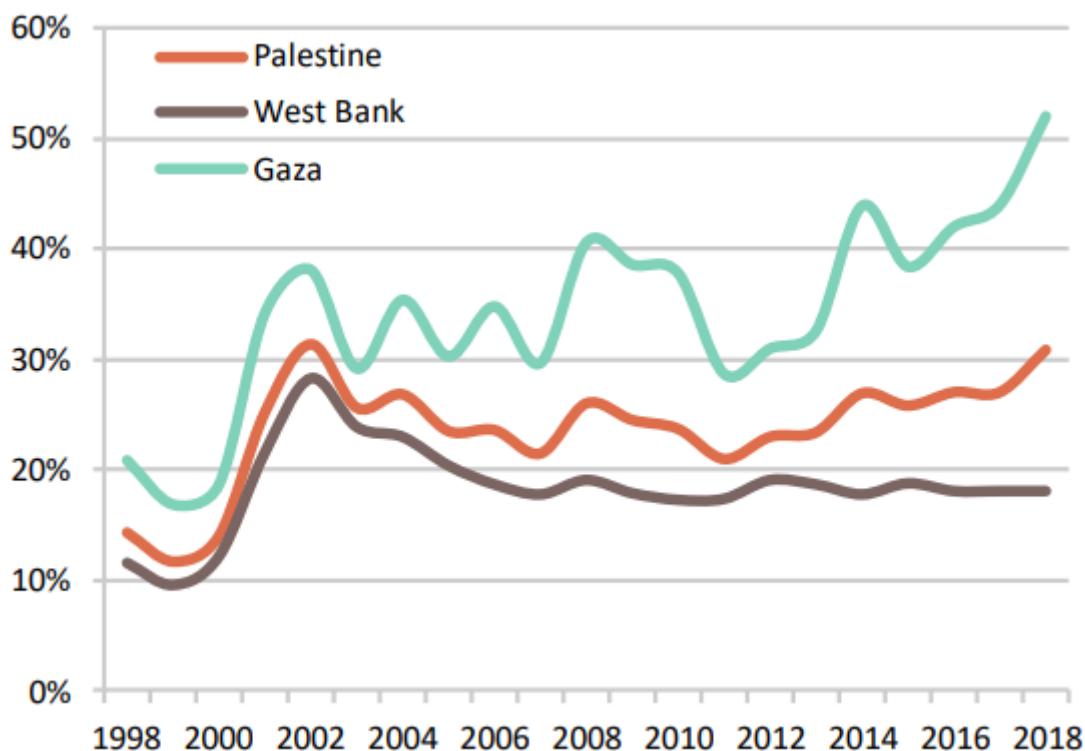
Published in April 2019 by the World Bank, 2019 (World Bank, 2019).

5.2.3. Gaza's labour force and productive structure

Unemployment is generally high in Palestine (25,9%). In the period between 1994-2018 unemployment rose by 22% in the whole of Palestine, making it one of the highest unemployment rates in the world in at 52% in 2020 (UNCTAD, 2020).

Figure V

Palestinian territories/ Unemployment rate



Published in 2019 by the Palestinian Central Bureau of Statistics as cited by the World Bank (World Bank, 2019).

However, data show significant differences between the West Bank and Gaza once more. The Gaza Strip registers an unemployment rate of 46.6%, of which 63.6% are women (PCBS, 2020), whereas the West Bank records a much lower rate at 15,7% (PCBS, 2021). According to Rieger and Yashiv, three main reasons account for such a high unemployment rate in Gaza: first, the fall of international trade after 2007 and restrictions on Gaza’s exports; second, the damage and destruction of Gazan infrastructure during armed conflicts with Israel; and thirdly, the rapidly growing population rate preventing job supply from meeting job demand (2014). Yet, despite high unemployment, human capital levels in Gaza are high. In fact, illiteracy rates stand at just 2,5% (PCBS, 2021).

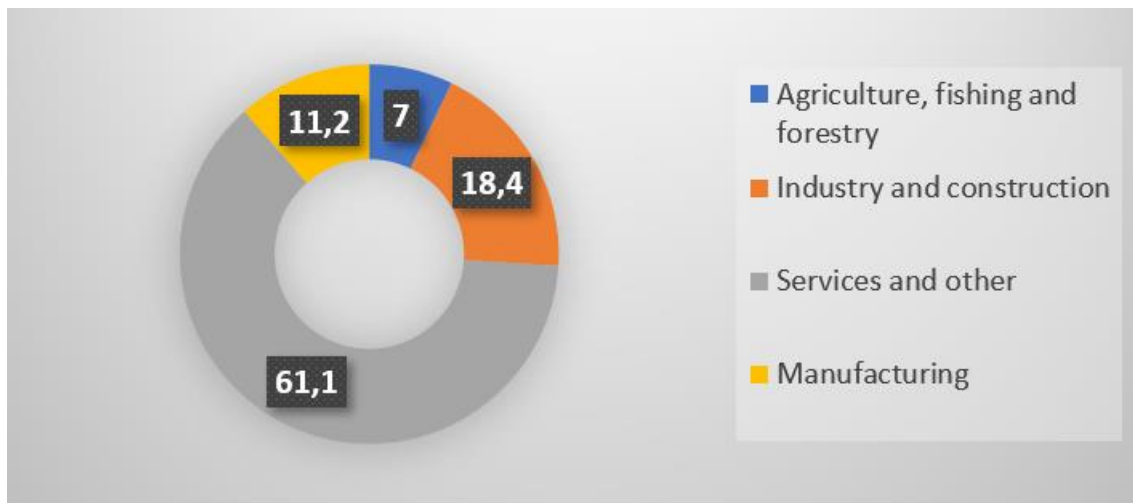
Additionally, it is worth noting that Israel issues work permits to Palestinians so that they can work jobs that are considered low wage in Israel but provide a much higher salary to Palestinians than what they could earn in Gaza. Currently, roughly 90,000 Palestinians from the West Bank hold working permits, whilst the permit quota for Gazans expanded to 10,000 in October 2021 as part of Israel’s efforts to prop a truce after the 11-day period of hostilities (Avis, 2022). In total, 13.2% Palestinians work in Israel and Israeli

settlements (PCBS, 2021). Nevertheless, the exact number of Gazans holding permits is unclear because of illegal permit trade.

In terms of economic sectors, services provide by far the highest contribution to the GDP of Palestine at 61.1%, followed by industry and construction at 18.4%, manufacturing at 11.2% and agriculture, fishing, and forestry at 7%.

Figure VI

Percentage contribution to GDP by economic activity in Palestine (West Bank and Gaza) 2019

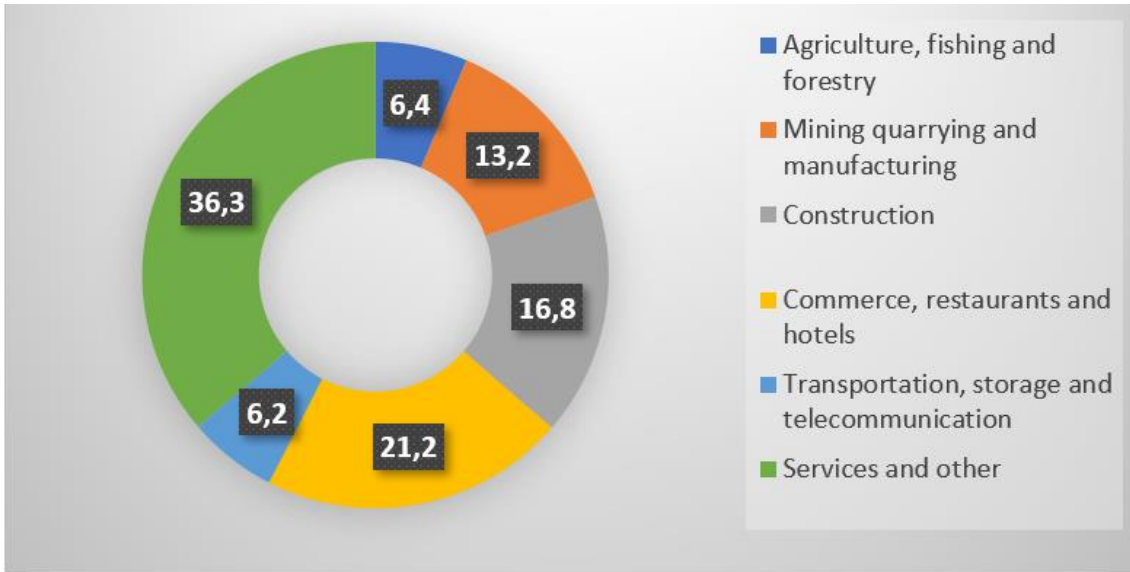


Based on data published in 2019 by the World Bank (World Bank, 2019).

The services sector also employs most people in Palestine (47.4%), including commerce, restaurants, and hotels, followed by construction (16.8%), mining, quarrying, and manufacturing (13.2%) and agriculture, fishing, and forestry (6.4%).

Figure VII

Percentage of people employed by economic sector in Palestine (West Bank and Gaza) 2020



Based on data published in 2022 by the Palestinian Central Bureau of Statistics (PCBS, 2022).

6. ANALYSIS

6.1. The private sector

Despite remaining the greatest hope for long-term growth in the area the private sector in Gaza is highly limited (World Bank, 2014). Besides, the private sector must comply with two different tax and legislation systems; one by the PNA and one by Hamas, which creates high costs and inefficiencies. Moreover, Hamas's regulations are often contradictory. For instance, commercial licences and import bans are often changed subject to Hamas' need for tax revenues (Tannira, 2021).

A World Bank report published in 2016 pointed at three main constraints for the private sector in the Gaza Strip as compared to the West Bank and other MENA region economies: i) political instability, ii) unreliable provision of electricity due to power outages and iii) difficult access to financial services. As a result of these obstacles, businesses are reluctant to invest in Gaza (World Bank, European Bank and European Investment Bank, 2016). Private investment has thus averaged 15-16% of GDP in the last years, a relatively low figure when compared to fast-growing middle-income economies (United States Department of State, 2021).

Additionally, Israel's and Egypt's embargo on the Gazan economy also means that Gaza struggles to import much needed goods for industrial and private projects such as fuels and other energy products because of custom tariffs imposed by Israel and blockade of trade along the Egyptian border. This also applies to materials under the dual-goods list, whereby Israel prohibits the importation of goods that it fears could be used for military purposes by Hamas, including certain agriculture fertilisers and construction materials. These prohibitions affect every industry in Gaza (Tony Blair Institute for Global Change, 2016).

According to UNCTAD, investment in the Gaza Strip since Hamas' rise to power in 2007 has been virtually non-existent, falling from 11% of the total GDP in the OPT in 1994 to 2.7% in 2018 (UNCTAD, 2020). Likewise, Foreign Direct Investment (FDI) for both the West Bank and Gaza reached its lowest point ever since the Second Intifada at a mere 0.336% of GDP (World Bank, 2020). On the other hand, personal remittances from Palestinians abroad are an important contributor to the Palestinian economy. Although there are no specific data on remittances to Gaza, some World Bank data show that remittances make up to 17% of the total Palestinian economy as of 2020 (West Bank and Gaza) (World Bank Data, 2020).

Additionally, business in the Gaza Strip is limited by constraints on the financial system. The Palestinian Monetary Authority (PMA) is dependent on the PNA, which is in turn dependent on the Central Bank of Israel. Therefore, the PMA cannot decide its own monetary policy, but has significant power to restrict capital influxes to Gaza. This means that there is often a lack of liquidity in the Gaza Strip. As a result, banking activities have decreased substantially and banks find it difficult to finance economic activities, further pushing business to the informal sector. In response to this limitation the Hamas government created a private commercial bank, the Islamic National Bank, an insurance and investment Company, Almutazen, and a sort of public Treasury to manage its finances, collect taxes from formal and informal trade, pay public salaries and receive funds from sympathising charitable organisations and countries (Labadi, 2018).

6.1.1. The primary sector

The agricultural sector has historically been a major pillar of the Gazan economy and a major employer. However, the sector has suffered a steep decline in the last decades due

to shortages and deterioration of water, reduced land for agricultural use and limitations on exports (Tony Blair Institute for Global Change, 2016).

The structure of the Gazan economy has changed dramatically since 1995 due to restrictions, isolation and blockade from Israeli occupation. The primary sector, which used to account for 26% of GDP in 1995, fell to 12% in 2018, whilst the percentage of people employed in agriculture and fishing has decreased from 34% to 23% in what the UN has labelled a process of “de-agriculturalization” (UNCTAD, 2020).

Additionally, an increasing number of Israeli settlements, occupation and Israeli land policies have forced Palestinian farmers to migrate. Israel confiscates 85% of Palestinian groundwater for Israeli use (UNCTAD, 2020) and half of the cultivable area as well as 85% of fisheries resources are inaccessible to Palestinian producers since occupation began (UNCTAD, 2019). As a result, only 35% of irrigable Palestinian land is under use, costing the economy 110,000 jobs and 10% of GDP (World Bank, 2009),

Besides, Gazan produce is threatened by competition from neighbouring countries such as Israel or Jordan where land productivity is much higher. According to UNCTAD, much of the difference observed in productivity levels is due to Israel’s restrictions on the importation of fertilisers into Palestine under the dual goods list (UNCTAD, 2015).

Furthermore, occupation by Israel makes costs for Palestinian farmers twice as high when compared to their Israeli counterparts because procedures for importation take four times as long. Often, Palestinian produce is held at Israeli control points for days until it rots or loses freshness (UNCTAD, 2015). As a result of time-related costs, Palestinians are at a competitive disadvantage. Moreover, Palestinian markets are usually flooded with Israeli produce of below-standard quality, which is often subsidized, making it hard for Palestinian farmers to compete (UNCTAD, 2015). Additionally, crops that used to be destined for the local markets, such as sesame or strawberries, have increasingly been exported to Israel and Europe, leaving Gazans dependent on Israeli agricultural imports to satisfy their own needs (Labadi, 2018). In any case, it is important to note that Gaza’s export capacity is highly limited due to blockade and leaves the area heavily dependent on Israel for trade. Finally, there are testimonies by Gazan farmers who affirm that it is common practice for the Israeli military to raid their crops, spray pesticides and burn their plantations (Pérez del Campo & Bover Martínez, 2019).

It is in this context that Hamas' Ministry of Agriculture envisaged the development of a "subsistence" and "resistance" economy, with agriculture at the centre, to reduce dependency on Israel and other external pressures (Labadi, 2018). Thus, in 2010 Hamas set out a 10-year plan focused on the shift to "strategic" crops that would reduce dependency on trade with Israel and arable land. Such crops include olive and date palm trees which consume little water, provide fruits, and can even serve for textile and industrial use. To execute this plan Hamas' Ministry of Agriculture has met with farmers, provided them with equipment, and even subsidised certain crops. Hamas' plan also included other measures aimed at creating a subsistence economy such as turning domestic waste into fertilisers as a means to circumvent import restrictions by Israel, resource rationing measures, the creation of a strategic food reserve or the production of food for medical purposes (Labadi, 2018).

The situation is similar regarding fishing. Gazan territorial waters are controlled by Israel, which prevents the free movement of people and goods by sea and limits fishing to three nautical miles off the coast of Gaza (Gisha, 2011). Israel continues to maintain exclusive control of Gaza's airspace and territorial waters. Therefore, neither the PNA nor Hamas cannot operate a seaport or an airport on their own initiative (Human Rights Watch, 2017), which limits major Palestinian economic activities like fishing and trade.

The 1993 Oslo Accords gave Gazan fishermen the right to fish along twenty nautical miles off the shore, which is in fact just 10% of the exclusive international legal limit of two hundred miles that every sovereign state is guaranteed under the United Nations Convention on the Law of the Sea (UNCLOS). In 2007, when Hamas took power, Israel reduced this limit to only six nautical miles, and later to just three nautical miles during the 2008-2009 Gaza war. Even then, the Palestinian Centre for Human Rights (PCHR) has denounced that Israeli patrol boats sometimes shoot Gazans who fish within the allowed three nautical mile area. According to data provided by Grassroots International, Israel has effectively cut 85% of the available seas to Gazan fishers, who have lost access to the most valuable fish found further ashore. In fact, when Israel gives intermittent access for Gazan fishers to fish beyond the three nautical mile limit, there is in fact an increase in the number of fish caught. For instance, due to a temporary extension of the limit, the cumulative catch between January and August 2019 was of 1,356 metric tons, a 34% rise compared to the same period in the previous year (UN OCHA, 2019).

However, this does not always translate into higher revenue for the 3,617 registered Gazan fishers. In fact, revenues in 2019 represented a 18% decline per metric ton due to a temporary ban on fish exports outside Gaza imposed by the Palestinian Ministry of Agriculture and the Palestinian Ministry of Economy in an attempt to avoid price rises in the local Gazan market (UN OCHA, 2019). As a result of all these limitations, people who work in a sector that was once one of the wealthiest in Palestine are now forced to rely on food aid (Grassroots International).

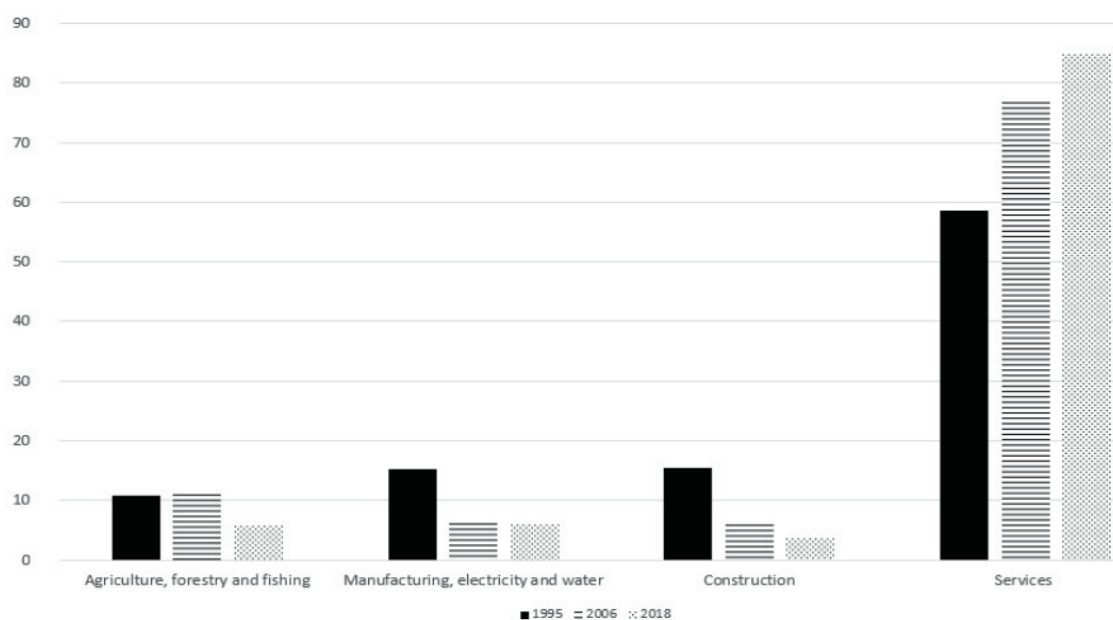
6.1.2. The secondary sector

Over the last years Palestine has switched from traditionally productive sectors such as agriculture and manufacturing, towards services, construction, and trade (Shikaki, 2021), as is shown in the graph below.

Figure VIII

Gaza: sectoral share of the economy

(percentage)



Published in 2020 by the United Nations Conference on Trade and Development (UNCTAD, 2020).

As shown in the graph, it is estimated that the GDP contribution of the industrial sector in Gaza is only 8%. Industrialisation in Gaza is extremely limited: border closures prevent

the free movement of goods and services into and out of the Strip (UNDP), and even the impact of construction, one of the largest sectors in Gaza, is limited as Israel controls the importation of essential construction materials such as cement, steel, and aggregates and war has also caused significant damage on Gazan infrastructure. As a result, the contribution of the industrial sector in Gaza has contracted by approximately 10% since 1995.

6.1.3. The tertiary sector

In 2019 services accounted for 61.11% of GDP in the West Bank and Gaza, up from 52.88% in 1994 (World Bank, 2022). The services sector comprises “all enterprises, agencies, organisations, and employers whose final output is not material good but rather an intangible product” (UNCTAD, 1995). Data show that the services sector is the largest employer of workers in the West Bank and Gaza, accounting for 37% of the employed population (30% in the West Bank and 56% in Gaza) (ILO, 2020).

According to the Bureau of Economic and Business Affairs of the United States, Gazan businesses are mostly small and family-owned, most of which operate in retail and wholesale trade activities where productivity, investment and competition are limited. Within the services sector in Palestine 35.6 % work in services and other branches and 20% work in commerce, restaurants and hotels (2021).

According to Morrar and Gallouj, one of the main reasons behind the growth of the services sector in Palestine is that, unlike other productive sectors, services can emerge and develop in unstable conditions because they are not as heavily dependent on hard to obtain imports, as it happens in the manufacturing sector. The service sector in Palestine is therefore said to depend on both skilled human resources, such as education or knowledge-intensive services, and unskilled labour that is employed in retail, hotels, or restaurants. Additionally, the service sector is more prone to use Information and Communication technologies (ICT) (2016) which are relatively accessible, since there is wide Internet access in both the West Bank and (84%) and Gaza (73%) (PCBS, 2020).

6.1.4. The energy sector

Gaza’s energy crisis is one of the major economic challenges facing Hamas’ rule. Energy supply is insufficient, unstable, and often subject to hostilities with the PNA or Israel. As a result, Gazan households and industries only have access to electricity for two hours a

day (UNCTAD, 2020) and power shortages are common. In total, Gaza's electricity demand is 550MW (ITA, 2021), but it only receives around 200MW. The main sources for energy in the Gaza Strip (World Bank, 2007) are:

- Gaza's power plant (GPP): a gasoil-based power plant based in Gaza with potential electricity generating capacity of some 140MW but lower real operating capacity.
- Israel: which supplies 125MW through 10 power lines through the Israeli State company IEC.
- Egypt: which supplies Gaza with 27MW.

It is important to note that the West Bank and Gaza have different energy supply options, and that the electricity sector is fragmented between both territories because the IEC rejected requests to integrate both energy networks through the Israeli territory when the PNA still ruled over the Gaza Strip. In any case, supply by the IEC has been insufficient and bottlenecks have created difficulties to meet growing demand in Palestine (World Bank, 2007).

Gaza Power Plant: The GPP is a gasoil-based power plant with an electricity generating capacity of some 140MW located inside of Gaza. Its capacity was already limited by the lack of fuel and trade restrictions before 2014 but Israeli bombardments during the 2014 Gaza War forced the GPP to halt its operations, thus worsening already severe power shortages (World Bank Group, 2014). Additionally, the capacity of the plant has been further restricted to 50% because of limits to the available transmission capacity from the plant to the Gazan power network. Besides, electricity generation is produced at a high cost due to high gasoil purchase prices. In terms of demand, the plant can only provide for 20% of the combined needs of the West Bank and Gaza, and only 6% of Gazan demand.

Besides restrictions on the operating capacity of the plant, its functioning has also been subject to halts derived from political conflict. In 2017 the GPP shut down after funds from Qatar and Turkey were exhausted. Hamas blamed the closure on the PNA for not sharing its fair share of tax revenues, whilst the PNA simply accused Hamas of incompetence. In any case, power lines from Egypt were also shut and Gaza was left

completely dependent on Israel, which started to reduce its energy supply as the PNA decided to pay a reduced amount of the electricity bill to the IEC (it is the PNA who pays for Israeli energy, since Israel refuses to deal with Hamas directly). Hamas finally reached an agreement with Egypt to be supplied with 500 tons of diesel every day, thus bypassing Israeli customs. Likewise, the GPP was closed again in 2020 when Israel suspended fuel imports. Additionally, during the 11-day crisis between Gaza and Israel in 2021, three out of the ten power lines supplying Gaza from Israel were hit by rockets launched from Gaza, further disrupting supply.

The GPP is said to need a great amount of investment to operate at an optimal level, which recently prompted Qatar to sign a deal with the Gaza Electricity Generation Company and the Gaza Electricity Generation Company to fund gas for generating electricity at the GPP (Al-Monitor, 2022). Today, the IEC has refused to repair Israeli power lines unless Hamas agrees to return Israeli prisoners and, despite calls from the UN on Palestinian, Israeli and Hamas authorities to find a way to end Gaza's energy crisis, access to electricity remains limited.

Energy Imports from Israel: most of the energy in Gaza is provided by electricity and petroleum products that are purchased as imports from Israel. Gaza is connected to the Israeli power grid at 11 points along the border via 22 kilovolt transmission lines with total capacity of some 115MW by a single Israeli State-owned company named IEC (World Bank, 2007). The low distribution voltage of the feeders considerably constrains the ability of IEC to supply sufficient electricity for the potential demand for electricity in Gaza. In fact, according to UN OCHA, Gaza only receives less than 18% of its energy estimated demand from Egypt and Israel combined (2014). In total, it is estimated that around 85% of the electricity coming into Gaza is imported from Israel (UNCTAD, 2020). This means that the energy sector in Gaza is closely intertwined with the energy sector of Israel and heavily dependent on it.

Egypt: In addition to the electricity generated at the GPP and imported from Israel, Gaza also imports a small part of its energy supply from Egypt (20–30 MW) during a limited number of hours per day. However, the import service from Egypt is frequently interrupted. In addition, it is said that the quality of the electricity supplied is poor and voltage often causes damage to sensitive electronic equipment. It is estimated that Egypt

provides 14% of Gaza's energy supply at a rate that is almost 40% lower than the Israeli import price (World Bank Group, 2016). For this reason plans to increase Egyptian energy imports into Gaza had foreseen the construction of a 220kV interconnection line as well as a 66kV transmission network, including two substations besides the GPP (World Bank, 2007), but to date the works have not started.

Gaza Marine: Potential additional sources of energy for Gaza could come from Gaza marine, a marine gas field located 30 km off the coast in the Mediterranean Sea at a depth of 2,000 feet. Gaza marine is the only domestic source of energy in Gaza and is estimated to contain one trillion cubic feet of natural gas. The field was discovered by the British BG Group (BGG) in 2000 but has never been developed due to political disputes between Palestine and Israel.

Since the 2008 Israeli military operation in Gaza Israel has taken de facto control over Gaza's offshore natural gas reserves, dealing with the BGG directly and bypassing the government of Gaza to establish exploration and development rights over the fields. In fact, after 2008 Israel militarised the entire Gaza coastline and confiscated its natural gas fields in contravention of international law (UNCTAD, 2019). Likewise, Israel nullified the 1999 agreement with BGG to prevent any gas revenues from going to Hamas and proposed a new deal for the gas to be directly pumped through an underseas pipeline to the Israeli seaport of Ashkelon. Until 2007 BGG participated in negotiations with Israel for the sale of natural gas from the field, but a lack of an agreement led the company to withdraw, even though it still holds 90% of shares. Later efforts to resume negotiations have failed over new rounds of violence and tensions between Palestine and Israel, while the instability of the area disincentivizes international investors and insurers (Boersma & Sachs, 2015). For their part, on the hopes that it could bypass Israel, the PNA Sovereign Wealth Fund signed a Memorandum of Understanding with the State-owned Egyptian Natural Gas Holding to develop the gas field in February 2021. The deal was struck without Hamas' participation, and it remains unclear whether Gaza would benefit from its exploitation. Regardless, Hamas' officials have expressed their wish to use this gas as an alternative to imports from Israel (Alswerky, 2021).

In any case, it has not been possible to reach any agreement for the exploitation of the field because any attempts at developing Gaza marine require a consensus between Israel

and Palestine. Yet, the exploitation of Gaza marine could greatly contribute to the alleviation of Gaza's energy crisis. On the one hand, it would provide an important domestic energy resource that would reduce dependence on Israeli imports and therefore increase energy security for Hamas. On the other hand, access to Gaza marine gas could facilitate the conversion of GPP from high-cost gasoil to lower cost natural gas and expand production capacity to 560MW (World Bank, 2007). As for now, it is estimated that occupation prevents Gazans from exploiting their oil and natural gas reserves, causing a net value loss of \$453 bn for gas reserves in the Levant basin and \$71bn for recoverable oil (UNCTAD, 2019).

6.1.5. Trade

Another major economic activity for any country is trade. Trade in the West Bank and Gaza was 67.1% of GDP in 2020, of which 51% accounted for imports and only 16% for exports (World Bank, 2020). Until 2007 and particularly before the Second Intifada, the level of Gazan exports was relatively high in goods such as agricultural produce, garments, light industry, and furniture. Around 90% of these exports were sold to Israel for approximately USD 35-40 million. With Hamas' rise to power in 2007 Israel banned all exports from Gaza except for basic humanitarian products, resulting in an unknown volume of goods being smuggled into and out of Egypt through smuggling tunnels (Office of the Quartet).

Since 2010 Israel has allowed some exports to exit the Gaza Strip, although in much smaller volumes than before the blockade. By 2010 three of the four crossing points for the movement of goods into and out of Gaza were shut, and from June 2007 to June 2010 an average of 2,400 trucks entered Gaza through Israel in contrast to 10,400 trucks per month in 2005 (UNCTAD, 2020). Since 1967 Israel has been the biggest channel for Palestinian imports and exports and the main trading partner of Palestine, which makes the Palestinian market heavily dependent on Israel. In fact, in 2020 66.5% of PNA trade was conducted with Israel (UNCTAD, 2021). According to Gisha, the main destination for Gazan exports remains Israel, but exports to the West Bank have increased substantially since Israel allowed the exportation of Gaza home-grown agricultural produce, textiles, and furniture into the area (Gisha, 2021).

It is important to note that despite military disengagement from Gaza in 2005, Israel has retained control over all the land, sea and air borders of Gaza except for the 12 km border with Egypt. An embargo on trade is an important part of the Israeli economic blockade on Gaza and it showcases the disruptive magnitude of economic warfare. For Palestine, consequences have made Gaza resemble an “open-air prison” where access to goods and movement of people are entirely dependent on the will of the occupying power, as put by the UN Secretary General for Humanitarian Affairs (Lynk, 2021).

Moreover, Israel bans the importation of many materials into the Gaza Strip under the “dual-use” goods list, which means that certain construction materials, machinery, chemicals and fertilisers necessary for agriculture or construction are lacking. Moreover, these import restrictions affect all industries in the Gaza Strip. In recent times, Israel has lightly relaxed import bans and currently allows for the importation of certain construction materials such as cement and steel for internationally-funded projects and private projects (UNCTAD, 2020).

Trade by land: Before 2007 Gaza had five crossing points with Israel that it used for the movement of people and goods. Since the blockade these have been reduced to only two (the Rafah crossing with Egypt and the Erez crossing with Israel). When the crossing with Egypt closes the Erez crossing, over which Israel has complete control, is the only gateway for Gazans. In the pandemic, the Erez crossing closed for 16 months, further aggravating the already dire situation of the economy in Gaza (Avis, 2022).

Trade by air: Gaza used to be connected to the rest of the world through the Yasser Arafat International Airport. The airport opened in 1998 as part of the Oslo Accords and was built with funds from Japan, Spain, Saudi Arabia, Egypt and Germany. The facility was owned and operated by the PNA and gave service 24 hours a day 364 days a year. However, the airport halted operations in 2000 during the Second Intifada and was shut by Israel shortly after. In 2001-2002 Israel destroyed the radar station, the control tower, and the runway. After that, the Gush Katif airport was the only alternative in the Gaza Strip until its abandonment in 2004. Since then, the closest operative airports can only be found outside the Strip, in Israel and Egypt. Talks about the possibility to reopen the Yasser Arafat International Airport were held after Israeli withdrawal in the framework of the Agreement of Movement and Access (Eubam-rafah, 2005), but the rise of Hamas to power in the Gaza Strip led to the abandonment of negotiations.

Trade by sea: another important agreement that was reached during the Oslo Accords was the one regarding the construction of a seaport for Gaza. The project began in 2000, but construction was soon halted due to the lack of materials and, mostly, to the destruction caused by the Israeli army during the Second Intifada (Sherwood, 2014). Following this period of violence, Palestine and Israel signed the Agreement on Movement and Access, which contained plans for the construction of a seaport for Gaza (Eubam-rafah, 2005). However, to date there have been no advancements in this regard. Since Hamas' rise to power there is only one small operative port that has been subject to Israeli naval blockade, thus restricting its activity to small-scale fishing.

Experts have expressed conflicting opinions over the legality of Israel's naval blockade on Gaza, and even the UN is divided over the issue. The unofficially released UN Palmer Report (Buchan, 2012) labelled the blockade as lawful, thus accepting Israel's justification for a naval blockade on security grounds. Nonetheless, another report by the UN Human Rights Council denounced the blockade as illegal, pointing at the contraventions in human rights law and humanitarian law that derive from the enduring humanitarian crisis suffered by Gazan civilians because of the blockade. According to this report, "the blockade is unlawful and cannot be sustained in law. This is so regardless of the grounds on which one seeks to justify the legality of the blockade" (2010). It is worth noting that whilst Palestine is a party to the United Nations Convention on the Law of the Sea (UNCLOS) as a UN Observer state, Israel has not signed the Convention (United Nations, 1982), which aims at creating an international legal framework that applies international law to the use of oceans and seas, but which can only be applied to signatory countries.

Regardless of the legality of the blockade, the reality is that in practice Gaza has very limited access to its territorial waters; not only to the ones it should have access to under UNCLOS, but also to the nautical area that it was assigned in 1993. Besides, it only has a small port used exclusively for small-scale fishing and plans for the construction of a larger port after the Oslo Accords have not been executed. As a result, Gaza is very limited in its autonomy to carry out fishing activities at a commercial level and neither can it use its access to the sea to trade.

In terms of trade policies, Israel has imposed a common tariff regime on Palestine which removes any potential comparative advantage that Palestine could have with Israel or other neighbouring countries (UNCTAD, 2019). What this means is that Palestine has no say over its own tariff policy and must accept Israel's instead. This "serves the trade and industrial interests of Israel solely" as Israel uses the purchase tax and the uplift rate, which constitute a large portion of the public revenues of Israel, as instruments for achieving its industrial policy goals and protection. This raises the costs of importing goods from third countries and results in Palestinian merchants favouring imports from Israel (UNCTAD, 2020).

Moreover, there is the issue of Israeli control of fiscal revenues in Gaza. The Paris Protocol, signed in 1994 between the PLO and Israel, established the general framework that would govern Palestinian trade relations and economic, business and tax policies. However, the Protocol gave Israel a "disproportionate amount of influence on the collection of Palestinian fiscal revenue, leading to deficiencies in the structure and collection of customs duties resulting from direct and indirect importing into Palestine" (UNCTAD, 2020). The Protocol avoided the establishment of trade frontiers and adopted a customs union instead. Additionally, the Protocol stressed that the West Bank and Gaza were a continuous geographic unit, which implies freedom of movement, people and goods within the OPT as well as free access to Israeli ports and crossing to other Arab countries. However, in practice the two areas were completely separated and restrictions on free movement were imposed, including a full economic blockade on Gaza since 2007.

In sum, Palestinians have no say over trade decisions and the current framework has allowed Israel to maintain utter Palestinian dependency on Israel for trade, preventing it from developing its own trade policy and damping the competitiveness of Palestinian exports. The situation has been particularly hard for Gaza; the sea, air and land blockade imposed by Israel, added to the material destruction caused by subsequent wars on Gazan transport infrastructure, has contributed to the isolation of the Gaza Strip in its economic relations with the West Bank and the rest of the world.

6.1.6. Cost of war

Before finalising the analysis on the private sector, it is also necessary to note the humanitarian and economic costs that wars have had for the Gaza Strip, since the loss of

human lives and capital are not only a human tragedy, but also an important obstacle for Gaza's economic recovery.

According to data by the IMF, during the 2008-2009 war 1,400 Palestinians and 13 Israelis were killed, while 60,000 Palestinian homes were damaged or destroyed, subsequently leaving 20,000 people homeless and 5,380 wounded (State of Palestine, 2015). Beyond humanitarian disaster, economic damage was equivalent to 60% of capital stock in Gaza (IMF 2017).

The 2012 Gaza war also caused numerous deaths; 174 among the Palestinians and 6 among the Israeli, in addition to 10,000 homes damaged. However, the 2014 Gaza War was the most destructive, leaving 2,251 Palestinian and 71 Israeli killed and 171,000 damaged homes in Gaza (UNCTAD, 2020). The economic damage in this case was equivalent to 85% of Gazan capital stock (IMF, 2017) and the total cost of recovery and reconstruction in Gaza after the military operation was estimated at \$7.8 billion (Brownings, 2014).

Finally, the May 2021 hostilities caused 260 deaths among Gazans and 9 among the Israeli, along with 3 foreign workers. The social sectors, defined in this report as housing, health, education, and social protection and jobs, bore the brunt of the damage, which is estimated at USD 140-180 million (Ocher services, 2021).

In conclusion, the economic cost caused by successive wars should not be downplayed. Damage to infrastructure hampers industrial activity and transportation and extends to all economic sectors, acting as an important obstacle to the economic recovery of Gaza.

6.2. The public sector

Besides the private sector, is also important to look at Gaza's public economic activity. Palestine's public sector has been traditionally oversized, particularly in Gaza. Only three years after the creation of the PNA the number of public employees in the West Bank and Gaza was 86,000. This cost the PNA a total 55% of its expenses, most of which came from donor spending and clearance funds (total Palestinian taxes that Israel collects over the OPT and transfers to the PNA). Five years later, in 2003, appointments already amounted to 124,000 civil servants. In 2021, 29% of employed people in Palestine (West Bank and Gaza) worked in the public sector (PCBS, 2021). In Gaza, the figure was up to 37% people, either working for Hamas or the PNA (Gisha, 2019). Therefore, it is possible

to affirm that the public sector is the single largest employer in Gaza, especially since 2007 as Hamas' rise to power has reduced employment opportunities in the private sector.

Until 2007 the PNA had held control over Gaza's public sector. When Hamas won the 2006 Palestinian legislative elections, Israel refused to transfer clearance revenues to Palestine for a year, whilst international aid and grants to the Palestinian government cease, thus preventing 25% of Palestinian public workers from receiving their salaries. In fact, this dispute and Hamas' difficulties to obtain recognition from European donors, contributed to the first fight between Fatah and Hamas which would eventually lead to the 2007 Battle of Gaza. Ultimately, the United States agreed to provide foreign aid to the PNA to pay for public salaries, but the Hamas government was denied any international financial aid. Since then, the desire to control the public sector, and particularly the issue of civil servants' salaries, has been used as a political weapon in the Hamas-Fatah conflict. For instance, when Hamas took over the Gaza Strip the Fatah-controlled PNA asked around 70,000 civil servants in Gaza not to go to work whilst keeping their salaries as a means to boycott Hamas. On its part, Hamas took this opportunity to hire 28,000 loyal employees, thus establishing a public sector that is divided along faction lines. In terms of expenses Hamas pays for the salaries of its loyal civil servants while the PNA pays for the wages of all public workers employed before 2007.

However, due to the blockade and to the lack of funds, Hamas has struggled to pay salaries for its civil servants on a regular basis, which the PNA has taken advantage of to pressure the group. In fact, the PNA has frequently withheld salaries of Gazan public employees (Farraj & Dana, 2021), cut their salaries up to 50% (Al-Monitor, 2020) and forced many to early retirement (al-Mughrabi, 2018), which has had a major impact on the already impoverished Gazan population.

Luckily for Hamas, Qatar has intervened on its behalf on several occasions, offering to pay for the salaries of civil servants in Gaza whenever the PNA has slashed their pay or refused to pay wages altogether. In 2018, the country pledged \$90 million dollars over six months under a deal with Israel that money would not reach Hamas (al-Mughrabi, 2018). Although Qatari aid has been unstable, flows of cash for wage payments have been crucial. More recently, Qatar and Hamas have agreed to transform these cash payments into a method whereby Qatar will send fuel from Egypt so that the group can sell it to pay for salaries (Akram, 2021). Yet, even with Qatari aid, it is estimated that most public

workers in Gaza only receive 55% of their full salary at best (Akram, 2021), which once again serves as evidence of Hamas' financial difficulties in governing the Strip.

6.2.1. Social welfare

It is difficult to calculate what percentage of Hamas' revenues goes to which activities because there are no public data on Hamas' budget. This also applies to public spending on social services. However, some 2011 estimates calculate that 85% would come from international donors (Vittori, 2016).

Hamas controls the delivery of social services and the activities of NGOs and international organisations (Berti, 2015). In fact, according to Berti and Kurtz (2017), international restrictions on Hamas and Gaza have strengthened the group's power over the region because increasingly impoverished Gazans have become increasingly reliant on Hamas' extensive social welfare networks. Additionally, the fall of the private economy in Gaza might have benefited Hamas on economic terms as the group resorted to establishing a monopoly on the business of tunnel smuggling.

It is argued that non-democratic groups that rely on violence usually gather domestic support in different ways according to four main theories: i) opportunity cost theory, which suggests that high incomes can reduce the possibility of backing radical groups ii) "Club good" theory, which holds that access to some club goods is dependent on affiliation to a religious group iii) outbidding theory, which suggests that people support groups that are able to inflict damage on the opposite side, and iv) political clientelism, which affirms that aid given by a government agency can increase domestic support for the ruling party (Loewenthal, Miaari, & Hoeffler, 2021).

Gaza's relation to Hamas fits into all the above-mentioned theories to a certain extent. Firstly, Gaza is a highly impoverished area and incomes are very low, thus increasing the likelihood of people supporting radical groups according to opportunity-cost theory. As stated by a Gazan citizen in the award-nominated documentary *Gaza*, "when they (Israel), block us, they make the terrorists. We have no universities, no money, we cannot build houses. We are not scared because we don't have anything to lose" (Pérez del Campo & Bover Martínez, 2019).

Secondly, beyond the action of international organisations, social services in Gaza are largely provided by religious groups that are affiliated to Hamas and dominate Islamic

social welfare activism (International Crisis Group, 2003). Thus, one could argue that according to both the club good theory and the political clientelism theory, aid provided by religious and governmental groups explain support for Hamas. In fact, a survey carried out after the 2021 May hostilities revealed that 53% Palestinians in both the West Bank and Gaza think that Hamas is “most deserving of representing and leading the Palestinian people” compared with 14% who preferred Fatah.

Lastly, Hamas has repeatedly proved to be one of the most combative Palestinian groups in the fight against Israeli occupation. Since its rise to power, it has repeatedly attempted to showcase its belligerence against the aggressor, as proved by its initiative to start a rocket exchange in May 2021. It is important to note that Hamas’ narrative of resistance is a crucial complement to efforts on the ground. Hamas bases its rule on an “ethos of resistance” and “defiance in the cause of liberating usurped land as a Godly act of commitment” (Schwarzmantel & Jan Kraetzschmar, 2013), which justifies the use of violence and virtually any policy or act of aggression.

In sum, Hamas’ social branch is extensive and effective in gathering substantial domestic support, particularly as the number of poor Gazans who receive support from Hamas has increased (Loewenthal, Miaari, & Hoeffler, 2021). In this sense, it is argued that Hamas has actually benefited from international isolation because it has used the blockade to consolidate its power over the Gazan population, who has become so impoverished they can solely rely on support provided from the organisation at the local level (Berti, 2015). But most importantly, Hamas’ effective social and political organisational structure combines with a narrative of resistance that resonates with many Palestinians, who have formed a “resistance-affiliated demos” to Hamas (Schwarzmantel & Kraetzschmar, 2013). Additionally, most economic problems, whether completely owed to the blockade or not, can always be blamed on the aggressor, which takes a lot of pressure off from Hamas to develop innovative or effective economic policies on which to base support.

6.2.2. The tunnel economy

Underground tunnels have been a common feature of Gaza since the 1979 peace treaty between Israel and Egypt, which left part of the city of Rafah in Gaza and part in Egypt. The tunnels were then dug in home basements and served for trafficking. However, tunnels really started to play a key role in the Gazan economy as a result of Hamas’

military victory over the Gaza Strip in 2007 and the subsequent economic blockade imposed by Israel and Egypt that banned the importation of most goods into Gaza.

The tunnels that have been historically used for economic purposes are those that cross the border of Gaza into Egypt (Hecht, 2015). These tunnels were used to smuggle all sorts of consumer goods, but also to overcome some of Israel's restrictions on the importation of fuel, gas, seeds, cement and other materials. 1,532 of such tunnels were identified by UNCTAD as a way out of the economic blockade which, in fact, "prevented the complete collapse of Gaza's economy" (UNCTAD, 2015). The tunnel economy grew so large that it is estimated that around 15,000 people were employed in the tunnels at the peak of their activity, providing two thirds of consumer goods in Gaza (Verini, 2012).

Soon the tunnel economy became a Hamas-controlled monopoly. Once Hamas came to power, one of its major economic objectives was to control the informal economy of tunnel smuggled goods, which provided 40% of Hamas' government's revenues from taxes and permits (Sherwood & Hazem, 2013). In fact, this is how Hamas succeeded in relieving some of the financial pressures generated by the blockade, as it managed to generate significant tax revenue to consolidate its power (ACAPS, 2021). Conversely, this shift towards the tunnel economy undermined the importance of the private sector in the economy and created a social and class structure change in Gaza (Tannira, 2021). This created greater employment opportunities for construction workers and the youth, and most likely, increased domestic support for the group.

According to a UN report based on data by the World Bank, in 2014 tunnel smuggling was so significant to the Gazan economy that "the size of the tunnel trade was greater than the volume of trade through official channels" (UNCTAD, 2015). The tunnel economy thus allowed for low inflation thanks to the abundance of cheaper Egyptian subsidised goods, including imported Egyptian gasoil, and generated economic growth in the Gaza Strip (UN, 2014). Nevertheless, the tunnel economy also had some limitations: tunnel smuggling alone could not supply Gaza with the level and type of imports that are needed to rebuild a productive economy nor did the tunnels have an impact on Gaza's export sector.

In this sense, according to a report by the Begin-Sadat Center for Strategic Studies, Hamas might have profited enormously from the siege that Israel imposes on the enclave as it favoured Egyptian-Gazan trade to the detriment of Israeli-Gazan trade. This vision

suggests that Hamas benefited more from the fees and taxes on Egyptian subsidised goods, such as oil and gasoline, that it imported through tunnel smuggling than from official trade with Israel, which after all was translated into revenue for the occupying power. Supporting this view is the fact that Hamas bombed all five trade Israeli crossings before seizing power and intensified attacks after 2007 to the point where the Karni border crossing closed in 2011 (Frisch, 2015). Be it as it may, the truth is that Hamas benefited enormously from the monopoly of tunnel-smuggling, collecting revenues from tunnel construction and operation, and overseeing the transit of goods.

Nevertheless, this all changed after the 2011 Arab Spring and the ousting of Hosni Mubarak after 29 years in the Egyptian presidency. In 2012 Muslim Brotherhood-affiliated Mohamed Morsi came to power. During his short-lived presidency, Morsi tried to show a friendlier face to Hamas, to which he felt some ideological sympathy, and decided to reopen the Rafah crossing at the border with Egypt. But the killing of some Egyptian soldiers sparked the beginning of Egyptian opposition to the tunnels, bringing the destruction of at least 35 during his time in office (Verini, 2012).

In 2013 the Egyptian military overthrew President Morsi, until then Hamas' biggest hope, and began an extreme campaign against smuggling along the Gaza border which led to the closure of more than 1,500 out of the estimated 1,800 tunnels. After that, prices spiked, and Hamas lost half of its annual revenue (Shamir & Hecht, 2014) to the point that it was unable to pay salaries to its 40,000 civil servants for four consecutive months. According to a Hamas spokeswoman, by early January 2014 the amount of goods coming into Gaza through the tunnels had been cut by 95%, making Gaza lose around \$500 million in all sectors (Kershner, 2014). Facing a dire economic situation, the Hamas government turned to Fatah to form a unity government in hopes that the rival faction would relieve Hamas off some financial pressure. However, tensions between both groups prompted the collapse of the unity government in 2015 and consolidated "a state of crisis in terms of Hama's government ability to govern the Strip effectively" (Berti & Kurtz, 2017).

The destruction of the smuggling tunnels stripped Gaza off its major source of revenue and imports, thus creating an even worse economic and humanitarian situation than ever since the start of the blockade. Currently, it is unclear how many of these tunnels are still operational and Hamas' revenues seem to have been almost limited to foreign donations.

6.2.3. International aid and donations

Palestine started to receive foreign aid in 1993 as part of the Oslo Accord. Foreign aid is defined as any “assistance given out by donors such as governments or NGOs for several reasons, ranging from moral or altruistic interests to political or economic ones” (IE School of Global and Public Affairs, 2020). Aid can take many forms, including tied aid (conditioned aid), bilateral aid (between two countries), multilateral aid (through multilateral institutions), military aid, project aid or other types of aid.

According to the European Union, over 80% of Gaza’s population is aid-dependent; 2.45 million Palestinians are in need of humanitarian assistance in the OPT and 8,000 Gazans have been internally displaced after the May 2021 hostilities alone. (European Commission, 2022). Estimates suggest that out of 2.5 million Palestinians in need of humanitarian aid, 1.57 million live under closure in the Gaza Strip (European Commission, 2021). It is important to remark that since the main donor countries consider Hamas to be a terrorist organization, all methods to channel aid into the Gaza Strip since 2007 have tried to bypass the Hamas government and reach Gazans directly. However, Hamas still receives considerable financial support from sympathising countries such as Iran or Qatar. Although there is no precise public data on the exact weight of foreign financial support in Hamas’ budget, only in 2007 it was estimated that the group had brought \$60bn in cash into Gaza as foreign donations (Milton-Edwards, 2007).

International funds reach Gaza in several forms, namely in the form of humanitarian aid (aid that is required to satisfy basic human needs) by international organisations such as the UN, thanks to bilateral agreements with individual countries which provide aid on their own initiative or through development projects. According to the UN, large aid flows are mostly targeted toward construction programmes, services and current account deficit support in Gaza (2014).

In total, it is estimated that UN agencies have provided Gaza with \$4.5 billion between 2014-2020, most of which was channelled through the UN agency for Palestinian Refugees (UNRWA) (DW News, 2021). In 2020, the UNRWA had a total USD 696,911,017 budget for Palestine, with the US being the largest single contributor (UNRWA, 2021). The amount of aid, and particularly humanitarian aid, which goes to

Gaza often increases in periods where the ongoing humanitarian crisis in the area worsens due to the intensification of tensions with Israel.

As for sympathising countries that provide significant amounts of donations to Hama, Qatar can be counted as one of Hamas' main financial contributors. Qatar has stepped in on several occasions to provide wage payments for civil servants in Gaza whenever the Hamas government has struggled to disburse payments and the PNA has withheld salaries. Likewise, Qatar has made great efforts to alleviate the energy crisis strangling the Gaza Strip; in 2021 the country pledged \$60 million to build a natural gas pipeline from Israel into the Gaza Strip to provide the area with the first stable access to electricity by 2023 (Reuters, 2021) and also committed to funding gas and electricity for the GPP (Al-monitor, 2022). In total, it is estimated that Qatar has provided Gaza with \$1bn dollars since the 2014 Gaza War.

This has made Israel fearful that international funds sent to Gaza are destined for Hamas' military rather than the Palestinian population. Some even argue that no aid should be given to Hamas, and in particular no aid tied to halts in violence, because that would equal blackmail and bribes to what the West considers to be a terrorist organization (Inbar, 2014). This is the reason why many of the international aid given to Gaza, particularly that of Qatar and the US, must be distributed under Israeli approval and it also explains why personal remittances play such an important role in sustaining Gazan families.

In fact, before the 2021 may hostilities Qatari aid and money for civil servants' salaries had reached Gaza in the form of suitcases full of cash carried by Qatari diplomats through the Erez border crossing. These donations had often been subject to suspicions by Israel that the money might be financing Hamas's military agenda as opposed to reaching families in need. In May 2021 Israel blocked aid to Gaza in fears that it could be destined for financing Hamas' military activities and Qatari donations could only resume after Israel and Qatar agreed to a method of aid distribution that would bypass Hamas and guarantee that all aid would go to humanitarian purposes (Abouelfettouh, 2021).

In any case, international donations to Hamas from sympathising countries have not always been stable. Until the Arab Spring Hamas had largely relied on tunnel smuggling and international financial support from allies to finance its budget. However, after regional political changes in 2011, not only did Hamas lose its main source of revenue

with the closure of the tunnels, but it also became more isolated as Syria, Iran, Qatar, and Egypt withdrew or decreased their strategic and financial support to the group.

Until 2011 Hamas, together with Iran, Syria, Hezbollah and the Palestinian Islamic Jihad, had formed an “axis of resistance” based on the combination of a shared identity in confrontation with Israel and pro-Western Arab countries and the promotion of an Islamic-based order. These points of understanding allowed for these actors to overlook their differences as Sunni and Shi'a Muslims (Nishikida, 2018), but this all changed at the onset of the Syrian civil war. Hamas had avoided condemning Bashar Al-Assad’s assault on Sunni Muslims at the beginning because Al-Assad had been a major supporter of the Palestinian cause and for fear that it would anger Iran, Hamas’ biggest ally and financial supporter. However, the situation in Syria worsened and Hamas finally decided to cut all ties with the country (Nishikida, 2018), in turn prompting Iran to cut ties with Hamas.

Another important event was the already mentioned rise to power of Mohamed Morsi from the Muslim Brotherhood in Egypt. Affiliation to the same group had created high hopes for Hamas, which expected the new president to ease the Egyptian side of the economic blockade. However, despite overlooking the illicit trade that took place through the smuggling tunnels, Mohamed Morsi enforced the already established foreign policy on Hamas, including the frequent closure of the Erez border crossing and, later, the destruction of some smuggling tunnels. Hamas’s regional and economic position was further damaged after the ousting of Morsi and the decision of the new President, Abdel Fatah-Al Sisi, to flood all smuggling tunnels.

Finally, relations with Iran, Hamas’ biggest military and financial ally, soured. There are no clear data on the amount of financial support that Iran provides to Hamas, but there have been claims made by the United States envoy to the Middle East Peace Process, Jason Greenblatt, that Iran was giving Hamas \$100 million a year in 2019 to buy weapons and build tunnels to attack Israel (Greenblatt, 2019). Tensions between Iran and Hamas sparked due to Hamas’ neutrality over the Syrian civil war and by the group’s decision to acknowledge the internationally recognized and Saudi-backed government in Yemen in 2015. As a result, Iran reduced its financial and military support for Hamas (Amer, 2019).

Nevertheless, since 2017 Iran has resumed military and financial aid to the group, and by 2020 Iranian leaders had expressed their “unconditional support to Hamas” in response to Israel’s annexation plan of the West Bank (Jalal, 2020). In fact, the Washington

Institute for Near East Policy affirms that Iran has been a major source of missiles, weapons, military training and know-how for Hamas, and that it is help from Iran that made it possible for Hamas to significantly upgrade its military equipment (Levy, 2021) as shown by the sophisticated missiles launched into Israel in May 2021.

7. CONCLUSIONS

In line with the hypothesis outlined at the beginning of this work, it is possible to affirm that Israel's economic blockade is part of a deliberate plan aimed at the destruction of Gaza and, consequently, Hamas. As a result, the Gaza Strip has become an “open-air prison,” as described by the UN, where the population live in a structural state of humanitarian crisis in which access to basic resources is limited and misery is widespread. Consequently, most Gazans are reliant on aid to live, both from international organisations such as UN agencies, and social services provided by Hamas-affiliated groups. In this sense, it is also safe to state that in agreement with the thesis of this work, much of Hamas’ popularity and resilience in the Gaza Strip can be attributed not only to its ability to provide social services to the population, but also to its capacity to legitimise itself as the only capable faction of protecting and providing for Palestinians. This is so on the material side, but also politically and militarily. In fact, Hamas’ displays of belligerence, often in contrast to Fatah, contribute to the perception of the group as a real option to stand against Israel, and by extension, to run Palestine effectively. This idea of “resistance” against Israel that Hamas uses as the basis of its narrative underpins all military and economic decisions, thus gathering a “resistance-affiliated demos around it”, (Schwarzmantel & Kraetzschmar, 2013) who finds it natural to rally around Hamas as tantamount to being against Israel.

Israeli, and to a lesser extent, Egyptian blockade prevent economic growth in the area and perpetuate a weak economy mainly based on small-scale whole trade services and very limited productive capacity. The level of private investment is negligible and population growth has far exceeded any economic growth achieved in recent decades, which has had a major impact on per capita income and the living standards of Gazans, who find themselves trapped in a cycle of poverty and unemployment. Furthermore, the cost of the Israeli-Gaza wars that have taken place in the last decade have caused great humanitarian and material damage to Gaza's infrastructure from which the area has not yet recovered, and which further hinder any attempts at economic growth.

Escaping this permanent state of poverty in which the Gazan people have been plunged is extremely difficult and unlikely; Israeli blockade and occupation prevent the territory from freely managing its resources, as illustrated by the examples of the Gaza marine gas field, the imposed three nautical mile limit for maritime activities or the Israeli confiscation of underground water for agricultural use. In turn, Israeli control of Gaza's air, sea and land borders isolates Gaza and hinders trade with the rest of the world, forcing Gaza to buy cheaper Israeli produce that hampers Gazan competitiveness and makes the Strip heavily dependent on Israel for any trade revenues. Neither does Gaza enjoy freedom of movement, even with the West Bank. Moreover, Gaza has no say over its own economic and fiscal policies as it is Israel which imposes its unsuitable customs union on the area.

Gaza's dependence on Israel extends to most of its economic activities, being the energy sector a particularly sensitive sector to dependency due to its strategic nature. Gaza suffers from an energy crisis and the little energy that it receives comes mainly from Israeli exports. Aside from exports, Gaza only has one badly damaged power plant that is also dependent on imported gasoil to operate. Even then, the plant has not sufficient capacity to satisfy electricity demands in the Gaza Strip and, consequently, Gazans only have electricity for a couple of hours every day as long as there are no tensions with Israel or Egypt.

As a result of dependency on Israel, Hamas' response strategy has been based on a narrative of resistance against the aggressor on which the government of the Gaza Strip has based its economic policies since 2007. Thus, we find attempts at the creation of an economy of resistance through changes in the agricultural structure or the establishment of Gaza's own financial system, including new taxes derived mostly from Hamas' monopoly over informal trade.

With an economy under siege and in decline for the past decades, Hamas has relied heavily on foreign aid and control of illegal trafficking from Egypt to finance its budget. However, with the regional changes resulting from the 2011 Arab Spring, Hamas has lost much of that revenue. Its friction with Iran over Syria and Yemen, and the arrival of a hostile president in Egypt temporarily froze the former's financial support in the case of the former, and definitively ended the tunnel business used for illegal trafficking in the case of the latter.

Fortunately for Hamas, Qatari aid in the form of salaries for Gazan civil servants slightly relieves the public sector in Gaza and, together with the humanitarian aid that manages to reach the area, gives some peace of mind to the families in Gaza. In this sense, social services provided by Hamas-affiliated groups in the Gaza Strip are significant. In fact, these religious groups are thought to be the largest providers of social services in the area, which might partly explain why domestic support for Hamas has been usually high. This has been so to the point where 53% Palestinians in both the West Bank and Gaza expressed their belief that Hamas is “most deserving of representing and leading the Palestinian people” (PCPSR, 2021). Likewise, financial, military, and technical support from Iran has resumed with renewed strength and has provided Hamas with much needed funds to finance its government of resistance in Gaza. In fact, military activity serves Hamas' narrative as much as economic policies and provision of social services. All activities fit into the narrative of resistance that allows Hamas to blame economic misery on the Israeli blockade and present itself as the only capable option to stand against the aggressor, not only in the form of military attacks as done in May 2021, but also in the form of resilience in the face of siege.

Finally, thanks to the analysis on the economic activity of Gaza that has been carried out in this work it is possible to state that the dire humanitarian and economic situation of the Gaza Strip can be largely attributed to Israel's deliberate efforts to strangle and destroy the Gazan economy. However, Israel is not the only obstacle to growth in Gaza. Enmity with rival faction Fatah and the lack of unity in the Palestinian front make it impossible to build any long-term, sustainable political and economic project for Gaza nor Palestine. Likewise, opacity in Hamas' budget makes it difficult to know how Hamas manages its revenues or what its economic project for the Gaza Strip looks like. In fact, many claim that most of the funds obtained by Hamas are used to advance its military agenda as opposed to targeting the needs of Gazans.

What is certain is that Hamas has obtained a psychological victory only by surviving and showing that it can inflict damage on Israel. Israel hoped that impoverishment in the Gaza Strip as a result of the economic blockade would turn Gazans against their government, but the opposite has happened. Although with fluctuations, Palestinians' support for Hamas increased as the blame for the humanitarian situation in the Gaza Strip fell on Israel. At the same time, Hamas' military offensives have allowed the group to present

itself as the only capable Palestinian faction that can effectively fight against the occupying power.

As hopes for the realisation of a Two-State solution fade and economic blockade seems unlikely to end, Gaza's political and economic improvement perspectives remain low. Domestic support for the group might be closely linked to future power movements against Israel as that of May 2021, but the delay of Palestinian elections makes it impossible to know what the current general feeling in Palestine with regards to Hamas is. In any case, Gazans remain extremely poor, Israel is still determined to destroy Gaza's economy and the never-ending enmity between Fatah and Hamas will most likely make economic decline and poverty persist for years to come.

8. BIBLIOGRAPHY

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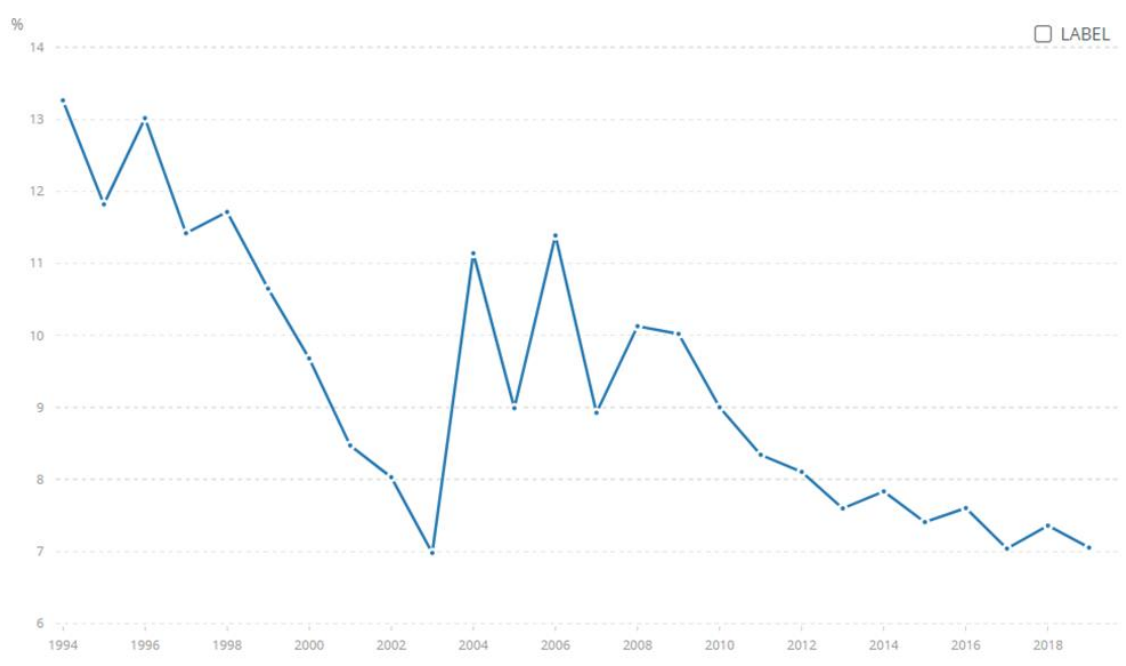
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9. ANNEXES

9.1 Figures

Figure IX

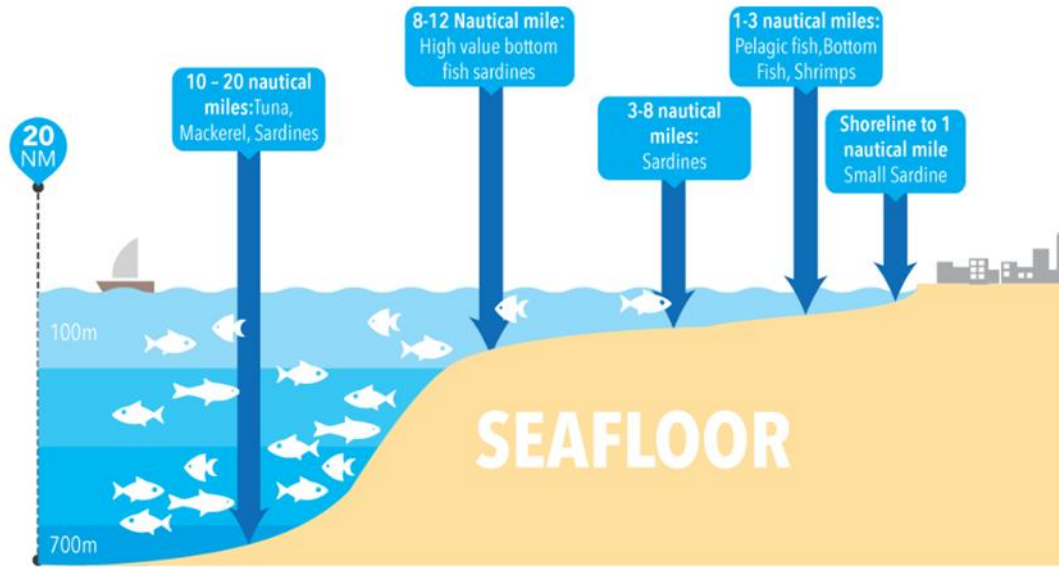
Agriculture, fishing, and forestry as a % of GDP (West Bank and Gaza Strip)



Published in 2019 by the World Bank. (World Bank, 2019)

Figure X

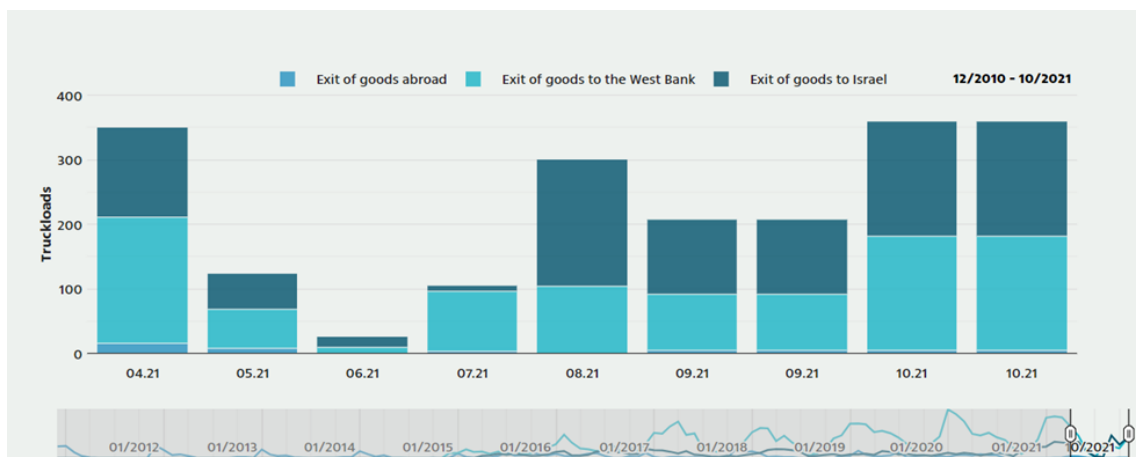
Types of fish catch by sea depth and distance from the coast



Published in 2019 by the United Nations Office for the Coordination of Humanitarian Affairs. (UNOCHA, 2019)

Figure X

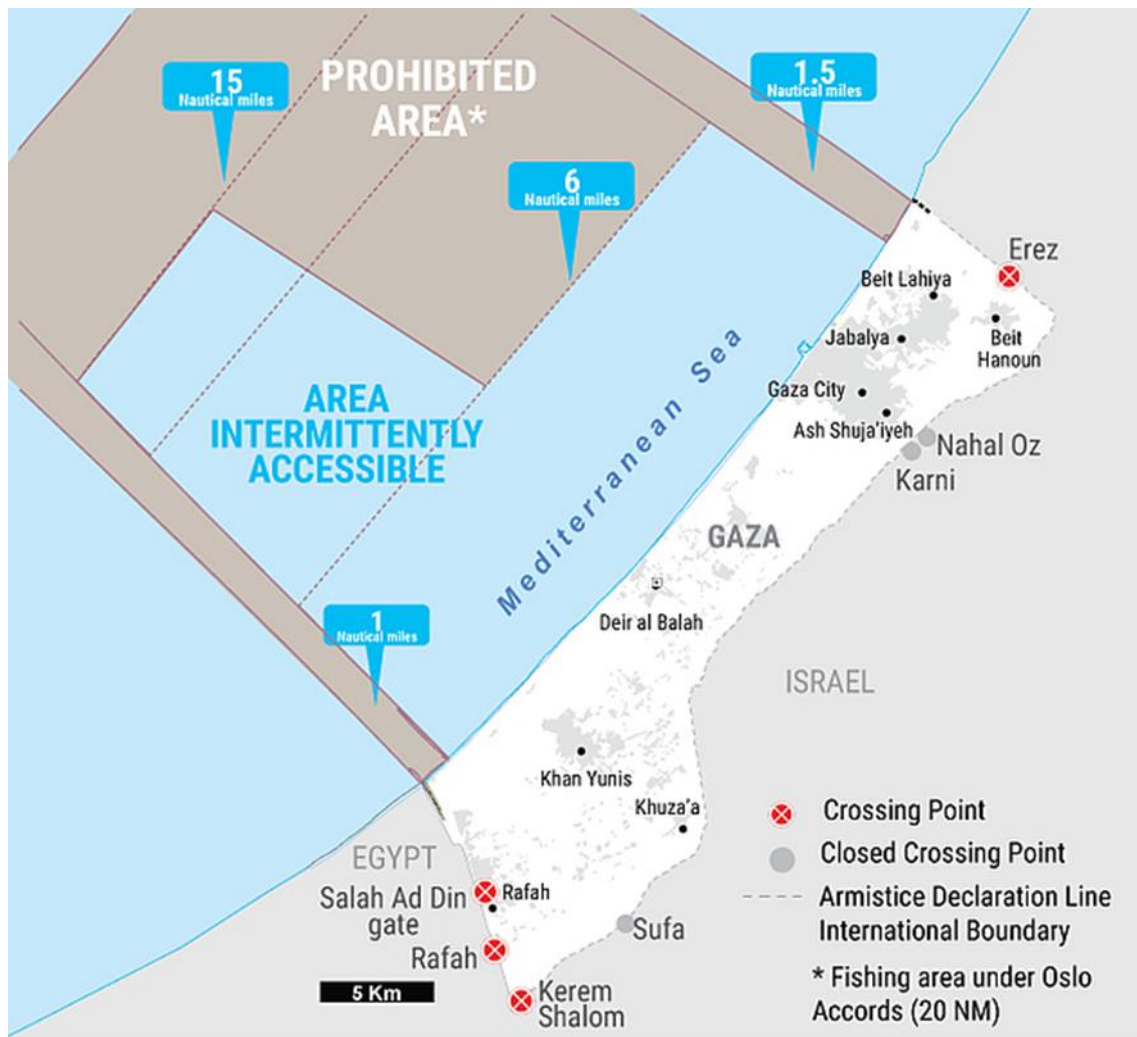
Exit of goods from Gaza via Kerem Shalom Crossing



Published in 2021 by Gisha (Gisha, 2021).

Figure XI

Gaza Strip Fishing Limits



Published in 2019 by the United Nations Office for the Coordination of Humanitarian Affairs. (UNOCHA, 2019).

Figure XII

UN partition plan for Palestine

UN partition plan for Palestine

■ Arab state ■ Jewish state ■ Jerusalem International City



Published in 2020 by BBC news (BBC, 2020).

Figure XIII

After the 1967 War

After the 1967 War

■ Land occupied by Israel in 1967



Published in 2020 by BBC news (BBC, 2020).

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