

The Political Economy of a Lasting Israel-Hamas Truce

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ABSTRACT *At the conclusion of the summer 2014 Gaza War Israel, Hamas, and the P.A. agreed to meet in Cairo, Egypt to discuss a long-term ceasefire. The goal of this summit was to allow for Gaza to rebuild itself, and for political changes associated with June's Unity Government deal between the P.A. and Hamas to take effect. The summit has since been postponed. However, Gaza still requires significant financial and material aid in order to function and provide for its people. This work examines the economic and security benefits to all parties involved of a long-term ceasefire between Israel, and Hamas. An economically open Gaza benefits Israel, the P.A. and Hamas, with few associated costs and creates an opportunity to reinvigorate final status negotiations.*

Under the terms of the ceasefire that ended the 2014 Gaza War, Israeli and Palestinian representatives were to meet in Cairo in the last week of October to discuss a framework for a long-term truce between Israel and Hamas. Both sides' terms are already known, and therefore these talks would have focused—and may yet still—on the acceptability and implementation of the existing terms (as of this writing the talks have been postponed because of instability in the Sinai).

The signing and enforcement of a sustainable ceasefire has tangible benefits for both sides. First, it can serve as an identifiable set of refer-

ence terms, which can be used as a foundation for changing the nature of relations between Israel, Hamas, and the Palestinian Authority (P.A.). Second, and potentially more valuable, a sustainable ceasefire could deliver significant economic and security benefits for all sides: economic growth brought on by a ceasefire would contribute to the creation of a self-sufficient Palestinian economy as well as a more secure Israel. Finally, an economically self-sufficient Gaza could help reinvigorate final status negotiations.

Gaza has been economically and politically blockaded by Israel since Hamas' victory in the 2006 Pales-

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Insight Turkey
Vol. 16 / No. 4 /
2014, pp. 45-53

tinian Legislative Elections, and its subsequent defeat of an abortive (US-backed) coup attempt in Gaza launched by Fatah in 2007. This blockade marked an increase in existing Israeli security measures around Gaza, which Israel has controlled since the 1967 War. Since then, economic and political restrictions have varied, ranging from limitations on movement from 1967-1988 to a complete blockade and heavy restrictions on the movement of people and goods. Since 2007, the blockade has been so severe that Israel has, at times, banned even the importation of pasta, tea, coffee, semolina, and milk products in large containers.

The Palestinian Central Bureau of Statistics reported that in the fourth quarter of 2013 total unemployment in Gaza stood at 38.5%, with unemployment as high as 48.1% in Rafah—by comparison unemployment in the West Bank was lower, relatively, at only 18.2% in the same period. According to the United Nations Relief and Works Agency, GDP per capita in Gaza dropped from \$1,327 US in 1994 to US \$1,165 in 2011. The importation of basic goods has been strictly limited, as has aid, power, and electricity. Furthermore, Gaza was unable to export any domestically produced goods between June 2007 and October 2014.

Consequently, Hamas has demanded since 2008's Operation Cast Lead, an end to the blockade of Gaza's ports, land crossings, and airspace, in exchange for a ceasefire. Following



A Palestinian woman hangs out laundry in her home in the Gaza Strip town of Beit Hanun which was severely damaged in the 50-day war in the summer of 2014 between Israel and Hamas.

AFP / Mohammed Abed

2012's Operation Pillar of Defense, Hamas' ceasefire demands were codified in an Egyptian and U.S.-brokered ceasefire deal: both sides committed to end hostilities while Israel and Egypt agreed to open all border crossings into Gaza (thereby allowing the free movement of people and goods). The ceasefire also should have allowed Gaza fishermen to work six nautical miles off the Gazan coast.

Hamas largely met its obligations as part of the 2012 ceasefire deal, yet Israel largely avoided implementing much of the ceasefire's requirements. Nearly the exact same language was used in the ceasefire deal for Operation Protective Edge. It is important that this not be repeated.

If the blockade is lifted, and a cease-fire holds, major benefits will likely accrue to the Gazan economy, to say nothing of the humanitarian relief. It

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is worth stressing, though, Israel will also benefit from a more economically free and developing Gaza. From an economic perspective, a Gaza in which the Palestinian Authority presides over state (re)building as well as real economic expansion (as party of a unity government agreement) will increase customs revenues for Israel, expand the Israeli construction market, and provide more migrant labor for semi-skilled work inside Israel. These economic benefits are real and important for an Israeli economy that must accommodate the 16% of its population that is poor, as its GDP has actually contracted 0.09% in the wake of the 2014 war.

Israel will also reap several security/strategic benefits. A Palestinian Authority-led Gaza government will facilitate security coordination between Israel, the P.A. in Gaza, and the United States, much like in the West Bank. This type of security co-

operation will, over the long-term, undermine militant organizations' ability to place and launch rockets from populated areas. Gaza is 97% urban so, as the capacity and size of Gazan forces increase most of Gaza will become a no-fire zone, reflecting the security developments in the West Bank since the end of the Second Intifada.

Additionally, opening up the Gazan economy will help draw the disproportionately well-educated and skilled Gazan population to work, instead of to violent resistance. According to the Palestinian Central Bureau of Statistics in 2012, 19.3% of Gazans aged 15 and above had completed at least an Associates Degree (a minimum of 2 years of college).¹ Data on suicide bombers during the Second Intifada demonstrates that these highly educated and skilled people have historically made up a significant proportion of Hamas fighters in Gaza—some 96 percent of Hamas fighters had some level of higher education, with 65 percent having some level of post-secondary education as compared to 51 and 15 percent, respectively, of the larger Palestinian population.

Creating employment opportunities will not completely eliminate the draw of violent resistance to occupation, but it will change the cost-benefit calculation of individuals thinking about participating in militant action. Simply put, people will have much more to lose if the local economy is good, and they will be willing to devote less time to violence as well.

The more goods destined for Gaza that are not wholly produced in Israel, the more customs revenue Israel collects

Economic opportunity will therefore begin to shrink the ranks of willing Islamist fighters over time.

Data from before the First Intifada is instructive. According to Joshua Angrist, after 1967, the economies of the West Bank and Gaza grew rapidly as a result of labor and product market integration with Israel. At the same time, rates of educational attainment increased significantly, with people born after 1967 making up the most educated Palestinian generation in history. However, by the middle of the 1980's, the economic returns they received from high levels of schooling were actually decreasing, relative to Israeli's with equal levels of education. Consequently, young but well-educated and underemployed individuals willingly took part in violent resistance.

A Palestinian Unity government agreement is key to the economic revitalization of Gaza. The Unity Government formed on June 2, 2014 with P.A. President Mahmud Abbas as its head. It is made up of P.A. technocrats and governs both the West Bank and the Gaza Strip. The U.S. and other international actors have chosen to work with the Unity Government be-

cause no Hamas ministers are a part of it.

The Unity Government taking power in Gaza allows P.A. security forces and government ministers to enter Gaza and begin new governance initiatives. It also increases the ease with which foreign aid can enter Gaza, while not fundamentally harming Hamas as an organization.² This collaboration will help the Unity Government gain support from the large family and clan voting blocs that are key to maintaining order in Gaza, thereby legitimating the Unity Government's political program. Hamas gains political legitimacy (locally and internationally) by cooperating.

More, research suggests that economically interdependent actors have a markedly decreased likelihood of going to war with one another. As Gaza receives more international aid and increases trade with Israel, the incentives for violent resistance will decrease. The West Bank is an example of this, though it's also an example of the limits of economic interdependence in the absence of political freedom, as shown by the continuing unrest in occupied East Jerusalem and other areas of the West Bank.

The construction and manufacturing industries, as well as the overall labor markets in both Israel and Gaza will benefit from ending the blockade. The reconstruction of Gaza will cost in excess of \$7.8 billion, with \$4 billion in direct costs for rebuilding infrastructure and rehabbing economic activity. Estimates of the necessary

building supplies for reconstruction include 1.5 million tons of cement, 227,000 tons of steel, and 5 million tons of gravel. Additionally, 2.5 million tons of rubble (1.2 million of which resulted from the Gaza War) will need to be removed from the Strip.

According to *The National Early Recovery and Reconstruction Plan for Gaza* at least 5,000 pieces of unexploded munitions remain in Gaza. Local P.A. security forces can collect and dispose of these armaments. The collection, movement, and disposal of these arms will generate jobs, and income in the Strip. The P.A. estimates that the recovery of ordinance as well as the removal of rubble will cost at least \$20 million. Nesher Israel Cement Enterprises (which controls roughly 85% of Israel's cement industry) will generate \$155 per ton of cement sold in Gaza. Israeli steel companies, like Packer Yadpaz and Urdan Metal & Casting Industries Ltd., will sell a ton of steel inside the Strip for an estimated \$900.

Palestinian agencies and Gazan construction firms will also generate significant revenues through reconstruction efforts. Before any local companies can begin to rebuild Gaza, they themselves must be reconstituted. Roughly 70 percent of Gaza's factories were hit by Israeli bombardment during the summer 2014 war; an estimated 250 factories and construction sites were damaged. Major retrofittings are necessary for Gazan construction firms before they can begin to rebuild. However, this pro-

cess will reemploy some 60,000 people, generate millions of dollars in tax revenues, and will begin to restart Gaza's economy.

Put starkly, the majority of reconstruction money must remain inside the Strip. Following 2008/09's Operation Cast Lead, roughly 70% of reconstruction money initially allocated for rebuilding Gaza, was paid to foreign construction firms, according to Omar Shaban of Pal-Think. This cannot happen again. If the proposals outlined in *The National Early Recovery and Reconstruction Plan for Gaza* are indeed followed, and they allow for domestic bids on construction contracts, local companies could generate substantial revenues and increase the number of available local jobs.

By beginning to allow reconstruction goods to flow more freely into Gaza, Israel will realize a boost in customs revenues. According to the 1994 Agreement on the Gaza and Jericho Area (also known as the Paris Protocol, which was folded into the Oslo II Accord) Israel collects customs duties on many of the goods being imported into Palestine, as these goods pass through Israeli ports and customs.

The more goods destined for Gaza that are not wholly produced in Israel, the more customs revenue Israel collects. Moreover, "leakage" of customs revenues based on Paris Protocol language nets Israel an estimated \$300 million per year. This figure will only grow as more goods pass through Israeli ports on their way to Gaza. This

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income will help revive the currently sluggish Israeli economy.

A long-term ceasefire deal may also begin to shift clan and family-based political allegiances inside Gaza. Large families and clans inside the Strip have propped up Hamas since it won the 2006 Palestinian Legislative Council elections. Clans and families play an important role in Gaza; they serve as *de facto* legal systems. Further, they function as coping mechanisms for large-scale unemployment.

The International Crisis Group reports that roughly 95 percent of businesses in Gaza are family run, including “strawberry fields in north Gaza, run by the Masris, the sizable fishing fleet of the Bakr clan in Gaza port, and the flower nurseries of the Abu Naja clan in the southern Gaza Strip. The Dughmush are Gaza’s largest suppliers of tires.”³

Families and clans therefore provide direct support to their kinship network, but can also employ others in Gaza; many of these families also act and vote as a bloc. A ceasefire em-

powering the P.A. to rebuild Gaza, while limiting Hamas’ overt political power, could redirect support toward the P.A., instead of Hamas, with whom they have a strained history.

These families moving towards the new legal authority—the P.A.—is both necessary and good for Gaza. It is necessary because no effective political authority can be exercised in Gaza without at least the tacit support of these families, given their extensive local ties. Moreover, if Hamas preserves their support, it can sustain a shadow state, which will compete with the P.A.’s administrative, economic, and military authority. In effect, Hamas with family and clan support undermines the Palestinian Authority’s monopoly over physical force, and by extension, its political power in Gaza.

Gaining the support of the large families and clans is also good for both Gaza and the P.A. because it helps create a formal, quasi-transparent, and quasi-predictable system for the provision of state economic services. These families, for better or worse, are the avenues through which job opportunities, state economic assistance, and health care (among other public services), pass. Understanding and navigating these networks is, at least in the short-term, critical for the P.A. to develop a self-sustaining Gazan economy.

Finally, political science research demonstrates that as economic interdependence grows (through trade), the incentives for conflict shrink. On



average, as trade increases between states there is a concomitant decrease in likelihood that they will go to war with one another, as war is extremely costly.

Trade tempers the underlying causes of conflict in two ways: first, steady trade drives down the need for Gazans to actively fight for the increased flow of goods across the border. Second, economic development, as a consequence of trade alleviates long-term doubts that Palestine can operate as an independent political and economic entity. This mitigates the threat of a violent failed state developing on Israeli's southern border. In short, economic development is a necessary precondition for assuaging the causes of violent resistance to occupation. Consequently, it can help reboot final status negotiations as well as enhance the Palestinian nego-

tiating position in future peace talks.

Public tax revenues collected by the P.A. rose steadily through 2013; however, the Palestinian Authority still requires foreign aid commitments to meet its budgetary needs. In this context, international aid serves as a type of economic interdependence, as violence emanating from the West Bank would undercut aid delivery, as well as the remittance of tax revenues collected by Israel for the P.A.

According to the International Monetary Fund, between 2008 and 2013 the P.A. required between \$1.8 billion (2008) and \$1.2 billion (2013) per year for "recurrent spending." Since the P.A. began receiving this international aid, which is tied to efforts to control violence emanating out of its territory, as well as security cooperation with Israel, violence from the

Norway Foreign Affairs minister Borge Brende, his Egyptian counterpart Sameh Shoukri, and Palestinian deputy Prime minister Mohammed Mostafa give a press conference as part of the Gaza Donor Conference in Cairo on October 12, 2014.

AFP / Khaled Desouki

West Bank aimed at Israel has effectively ended.

While analysts have speculated about the onset of a third intifada, one has not developed, even in the wake of the 2014 Gaza War. The wave of violent episodes in Jerusalem throughout October and early November occurred in an area governed by Israel not the Palestinian Authority. The P.A. has no governing institutions in Jerusalem and is not responsible for security there. Moreover, in only one of these cases was the perpetrator affiliated with a Palestinian resistance organization, and that group was Hamas.

Extending an economically interdependent relationship into Gaza could have the same impact; robust P.A. funding for social, educational, and health programs inside the Strip could undermine support for violence and Hamas. Hamas is a social welfare-based national independence movement at its core. Popular support for Hamas is a consequence of persistent failure of Fatah/the P.A. to provide basic services and end endemic corruption. If the P.A. can provide social services through international aid and domestically generated tax revenues, popular support for Hamas, which historically hovers around 20%, will begin to decrease sharply.⁴

There are three potential problems with the foregoing analysis. First, Hamas may not accept a ceasefire that empowers the P.A. in Gaza at its expense. The unity deal that the for-

mer agreed to with the latter serves as its credible commitment to allowing the P.A. to govern the Strip. Hamas needs to step back from the public sphere to rebuild its military and political capacity after 7 years of recurrent war and resource deprivation. In a sense then, a ceasefire that economically and politically empowers Gaza, as well as the P.A. as the governing force will help along Hamas' goal of rebuilding itself without attracting undue attention to its machinations.

In an increasingly economically open Gaza Strip, Hamas' militant actions (and the inevitable Israeli military response they elicit) could also be seen publicly as interfering with economic growth and prosperity. This, in turn, might alienate the Islamic Resistance from the public at large. Therefore, rebuilding Gaza with increased economic opportunity and public services could push Hamas to moderate itself (as elections did in 2006) in order to continue participating in the political process.

Secondly, Israel may refuse a ceasefire with Hamas. A ceasefire would obligate Israel to following through on its ceasefire commitments; commitments that it has largely avoided meeting, as of this writing. However, Israel has quietly begun to allow a trickle of goods to come in and out of the Gaza Strip. So perhaps, with an enforceable ceasefire deal in place Israel will be more willing to fully re-open Gaza.

Finally, other Islamic militant organi-

zations in Gaza may ignore a ceasefire deal. Hamas has largely managed to control the other organizations in Gaza. Groups like Palestinian Islamic Jihad and Aknaf Bayt al-Maqdis are fairly small. A coordinated effort between the Hamas and P.A. security forces (acting on behalf of the Unity Government) in a newly opened Gaza could eliminate the threat posed by these groups—this could actually be part of any ceasefire between Israel and Hamas. In the absence of a ceasefire deal, Hamas and these other groups could pose a serious threat to the stability of P.A. rule in the Strip.

Truce negotiations between Hamas and Israel could have major benefits for every party in Israel and Palestine. Through committed diplomacy Israel and the Palestinian Authority could preside over a reinvigoration of the Gazan economy, as well as sidelining Hamas and other militant groups

operating in Gaza. Most importantly, truce talks could lay the foundation for revived final status negotiations. The benefits of such a truce deal far outweigh the costs to any of the individual actors involved. The issues then are: how committed are actors on either side of this conflict to rebuilding Gaza and affecting a sustainable peace. ■

Endnotes

1. By comparison only 15.5% of those 15 years and above in the more peaceful and developed West Bank had a similar level of education.
2. As structured, the Unity deal does not address the future of Hamas as a political organization, or what is to happen with its military wing the Izz ad-Din al-Qassam Brigades. Which is arguably a major problem with the deal.
3. "Inside Gaza: The Challenge of Clans and Families," International Crisis Group, Middle East Report No. 71 (December 20, 2007).
4. Wendy Pearlman, *Violence, Nonviolence, and the Palestinian National Movement* (Cambridge: Cambridge University Press, 2011).

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