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Introduction

The economy of the Gaza Strip is an excellent example of how certain levels of economic prosperity can be achieved with little, if any, economic development. This paper will describe the reasons for the lack of development inside Gaza's economic sector, despite increased levels of economic output achieved since 1967. Furthermore, it will argue that not only is economic development difficult if not impossible to achieve inside the territory, but may in fact be precluded by "de-development." De-development is defined as a process which undermines or weakens the ability of an economy to grow and expand by preventing it from accessing and utilizing critical inputs needed to promote internal growth beyond a specific structural level. In Gaza, the de-development of the economic sector has, over two decades of Israeli rule, transformed that economy into an auxilliary of the state of Israel.

Israel's occupation of the Gaza Strip has generated considerable debate over the impact of that occupation upon the socioeconomic structure of the

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territory. The Israeli government argues that the interaction of its own economy with that of Gaza's has had a positive impact. Increases in per capita GNP achieved after 1967, for example, are cited as indicators of the greater prosperity generated under Israeli rule. Increased levels of income have, in turn, resulted in higher rates of consumption expenditure, as exemplified by the greater percentage of radios, TVs, ovens, refrigerators, private cars, and homes inside the territory. The government of Israel points to these indicators of economic well-being as evidence of improved standards of living. Advancements in education and health, including higher levels of school enrollment and the eradication of certain diseases, are similarly cited as additional indicators of enhanced living standards attained since 1967.

That specific economic and social benefits have accrued to the inhabitants of the Gaza Strip under Israeli rule is undeniable. However, these benefits must be viewed within the wider social, political, and economic context of the occupation itself in order to determine the nature and extent of their impact.

Critics of the occupation argue that it has fostered the structural integration of the Gaza Strip into Israel proper, harming Gaza and benefiting Israel. This integration, illustrated most dramatically in the economic sector, has made the territory increasingly vulnerable to and dependent upon events inside the Jewish state. The critique further maintains that Gaza's dependence on Israel has been the result of, and itself is based upon, a severe lack of growth inside the Strip's agricultural and industrial sectors. Consequently, it is possible to achieve certain forms of economic prosperity without any real economic development.

The significant lack of development inside the Gazan economy suggests a relationship with Israel that may in fact exceed the traditional parameters of dependency. Relations between states of grossly unequal economic strength have been articulated in the dependency paradigm, which describes interactions between the rich, highly developed economies of the West and the poor, less developed economies of the third world.[1] The dependency paradigm has, in turn, produced the concept of "dependent development," which allows for internal structural growth inside the weaker economy, although that growth is disarticulated, oriented, and shaped by the needs and interests of the external economy to which it is subordinate.[2]

Dependent development is predicated upon two critical conditions. The first is the ability of the weaker, or peripheral, economy to industrialize and thereby accumulate capital. Capital accumulation can assume several forms, including large-scale investments in land, human resources, and physical equipment. This ability presupposes access to critical financial, political, and technological resources. The second condition involves the formation of political and economic alliances among elites within the dependent and dominant economies and within the international financial community generally.

Both preconditions of dependent development exist to such a low degree in the relationship between Israel and the Gaza Strip that not only is basic economic development suppressed inside Gaza, but so is dependent development itself. Therefore, in the absence of economic growth, even as achieved through dependent development, the distinguishing features of Gaza's economy increasingly become the erosion of its own internal economic base and its resulting dependency on Israel, both of which are indicators of economic de-development.

Economic Patterns

The Gaza Strip is an artificial entity about 28 miles long and 5 miles wide, encompassing an area that is 140 square miles or one-fifteenth the size of the West Bank (2,126 square miles). Close to 525,500 people inhabit the region giving it a population density of approximately 3,754 people per square mile, a density level equivalent to that of Hong Kong and among the highest in the world. The population is 85 percent urban and is equally divided between men and women. Nearly 70 percent of Gaza's inhabitants are refugees, the majority of whom live in one of the eight refugee camps located inside the territory. Officially, the Gaza Strip, like the West Bank, is considered an economically independent unit. However, the twenty-year occupation of the territory has created the basis for increased and sustained dependence on the Israeli economy.

The Prewar Economy in the Gaza Strip (1948–1967): An Overview

The economy of the Gaza Strip just after 1948 was on the verge of collapse due to its isolation from the rest of Palestine and the influx of vast numbers of refugees. Having lost most of its cultivable land and many of its domestic trade links, the Strip's rural, agrarian sector could not absorb its massive population. Indeed, only 14 percent of all households in the Gaza Strip had land as a source of income compared to 42 percent in the West Bank, and a significant portion of this land (20–25 percent) was concentrated in the hands of a few wealthy families and was devoted to citrus production, Gaza's largest source of foreign exchange during this period.[3] Agriculture was clearly the primary economic activity; industrial activity remained virtually undeveloped. Prior to 1967, the Gaza Strip had no large-scale industrial enterprises and the industrial sector was characterized by small workshops engaged in the production of traditional crafts in addition to the processing of food products.[4]

The service sector, however, developed rapidly as a result of the presence of Egyptian military forces, forces of the Palestine Liberation Army, United Nations Emergency Forces and UNRWA personnel.[5] Although it provided important sources of employment and contributed in no small measure to the gross income of the Strip before 1967, the service sector introduced few structural changes into Gaza's economy. Similarly, trade and commerce became important income-producing sectors, focused strongly on the development of an entrepôt and smuggling trade since custom duties inside Gaza were relatively lower than those prevailing in Egypt. Thus, on the eve of the Israeli occupation, the infrastructure of the Gaza Strip remained rudimentary, and, in the absence of an integrated market and skilled manpower base, the economy as a whole stagnated.

The Postwar Economy (1967–1985): An Overview

The occupation of the Gaza Strip brought its economy into direct contact with that of Israel and represented the second major dislocation of the economy since 1948. Small, unorganized, and largely agricultural, the economy possessed few means to withstand the effects of a highly industrialized and technologically advanced economy such as Israel's. By 1967, the total GNP of the Gaza Strip and West Bank combined, equalled 2.6 percent of the Israeli GNP.[6]

During the years 1968–82, however, the Gaza Strip's GNP grew at a rate averaging about 9.7 percent per annum. In the first five years after occupation (1968–73), the economy attained a higher annual rate of growth owing to expanded income-generating opportunities inside Israel. After 1973, these rates decreased and fluctuated as Israel's economy moved into recession.

External payments, of which salaries earned in Israel are a large part, contributed directly to the increases in GNP after 1967. Contributing only 2 percent to GNP in 1968, this factor rose to 31 percent in 1973 and 44 percent in 1984.[7] This fact highlights the weakness of Gaza's internal economic base and its dependence on externally generated sources of income. Income derived from work outside Gaza (either in Israel or other

Arab countries) grew by 9 percent per year in 1983 and 1984, a decrease from annual jumps of 16 percent in 1982 and 1983.[8]

The importance of different sectors to total gross domestic product has also changed since the war. The percentage of the service sector's share of GDP has fallen from a high of 66 percent in 1968 to 23 percent in 1984. Industry, in contrast, has increased its share although it still remains the smallest contributor to GDP, 11.6 percent in 1984. Agriculture accounted for only 13.4 percent in 1984, a decline of more than 50 percent from 28.4 percent in 1968. The construction sector, however, witnessed a large increase in its relative share of GDP from a 1968 level of 3.1 percent to a 1984 level of 22 percent.[9] Increased rates of residential construction have in large part accounted for the significant rise in the construction sector's contribution to the Strip's economy.[10] Indeed, capital formation in construction accounts for 90 percent of all private sector investments. Unlike typical patterns of economic development, where investment normally flows into non-residential capital formation (i.e. industry), investment in residential construction accounts for 85 percent of total capital formation inside the Gaza Strip. Moreover, a report by the General Assembly of the United Nations states that there has been no public sector residential construction for the Arab population in the Gaza Strip since 1978, indicating that the burden of housing falls largely, if not entirely, on private individuals.[11]

Labor Force Composition. The labor force in the Gaza Strip constituted 19 percent of the total population prior to 1967, 15 percent in 1968, and by 1974 reached a level of 18 percent where it has remained ever since.[12] The low labor force participation rate is a function of several factors: the large percentage of the population under 15 years of age; a small number of males of working age; constant emigration of adults; high rate of school attendance; and limited economic opportunities.[13] As a proportion of the total population 14 years and older (278,800), the labor force has fluctuated around one-third and in 1985 was 33 percent or 92,000 people.

Employment. In 1960, it was estimated that 55,975 people of working age (14+) were employed inside the Gaza Strip and 88,750 were unemployed.[14] By 1966, employment was estimated at 71,000. Agriculture engaged one-third of the labor force, and services and construction provided employment for over 60 percent.[15] Industry accounted for a very small share. After the 1967 war, the number of working Gazans declined to 45,000 in 1968.[16] The number of unemployed increased by 20,000 above its highest pre-war level resulting in a 17 percent unemployment rate among Gaza's labor force in 1968.[17]

Access to the Israeli economy after 1969 led to a restructuring of Gaza's labor force, a development most clearly seen in the relative and absolute changes in numbers employed by sector. Between the years 1970–85, the percentage of employed persons in different sectors changed significantly. Those employed in agriculture, for example, declined from 32 percent to 18 percent while industry increased its share of total employed from 12 percent to 17.5 percent. Construction engaged 23.9 percent of Gaza's labor force in 1985, a 100 percent increase from a 1970 level of 12 percent. Services declined to 38 percent from the prewar level but continued to provide a large percentage of paid employment.[18] Of the labor force employed within the Gaza Strip in 1985, agriculture accounted for 18 percent; industry, 16.2 percent; construction, 8.4 percent; services and other occupations, 57.4 percent.[19] Clearly, since the Israeli occupation, there has been a noticeable shift away from jobs inside Gaza to those available inside Israel. And, the transfer of labor from the Gaza Strip to Israel has been accompanied by certain structural alterations in the composition of Gaza's labor force and by modifications in Gaza's economy.

Employment in Israel. Between 1970 and 1985, Gaza's labor force working inside Israel grew from 5,900 (10 percent) to 41,700 (45 percent), an increase of over 600 percent. In 1985, the number of Gazan workers employed in Israel was equivalent to 85 percent of the number employed inside Gaza itself.[20] However, these figures are based on the number of laborers registered with the Israeli Employment Service and do not reflect the large numbers of black market laborers who work inside Israel unofficially, among whom are children between the ages of 8 and 15.[21] Israeli authorities estimate the number of illegal workers to be between 25 and 30 percent of those legally employed;[22] other estimates are considerably higher.[23] Thus, in light of the high percentage of unregistered workers, the official unemployment rate of 1.1 percent is extremely low.

The composition of the Gazan labor force employed in Israel has, itself, undergone some significant changes during the postwar period. In 1970, for example, 40.7 percent of Gaza's labor force was employed in agriculture in Israel; 8.5 percent in industry; 47.4 percent in construction; and 3.4 percent in other branches such as services. By 1985, the proportions had shifted to 21.6 percent employed in Israeli agriculture; 19 percent in industry; 42.3 percent in construction; and 17.1 percent in services.[24] Since 1970, the construction sector has remained the largest employer of Gazan workers inside Israel.

The economy of Israel has benefited from the changes it has created within the economy of the Gaza Strip. The availability of a large pool of unskilled and semi-skilled workers has provided Israel with a reserve of labor that it can utilize or marginalize without great risk to its own economy. In periods of economic prosperity, for example, the availability of large resources of labor has had a stabilizing effect on wages inside Israel and in periods of recession has acted as a repository for surplus labor. Given the state's control over the economy of the occupied territories, wages paid to workers from these areas do not drain Israel's economic reserves since the consumption expenditure of Palestinian labor is directly tied into the Israeli economy.

The resulting state of dependency of the Palestinian labor market on the economy of Israel renders the former vulnerable to the political, social, and economic exigencies of the latter. This dependent condition and its potential consequences for the economy of the Gaza Strip are visible in the changes that have occurred within Gaza's main economic sectors.

Agriculture. Between 1948 and 1967, agriculture was the largest single economic activity in the Gaza Strip, contributing more than one-third of the GDP,[25] about 33–40 percent of the employment,[26] and 90 percent of all exports.[27] During the postwar period, however, agriculture's position in Gaza's economy weakened in relative terms. Between 1967 and 1970 the average annual rate of growth in agriculture was 8.8 percent and between 1979 and 1981 it dropped significantly to 0.9 percent, a result of the shift of the labor force into employment in Israel.[28]

Land Use. There are 360,500 dunams of land in the Gaza Strip. The percentage of land under cultivation by Arab farmers has declined since 1970.[29] Competition with Israeli settlers over land and water rights[30] and the reversion of approximately one-third of the Strip's total area to Israeli control forced many Gazans out of the agricultural sector, reducing the level of Arab cultivated land.[31] Between 1968 and 1985, the number of dunams cultivated inside the Gaza Strip fell from 198,000 to 100,000, a decline of almost 50 percent.[32]

Agricultural Output. Agricultural output in the Gaza Strip comprises the following factors in order of economic contribution: citrus, livestock (which includes meat, milk, fish, and eggs), vegetables, other fruits, melons and pumpkins, and field crops. In 1984, crops contributed 74.1 percent to total output in agriculture, and livestock comprised 25.5 percent of total value of agricultural production. Investment in forestry and new fruit plantations constituted the remaining 0.3 percent.[33] Citrus, vegetables, and other fruits have, in that order, proved the most productive within the crop category followed by field crops and melons and pumpkins.

Table 1: Agricultural Output Values in the Gaza Strip 1967–84 (in percentages)

Category	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Crops-Total	77.5	77.6	76.6	78.3	76.1	73.3	75.5	73.8	77.0	77.7	72.4	75.3	74.8	72.4	72.0	72.8	73.3	74.1
Field Crops	0.6	1.5	1.1	0.9	0.9	0.9	1.1	1.0	0.9	0.8	0.6	0.6	0.8	0.8	0.6	0.8	0.3	0.1
Vegetables	17.4	15.6	13.6	11.1	11.3	10.7	9.9	10.0	9.9	10.2	9.7	11.2	15.4	14.6	17.6	23.0	20.6	27.8
Melons & Pumpkins	4.7	3.1	1.6	1.6	1.7	1.8	1.4	1.6	1.5	0.8	0.9	0.9	2.6	1.6	0.6	0.6	0.1	0.1
Citrus	40.5	43.5	48.9	53.3	50.6	47.9	51.6	50.3	55.5	57.1	49.6	50.3	39.1	43.1	45.5	40.2	46.8	34.4
Other Fruits	14.3	13.9	11.4	11.3	11.7	12.1	11.5	10.9	9.1	8.8	11.6	11.8	16.9	12.3	7.7	8.2	5.5	11.7
Livestock-Total	20.6	20.3	21.1	20.4	22.7	25.8	23.9	25.5	22.3	21.7	27.3	24.7	24.8	27.1	27.7	26.8	26.2	25.5
Meat	6.8	7.9	7.7	8.9	8.5	9.0	8.5	7.9	6.9	6.9	8.8	10.2	11.9	13.6	13.2	13.1	12.5	12.6
Milk	6.2	5.8	4.8	4.0	4.9	6.3	6.0	6.5	6.0	5.7	8.2	7.7	7.5	6.9	7.2	6.6	7.0	6.0
Fish	5.1	3.7	5.7	4.5	6.6	7.6	7.0	7.3	6.6	6.5	6.8	1.8	1.5	2.1	2.0	1.7	0.7	4.8
Eggs	2.1	2.6	2.9	2.9	2.5	2.5	2.1	3.0	2.3	2.2	3.1	4.4	3.8	4.0	4.7	4.9	5.1	0.8
Misc.	0.4	0.3	—	—	0.2	0.3	0.4	0.7	0.4	0.4	0.5	0.5	0.4	0.5	0.6	0.5	0.9	1.2
Output-Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Fawzi Gharaibeh, *The Economies of the West Bank and Gaza Strip* (Boulder: Westview Press, 1985), 75 (for 1967–81).
Statistical Abstract of Israel, no. 36, 1985 (for 1982–83).
Statistical Abstract of Israel, no. 37, 1986 (for 1984).

Table 2: Output in Agriculture in the Gaza Strip 1967–84 (in thousand tons)

Category	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Field Crops	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Vegetables	31.8	33.2	36.4	36.8	38.9	40.5	37.9	46.0	48.0	54.9	53.4	51.4	60.0	72.7	76.6	79.8	86.7	104.5
Melons & Pumpkins	12.5	8.0	7.1	7.9	4.6	5.0	6.1	4.7	3.0	3.7	2.8	3.6	5.8	6.1	3.1	3.1	1.0	0.6
Citrus	91.0	106.2	142.0	175.0	178.0	205.2	207.0	201.4	243.7	232.3	180.6	192.2	171.5	179.3	199.9	166.5	159.5	175.7*
Other Fruits	19.0	20.0	18.4	19.0	26.3	21.4	26.5	25.2	20.9	19.7	24.8	18.9	21.4	20.8	15.4	19.9	17.1	17.0
Livestock:																		
Meat	1.7	1.9	2.4	2.6	3.0	3.5	3.4	3.7	4.4	4.3	4.8	4.8	5.6	6.2	6.3	6.0	5.9	6.1
Milk	6.8	6.9	7.4	7.2	9.7	10.2	11.7	12.9	12.8	11.7	14.8	15.5	4.7	13.9	12.4	11.4	11.2	10.0
Fish	3.7	3.8	3.4	3.2	4.7	4.6	3.5	4.8	4.7	5.1	4.5	1.5	1.2	1.4	1.3	1.1	1.0	0.6
Eggs (Million)	10.0	—	—	—	24.0	30.0	30.0	32.0	32.4	35.0	40.0	47.5	42.8	45.6	45.8	46.0	44.5	49.5

Source: Gharaibeh, *Economies*, 71 (for 1977–81).
Statistical Abstract of Israel, no. 36, 1985 (for 1982–83).
Statistical Abstract of Israel, no. 37, 1986 (for 1984).
**The Gaza Strip Citrus Producers Association Annual Report* (1985) estimated this figure to be 163.9 thousand tons.

Crop output values, which reached a high of 78.3 percent in 1970–71, have fluctuated between 72 and 77 percent ever since. Within the crop category, citrus fruits enjoyed a 17 percent increase in their share of output in the first decade of the postwar period, reaching a high of 57.1 percent in 1976. However, citrus has subsequently experienced a sharp decline, attaining a level of only 34.4 percent in 1984. Other fruits have also suffered reductions in their value share of agricultural output, from a high of 14.3 percent in 1967 to a low of 5.5 percent in 1983. As a result of Israeli competition, melons and pumpkins were virtually eliminated as agricultural products, dropping from just under 5 percent of output to less than 0.1 percent in 1984. Vegetables' share in output value declined somewhat in the mid-1970s but increased its share toward the end of the decade, averaging 18 percent of total value between 1970 and 1983 and 27.8 percent in 1984 alone.

Measured in terms of tons, output of vegetables more than tripled between 1967 and 1984 due to the more intensive use of irrigation methods and the introduction by Israel of drip irrigation technology inside the Gaza Strip. Livestock's percentage share in agricultural output has remained relatively stable through the 1967–84 period, averaging around a 24 percent share in output value.[34]

Citrus Fruits. Of all the sources of value to agricultural output, citrus has been the largest and most productive during the post-1967 period. Citrus production has accounted for 40–45 percent of the total area under cultivation in the Gaza Strip and until 1980 provided an average of 50 percent of the value of output in the agricultural sector. Despite a decline in the value share of citrus to total agricultural output, it remains the largest single contributor.

Agriculture in the Gaza Strip has always concentrated on the production of citrus nearly to the point of becoming a one-crop economy. Accounting for 70 percent of Gaza's exports, citrus enjoyed a very high output during the period 1972–76 which was solely attributable to the planting of 40,000 dunams of citrus trees prior to 1967.[35] (Citrus trees require 5–8 years to mature.) Beginning in 1977, citrus yields began to decline far below their pre-1977 levels to an output of 175,700 tons in 1984 from a high of 243,700 in 1975. The reasons for the decline in output are two: Israeli policies directed against the development of citriculture in the Gaza Strip; and dwindling water resources inside the territory.

Over the past ten years, the Israeli military government imposed various restrictions that have greatly limited the ability of Gaza citrus producers and merchants to grow as well as market their product. Military orders have been issued which make it illegal and therefore punishable to plant new trees or replace old, non-productive ones.[36] In 1984, a new order was issued by the military government making it illegal to plant fruit trees on a commercial scale without permission. Restrictions on planting trees are, in large part, related to the shortage of water supplies in the Gaza Strip (see below). Permits for these activities must be secured from the military authorities and—when issued—have taken five years or more to obtain. However, such permits are rarely issued. As of the summer of 1985, only figs and dates could be planted without difficulty.[37]

Tax policies applied to the citrus industry further impede its capacity to grow. Taxes include: land taxes, value added taxes (VAT), and export taxes. Land taxes, perhaps the most severe of all, are levied according to the number of dunams owned. However, the tax rate used is based on yields per dunam achieved on Israeli citrus farms. Israeli producers and merchants receive government subsidies, tax breaks, and other financial supports unavailable to Palestinian merchants and producers. Therefore, Israeli citriculture is far stronger, producing average yields that are substantially higher than those achieved in Gaza. Consequently, tax rates based on Israeli production levels do not take into account the different economic conditions confronting Gaza's citrus producers and merchants nor do they allow for any form of compensation to those individuals in the event of financial loss.[38] Similarly, the value added tax is also applied in a discriminatory manner inside Gaza since Palestinian farmers are ineligible to receive the same VAT rebate to which Israeli farmers are legally entitled.[39] Citrus merchants consistently claim that they are subject to an export tax which they alone must pay before being given a permit to export their produce from the Gaza Strip.[40] Freddy Zach, deputy coordinator of government operations in the administered territories, has denied the existence of the export tax altogether.

Inability to secure governmental subsidies and financial guarantees against loss which are provided to Israeli producers further hinders the capacity of Gaza's citrus producers to maintain, let alone expand, production of their crop. Similarly, loans with low interest rates are unavailable to Gaza's citrus community, and in 1985 the loans that were available carried prohibitive rates of interest: 36 percent per year for borrowing in U.S. dollars and 95 percent per year when borrowing in Israeli shekels.[41] Consequently, many farmers have either discontinued production of citrus entirely or have decreased the area under cultivation. Others have been forced to uproot some of their citrus trees; by 1980, at least 500 acres of trees had been uprooted while the yield of those remaining had declined.[42]

Attempts by the Citrus Producers Association in Gaza to negotiate with Israeli authorities in 1985 on the issue of loans and taxes failed. Furthermore, the economic, political, and legal relationships between Israel and the territories preclude commercial ventures between Israeli and Palestinian producers. Consequently, few if any economic or commercial links exist between the two groups.

Legal prohibitions against the reclamation of land also present great difficulties to citrus farmers. Land reclamation involves bulldozing a piece of land in order to remove rocks, boulders, and any other obstructive material in order to make the land cultivable. Gazan farmers are legally forbidden to reclaim their own land unless they obtain permission from the Israeli military authorities. Even if granted, such permission involves considerable costs in the form of taxes.[43]

The most severe problem confronting agriculture and citrus products in particular lies in the area of exports.[44] Between 1967 and 1985, markets for Gazan citrus products steadily declined. Prior to 1967, Gaza traditionally marketed its produce to parts of Western Europe including England, Holland, and Germany through Port Said in Egypt. Having established these markets in the 1940s, Gaza expanded its trade in the late 1950s to the COMECON countries of Eastern Europe. Trade with Arab countries during this time was minimal. Trade with Egypt ended in the mid-1950s when Egypt became self-sufficient in citrus production.

Immediately after the June 1967 war, all Western markets were banned to Gazan exporters in order to preclude competition with Israeli agricultural producers and then, as now, to limit Gaza's access to foreign economic and political circles. However, between 1967 and 1974, Gazans were allowed to market their products in Europe indirectly through Israel's Citrus Marketing Board (CMB) but at less than competitive prices and under increasingly disadvantageous conditions. The COMECON market continued and markets in Arab countries, particularly the Gulf States, opened up through Jordan.

From 1974–79, when Gazan citrus was at its maximum yield, all marketing in Europe through Israel's CMB was stopped. Seeking to reduce the share of Gaza's exports to Europe, the Israeli government encouraged Gazans to seek expanded markets in the Arab world, which Israel itself could not enter. A market with Iran opened up which proved extremely lucrative. During this five-year period, the majority of Gaza's citrus was exported to Iran while the COMECON market, unable to compete with Iranian prices, stagnated. With the overthrow of the Shah in 1979, Iran disappeared as a market for Gazan citrus.

By 1979, finding itself without its major Iranian market and denied access to its traditional markets in Western Europe, Gaza turned again to the COMECON states. However, by 1979, these states had secured other arrangements, mainly with Cuba, with which they dealt in barter trade. Consequently, in order to enter the market, Gazans were forced to trade in barter and, since 1979, have not earned any hard currency in their East European markets. Examples of barter include sheep, wood, and crystal products for which Gazans are charged import taxes.

At present, Gaza's main export markets are Jordan and, through Jordan, other Arab states. In 1985, approximately 80 percent of Gaza's citrus was exported through Jordan and the remaining 20 percent was sent to Eastern Europe and Israel. However, Arab markets have imposed their own restrictions on Gazan merchants. According to the Arab boycott laws, no Arab country, including Jordan, will import Gazan citrus that may have used raw materials or processing facilities originating in Israel. Consequently, these countries have limited the quantities of citrus that they will import from Gaza. Between 1975–84, the percentage of citrus exported to East Jordan declined from 26 percent to 10.2 percent.[45] In addition, markets with the Gulf states are steadily contracting due to the economic pressures resulting from the fall in oil prices. As a result, many producers have turned to the limited capacity of local markets inside Gaza and the West Bank as a temporary outlet.

Restrictions on export markets also extend to the Israeli market. Presently, Gaza's farmers are prohibited from marketing most fruits and vegetables inside Israel, a measure designed to avoid competition with Israeli products.[46] Certain products, such as strawberries, eggplants, and zucchini, which are not competitive with Israeli products, are allowed to enter Israel's markets through the Vegetable Marketing Board.[47] Second-class citrus products are also exported to Israel from Gaza for use in juice factories.

Israeli producers, on the other hand, have unlimited access to Gazan markets, exporting substantial quantities of fruits and vegetables at prices with which Gazan farmers are unable to compete.[48] In 1984, Israel exported 60,908 tons of fruits and vegetables to the Gaza Strip; no figures exist on Gaza's exports to Israel for that same year.[49] This one-sided trade structure has effectively turned the Strip into a dumping ground for Israeli produce and has created a situation in which the Gaza Strip and West Bank are second only to the United States as importers of Israeli goods, while Palestinian producers, unable to compete, continue to have the highest costs of production and the fewest markets.[50]

Water Restrictions. In the Gaza Strip, water consumption averages between 100 and 120 million cubic meters per annum.[51] Of this total, 90 percent is used to irrigate 45 percent of the Strip's agriculture and the remaining 10 percent is used for domestic consumption.[52] Farmers depend in large part on water reservoirs located in the Strip and in the eastern Negev region, areas where the soil is porous and the climate arid.[53] Consistent overpumping has, in conjunction with adverse ecological conditions, lowered the volume of the water table and caused seawater to enter into the table. Consequently, water used for irrigation is becoming more saline and is damaging the quality of Gaza's agriculture, particularly citrus. In light of the critical water problems inside Gaza, the Israeli government, through its affiliated water company, Mekorot, has issued restrictions against the digging of new wells and has limited the amount of water that Palestinian farmers may use. In Gaza, farmers are limited to 800 cubic meters per year for hard soil and 1,000 cubic meters per year for sandy soil. Indeed, water quotas for Palestinian farmers have been fixed for over a decade and overuse can incur severe fines.[54]

These same restriction on water consumption, however, do not apply to the Israeli settlements inside the Strip, which have installed 35–40 new wells in recent years.[55] Gaza's main water reservoir is located in the northern part of the Strip where several Israeli settlements are located. In fact, water consumption by Israeli settlers far exceeds that of Gazans. According to the Israeli Water Commission, in 1985 alone, Israelis living in the Gaza Strip consumed, per capita, 2,326 cubic meters of water compared to an average consumption of 123 cubic meters for every Gazan.[56] The water policies implemented by the Israeli government inside the Strip are clearly discriminatory and pose clear threats to the future of Palestinian agriculture, especially to citrus production.

Continued restrictions on the agricultural sector will most likely accelerate the process of decline that has already begun to take place. Lack of investment by the Israeli government in Gazan agriculture, continued restrictions on export markets, unequal access to financial resources, increasing costs of agricultural production (particularly recurrent expenditures), and limitations on water usage have eliminated incentives for economic investment and have forced growing numbers of producers out of agriculture into employment inside Israel. Consequently, these measures have undermined the potential for structural growth inside Gaza's economy and the possibility of promoting independent economic activity. The policies contributing to the steady destructuring of the agricultural sector have had a similar impact upon the territory's industrial sector as well.

Industry: General Features. The composition of the industrial sector (manufacturing and mining) has remained largely unchanged since before 1967 when it was highly undeveloped and productively limited. Low levels of investment by the Egyptian administration in favor of agriculture's clearly dominant position precluded capital accumulation within the industrial sector, thereby insuring the sector's stagnation. Contributing approximately 4.5 percent to GDP in 1966, industry continues to provide only a small percentage of Gaza's GDP (11.6 percent in 1984) despite early increases in the level of industrial output after 1967.

Expansion in the industrial sector has been horizontal, based on existing production processes, rather than vertical. Characterized by the absence of structural innovation. Gaza's industrial base continues to be dominated by small-scale workshops which are owner-operated, household in nature, and primarily service local demand.[57] In 1985, the Gaza Strip contained fourteen factories for toilet paper, three for cookies, two for notebooks, five for packaging oranges for export, and two for soft drinks. In addition, there are small workshops and cottage industries engaged in a variety of areas.[58] Industrial production, therefore, remains focused on the processing of primary food products, textiles, clothing, leather, and wood and metal products.[59] In 1985, 1,628 industrial firms were functioning in the Gaza Strip,[60] an increase from 430 in 1978.[61] Indeed, 70 percent of these firms were established after 1967, yet, the industrial sector employed only 17.5 percent of Gaza's labor force in 1985.[62] Thus, it is clear that, in light of the large numbers of Gazans who work inside Israel, the manufacturing sector has been unable to absorb labor released from the agricultural sector or compete effectively with employment opportunities across the green line.

Subcontracting between Israeli industrial firms and Gazan businessmen constitutes Israel's major form of investment in Gaza's economy. As part of the arrangement, Israeli contractors will provide industrial firms inside the territory with semi-processed raw materials. Using labor-intensive methods, these firms will complete the processing and deliver the finished product to the Israeli firm at a contracted price.[63] The utilization of cheap labor and low overhead costs make subcontracting a profitable venture, particularly as men and women are employed near their homes by small firms inside Gaza. Women are paid at relatively lower rates than men and at considerably lower rates than women working inside Israel (of whom there are only a few). Subcontracted products include textiles, carpets, clothing, furniture, and shoes.

Although subcontracting has increased the level of employment and output inside Gaza, it has failed to create any structural changes inside

Gazan industry. Industrial output, for example, has largely remained the same since 1967, concentrating in traditional sectors of production—textiles, clothing, and leather—which are highly labor-intensive and which continue to employ the majority of Gaza's industrial labor force. Furthermore, another characteristic feature of economic development, increases in the *size* of industrial enterprises, has not occurred to any significant degree inside the territory. In 1985, 90.3 percent of the establishments inside Gaza in all branches of industry employed seven persons or less. The proportion of firms employing eight or more workers was 9.8 percent and those consisting of eleven or more employees was 4.9 percent.[64]

Investment in Gaza's industrial sector, similarly, continues to depend on private initiatives. In 1980, 76.5 percent of industrial firms surveyed in the Strip indicated that their initial investment was derived from private sources; consequently, many of those firms have failed.[65] Due to this and other limitations such as taxation and political instability, many industrial firms have been unable to expand or utilize their full productive capacity.[66] In 1980, 22.4 percent of 94 firms surveyed inside the Gaza Strip indicated they used 50 percent or less of their productive capacity; 40.4 percent were able to utilize 50 percent of their capacity; 31.9 percent achieved higher levels of utilization reaching 75 percent, but only 5.2 percent were operating at 90 percent or higher of their total capacity.[67] Limited marketing opportunities have had the greatest impact on utilization capacity. Markets are limited primarily to Israel, which determines demand and controls the level of industrial exports from the Strip. As a result, firms are unable to operate at full capacity, precluding in the process, the absorption of surplus labor into the manufacturing sector and the efficient use of capital resources.

Major Constraints on Industrial Development. Despite increases in its share of GDP under Israeli rule, Gaza's industrial sector has been unable to grow beyond its traditional structural parameters. Industry, therefore, although it has expanded, has not really developed. There are several factors militating against the development of the industrial sector inside the Gaza Strip beyond its present level. They fall into two categories: marketing and investment.

With the exception of those subcontracted industries that enjoy a slight labor advantage, most industries in Gaza confront strong competition from Israeli firms. Israeli manufacturers enjoy distinct advantages over their Palestinian counterparts that effectively weaken the bargaining capacity of the latter. These advantages include access to private and public sources of credit, government protection policies that serve to control imports into

Israel, export subsidies, tax breaks and investments, greater economies of scale resulting from the larger capacity and technological sophistication of Israeli industry, and levels of training among industrial workers.[68]

Furthermore, the government of Israel, through the Ministry of Trade and Industry, has established between 300–350 industrial centers in the Gaza Strip and West Bank where production costs are lower than they are across the green line. Israeli investors willing to locate their businesses inside the occupied territories are provided with various financial incentives including ministerial grants for up to 39 percent of their equipment costs.[69] Indeed, during the first seven months of 1986, the Ministry of Trade and Industry budgeted approximately $19.5 million for grants to Israeli industries in the Gaza Strip and West Bank.[70] The majority of these enterprises are export-oriented factories which enjoy the same privileges of marketing as their counterparts located inside Israel. This stands in stark contrast to the fact that Gazan exports into Israel are carefully controlled and to certain countries, totally prohibited.

In addition to the limitations imposed upon Gazan industrial exports by the Israeli government, industrial manufacturers in the Strip, like their agricultural counterparts, suffer from Arab-imposed export restrictions. The Arab boycott of industrial products from Gaza has, since 1982, resulted in the total termination of any industrial export from the Strip.[71]

The closure of certain markets to Gaza's manufacturers and the limited access to others have forced Palestinians to focus inward on local markets and have, in the process, fostered a great deal of intra-market competition. Local competition inside Gaza is not regulated by policies to control competitive behavior.[72] Hence, in the absence of these policies, the weaker and smaller firms are often defeated by their stronger and larger counterparts, further eroding any possibility for an industrial infrastructure to develop inside the territory.

The lack of capital investment in Gaza's industrial sector by private and public sources has also contributed greatly to the sector's stagnation. The political instabilities confronting the region make any form of investment by local Arab entrepreneurs extremely risky. Under present political arrangements, furthermore, Israelis have no reason to invest in the development of an industry that will compete with their own. Indeed, Israel's closure of all Arab banks and financial institutions after 1967 and the state's refusal to provide credit institutions inside the territories have deprived the Strip of a critical source of funding. After 1967, credit facilities depended largely on a special government fund which was consistently reduced and eliminated altogether in 1981. Indeed, between 1969 and

1972, the Israeli military government did grant some loans to Palestinian industry which amounted to $500,000, but since 1980 these loans have been unavailable.[73]

In 1981, the Bank of Palestine was allowed to reopen in Gaza but is prohibited from dealing in foreign currency, creating a major disincentive for borrowers. The Israeli banks presently operating in the Gaza Strip deal in foreign currency but are disinclined to make industrial loans. Moreover, the high interest rates charged and the onus of dealing with Israeli institutions effectively limit the number of Palestinian borrowers. In November 1986, however, a branch of the Cairo-Amman bank was opened in Nablus for use by Palestinians. The bank deals in Israeli shekels and Jordanian dinars. At present, however, only West Bankers can use the two currencies; Palestinians from Gaza wishing to use the bank are restricted to Israeli shekels.

Another form of investment in local industry comes from the United States government as part of a program of direct assistance to the Palestinian people. However, U.S. foreign aid earmarked for industrial development projects inside the Gaza Strip and West Bank has been redirected by Israeli authorities. Indeed, between 1975 and 1983, only one-third of the projects proposed for industrial development in the occupied territories were approved by the government of Israel.[74]

The lack of capital investment similarly affects the creation of other institutions designed to support the development of an industrial infrastructure. For example, the Strip does not have an indigenous municipal industrial zone, a critical component of industrial development generally. However, the Israelis have established an industrial zone at Erez on Gaza's northern border with Israel. Local industry remains unaffected by this zone except for the limited employment opportunities it generates for Gaza's labor force, which produces assembly parts and completed products for Israeli industries.[75]

The lack of growth in Gazan industry has resulted from policies which Meron Benvenisti has termed a form of "integration and exclusion": integration into the dominant economy when it benefits that economy and exclusion when it does not. This has created an industrial base inside the Gaza Strip of limited production, absorption, and marketing capabilities. Consequently, the Strip has been unable to develop the infrastructure needed to accumulate capital on a level adequate enough to support and promote industrial growth. In effect, industry inside the Gaza Strip remains highly dependent upon Israel to generate activity within it.

Trade Patterns. The weakened potential for economic growth inside individual economic sectors is underlined dramatically by the foreign trade patterns which have evolved between the Gaza Strip and Israel since 1967. These patterns clearly reflect the structural alterations in the political relationship between the two actors. Agricultural exports and industrial imports characterized visible trade in the Gaza Strip prior to 1967. Imports exceeded exports, and the trade deficit which resulted amounted to over 6 million Egyptian pounds in 1965. Between 1950 and 1966, Gaza's trade deficit steadily increased from 0.851 to 5.646 million Egyptian pounds.[76]

Exports from Gaza during this period consisted largely of agricultural products while manufactured products constituted the bulk of Gaza's imports. Gaza's lenient import policies before 1967 also led to the importation of goods which were eventually sold in Egyptian markets. Indeed, prior to 1967, Gaza traded primarily with Egypt, which supplied close to 50 percent of the Strip's imports.[77] Gaza also traded with parts of Western and Eastern Europe while no trade existed with Israel, Jordan, or the West Bank.

The most dramatic change in Gaza's trading patterns after 1967 lies in the direction of trade. Within one year of Israeli rule, trade with Egypt was terminated and trade with Israel, Jordan, and the West Bank begun.

In 1968, exports to Israel accounted for 29 percent of Gaza's total exports while exports to Jordan and the West Bank comprised 18 percent and those sent overseas equalled 54 percent.[78] The very high percentage of overseas exports was in fulfillment of citrus contracts arranged before 1967. Import ratios for 1968 dramatically reflected Gaza's changing foreign trade relationships. For example, goods received from overseas comprised only 27 percent of total imports to the Gaza Strip while those from Jordan and Israel accounted for 1.4 percent and 71 percent respectively.[79] The low level of imports from Jordan resulted from Israeli policies which allowed Gaza to export to, but not import from, that country. Since 1973, imports from Israel have, on the average, accounted for over 90 percent of Gaza's total imports and the remaining percentage is imported from other countries, primarily Eastern Europe. Imports from Eastern Europe, which accounted for 8.1 percent of total imports in 1985, consisted mainly of manufactured products received as barter for citrus exports. This relatively low percentage of imports from overseas markets has resulted, in large part, from Israeli-imposed tariffs which give Israel a comparative advantage over foreign competitors. Imports from Jordan continue to be prohibited.

Export patterns between 1973 and the present reveal increases in Gaza's exports to Israel through 1985. The level of goods sent to Jordan increased

Table 3: Imports and Exports—Gaza Strip (Selected years) (U.S.$ Million)

	1978	%	1979	%	1980	%	1981	%	1982	%	1983	%	1984	%	1985	%
IMPORTS																
From Israel	186.7	91.1	195.3	88.9	231.8	88.9	282.6	91.3	282.0	90.8	305.7	92.1	256.8	91.9	258.5	91.9
From Jordan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
From Other Countries	18.2	8.9	24.4	11.1	29.0	11.1	26.9	8.7	28.4	9.2	26.4	7.9	22.6	8.1	22.9	8.1
TOTAL	204.9	100.0	219.7	100.0	260.9	100.0	309.5	100.0	310.4	100.0	332.1	100.0	279.4	100.0	281.4	100.0
EXPORTS																
To Israel	79.9	65.3	80.0	64.8	113.1	73.3	159.1	80.4	149.4	78.6	151.1	83.7	95.8	83.4	96.1	82.2
To Jordan	33.7	27.6	34.2	27.7	31.3	20.3	31.2	15.8	34.5	18.2	22.5	12.5	14.9	13.0	16.1	13.8
To Other Countries	8.7	7.1	9.3	7.5	9.8	6.4	7.5	3.8	6.1	3.2	7.0	3.8	4.2	3.6	4.7	4.0
TOTAL	122.3	100.0	123.5	100.0	154.2	100.0	197.8	100.0	190.0	100.0	180.6	100.0	114.9	100.0	116.9	100.0

Source: *Statistical Abstract of Israel*, no. 36, 1985 and no. 37, 1986.
Calculations from the same sources.

Table 4a: Imports by Sector—Gaza Strip (Selected years) (U.S.$ Million)

	1982	1983	1984	1985 First Quarter	1985 Second Quarter
IMPORTS					
1. From Israel:					
–Agricultural Products	31.3	37.9	35.5	7.8	*
–Industrial Products	250.7	267.8	221.3	44.5	*
TOTAL	282.0	305.7	256.8	52.3	60.6
2. From Jordan:					
–Agricultural Products	0.0	0.0	0.0	0.0	—
–Industrial Products	0.0	0.0	0.0	0.0	—
TOTAL	0.0	0.0	0.0	0.0	—
3. From Other Countries:					
–Agricultural Products	5.5	7.0	6.3	1.5	2.1
–Industrial Products	22.9	19.4	16.3	3.5	3.8
TOTAL	28.4	26.4	22.6	5.0	5.9
GRAND TOTAL	310.4	332.1	279.4	57.3	66.5

Table 4b: Exports by Sector—Gaza Strip (Selected years) (U.S.$ Million)

	1982	1983	1984	1985 First Quarter	1985 Second Quarter
EXPORTS					
1. To Israel:					
–Agricultural Products	16.6	17.2	8.4	3.6	*
–Industrial Products	132.8	133.9	87.4	13.4	*
TOTAL	149.4	151.1	95.8	16.9	19.1
2. To Jordan:					
–Agricultural Products	34.5	22.5	14.9	6.3	7.4
–Industrial Products	0.0	0.0	0.0	0.0	0.0
TOTAL	34.5	22.5	14.9	6.3	7.4
3. To Other Countries:					
–Agricultural Products	6.1	7.0	4.2	2.0	—
–Industrial Products	0.0	0.0	0.0	0.0	—
TOTAL	6.1	7.0	4.2	2.0	—
GRAND TOTAL	190.0	180.6	114.9	25.2	26.5

Source: *Judaea, Samaria and Gaza Area Statistics* 15, no. 2 (Jerusalem: Central Bureau of Statistics 1985).

*Figures not available.

to a high of 30.4 percent in 1977 but has declined since then to a 1985 level of 13.8 percent of total exports, all of which are citrus products. However, of Gaza's total agricultural exports in 1984, 54.2 percent went to Jordan.[80] Exports to other countries have steadily fallen since 1973, dropping from 54 percent in 1968 to 4 percent in 1985, and similarly consist of agricultural products.

Israel has become Gaza's largest trading partner since 1967, followed by Jordan. In 1985, Israel received 82.2 percent of the Strip's exports and supplied the Strip with 91.9 percent of its imports.[81] Gaza's exports to Israel are predominantly industrial products, the majority of which are subcontracted by Israeli merchants. In 1984, industrial and agricultural exports to Israel accounted for 100 percent and 31 percent of total industrial and agricultural exports respectively; however, the absolute level of exports has fallen since 1983.

Imports from Israel similarly comprise a substantial share of Gaza's trade. In 1984, industrial products imported from Israel comprised 93.1 percent of total industrial imports in the Gaza Strip. These goods consisted of durable and non-durable consumer items, construction materials, and raw materials for domestic industry.[82] Agricultural commodities originating in Israel accounted for 85 percent of the Strip's total imports in agriculture and consisted largely of fruits, vegetables, poultry, and eggs.[83]

In 1985, Gaza's trade deficit equalled \$164.5 million of which \$162.4 million was accrued in trade with Israel. The trade balance with Jordan is positive since no imports from Jordan are allowed, giving the Strip a modest surplus. The deficit in Gaza's balance of trade has been financed by wages earned by Gazan workers inside Israel, external remittances, and the surplus accrued in trade with Jordan.[84]

The trading patterns of the Gaza Strip have been dramatically restructured since 1967. It is quite apparent that, in becoming Israel's major trading partner, the Gaza Strip has been placed in an increasingly dependent and vulnerable position. The structural reorientation in the territory's foreign trade has resulted from a series of Israeli measures which have created and sustained direct ties between the two economies.

The first measure, enacted within a year of Israeli rule, resulted in the creation of trade with Jordan which was termed the "open bridges" policy. Designed to prevent competition between Israeli and Palestinian products, the "open bridges" were open in only one direction, precluding the development of trade between Jordan and the territories beyond a specific level. Another measure enacted by the authorities imposed a system of tariffs and duties on the importation of goods through Israel. This measure places Israel in an advantageous trading position with Gaza and has limited the Strip's access to most foreign markets.

Perhaps the two most damaging measures affecting the trade structure of the Gaza Strip are directed toward the protection of the Israeli market. One measure imposes quotas on the type and amount of production that can be exported to Israel from the Gaza Strip, and the second removes all restrictions on the flow of goods into the Strip from Israel. As a result, Gaza has become a repository for Israeli goods against which it cannot compete, insuring Israeli producers against any future competition and providing the Israeli economy with an uncontested and captive market.

Public Finance. Another measure of government policy toward economic activity in the occupied territories is public finance, or the level of government services (expressed monetarily), provided to area inhabitants.

Since the beginning of Israeli rule, government expenditure inside the Gaza Strip has declined relative to GNP from 20 percent of GNP prior to 1967 to 9.8 percent in 1983.[85] A considerable portion of this expenditure was provided by UNRWA and the Egyptian administration particularly in the areas of health and education. In 1986, the state of Israel reported a total budget for the Gaza Strip of $52.5 million. Of this amount, $45.2 million constituted the regular budget or expenditure and $7.3 million comprised the development budget or investment. Table 5 indicates that in 1986, close to 53 million shekels, or $35 million, of revenue was collected inside the Gaza Strip. Figures from 1985 reveal that the contribution of internal revenues to the total budget increased from 58 percent in 1985 to 67 percent in 1986. This figure is equivalent to two-thirds of the total budget for the Gaza Strip. The Israeli government contributed the remaining third or approximately $17.5 million to cover the resulting deficit. These monies are taken from that portion of the Israeli budget known as the *Keren Hanikuyim* or the deduction fund which constitutes the sums deducted at source from Gazan laborers employed in Israel. Current estimates indicate that Gazans who are employed inside Israel pay approximately $2–3 million per month to the Israeli government in taxes and social security, producing an annual figure that is greater than the $17.5 million contributed by the government to Gaza's budget.[86] Consequently, the Gaza Strip does not appear to cost the Israeli taxpayer any money.

The Gaza Strip, furthermore, contributes substantial sums to Israeli public consumption through what is known as the occupation tax. The balance of payments of Gaza (as published by the Central Bureau of Statistics and the Bank of Israel) focuses on what is termed government transfers indicated, in turn, by "credits" and "debits." Transfers reveal that

Table 5: Government Expenditure in the Gaza Strip (IS million shekels)

	1985	% of total	1986	% of total
REGULAR BUDGET				
Education	10,325	33	22,411	33
Health	10,893	35	24,003	35
Welfare	2,548	0.8	5,518	0.8
Industry & Commerce	98	0.03	206	0.03
Transport	224	0.07	517	0.07
Total Budget	31,145	100	68,248	100
DEVELOPMENT BUDGET				
Loans to Local Government	2,546	49.2	5,572	51
Agriculture	52	0.1	82	0.07
Planning & Infrastructure	4	0.02	632	0.6
School Construction	1,248	24.2	2,029	18.5
Health	606	11.7	2,074	19.0
Welfare	40	0.08	101	0.09
Telephone	210	0.4	106	0.1
Reserve	258	0.5	348	0.3
Misc.	199	0.4	—	—
Total Budget	5,163	100	10,944	100

Source: State of Israel, *Budget for 1986–87*, Jerusalem, 1986.

Note: Not all items are included. Percentages will not add up to 100%.

the deficit of the military government is paid by the Israeli government (credit) minus deductions collected from Gazans working in Israel (debit). Since the late 1970s, deductions collected from Gazans have exceeded Israeli payments, resulting in net transfers of money from Gaza into Israel that equaled 447 million (old) Israeli shekels in 1983 and 762 million shekels in 1984. If the revenue accruing to the state in the form of indirect taxation (VAT) is added (Israeli VAT, not Gazan VAT which remains inside Gaza), which in 1984 amounted to approximately $20 million, it becomes apparent that, if the Israeli treasury were to lose the Gaza market and Gaza laborers, it would lose direct and indirect revenues amounting to $25–27.5 million per year.[87] Hence, low levels of government investment and high levels of government revenue stand out against the steady deterioration of living conditions and the poverty inside the Gaza Strip.

Issues of Demography and Land. The economic pressures which currently foster the de-development process inside Gaza are likely to worsen in relation to the demographic patterns of the territory. The age structure of the Gaza Strip is very young with nearly half the population 14 years of age and younger. The rate of increase in the two youngest age group categories between 1977–84 indicates a 9 percent increase for ages 0–4 and a 34 percent increase for ages 5–9. For that portion of the population composed of adults of prime working and reproductive age, rates of increase are similarly high: 10 percent for ages 20–24; 45 percent for ages 25–29; and 46 percent for ages 30–34.[88]

Demographically, the implication of these rates of growth is quite significant for, as more people become available for marriage, the natality (birth rate) of the population can be expected to rise. Consequently, even if mortality and fertility rates continue to decline slowly, as they have in recent years, and the emigration balance and rate of natural increase remain constant at 1985 levels, Gazans could number close to one million people by the year 2000. From an economic perspective, therefore, larger numbers of young men and women will seek employment, probably inside Israel, exacerbating the level of economic dependency upon Israel and the problems attendent to it.

The predicted population growth inside the Gaza Strip, however, does not appear to be accompanied by increases in the land area available to accommodate such growth. To the contrary, Arab land inside the Strip has steadily declined since 1967, contributing further to the de-development of the economy. Through its land policies, the state of Israel has acquired one-third of the territory of the Gaza Strip, portions of which are used for the establishment of Israeli settlements. In so doing, Israel has deprived the

Palestinian population of a significant segment of its productive economic base and source of wealth and has limited the ability of that population to expand physically. By 1986, there were 18 settlements in the Gaza Strip inhabited by approximately 2,150 people. The settlements occupy a known figure of 22,250 dunams (5,562 acres) of land, yielding an average of 10.4 dunams (2.6 acres) of land for each Israeli settler.[89]

Land ratios for the Arab population, however, are far different. According to the 1985–86 report of the military government, Gaza's eight refugee camps presently occupy 5,500 dunams (1,375 acres) of state land yielding 0.02 dunams (0.006 acre) per Gazan refugee. During 1985, the government of Israel allotted an additional 3,500 dunams (875 acres) for the construction of refugee housing projects. Given a population density of 3,754 per square mile, it is clear that, legalities aside, land allocations between the Israeli and Arab populations in the Gaza Strip are highly discriminatory. Given the demographic trends among Arab residents of the territory, the inability to expand beyond present borders, coupled with plans to increase the number of Israeli settlements inside Gaza, will clearly intensify the level of economic and political discord between the two populations living there.

Conclusion

In the twenty years of Israeli rule, the Gazan economy has undergone several changes. On the one hand, limited economic prosperity has been introduced into an economy that was, prior to 1967, largely undeveloped and stagnant. This prosperity has primarily been the result of the creation of wage labor inside Israel, the comparatively high incomes earned by Palestinian workers within the Israeli economy, and remittances from Palestinian workers abroad. Domestically, the number of industrial establishments has grown since 1967 due, in part, to the availability of larger amounts of capital and subcontracting arrangements with Israeli business concerns. Capital derived from foreign Arab sources contributed to the expansion of Gazan industry as well. Agriculture similarly enjoyed increasing levels of output through 1975, and the availability of Arab markets, in particular, led to relatively large increases in agriculture's share of GDP.

On the other hand, however, the Gazan economy has not grown. The higher incomes earned by Palestinian labor inside Israel, for example, have not acted as a stimulant for economic growth since these incomes are neither generated within the local economy nor invested within that economy. Low levels of investment in Gaza's economic sectors by the Israeli government have not only contributed directly to the stagnation of those sectors but have discouraged similar forms of investment by other actors. Consequently, higher incomes obtained in Israel as well as remittances from abroad are used to purchase durable consumer goods, largely produced or acquired through Israel. This, in turn, has resulted in increased levels of consumerism within the Gaza Strip with little, if any, of the economic benefits derived from such consumerism accruing to the Strip. Indeed, in 1984, 66.8 percent of the national disposable income of the Gaza Strip went into private consumption.[90]

The economic benefits obtained by the Gaza Strip have clearly been achieved without any radical change in the resource base of the territory's economy. To the contrary, Gaza's limited prosperity has been attained within a framework of constraints, both natural and imposed, which have, over two decades of occupation, resulted in accelerating Gaza's economic integration into Israel. As a result, not only is the local economy increasingly shaped by and adjusted to economic demand across the green line, but it grows inappropriately dependent upon externally generated sources of revenue.

The lack of economic development inside the Gaza Strip has been a result of specific Israeli policies which have aimed to restrict and have, in effect, undermined the ability of the Gazan economy to create the necessary infrastructure required for sustained economic growth. In this sense, the economy of the Gaza Strip has, over time, undergone a process of de-development. Some of the policies contributing to this process include: 1) low levels of governmental investment in social and economic infrastructure and development inside the Gaza Strip; 2) tax laws which discriminate against the Palestinian producer and weaken his economic bargaining capacity; 3) a lack of financial incentives, supports, and guarantees for Palestinian producers, commonly available to their Israeli counterparts; 4) strict control over Gaza's terms of trade, which has resulted in restricted access to foreign markets (other than Israel and specific countries in the Arab world and Eastern Europe where Israel cannot trade) and in little, if any, protection from the importation of Israeli goods; 5) restrictions on certain forms of economic activity such as the creation of industrial zones, union-organizing, establishment of factories, cooperatives, and other business enterprises, research and training; 6) prohibitions on the development of credit facilities and other financial institutions; 7) the growing dispossession of land from the Palestinian sector; and 8) the lack of political, economic, and social linkages between Israeli and Palestinian (elite) groups and between Palestinian and other foreign groups. Furthermore, declining economic conditions inside the Arab world have resulted in fewer job opportunities for Palestinian labor, particularly among the well-educated, thereby reducing the level of foreign remittances flowing into the occupied territories.

Thus, when viewed against the lack of economic growth inside Gaza, the economic prosperity which has accrued to the inhabitants of the territory appears to have derived from a declining, rather than an increasing, set of economic options. The high percentage of Gazan labor in Israel, for example, is not a function of a society experiencing typical patterns associated with the process of industrialization (or modernization) in which labor gradually shifts from agricultural to non-agricultural activities, resulting in changes in labor's spatial location and occupational status. Rather, for Gaza's labor force, the decision to seek employment inside Israel is a function of the lack of comparable options inside Gaza's domestic economy. This contention is supported by the growing number of Gazan agriculturalists who are joining the ranks of wage labor inside Israel because of their inability to sustain domestic production financially. Similarly the highly educated among Gaza's labor force are seeking gainful employment in semi-skilled and unskilled professions inside the Israeli economy, not out of choice, but of necessity.

Continued restrictions on economic activity by the Israeli military government threaten to dispossess the Palestinian producer from his means of production. As fewer jobs become available domestically and as land continues to diminish as a source of income, the local economy will become less viable in terms of its ability to absorb and utilize growing levels of Palestinian labor and provide a functional, if not a competitive, alternative to wage labor inside Israel. Concomitantly, the labor force of the Gaza Strip will become increasingly proletarianized and dependent upon employment across the green line.

Without fundamental changes in the structural relationships within Gaza's economy and between that economy and Israel's, "prosperity" can only be short-lived. In the long term, this prosperity will be detrimental, for it not only intensifies existing dependencies but in the process, weakens and diminishes the ability of the economic structure to sustain itself, innovate, and grow. As Gaza's economy becomes less and less able to function within existing (and future) constraints, the de-development of that economy is likely to accelerate. In this sense, economic development inside the Gaza Strip should not be measured against pre-1967 conditions, as is often the case, but against the standards of another alternative, structural transformation.[91]

1. There is a vast literature on dependency theory which emerged in the mid-to-late 1960s and early 1970s. See, for example, Samir Amin, *Accumulation on a World Scale: A Critique of the Theory of Underdevelopment* (New York: Monthly Review Press, 1974); André Gunder Frank, *Capitalism and Underdevelopment in Latin America* (New York: Monthly Review Press, 1969); Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: UCLA Press, 1979).
2. For a good study of dependent development as it applies to the Brazilian economy, see Peter Evans, *Dependent Development* (Princeton: Princeton University Press, 1979). For a study of dependency as it relates to the occupied territories, see Yusif A. Sayigh, "The Palestinian Economy Under Occupation: Dependency and Pauperization," *Journal of Palestine Studies* 15, no. 4 (Summer 1986): 46–67.
3. Eliyahu Kanovsky, *The Economic Impact of the Six-Day War: Israel, the Occupied Territories, Egypt and Jordan* (New York: Praeger, 1970), 174–75.
4. E. Efrat, "Geographical Review: Settlement Pattern and Economic Changes in the Gaza Strip 1947–1977," *Middle East Journal* 31, no. 3 (Summer 1977): 350; and Fawzi Gharaibeh, *The Economies of the West Bank and Gaza Strip* (Boulder: Westview Press, 1985), 16.
5. Brian Van Arkadie, *Benefits and Burdens: A Report on the West Bank and Gaza Strip Economies Since 1967* (New York: Carnegie Endowment for International Peace, 1977), 30–31.
6. Meron Benvenisti, *The West Bank Data Project: A Survey of Israel's Policies* (Washington, D.C.: American Enterprise Institute, 1984), 9.
7. Calculated from the *Statistical Abstract of Israel*, no. 37 (Jerusalem: Central Bureau of Statistics, 1986).
8. *Judaea, Samaria and Gaza Area Statistics* 15, no. 2 (Jerusalem: Central Bureau of Statistics, 1985).
9. *Statistical Abstract of Israel*, 1986.
10. Gharaibeh, *Economies*, 18–23.
11. United Nations, General Assembly, Economic and Social Council, 38th Session, *Living Conditions of the Palestinian People in the Occupied Palestinian Territories: Report of the Secretary General*, 22 June 1983, 10. See also Mona Younis, *Community Development versus Personal Prosperity: Israel's Pacification Policy in the Occupied West Bank and Gaza Strip*, Center for Hebraic Studies, Yarmouk University, Information Series 2, no. 1 (February 1987), 46–48.
12. Gharaibeh, *Economies*, 33.
13. Kanovsky, *Economic Impact*, 176.
14. Quoted in Ziad Abu-Amr, "The Gaza Economy Since 1948" (Paper presented to the Welfare Association Symposium on "Economic Development Under Prolonged Occupation," St. Catherine's College, Oxford, England, 3–5 January 1985). Original source, Muhammad 'Ali Khulusi, *Al-Tanmiyah al-Iqtisadiyyah fi Qita' Ghazzah: 1948–1967*, [Economic Development in the Gaza Strip: 1948–1967] (Cairo: The United Commercial Press, 1967), 61–64.
15. Gharaibeh, *Economies*, 40.
16. *Ibid.*, 38.
17. *Ibid.*, 38; and Kanovsky, *Economic Impact*, 179.
18. Calculated from *Statistical Abstract of Israel* 1986, and *Statistical Abstract of Israel*, no. 36 (Jerusalem: Central Bureau of Statistics, 1985).
19. *Ibid.*; See also Civil Administration of Gaza, *Eighteenth Year of the Administration, April 1984–March 1985* (Gaza Strip: Civil

Administration, 1985), 31.
20. Calculated from *Statistical Abstract of Israel*, 1986.
21. Israel Zamir, "The Market of Children at Erez Junction," *'Al HaMishmar*, 1 August 1978; and Amos Elon, "The Market of Children at Ashkelon," *Ha'Aretz*, 2 August 1978.
22. Gharaibeh, *Economies*, 50.
23. Abu-Amr "Gaza Economy."
24. *Statistical Abstract of Israel*, 1986.
25. Abu-Amr, "Gaza Economy," as quoted in Khulusi, *Economic Development*, 81. This source estimates that agriculture's share of GDP before 1967 was 70 percent.
26. Kanovsky, *Economic Impact*, 175.
27. Van Arkadie, *Benefits and Burdens*, 30.
28. Benvenisti, *West Bank Data Project*, 15.
29. Hisham M. Awartani, "Agriculture," in Emile A. Nakleh, ed., *A Palestinian Agenda For the West Bank and Gaza* (Washington, D.C.: American Enterprise Institute, 1980), 17.
30. Interview with 'Abd al-Latif Abu Middayn, Chairman, Agricultural Cooperative for Citrus Marketing, Gaza Strip, summer 1985. Also see, Gideon Weigert, "Green Revolution in the Gaza Strip," *Jerusalem Post*, 17 February 1980. This is a very imbalanced view of Gazan agriculture, but it does discuss the use of drip irrigation in the Gaza Strip.
31. M. K. Budeiri, "Changes in the Economic Structure of the West Bank and Gaza Strip under Israeli Occupation," *Labour Capital and Society* 15, no. 1 (April 1982): 54; Awartani, "Agriculture," 17.
32. Gharaibeh, *Economies*, 62. See also (in English translation) Sharif Kanana and Rashad al-Madani, *Al-Istitan wa-Musadarat al-Aradi fi Qita' Ghazzah 1967–1984* [Settlement and Land Confiscation in the Gaza Strip 1967–1984] (Birzeit, West Bank: Center for Research and Documentation, Birzeit University, 1985); and Benvenisti, *West Bank Data Project*, 13, which places the number of dunams under cultivation in 1967–68 at 204,000. The figure for 1985 is quoted in the *Report of the Military Government 1985–86* (State of Israel, 1986).
33. *Statistical Abstract of Israel*, 1986.
34. Gharaibeh, *Economies*, 75; and *Statistical Abstract of Israel*, various issues. See also, David Kahan, *The Agricultural Development of the Administered Territories: Part 1, Palestinian Sector* (Jerusalem: The West Bank Data Base Project, April 1983).
35. Interview with Abu Middayn, summer 1985. See also Budeiri, *Changes in the Economic Structure*, 54.
36. Interview with several citrus producers who asked not to be identified. However, this fact is common knowledge among researchers working in the Gaza Strip. See Ann M. Lesch, "Gaza: Forgotten Corner of Palestine," *Journal of Palestine Studies* 15, no. 1 (August 1986): 47. Also see, Ikhlas Rayyes Nusseibeh, "Gaza Orange Market Faces Difficult Time," *al-Fajr*, 29 March 1981, 6; Civil Administration of Gaza, *Eighteenth Year of the Administration*, 16; and Ministry of Labor and Social Affairs, State of Israel, Letter to the American Near East Refugee Aid (ANERA) outlining policies on planting of trees in the Occupied Territories, 1981.
37. *Ibid.*
38. Interview with an Israeli government official who asked not to be identified.
39. *Ibid.*
40. Interview with Abu Middayn and other businessmen in the Gaza Strip, winter 1986.
41. Bank Leumi rates quoted in August 1985.
42. See *Report of the Gaza Strip Citrus Producers Association, (GSCPA)* (Gaza Strip, 1985); and Lesch, "Gaza," 47.
43. Interviews with several officials in the Arab Citrus Packing Company, winter 1986.
44. The section on export markets is based on data collected through interviews with several members of Gaza's citrus community in the summer of 1985 and the winter of 1986. They include Mayor al-Shawwa, members of the Citrus Producers Association, members of the Arab Citrus Packing Company, and individual farmers and merchants. See also *al-Fajr*, 19 October 1984, 8–9, for a discussion of export problems in the occupied territories.
45. *Report of the GSCPA.*
46. *Agricultural Statistics Quarterly 1984–1985* 16, no. 3 (Jerusalem: Central Bureau of Statistics, April–June 1985).

47. Civil Administration of Gaza, *Eighteenth Year of the Administration*, 16.
48. Interviews with Israeli officials in the Department of Defense and with rural development consultants to the U.S. funded private voluntary organizations working in the Gaza Strip.
49. *Agricultural Statistics Quarterly 1984–1985.*
50. *Statistical Abstract of Israel*, 1986.
51. Elias H. Tuma and Haim Darin-Darbkin, *The Economic Case for Palestine* (London: Croom-Helm, 1978), 74; and interviews with municipal authorities in the Gaza Strip.
52. Joe Stork, "Water and Israel's Occupation Strategy," *MERIP Middle East Report* 13, no. 6 (July–August 1983): 23; and Lesch, "Gaza," 47. For some studies on water, see Leslie C. Schmida, "Israel's Drive For Water," *The Link* 17, no. 4 (November 1984); Subhi Kahhaleh, "The Water Problem in Israel and Its Repercussions on the Arab-Israeli Conflict," *IPS Papers*, no. 9 (Beirut: The Institute for Palestine Studies, 1981); and Miriam Lowi, "The Politics of Water," *McGill Studies in International Development*, no. 35 (Montreal: McGill University). For an Israeli interpretation, see J. Schwarz, "Water Resources in Judea, Samaria and the Gaza Strip," in Daniel J. Elazar, ed., *Judea, Samaria and Gaza: Views on the Present and Future* (Washington, D.C.: American Enterprise Institute, 1982), 81–102.
53. Lesch, "Gaza," 47; and interview with Abu Middayn, winter 1986.
54. *Ibid.*
55. Interviews with members of the local engineers association in the Gaza Strip. Data on water consumption is extremely difficult to obtain.
56. See David Krivine's critique of Sara Roy, *The Gaza Strip Survey* (Jerusalem: The West Bank Data Base Project and Jerusalem Post Press, 1986) in "The Brighter Side of the Gaza Picture," *The Jerusalem Post*, 5 September 1986.
57. UNECWA, *The Industrial and Economic Trends in the West Bank and Gaza Strip*, ECWA/UNIDO, Industrial Division, December 1981, 2.
58. Interviews with local business leaders; see also *al-Fajr*, 4 October 1985.
59. *Statistical Abstract of Israel*, 1986.
60. *Ibid.* Another study, published by UNIDO in March 1984 reports 1,015 industrial firms in the Gaza Strip.
61. Hisham Awartani, *A Survey of Industries in the West Bank and Gaza Strip* (Birzeit, West Bank: Birzeit University, September 1979), 24. See also Jalal Da'ud, "Industry in the Gaza Strip," *SAMED* (August 1980).
62. Budeiri, *Changes in the Economic Structure*, 54.
63. Interview with clothing subcontractors in the Gaza Strip, summer 1985.
64. *Statistical Abstract of Israel*, 1986.
65. UNECWA, *Industrial and Economic Trends*, 33.
66. *Ibid.*, 34.
67. *Ibid.*, 36.
68. Awartani, *Survey of Industries*, 50.
69. "Business as usual in the Occupied Territories," in *News From Within*, 26 January 1987, Jerusalem. Cited in "The Business of Occupation," *Palestine Perspectives*, no.29 (May–June 1987): 4.
70. *Ibid. The Jerusalem Post*, 25 December 1986, published a report citing this figure.
71. *Judaea, Samaria and Gaza Area Statistics* 15, no. 2.
72. *Al-Fajr*, 4 October 1985; and Awartani, *Survey of Industries*, 51.
73. *Al-Fajr*, 13 April 1984.
74. Meron Benvenisti, *US Government Funded Projects in the West Bank and Gaza (1977–1983) (Palestinian Sector)*, Working Paper no. 13 (Jerusalem: West Bank Data Base Project, 1984).
75. Gharaibeh, *Economies*, 92.
76. Abu-Amr, "Gaza Economy."
77. Abu-Amr, "Gaza Economy," in Khulusi, *Economic Development*, 226.
78. Van Arkadie, *Benefits and Burdens*, 79.
79. *Ibid.*
80. *Judaea, Samaria and Gaza Area Statistics* 15, no. 2.
81. *Statistical Abstract of Israel*, 1986.
82. Gharaibeh, *Economies*, 113.
83. *Ibid.*
84. *Ibid.*, 114.
85. *Ibid.*, 100–102.
86. Meron Benvenisti, *1986 West Bank Data Project Report* (Jerusalem: The West Bank Data Base Project, 1986). See also State of

Israel, *State of Israel Budget 1986–1987*, Jerusalem 1986.

87. See Meron Benvenisti, "Gaza's Not So Bright Side," *The Jerusalem Post*, 10 September 1986. This article was written in response to Krivine's critique. Financial data was taken from *Bank of Israel Reports on the Administered Territories*.
88. *Statistical Abstract of Israel*, 1986.
89. Based on calculations from Kan'ana and al-Madani, *Settlement and Land Confiscation* 32. See also Ann M. Lesch, *The Gaza Strip: Heading Toward a Dead End*, UFSI Reports, Part 2, no. 11, 1984; and *al-Fajr*, 18 October 1985, 8–9.
90. *Statistical Abstract of Israel*, 1986.
91. Benvenisti, *West Bank Data Project*, makes this point.