

Gaza's Industrial Sector: Between the Hammer of War and the Horizon of Recovery

September 2024

Mohammad Al-Raei, PhD



Gaza's Industrial Sector: Between the Hammer of War and the Horizon of Recovery
Mohammad Al-Raee, PhD
September 2024

5 Al-Sahl Street, Ramallah - Palestine

Email: almarsad@almarsad.ps

Website: www.almarsad.ps

All rights reserved ©

Social and Economic Policies Monitor "Al Marsad"

2024

“Nothing About Us, Without Us”

International organizations and experts developed a slew of reports on post-war reconstruction, putting forward potential strategies and solutions for managing the severe destruction and war impacts on the Gaza Strip. The war has ravaged infrastructure, halted education, and nearly obliterated the healthcare system, all while severing vital water and power networks. The humanitarian impact is staggering—countless children have been orphaned, many remain missing beneath the rubble, and thousands are displaced, struggling to survive in conditions that barely meet the most basic needs for human life.



Amid the growing number of such reports, it became imperative to ensure that the local community's perspective is reflected in the reconstruction process, with their voice being heard loud and clear. The Social and Economic Policies Monitor – Al Marsad, therefore, assembled a research group of Gaza-based specialists and scholars. These experts have witnessed the repeated cycles of war over the last fifteen years and have closely monitored the various reconstruction attempts--many of which have faltered along the way.

This group is set to produce a series of policy papers, aiming to outline rapid, short-term responses and help plan interventions for medium- and long-term recovery and reconstruction. Grounded in perspectives from within Gaza, this effort seeks to steer clear of flawed recommendations that could lead to misguided and complicated interventions and prevents such recommendations from inadvertently playing into Israel's strategy to delay, obstruct, and aggravate reconstruction—turning it into a collective punishment that could drive Gazans to despair, as seen in claims that debris removal could take as long as fifteen years.

The third paper in the series, “Gaza's Industrial Sector: Between the Hammer of War and the Horizon of Recovery,” by Mohammad Al-Ra'i, PhD, presents a comprehensive view on how industrial establishments in Gaza can resume operations amid the ongoing, devastating war. The industrial sector has suffered extensive damage, with over half of its establishments destroyed: 56 percent of factories have been entirely wiped out, while 27 percent have sustained severe partial damage, and 17 percent have incurred lesser but still substantial damage. This destruction has paralyzed the industrial sector in Gaza, halting operations for 90 percent of the establishments. A mere 10 percent continue to function despite the ongoing war. The total estimated value of direct damages to the industrial sector since the war began, and which remains ongoing, amounts to approximately USD 785 million.

The researcher emphasizes that even in the face of the current dire circumstances, there are opportunities to restart a limited portion of Gaza's industrial sector, albeit a small fraction compared to those whose structures have collapsed due to the Israeli war on Gaza. Around 17 percent of the establishments that sustained partial damage could resume operations, especially in critical sectors where inputs remain accessible, with the food industry being a prime candidate. The paper also outlines a series of post-war pathways, which are indispensable for reconstructing the industrial sector and reclaiming its vital developmental role in both the short and long term.

Table of Content

Introduction	5
Gaza's Industrial Sector Performance	6
The Path Forward: Industrial Recovery and Future Outlook.....	8
Post-War Short-Term Steps.....	9
Post-War Long-Term Recovery Interventions	9
References	10

Introduction

The Israeli assault on Gaza, initiated after October 7, 2023, is emblematic of some of the gravest violations of International humanitarian law, particularly regarding the safeguarding of civilians and economic infrastructure in the thick of armed conflict—protections enshrined in global legal frameworks. The economic fallout from this ongoing war has been unprecedented. In 2023, the occupied Palestinian territory (oPt) 's GDP shrank by 6 percent from the previous year, with the sharpest drop—33 percent—occurring in the fourth quarter, just four months into the war. Gaza has experienced a severe downturn, with its GDP plummeting by over 80 percent. This economic collapse has driven unemployment rates to soar to 74 percent by the fourth quarter of 2023, with the cost of basic goods surging by more than 30 percent increase during the same period. In this context, direct losses to Gaza's economy have soared to an estimated USD 20 billion since the war began (Abdelkarim, 2024). The industrial sector, a cornerstone of Gaza's economy, is among the most severely hit by Israel's ongoing assault. This sector, which underpins much of the besieged enclave's economic resilience, now stands on the brink of paralysis. Manufacturing has been particularly ravaged. Over half of the factories have been completely destroyed, while all that remains suffer severe damage, halting almost all production operations. According to International Labour Organization expert Aya Jaafar, the industrial sector in Gaza is facing a catastrophic decline in employment, with job loss rates plummeting by 92 percent in the last quarter of 2023 compared to the same period in 2022 (Jaafar, 2024).



It is important to note that the term «industrial establishment (industrial project)» refers to any establishment whose primary purpose is to convert raw materials into fully manufactured or semi-manufactured standardized products, or to transform semi-manufactured products into fully manufactured standardized products. This includes activities such as mixing, separating, shaping, assembling, packaging, and wrapping, provided that all or most of these processes are carried out with mechanical power. This encompasses knowledge-based and environmental industries as well. Palestinian industrial establishments consist of those engaged in mining and quarrying, manufacturing, and the supply of electricity, water, and gas¹. Consequently, this definition excludes any other private sector establishments that are not industrial, such as service facilities or any other sectors not covered by the definition. Therefore, these non-industrial sectors are not included in the study.

1- Article (1) - Legislative Decree no 10/2011 on the Law of Industry

Gaza's Industrial Sector Performance

Gaza's industrial sector, along with other vital production sectors, has been a primary target of systematic destruction, leaving much of its infrastructure in ruins. Before the latest Israeli offensive, this sector contributed approximately 16 percent to Gaza's GDP, with a total output valued at USD 777,484.4 million. Moreover, it was a key driver of employment, accounting for 14.6 percent of the workforce, which totaled 173,000 people, and providing jobs for around 25,362 workers (Palestinian Central Bureau of Statistics (PCBS), 2019). The industrial sector's significance extended beyond mere economic contribution; it played a central role in reducing poverty and unemployment rates, serving as a critical source of jobs, especially in labor-intensive activities. Small and micro-enterprises, in particular, were instrumental in this effort, as they offered employment through economic empowerment programs widely supported by various stakeholders. This support was channeled toward several sectors, with the industrial sector in Gaza receiving notable attention (Al-Mashharawi and Al-Ramlawi, 2015).

Although the industrial sector's role and potential are vital to Gaza's economic development, it faced numerous obstacles that have stalled its growth. These barriers range from external factors to internal challenges within the factories themselves (Awadallah, 2017). Key issues include weak infrastructure, outdated and deteriorating technology, and inadequate support services and equipment. Compounding these issues is the scarcity of essential raw materials, exacerbated by inflated costs and intentional delays in delivery. Inefficiency, low productivity, and high operational costs further strain the sector (Abu Safia, 2017). The



most pressing issue, however, is the lack of access to financing. Over 90 percent of Gaza's industrial establishments, which existed before the most recent war, relied solely on self-financing to continue their activities, a factor that has led to a substantial decline in investment in the sector (Helles, 2017). The absence of a capable banking system to finance new industries or enhance existing ones during the prolonged occupation has been one of the most critical obstacles to Gaza's industrial sector. Despite a recent expansion in banking services across the oPt, securing loans for industrial ventures remains highly restrictive, with banks imposing complex conditions and providing only limited funds (Jaafar, 2014). The sector also suffers from a lack of structural integration between industrial activities. The weak ties among different industrial branches have left the sector unable to produce industrial inputs. The production of intermediate or semi-finished goods is virtually absent, reflecting the overall lack of industrial diversification and limited intersectoral collaboration. This disconnect extends beyond manufacturing to agriculture and services, further constraining industries from accessing necessary by-products and supplementary resources (Al-Ra'i and Al-Harazin, 2017).

The external challenges to Gaza's industrial sector have long been suffocating. The economic blockade and relentless Israeli wars have imposed obstacles, hindering the sector's growth and development even before the current offensive (Al-Ra'i, 2016). This latest war, however, has escalated these challenges, targeting core components of Gaza's industrial infrastructure. What remains of the sector now teeters on the brink of total paralysis. Without immediate, decisive intervention, Gaza's factories may disappear entirely, erasing the sector's developmental role for years to come. To reverse this trajectory, urgent actions must be taken, including developing a comprehensive industrial sector reconstruction and recovery strategy.

A simple comparison between the state of Gaza's industrial sector before and during the war reveals the catastrophic impact of the war, as Table 1 below shows:

Table 1: Gaza's Industrial Sector Indicators Before and During the 2023– War¹

Pre-War			
Establishments/Enterprises	Workforce	Value Added (USD)	Gross Fixed Capital Formation
5480	25362	336,472.7	1.263.0
During War			
548 operating (90% of establishments ceased operations)	2,028 employees (92% employment drop)	33,647.2 (estimated 90% reduction)	

Source: Table developed by the researcher.

- Palestinian Federation of Industries (PFI) (2024). Naẓra 'amma 'alā āthār al-ḥarb 'alā al-qīṭā' al-ṣinā'ī fī Qīṭā' Ghazza wa-aham al-tadakhkhulāt al-muḥtamalah [Overview of the Impact of the War on the Industrial Sector in Gaza and Key Potential Interventions].
- – PCBS (2019). Economic and Social Survey Series 2019. Ramallah, Palestine.

The ongoing Israeli war continues to exert a profound impact on Gaza's industrial sector. Over half of Gaza's industrial establishments have been completely destroyed. The PFI conducted a recent survey, covering 893 operational industrial establishments. The findings were staggering: 56 percent of factories were completely destroyed, while 27 percent suffered severe partial damage. Another 17 percent suffered partial hits, enough to disrupt their functioning. These damages have caused an almost complete paralysis of the industrial sector in Gaza, with 90 percent of these establishments halting operations and only a mere 10 percent managing to function under the persistent onslaught. The financial toll is staggering—direct damages inflicted on the surveyed industrial establishments since the war began are estimated at roughly USD 785 million, distributed across several categories, as shown in Table 2 below:

Table 2: Economic Losses of Industrial Establishments in the Gaza Strip (USD million)

Buildings	Machinery and Production Lines	Raw Materials and Products	Transportation and Distribution Vehicles	Total
194	250	269	72	785

Estimates suggest that the total direct losses sustained by all industrial establishments in the Gaza Strip have reached nearly USD 5 billion by July 2024. These losses span buildings, machinery, raw materials, transportation, and goods, with 78 percent of the damage concentrated in Gaza City and the northern governorates (PFI, 2024). According to ILO expert Aya Jaafar, Gaza's industrial sector has been among the most affected by the economic fallout, with employment levels plummeting by 92 percent in the fourth quarter of 2023 compared to the same period in 2022 (Jaafar, 2024). Despite the dire circumstances and the continued destructive war, a survey conducted by the PFI revealed that 432 industrial establishments expressed the ability to resume operations under the current conditions.

¹ The en dash in "2023– Gaza War" indicates that the war, which began in October 2023 has been ongoing at the time of writing this paper.

The Path Forward: Industrial Recovery and Future Outlook

The future of Gaza's industrial sector, heavily impacted by the ongoing Israeli war, sits at the center of critical discussions among key stakeholders. The outlook is grim, clouded by the war's relentless continuation and the absence of any clear path to its conclusion. This uncertainty complicates the potential avenues for rehabilitating the industrial sector, which desperately needs mobilized support and resources to stand a chance of recovery. Without an end to war and a solid reconstruction plan underpinned by sufficient financial allocations and an approved mechanism, the path to recovery remains both complex and protracted.

Nevertheless, under the current circumstances, two primary scenarios could potentially pave the way for reactivating the industrial sector. The following subsections are given over to these projections based on the most plausible future outcomes:

Scenario 1: Partial Resumption Amid War

Despite the crippling challenges posed by the ongoing war, some pathways remain for the re-engagement of a fraction of Gaza's industrial sector that remains standing. These establishments account for only a small percentage of the overall industrial landscape, with the vast majority destroyed by the relentless Israeli onslaught. Around 17 percent of economic establishments that sustained partial damage could resume operations, particularly in key sectors where the inputs can still be sourced. As Khader Shanioura, the executive manager of the General Federation of Palestinian Industries in Gaza, noted during an interview on August 10, 2024, the Federation has initiated an inventory of the industrial facilities affected by the war. While the vast majority have been reduced to rubble, the remaining facilities sustain severe or partial damage. Still, some of the latter may be reactivated, and their owners have signaled a willingness to resume operations despite the dire conditions. This potential partial revival could serve as a crucial step toward the recovery of Gaza's industrial sector, particularly the food production sector, offering some relief to Gaza's food security system amid the prevailing humanitarian crisis.

Under the present circumstances, only a limited number of industrial establishments can resume operations—those with access to inputs and raw materials available in local markets. These inputs, often part of humanitarian aid or imported for Palestinian private enterprises, allow for the partial resumption of certain sectors, especially those linked to food production, which relies on materials still permitted into Gaza.

In an interview on August 15, 2024, Eng. A'id Abu Ramadan, the Chair of the Gaza Chamber of Commerce, noted that the limited operation of certain industrial establishments is possible within certain sectors, particularly light industries. These sectors include facilities that, despite damage, can be easily repaired. Food-related industries such as bakeries, spice processing, and dairy production are currently operational. Additionally, other crafts, including textile, furniture, and metalworking, also hold potential for revival under these dire conditions.

Restarting Gaza's industrial sector amid the current crisis demands strategic, concerted efforts and steps across **several key areas. These can be outlined as follows:**

- **Mapping Operational Industrial Establishments:** A detailed survey of factories still capable of resuming activity is critical. The PFI has already made headway in this regard, recently surveying 893 industrial establishments in various sectors. Findings showed that 432 establishments are currently positioned to resume operations.
- **Categorization by Input Availability:** Mapped industrial establishments should be categorized based on the accessibility of their required inputs, whether sourced locally, imported, or supplied through humanitarian aid.
- **Logistics and Operational Support:** A comprehensive support program should be created to assess the logistical needs of the mapped and categorized industrial establishments in coordination with relevant stakeholders to provide necessary assistance. The program should also mobilize urgent financial support from donors through industrial federations and chambers of commerce to help reinstate operations.
- **Wage Subsidies:** Financial assistance should be secured to cover the wages of workers in the reactivated establishments.

Scenario 2: Industrial Sector Post-War Reconstruction

The end of the war and the resolution of this devastating conflict are sine qua nons for planning the future of Gaza's industrial sector. This sector has suffered devastating blows, leading to a near-total halt in operations and the destruction of much of its infrastructure, erasing its role as a cornerstone of Gaza's productive economy, including industry. To restore its short and long-term developmental role, several key steps must be taken. The process involves two distinct phases: immediate short-term interventions and longer-term strategic planning as follows:

Post-War Short-Term Steps

- A comprehensive and detailed survey should be conducted of all industrial establishments in Gaza to assess their current condition and identify those that remain operational, albeit with partial damage.
- Emergency funding should be mobilized to repair and restore these establishments, enabling them to resume operations. This process is expected to require full collaboration among all relevant stakeholders, including the Ministry of National Economy, the PFI and its affiliated unions, chambers of commerce, and the Palestinian Investment Promotion Agency.
- Immediate efforts should be focused on providing alternative energy sources due to Gaza's lack of access to conventional power. The electricity sector and infrastructure reconstruction and recovery may take a significant amount of time, given that they have been completely destroyed.
- A portion of grants and aid should be allocated to provide working capital to these establishments to enable them to operate despite the financial insolvency of their owners.
- A fund should be established to provide loans to industrial establishments with extended grace periods and low interest rates. This financing instrument should target existing industrial establishments that can resume operations, allowing them to secure emergency funding for their activities.
- All available logistical and legal support from relevant institutions should be utilized to help these establishments resume operations.
- Exceptional measures should be taken to facilitate the import of raw materials and other necessary supplies, granting complete exemption from any fees or financial obligations to ensure a swift return to operational capacity.

Post-War Long-Term Recovery Interventions

Restoring the developmental role of the industrial sector after the Israeli war requires a prolonged timeline driven by strategic initiatives grounded in well-organized plans aimed at revitalizing this vital sector in Gaza. Key strategic efforts to consider following the Israeli macabre war on Gaza include:

- Mobilizing all legal and economic expertise to assess the damages to the industrial sector and present a detailed case to international donors to secure the necessary funding for comprehensive reconstruction. This process should involve spatial re-planning and restructuring of the Gaza Strip's industrial zones, particularly focusing on rebuilding the areas that were entirely destroyed.
- A concerted effort by all stakeholders, spearheaded by the government, is critical to reconsider and prioritize the establishment of specialized industrial zones, whether along the borders or within municipal boundaries, in accordance with regional plans that could be revised post-war to reorganize the industrial sector and grant these establishments preferential advantages to enable their operation in these areas.
- Facilitating access to markets for Palestinian industrial products is crucial to ensuring the free movement of goods from the Gaza Strip to the West Bank and international markets.
- A strategic marketing plan should be developed to leverage the Palestine brand in global markets post-war. This plan would capitalize on the emotional resonance Palestine holds internationally, facilitating the export of industrial goods with an emphasis on securing preferential treatment for these products. Mobilizing efforts and building external relationships are also crucial to ensure these new opportunities are effectively realized.

References:

- Abdelkarim, Naser. (2024). **The Effects of the War on the Palestinian Economy with Emphasis on Gaza's Economy**. Institute for Palestine Studies. Ramallah. Palestine.
- Abu Safia, Maysoun. (2017). **Muḥaddidāt al-intājiyya lil-‘āmilīn fī al-qīṭā’ al-ṣinā’ī: dirāsa qiyāsiyya ‘alā qīṭā’ ṣinā’āt al-malābis fī Qīṭā’ Ghazza [Productivity Determinants in Gaza's Industrial Workforce: Gaza's Garment Industry as a Case Study]**. Master's thesis, The Islamic University, Gaza, Palestine.
- Al-Mashharawi, Ahmad and Al-Ramlawi, Wissam. (2015). **Aham al-mashākil wa-al-ma’awwiqāt allatī tuwājih tamwīl al-mashrū’āt al-ṣaghīra al-mumawwalah min al-munazzamāt al-ajnabiyya al-‘āmilah fī Qīṭā’ Ghazza min wijhat naẓar al-‘āmilīn fīhā [Employee Perspectives on the Difficulties in Funding Small Enterprises Backed by Foreign NGOs in Gaza]**. Journal of al-Aqsa University. Series Humanities, 19(2), 125–160.
- Al-Ra’i, Mohammad, and Hatim Al-Harazin. (2017). **“Al-ta’thīrāt al-mutabādala bayn al-qīṭā’āt al-iqtisādiyya fī Filasṭīn taqdīr-hā wa-taḥlīl-hā bi-istikhdām dāllat al-istijāba al-fawriyya wa-tajzī’at mukawwināt al-tabayyun [Intersectoral Economic Dynamics in Palestine: A Study Through Impulse Response Analysis and Variance Decomposition].”** Jordan Journal of Applied Science (JJOAS) 19 (1): 11–24.
- Al-Ra’i, Mohammad. (2016). **“Al-‘awāmil al-mu’aththira fī intājiyyat al-‘amal wa-al-ujūr fī qīṭā’ al-ṣinā’a al-taḥwīliyya al-filasṭīniyya khilāl al-fatrah 1994–2012 [Factors Shaping Labor Productivity and Wage Trends in the Palestinian Manufacturing Industry (1994–2012)].”** JJOAS 18 (1): 1-20.
- Awadallah, Ahmad. (2017). **Ḍu’f al-qīṭā’āt al-intājiyya al-filasṭīniyya wa-athar-hā ‘alā al-ṣādīrāt [Underperformance in Palestinian Productive Sectors and Their Impact on Exports]**. Master's thesis, Al-Azhar University, Gaza, Palestine.
- Jaafar, Aya. (2024). **Kayfa tu’aththir al-ḥarb fī Ghazza ‘alā sūq al-‘amal wa-mustaqbal al-iqtisād al-filasṭīnī [How the War in Gaza Affects the Labor Market and the Future of the Palestinian Economy]**. Accessed August 2, 2024. <https://news.un.org/ar/interview/2024/04/1129706>.
- Jaafar, Younis. (2014). **“Muḥaddidāt al-istithmār fī al-qīṭā’ al-ṣinā’ī wa-maṭālib al-tanmiyya al-mustadāma fī al-Ḍiffa al-Gharbiyya [Determinants of Investment in the Industrial Sector and the Requirements for Sustainable Development in the West Bank].”** Baghdad College of Economic Sciences University Journal (JBCEU), Special Issue from the Joint Scientific Conference. Iraq.
- Palestinian Federation of Industries (PFI) (2024). **Naẓra ‘amma ‘alā āthār al-ḥarb ‘alā al-qīṭā’ al-ṣinā’ī fī Qīṭā’ Ghazza wa-aham al-tadakhkhulāt al-muḥtamalah [Overview of the Impact of the War on the Industrial Sector in Gaza and Key Potential Interventions]**.
- PCBS (2019). **Economic and Social Survey Series 2019**. Ramallah, Palestine.
- Raid Helles. (2017). **“Ta’thīr al-Ḥiṣār al-Isrā’īlī ‘alā al-Qaṭā’ al-Ṣinā’ī al-Filasṭīnī [The Impact of the Israeli Blockade on the Palestinian Industrial Sector].”** Published policy analysis. The International Commission for Supporting the Rights of the Palestinian People “Hashd.” Gaza, Palestine.