

Tracking Economic Growth in the West Bank and Gaza since 2007

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Dec 27, 2011

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Brief Analysis

The West Bank has prospered more than Gaza since the 2007 split between the Palestinian Authority and Hamas, and not just because of foreign aid.

As 2011 comes to a close, it is worth taking a moment to review how economic development has progressed in the West Bank and Gaza since 2007, a watershed year that saw the establishment of a new government in the former and a Hamas coup in the latter.

Strong Growth in the West Bank, Less So in Gaza

Figures from the Palestinian Central Bureau of Statistics, as cited in numerous International Monetary Fund and World Bank reports, show what has happened to each territory's gross domestic product in recent years.

Although these figures exclude income from abroad, such as aid and worker remittances, adding that income would not reduce the discrepancies between the West Bank and Gaza.

Following the establishment of Prime Minister Salam Fayad's government in 2007, the West Bank witnessed rapid GDP growth each year through 2010, including a 12% spike in 2008, 10% in 2009, and 8% in 2010. The IMF attributes this growth to donor aid, improved security conditions, decreased Israeli restrictions on movement, and private-sector confidence due to good management by the Palestinian Authority (PA). In dollar terms (at constant 2004 prices), West Bank GDP climbed from \$3.3 billion in 2007 to \$4.4 billion in 2010, while per capita GDP went from \$1,580 to \$1,924, an increase of 22%. The growth looks even better when viewed over a longer period: in 2010, West Bank GDP was 50% higher than in 2000, and 124% higher than in 1994.

Economic recovery in Hamas-controlled Gaza has been slower, however. In 2008, the territory's economy shrank 6.7%. Subsequent GDP growth in Gaza -- including an impressive 15% spike in 2010 -- has been largely driven by "an easing of the Israeli blockade rather than private sector confidence," according to the IMF. In dollar terms, Gaza's GDP was \$1.3 billion in 2010, a marginal increase from \$1.2 billion in 2007. And because of its more rapid population growth in comparison to the West Bank, Gaza's per capita GDP actually decreased from \$886 in 2007 to \$876 in 2010. Even when factoring in last year's spike, Gaza's real GDP in 2010 was only 11% higher than in 2000 and 24% higher than in 1994.

As for 2011, the IMF estimates that Gaza had another year of strong growth at 17% while the West Bank economy grew at a much lower rate of 4%. Even so, that would still leave per capita income in the West Bank 95% higher than in Gaza -- just the sort of discrepancy that fuels popular discontent. For example, in a poll conducted earlier this month by Khalil Shikaki of the Palestinian Center for Policy and Survey Research, 47% of respondents described conditions in Gaza as bad or very bad, compared to only 30% in the West Bank.

Unemployment Falling in the West Bank, Steady in

Gaza

Unemployment has steadily declined in the West Bank, from 19% in 2008 to 16% in the first half of 2011, though youth unemployment remained at 26% over the same period. The overall unemployment level is high compared to the 10% figure achieved in the late 1990s, when Israel was more liberal about permitting Palestinians to work on its side of the Green Line. In 2000, Israel employed 19% of the West Bank labor force, compared to 12% today. Therefore, despite the higher overall unemployment rate, more Palestinians have found jobs inside the West Bank today than in 1999.

Gaza's unemployment rate peaked at 40% in 2008 before falling to 37% in 2009 and 2010, while the rate for those under age thirty remained stagnant at 53% from 2008 to 2010. A recent World Bank publication noted that low youth participation in the labor force remains a "serious concern," reporting that less than one third of Gazans between ages twenty-five and twenty-nine are employed. According to the IMF, the lack of correlation between GDP growth and employment rates in Gaza indicates that the recovery has "benefited largely those who had been underemployed or with some work experience, rather than new, mostly young entrants to the labor force."

Palestinian poverty rates tell a similar story. In 2010, 38% of individuals in Gaza lived below the poverty line, compared to 18% in the West Bank. As an October 2011 World Bank report noted, there is "a stark regional difference in poverty" between the two territories, and "this divergence is increasing over time."

Aid Only Part of the Difference

Some critics argue that West Bank growth has been facilitated primarily by greater foreign aid. Although there is some merit to this charge, it does not tell the whole story. IMF data indicates that the PA's reliance on external support was roughly cut in half from 2008 to 2010, dropping from 32% of GDP to 16%. It has reportedly dropped even further in 2011, to 12%. In addition, the PA spends a great deal of its funding in Gaza; in fact, such spending exceeded the PA's foreign aid in 2010. In particular, the salaries that the PA continues to pay in Gaza are an important part of the territory's economy, even when Hamas blocks PA employees from working.

In 2010, the PA received \$1.277 billion in foreign aid and \$1.242 billion in tax revenue transfers from Israel. In October 2011, Israel refused to transfer the monthly revenue in protest of the PA's bid for UN membership and its efforts to reconcile with Hamas. This posed a significant challenge because the transfer money is used to pay government salaries. In late November, the transfers were restored at the urging of the U.S. government. At the same time, however, the U.S. Congress has held up much of the \$192 million per year it allots for West Bank projects

supervised by the U.S. Agency for International Development.

Next Steps

To further reduce its aid dependency and expand on its economic progress, the PA must continue implementing policies to alter the situation on the ground, in conjunction with Israel. The stewardship of Prime Minister Fayad and President Mahmoud Abbas has been characterized by more-transparent public finances, depoliticization of security services, and excellent security cooperation with Israel, which has been a key factor in the drastic reduction of terrorism emanating from the West Bank. The security accomplishments have in turn led Israel to remove checkpoints. According to U.S. officials, only three major manned checkpoints were still operational in the West Bank as of this year, compared to forty-two in 2007.

The United States should encourage both sides to build on this success by giving Palestinians more economic access to Area C, which makes up 60% of the West Bank. Easing restrictions on investments in this zone would be particularly beneficial, as high labor and transportation costs have discouraged private and foreign direct investment across the West Bank.

In addition, the international community should encourage the implementation of PA reforms planned in conjunction with the IMF and World Bank. These reforms -- which revolve around maintaining economic progress despite inconsistent donor aid and a rapidly transforming region -- include capping expenditure commitments below budgeted amounts, prioritizing expenditures, postponing lower-priority projects, and instituting a hiring freeze.

Whether the two parties return to the negotiating table any time soon, Israeli-Palestinian cooperation on fiscal and security matters remains essential to economic progress in both the West Bank and Gaza. Both sides would do well to avoid controversial decisions that would make future coordination more difficult.

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