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Executive Summary

Local Economic Development (LED) for the State of Palestine

Economic mapping of East Jerusalem

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Summary

Jerusalem has always been at the center of Palestinian trade, transport, tourism and culture, as well as politics and diplomacy, although it has yet to serve as the capital city of modern-day State of Palestine. In fact, Israeli occupation policies and practices since 1967 have separated East Jerusalem from the Palestinian economy in the rest of the West Bank and the Gaza Strip and gradually integrated the city into the Israeli economy in a partial, distorted manner, leading to the dependency of East Jerusalem's economy on the Israeli economy in the areas of trade, labor market and finance. In the past two decades, Israel has intensified its actions to isolate East Jerusalem from the rest of the occupied Palestinian territory, by changing the physical and demographic character of the city. Three key challenges impede the development of the Palestinian economy in occupied East Jerusalem:

- **Annexation**, which has turned the economy of the city into a subject of Israeli laws and exposed the city to the occupier's discriminatory policies against Palestinian presence and development;
- **Isolation**, which has separated Jerusalem from its Palestinian milieu socially, politically, and economically, making it extremely difficult to resist the effects of annexation and illegal settlement expansion, and ultimately detaching Jerusalem from the broader Palestinian national interests and growth trajectory;
- **Disintegration**, which produced a decline in socioeconomic and demographic indicators, by fragmenting the economy and subduing its growth-driving forces.

The purpose of this report is to examine the economic situation in East Jerusalem through an analytical economic map on three levels: the policy framework, the economic situation in East Jerusalem neighborhoods and the performance of economic sectors. The report also provides an outlook on perspectives for the East Jerusalem economy that consider the trajectory of increasing annexation to Israel's economy, and policy directions to maintain the Arab identity of Jerusalem and strengthen economic relations among the fragmented occupied Palestinian territory.

Chapter I: The Policy Framework

1. *The Israeli Policy Framework*

During the last decade, Israel intensified its policies to separate East Jerusalem from the rest of the occupied Palestinian territory. Israeli authorities have employed a range of measures to create new facts on the ground, all serving the strategic goal of Jerusalem's Judaization. Perhaps the furthest reaching impediment which Israel has placed is the Separation Barrier, which expedited the disconnection of Jerusalem from the rest of the West Bank and deprived its markets of a key segment of consumers. Another impediment is the illegal settlement enterprise, which has disrupted the physical connections between East Jerusalem and the rest of the occupied Palestinian territory.

Israel has set up an effective planning system implemented by both the public and the private sector. Israeli master plans aim at the establishment and expansion of Jewish political, economic, and demographic control, while evicting Palestinians and reducing their number in the city. This report highlights two Israeli plans for Jerusalem. The first focuses on enhancing security in East Jerusalem by promoting economic growth. In other words, the Israeli authorities use economic development plans in East Jerusalem as a political tool to suppress Palestinian aspirations and ensure security. The second plan is a five-year plan in which the municipality targets the main sectors for the development of Jerusalem's economy and this highlights the role of key Israeli development players that oversee the implementation of these plans and others, such as the "Jerusalem Development Authority" and the "Moriah Jerusalem Development Corporation".

2. *The Palestinian Policy Framework*

The absence of political leadership since the closure of the Orient House back in 2001 has been one of the most adverse impediments to Palestinian political, economic and social steadfastness and development in East Jerusalem after its illegal annexation in 1967. The wide array of Palestinian official entities assigned to Jerusalem play a very limited role on the ground, while some are completely invisible. The lack of coordination among Palestinian agencies in charge of East Jerusalem and their internal conflicts have impeded effective representation, making it all the more difficult, especially in the face of Israeli policies aimed at undermining Palestinian institutions in Jerusalem and replacing them with Israeli agencies, services, and job-creation businesses.

These shortcomings have been exacerbated by the absence of a developmental vision and plans that can foster steadfastness and resilience in East Jerusalem. Despite some attempts to develop plans for economic and social development, such plans are rarely implemented due to the lack of implementation mechanisms or sufficient funds, thus eroding the confidence of Palestinian Jerusalemites in the planning agencies.

3. *The Regional and International Policy Framework*

Regional and international players, including international organizations and donor countries, have of late entered the East Jerusalem scene. For example, Turkey has expanded its role in Jerusalem, while the United Arab Emirates (UAE) has started providing the Old City vendors with financial assistance that enables them to renovate or expand their businesses. The United Nations Development Programme (UNDP) has recently launched the Productivity and Urban Renewal in East Jerusalem Programme (PURE) in order to support the resilience of Palestinians residing in East Jerusalem through the urban revitalization of Salah Al-Din and Sultan Suleiman streets in addition to stimulating private sector investment. Moreover, the Arab Fund for Economic & Social Development (AFESD) has recently pledged USD 50 million through the Welfare Association to support 35 social, health, educational, and cultural institutions in East Jerusalem.

Chapter II: Palestinian Economic Conditions in East Jerusalem

According to Israeli official statistics, Jerusalem's population reached 866,000 in 2015: 324,000 (or 37%) Palestinians and 542,000 (or 63%) Jews and others. The median age for Palestinians in East Jerusalem in 2014 was 20.7 years. Children (0-14 years) make up 38 percent of the population, while the elderly (65+) make up 4 percent.

East Jerusalem's economic map is constituted by five main neighborhoods (each having its own characteristics, problems, and resources), namely: 1) the Old City and its markets, 2) Salah Al-Din Street and the surrounding commercial sections, 3) other residential and industrial areas in central East Jerusalem, 4) the densely populated southern neighborhoods, and 5) neighborhoods of Shu'fat and Beit Hanina, north of Jerusalem.

These Palestinian neighborhoods share many challenges: overdependence on the Israeli labor market as the main source of income; low rate of women's participation in the labor market; weak economic productivity; and continued, intensified settlement expansion. Most areas are residential rather than economic zones. However, Beit Hanina has recently developed into a local commercial market that is relatively self-sufficient, one that can provide for all the needs of the population to the point where consumers no longer need to go to the city center to do shopping. However, despite the relatively developed markets in northern Jerusalem, the current developmental trends there remain isolated from those in the West Bank and the Gaza Strip. One clear indicator of the weak economic ties with the West Bank is the low share of Palestinian products sold in the Beit Hanina's retail shops. One of the biggest future challenges for Beit Hanina's vendors will be the building of a large Israeli commercial complex on the border between northern Jerusalem and Ramallah.

The growth of Beit Hanina as a commercial center pursuing investments has coincided with a decline in business activity and a stagnation in the investment environment in the old city and the Salah Al-Din Street. The market has lost two important segments of consumers: 1) Palestinian consumers due to the isolation of the city and the construction of the Wall and 2) tourists because of the deterioration in the Palestinian tourism sector. As a result of the ensuing poor business activity, Palestinian merchants are facing great difficulties paying taxes, especially after the recent Palestinian popular wave of protests.

In addition to Israeli restrictions on commercial activities in East Jerusalem, Israel has also been curbing industrial activity. In East Jerusalem, there is only one industrial zone (in Wadi Al-Joz), which provides services to the Palestinian population and Jewish shoppers. However, Israel has increasingly constrained industrial activity in Wadi Al-Joz in order to encourage Palestinian industries to relocate to the “Atarot” Industrial Area established by Israel on occupied land after 1967. Meanwhile, the Palestinian neighborhoods in south-eastern Jerusalem have an ever-increasing population, which puts strains on limited municipal services, creates social problems, and increases poverty and unemployment rates.

Chapter III: The Sectoral Structure of the Economy of East Jerusalem

1. The Transportation Sector

The formal organization of East Jerusalem’s transportation industry began in 2003 with the creation of the Consolidated Travel Association, through which all transportation companies were consolidated into eight major enterprises. The industry is facing numerous challenges, particularly the unfulfilled promises of the Israeli Ministry of Transportation to provide support to the Association in terms of building bus stops along the streets, installing electronic screens, using smart cards instead of paper tickets, and developing the infrastructure (streets, bus stops, etc). In 2016, Palestinian drivers went on strike to demand wage equality with their Israeli counterparts, resulting in an increase in their wages by NIS 950 from the Ministry and NIS 150 from the companies. Needless to say, Israel has always used the transportation sector and infrastructure development as a political tool to tighten its control over Jerusalem and link the settlements to Jerusalem. The light rail project, which aims at connecting the Israeli settlements in the northern East Jerusalem with West Jerusalem and southern neighborhoods, is a manifestation of that.

2. The Trade Sector

The trade sector is a major contributor to East Jerusalem GDP and employment despite Israeli policies that are isolating Jerusalem and disintegrating its local markets. The consumer base has shrunk significantly as Palestinians from the West Bank are denied access to East Jerusalem. Israeli restrictions on movement and the requirements for obtaining trade permits have weakened Jerusalemites’ ability to obtain relatively cheap goods from the West Bank. Many businesspeople from Jerusalem today invest in the Ramallah market for different reasons, including: relatively low labor wages in the West Bank compared to Jerusalem; cheaper land prices in the West Bank; and higher distribution costs in Jerusalem due to Israeli restrictions on the movement of goods. In the last few years, Jerusalem’s trade relations with Palestinians from Israel have seen some improvement as each Arab town or region in Israel has allocated specific days to go to Jerusalem for worshipping and shopping. Buses carried visitors for minimal prices, resulting in accelerated business activity in the city.

3. The Tourism Sector

The Palestinian tourism industry in Jerusalem was adversely affected by the Israeli occupation in 1967, especially when Israel started tightening its policies to isolate Jerusalem and impose restrictions on its development. The tourism industry in Jerusalem faces numerous challenges, such as: restrictions on receiving permits for the construction of hotels or conversion of buildings into hotels; obstacles imposed on allowing the establishment of new tourist companies; reduced areas available for Palestinian construction activities and the resulting high costs of construction; poor infrastructure; and high taxes. There are also internal factors impeding the development of

the sector, such as: seasonality of Christian and Muslim pilgrimages – the main drivers of the business sector in the city; weak Palestinian/Arab investment in the tourism sector; poor coordination among Palestinian tourism developers; and lack of a unified strategy for developing the Palestinian tourism sector in Jerusalem. Intense competition from the Israeli tourism sector, which benefits from lavish incentives by the Israeli government, has also enabled Israel to dominate the tourism sector in Jerusalem. As a result, the number of Palestinian hotels in the Jerusalem Governorate declined by 41 percent between 2009 and 2016, accompanied by a drop in the number of East Jerusalem visitors, who choose to stay in West Jerusalem hotels instead.

4. *The Industrial and Craft Sector*

Craft industries in Jerusalem have witnessed a decline in terms of productivity and employment. Many craft industries have closed down or moved to other Palestinian cities. A large number of families have abandoned such industries, either with the death of ancestors or due to poor profitability. Today, there are only few craft industries still operating in Jerusalem including ceramics, embroidery, bamboo furniture, artificial limbs, brooms, leather bags, copperplates, and brushes. Weak productivity of the industrial sector went hand in hand with the dominance of the services sector in East Jerusalem's economy. In 2014, the services sector reported the highest value added (USD 591.3 million, or 53 percent of the total value of economic activities); the wholesale and retail trade sector followed (with USD 235.7 million, or 21 percent), ahead of manufacturing, water, and electricity (USD 227.8 million, or 20.4 percent).

5. *The Labor Market*

According to the Palestinian Central Bureau of Statistics, labor force participation rate in the Jerusalem Governorate (including East Jerusalem and surrounding villages) for individuals aged 15 years and above was 29.2 percent in 2015, compared to 45.8 percent in the occupied Palestinian territory as a whole. The rate fell from 37 percent in 2011 to 31 percent in 2014 and 29.2 percent in 2015. Female participation continued to decline, from 8.7 percent in 2011 to 6.3 percent in 2015, thus becoming one of the lowest rates in the world. These official Palestinian figures are however different from those provided by Israeli sources that estimate labor force participation in East Jerusalem at significantly higher rates for Palestinian women (18 percent) and men (83 percent).

Despite the drop in the percentage of Jerusalemites working in Israel and Israeli settlements from 42.9 percent in 2011 to 33 percent in 2015, Palestinians in Jerusalem still depend heavily on the Israeli economy, especially the labor market, which is a major source of income. Wages and salaries of Jerusalemites working in the Israeli labor market make up 54.2 percent of the total size of wages and salaries. Funds from the Israeli National Insurance Program account for 21.3 percent, whereas income generated from wages and salaries of people working in the private sector represent 13.1 percent. Of the total income of Jerusalemites, household enterprises (non-farm) generate a scant 6 percent of total income in the city.

6. *The Investment Climate in East Jerusalem*

Jerusalem enjoyed a short investment boom in 2008-2012. During that period, Palestinian investors set up a number of business facilities including Legacy Hotel, National Hotel, Addar Mall, Al-Hamra Hall, St. George Hotel, and Ibis Styles Hotel. Housing projects were also constructed in the Ras Al-Amud, Sharfat, Beit Safafa, and Beit Hanina neighborhoods. Despite these modest projects, not all of which were completed for different reasons, the investment environment remains weak for several reasons: absence of economic security due to political uncertainty, which weakens investment; lack of awareness among Palestinians about investment opportunities and Israeli investment promotion laws, in particular, and the Israeli laws, in general; fear of high taxes, especially for law-abiding individuals; and the flight of Jerusalem capital to other Palestinian areas or to Arab or international markets.

Chapter IV: The Future: Which Way Forward for East Jerusalem's Economy and Prospects for Revitalization

The report examines optional scenarios that could shape East Jerusalem's economy and development planning, according to differential degrees of integration or autonomy viz. the Palestinian and Israeli economies. If the current political and economic conditions continue, East Jerusalem's economy will face growing dependency on the Israeli economy and detachment from the rest of occupied Palestinian territory, in critical sectors such as the labor market, health system social and educational services, transport, tourism and trade. Facing such an uncertain political and institutional future, it is important to elaborate a clear vision for Palestinian Jerusalem that informs future strategies, programmes and projects. After too many inconclusive efforts in the past it is not helpful to propose strategies or programmes without agreement on a vision of what economy we want to see for East Jerusalem and then move to the specific goals, and nationally endorsed coordination mechanisms. Otherwise, new disparate interventions and investments might only help in the short term, with inadequate long-term impact.

The mapping report concludes by suggesting three priority strategies that can revive the economy of East Jerusalem: developing the Palestinian tourism sector in Jerusalem; enhancing productivity; and creating an effective Jerusalem development fund, while acknowledging that this economic map can only inform and guide a renewed planning process, which needs to involve a wide range of Palestinian stakeholders and international development partners.

Israeli Settlements and Palestinian Neighborhoods in East Jerusalem, 2000

