

THE PALESTINIAN ECONOMY

IN EAST JERUSALEM:

**Enduring annexation,
isolation and disintegration**

Notes

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Cover photo: Copyright 2007, Gugganij. Creative Commons, <http://commons.wikimedia.org> (accessed 11 March 2013). (Photo taken from the roof terrace of the Austrian Hospice of the Holy Family on Al-Wad Street in the Old City of Jerusalem, looking towards the south. In the foreground is the silver dome of the Armenian Catholic church “Our Lady of the Spasm”. In front of this church is the fourth station of the Via Dolorosa. In the background, the golden Dome of the Rock and the minaret of Al-Aqsa Mosque.)

Executive Summary

With the onset of occupation in 1967, Israeli authorities began to pursue a policy of physical, political and economic segregation of East Jerusalem from the rest of the occupied Palestinian territory (OPT), which continues apace today. Segregation strategies gained momentum during the last decade through measures that have altered the physical and demographic realities of the city and its predominantly Palestinian and Arab landscape. These include the city’s annexation and the expansion of Jewish settlements in and around East Jerusalem, as well as the construction of the separation barrier, which has effectively redefined the borders away from the pre-1967 armistice line.

The separation barrier, among other obstacles to movement, hinders movement into and out of East Jerusalem, cuts it off from the remainder of the West Bank, its natural hinterland, and hinders access to its markets and health services by Palestinian Jerusalemites now living on the other side of the barrier nominally under Palestinian Authority jurisdiction. Land expropriation by Israel and restrictions on Palestinian building activities have increased recently. Palestinians are only permitted to build on a limited part of the land area of East Jerusalem and face obstacles in obtaining building permits issued by Israeli municipal authorities.

The purpose of this report is twofold. The first aim is to seek a better understanding of the economy of East Jerusalem and the policy factors affecting the dynamics of its evolution since occupation in 1967. The second aim is to augment the qualitative analysis by highlighting some quantitative indicators on the economic impact of Israeli annexation of East Jerusalem and the city’s growing isolation, while identifying possible future policy orientations and areas for intervention.

The economy of East Jerusalem is not only affected by Israeli impediments affecting OPT generally. Many of the obstacles to the city's development are specific to the status of East Jerusalem as an occupied territory subsequently unilaterally annexed to Israel. Palestinian Jerusalemites are considered "permanent residents" under Israeli law, but only as long as they maintain their physical presence. The differential legal status of Palestinian Jerusalemites compared to Palestinians under Palestinian Authority jurisdiction and compared to Israeli settlers in East Jerusalem implies a host of further impediments, especially with regard to housing, employment, taxation and representation. Access to education and health is restricted, which affects the quality of the most important Palestinian resource, human capital. Another key impediment to reviving the economy of East Jerusalem is the lack of access to finance due to occupation-related complications. Palestinian Jerusalemites receive a disproportionately small share of municipal services.

The weight of the economy of East Jerusalem has been steadily diminishing relative to that of the rest of OPT since the signing of the 1993 Declaration of Principles on Interim Self-Government Arrangements, known as the Oslo Accords, and related Israeli-Palestinian agreements. This decline, in large part, has been the result of an array of Israeli policies that have hindered development of the East Jerusalem economy as an integral part of the larger Palestinian economy and labour market. The deterioration in socioeconomic conditions has had a significant impact on Palestinian Jerusalemites in their standards of living, housing, health care and education. Israeli policies have entailed a partial and distorted "integration" of the East Jerusalem Palestinian economy into Israel and its regulatory framework. Meanwhile East Jerusalem has been gradually detached from the rest of the Palestinian economy despite the city's historic position as the commercial, transport, tourism, cultural and spiritual centre for Palestinians throughout the occupied territory.

In 2010 more than half of the East Jerusalem labour force worked in services, commerce, hotels and restaurants, while the construction and agricultural sectors accounted for less than one quarter of total employment. Unemployment rates reached record highs in the aftermath of the second intifada, which declined since but remained high nonetheless, along with systematically higher poverty rates among Palestinian Jerusalemites as compared to Israelis residing in the city. This attests to the systematic exclusion of Palestinian East Jerusalem from the State to which it was unilaterally annexed, while it simultaneously became separated from the rest of the occupied West Bank.

Consequently, the East Jerusalem economy finds itself in a world quite apart from the two economies, Palestinian and Israeli, to which it is linked. It is at once integrated into neither, yet structurally dependent on the West Bank economy to sustain its production and trade of goods and services and for employment, and forcibly dependent on Israeli markets to whose regulations and systems it must conform and which serve as a source of employment and trade and as the principal channel for tourism to the city.

These paradoxical relations have served to effectively leave the East Jerusalem economy to fend for itself in a developmental limbo, severed from Palestinian Authority jurisdiction and subordinated to the Jewish population imperatives and settlement strategies of Israeli municipal and State authorities. Just as the economic growth pattern and overall direction of the Gaza Strip in recent years has veered in a distinct and separate direction from that of the West Bank, so has East Jerusalem's economic trajectory diverged from that of the rest of the West Bank. These disturbing trends risk rendering redundant the notion enshrined in United Nations resolutions and the Oslo Accords, namely that the Gaza Strip and the West Bank, including East Jerusalem, constitute a single territorial and legal entity. This in turn has critical implications for development prospects and eventual policy interventions in the East Jerusalem economy.

Several actions can help mitigate the effects of segregation policies, but the real prerequisites for sustainable development entail ending the Israeli settlement and occupation of East Jerusalem in accordance with the relevant United Nations resolutions. This would confer significant benefits to the Palestinian economy in general, and to that of East Jerusalem in particular, especially its tourism and services sectors. Potentially effective short-term interventions include enhanced coordination and planning among international organizations, semi-governmental and nongovernmental bodies operating in East Jerusalem, and the provision of targeted support to specific sectors such as tourism, housing and services. A critical measure for economic revival in East Jerusalem, however, is devising alternative domestic sources and self-sustained mechanisms for financing investment, housing and productive activities, which could have important outcomes for the economic, social and political cohesion of Palestinian Jerusalemites notwithstanding continued occupation.

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| Glossary | |
| ICBS | Israeli Central Bureau of Statistics. |
| J1 | Includes those parts of Jerusalem which were unilaterally annexed by Israel in 1967: Beit Hanina, Shu'fat Refugees Camp, Shu'fat, Al' Isawiya, Sheikh Jarrah, Wadi Al-Joz, Bab Al-Sahira, As Suwwana, At-Tur, Jerusalem “Al-Quds”, Ash-Shayyah, Ras Al-Amud, Silwan, Ath-Thuri, Jabal Al-Mukabbir, As-Sawahira-Gharbiya, BeitSafafa, Sharafat, Sur Bahir, Um Tuba and KufrA'qab. |
| J2 | Includes the remaining localities of the Jerusalem Governorate: Rafat, Mikhmas, Qalandya Refugees Camp, the Bedouin Community-Jaba', Qalandya, Beit Duquq, Jaba', Al-Judeira, Beit Anan, Al-Ram, Dahiat Al-Bareed, Al-Jib, Bir Nabala, Beit Ijza, Al-Qubeiba, Khirbet Um Al-Lahem, Biddu, An-Nabi Samu'eil, Hezma, Beit Hanina Al Tehta, Qatanna, Beit Surik, BeitIkksa, A'nata, the Bedouin Community, Al-Khan Al-Ahmar, AzZa'eem, Al-Eizariya, Al-Sawahreh, Al-Sharqiyyeh, Ash- Sheikh Sa'd, Al-Eizariya, Abu Dis. |
| Jerusalem Governorate | Refers to J1 and J2 together. |
| occupied Palestinian territory (OPT) | Refers to the West Bank including East Jerusalem and the Gaza Strip. |
| PCBS | Palestinian Central Bureau of Statistics. |
| Remaining West Bank | Refers to all of the West Bank excluding those parts of Jerusalem which were unilaterally annexed by Israel in 1967. |
| Remaining West Bank and Gaza Strip | Refers to all of the West Bank and Gaza Strip excluding those parts of Jerusalem which were annexed by Israel in 1967. |
| West Bank | Includes the following governorates: Jenin, Tubas, Tulkarm, Qalqiliya, Nablus, Salfit, Ramallah and Al-Bireh, Jerusalem, Jericho and Al Aghwar, Bethlehem, Hebron. |

Preface

International organizations and Israeli and Palestinian non-governmental organizations have published reports and studies in recent years on East Jerusalem focused mainly on political and social conditions. But few have examined its economy, which is generally considered to follow the overall trend of the West Bank economy and is represented statistically as part of it. Be that as it may, East Jerusalem's economy, like other features of its society, culture and landscape, is also shaped by factors unique to its particular experience in the face of Israeli occupation and settlement. This report aims to explore these hitherto neglected issues within the context of the secretariat's continuing assessment of the economic development prospects of the occupied Palestinian territory and obstacles to trade and development, and with a view to alleviating the adverse economic and social conditions imposed on the Palestinian people, as called for by the Doha Mandate.

Needless to say, any study and understanding of the socioeconomic conditions of East Jerusalem is not only complicated by the complex legal, administrative and political dimensions of the issue, but equally by the statistical gap into which East Jerusalem falls, sparsely covered in Israeli statistics and administratively categorized by Palestinian statistics within a different geographical context. The preparation of this report confronted major difficulties in obtaining consistent time series or other data for East Jerusalem, which in turn limited the empirical basis for the in-depth economic structural analysis that the city's unique situation calls for. The report analyses data available from various sources, chief among them the Palestinian Central Bureau of Statistics (PCBS). The report offers an economic perspective of the city by exploring its growth record during the last two decades, tracing the evolution of its economic structure – the share of the various economic sectors in output and employment – and identifying some of the reasons behind the weak investment record and some of the obstacles to overall development.

The first section of this report reflects on the historical and political context of East Jerusalem, including the present difficulties faced by Palestinian Jerusalemites, as well as the status of the city under international law. The second section examines the structure and evolution of the economy of East Jerusalem over time: the main economic sectors and their contribution to output and employment, some of the challenges these sectors face and their relative weight over time. It also highlights obstacles to access to capital and constraints on investment.

The third section looks at the structure and characteristics of East Jerusalem's labour force as well as the reversal of the city's role as a magnet for Palestinian job seekers from the rest of the West Bank, to a labour exporter to Palestinian and Israeli job markets. The section also documents the acute problems of poverty and living standards, which are inextricably linked to the difficult labour market conditions facing Palestinians in East Jerusalem. It highlights furthermore the complex state of health and education services for Palestinians in East Jerusalem, and the limited and unequal access to these services. A special focus on the Old City of Jerusalem concludes this review of key social issues.

The concluding section identifies main areas for possible targeted policy interventions to revive East Jerusalem so that it can resume its historical role as the centre of Palestinian economic and cultural life.

I. Overview: Legal Status and Policy Environment

A. From "City of Jerusalem" to eastern/western Jerusalem

The history of the "City of Jerusalem" since its division in 1948 between a largely Jewish, Israeli western sector and a mainly Palestinian Arab eastern sector is a bleak one to narrate, generating contentious moral, historical and political debates.¹ Notwithstanding today's realities, the history of the city is unique in human civilization. Founded by the Canaanites in 1800 B.C., today's Jerusalem rests on some seventeen layers of history, reflecting the successive rule by Jews, Babylonians, Persians, Greeks, Romans (both pagans and Byzantine Christians), Arabs and Muslims, Ottoman Turks, British rule after 1919 and Jordan between 1948 and 1967. Jerusalem gains its central significance from its centrality to the history and tenets of three monotheistic religions: Judaism, Christianity and Islam (Armstrong, 1997).

In 1917, towards the end of the First World War, the city was captured by British troops on behalf of their allies. In accordance with the peace settlement which ended the war, Palestine was detached from the Turkish Empire to be administered by the Government of the United Kingdom of Great Britain and Northern Ireland under a Mandate granted by the League of Nations. Spanning from 1922-1948, Jerusalem was the administrative and political capital of the Mandate for Palestine.

On 29 November 1947, the General Assembly of the United Nations adopted resolution 181 (II), recommending the partition of Palestine into two States, Arab and Jewish, and the internationalization of Jerusalem. The resolution called for establishing a *corpus separatum* under a special international regime, with the United Nations Trusteeship Council to administer the "City of Jerusalem" and to conduct its external affairs. The "City" was defined to include the existing municipality and environs of Jerusalem comprising Bethlehem and Ein Karim (Cattan H, 1981). Appendix 2 includes maps of the "City of Jerusalem" and the evolution of its boundaries since 1947. The "City" would be demilitarized and its neutrality declared and preserved by the United Nations, with a legislative council elected by its residents with the power to legislate and tax. The resolution also included provisions relating to Holy Places, and to religious minority and property rights, which "shall be under the guarantee of the United Nations, and no modifications shall be made in them without the consent of the General Assembly of the United Nations".²

With developments on the ground that brought into existence the State of Israel and the physical division of Jerusalem between Israeli-controlled western and Jordanian-controlled eastern sectors, the international regime to administer Jerusalem through the Trusteeship Council could not be implemented. Nevertheless, the General Assembly in resolution 303 (IV) of 9 December 1949 reaffirmed that the "City of Jerusalem" should be placed under a permanent international regime and requested the Trusteeship Council to prepare for administering Jerusalem on the lines of resolution 181 (II) and to proceed with its implementation regardless of any actions taken by any governments. On 4 April 1950, the Trusteeship Council approved the Statute for the City of Jerusalem, which substantially followed the principles embodied in resolution 181 (II), though it substituted a system of communal election to the Legislative Council by Christians, Muslims, and Jews in lieu of universal suffrage and proportional representation. Internationalization of the "City" was never a politically feasible option, however, owing to the opposition of both Israel and Jordan; despite subsequent attempts to modify the status of Jerusalem, none of the proposals secured the approval of the General Assembly.

After 1948 Palestinians living in East Jerusalem and the West Bank became Jordanian citizens as the West Bank had come under Jordanian jurisdiction. Perhaps the strongest component of the East Jerusalem economy in this period was the tourism sector, which exhibited steady and successful development, in sharp contrast with its stagnation in the decades following occupation. Tourism to the West Bank, in particular to East Jerusalem, grew rapidly during 1948-1967, within the framework of Jordanian tourism development programmes (UNCTAD, 1991). West Bank tourism benefited tangibly from the pronounced improvement in the supportive environment which developed in Jordan at a marked pace as of the early 1960s. Tourist flows previously dominated by Christian pilgrims increasingly included Muslim pilgrims visiting the sacred Islamic sites of East Jerusalem and Hebron, while the flow of Jordanian East Bank worshippers to pray on Fridays at Al-Aqsa Mosque became an entrenched ritual in the pre-1967 period. By 1966 the tourism sector, mainly focused on East Jerusalem, contributed around 14 per cent of the West Bank's gross domestic product (GDP), while 70 per cent of Jordanian tourism receipts are estimated to have been generated in the West Bank.

In this period, the concentration of tourism and a whole range of related services activity in the East Jerusalem-Bethlehem area, which is among the areas of the West Bank least endowed with natural economic resources, helped to alleviate unemployment and raise incomes and living standards. In turn, this generated increased Government investment in supportive infrastructures, such as roads and the East Jerusalem airport with direct flights to Arab capitals, as well as steady private investment in hotels and tourism-related facilities. By the eve of the Israeli occupation, a well-developed set of tourism-related services had emerged centred in East Jerusalem. These were well regulated by active government support and promotion, and well linked to related domestic and international transport networks, tour operators, travel agents and tour guides, restaurants and handicraft production; at the same time, East Jerusalem boasted 40 of the West Bank's 59 hotels, including 12 of the area's 13 hotels classified as four-star and above hotels.

Israel acts as a sovereign power in the eastern sector of the city that it has occupied since 1967. Both in the Old City and in the Arab neighbourhoods to its east and north, Israeli authorities have transformed the city's demography, physical features and historic character and have taken a range of measures inconsistent with the

city's status under international law and contrary to relevant United Nations resolutions. Several attempts were made by the United Nations to safeguard the legal status of Jerusalem. As early as 1967, the United Nations General Assembly and Security Council rejected Israel's occupation and annexation of East Jerusalem. On 30 July 1980, Israel adopted a law proclaiming Jerusalem as its eternal capital,³ an act condemned by the United Nations Security Council in its resolution 478 of 20 August 1980. Even prior to that, in resolution 476 of 30 June 1980, the Security Council had reconfirmed that all legislative and administrative measures and actions taken by Israel, the occupying Power, which purported to alter the character and status of the Holy City of Jerusalem had no legal validity. The Security Council reiterated that all such measures which had altered the geographic, demographic and historical character and status of the Holy City of Jerusalem were null and void. Under the Israeli-Palestinian Oslo Accords, negotiations on the question of Jerusalem, like other contentious permanent status issues (settlements, borders, refugees, water), were postponed to the end of the five-year interim period. Though the Camp David negotiations in 2000 did delve into the issue of Jerusalem in detail, a final agreement remained elusive; indeed this issue reportedly proved hardest to agree upon in those negotiations. Hence, after 45 years of Israeli occupation, the only internationally agreed status of the city of Jerusalem remains the frame of reference established in resolutions 181 (II) and 303 (IV) (Cattan, 1981, p. 9). The implications of this were drawn up by the United Nations in a number of resolutions since 1949 which have (a) affirmed the illegality of the occupation of East Jerusalem along with the rest of the Palestinian territory occupied in 1967; (b) called for Israel's withdrawal from East Jerusalem and an end to its settlement activities therein; and (c) insisted that all legislative, administrative, demographic and other measures which change the status of the city are null and void.

B. Demographic transformation, Israeli settlements and restrictions on movement

In the aftermath of the June 1967 war, the Israeli occupation of East Jerusalem began with redefinition of the municipal boundaries of Jerusalem and the annexation of East Jerusalem, covering 70.5 km², by extending Israel's domestic jurisdiction throughout that area. Israel conducted a census soon after, but registered only Palestinians who were present at that time in the rest of the West Bank and Gaza, (i.e. excluding East Jerusalem). It is estimated that by so doing so, 30,000 Palestinian Jerusalemites and 60,000 other Palestinians from the West Bank were excluded because they were abroad at that time (Resource Centre for Palestinian Residency and Refugee Rights, 2004). Moreover, between 1967 and 1994, more than 140,000 Palestinians are estimated to have lost their residency rights owing to physical absence from the occupied territory for extended periods, including some 14,000 Jerusalemites who could not prove that they maintained a physical presence in East Jerusalem (Sherwood, 2011; PCBS, 2011).

A matrix of policies implemented by the Israeli Government has effectively impeded the natural growth of the Palestinian population in East Jerusalem, most recently the separation barrier, revocation of residency rights, discriminatory family unification policies and disadvantageous allocation of the municipal budget and services between East and West Jerusalem. PCBS data estimate the Palestinian population in the Jerusalem Governorate (i.e. the pre-1967 East Jerusalem and the surrounding suburbs and villages) to be about 382,000. Excluding the surrounding villages, the Palestinian urban population of East Jerusalem totalled in 2010 around 282,000, of whom 237,000 reside within the barrier. The latter account for about one-third of the total population within the Israeli municipality borders for Jerusalem (i.e. including Israelis living in the city's western and eastern sectors).

The Palestinian population of East Jerusalem is young, with 64 per cent of the city's Palestinian population under the age of 30, notwithstanding an annual growth rate of 1.84 per cent in Jerusalem that is well below the West Bank rate of 2.66 per cent per annum. Palestinians in East Jerusalem represent 9.5 per cent of all Palestinians living in OPT, and households exhibit characteristics similar to those of the rest of OPT. The average household size in East Jerusalem was 5.2 people in 2007, compared to 5.5 in the rest of the West Bank and 5.8 in OPT as a whole in the same year (PCBS, 2010c).

The construction of the separation barrier annexed more Palestinian land and negatively impacted Palestinian communities on both sides; the ensuing adversity has been keenly felt in East Jerusalem. It is estimated that up to 55,000 Jerusalemites (a fifth of the East Jerusalem Palestinian population) are now physically separated from the city centre as a result of the barrier (Office for the Coordination of Humanitarian Affairs (OCHA), 2011a). PCBS (2011) estimates that 2,900 households in the Jerusalem Governorate area have been displaced by the barrier's construction and 9,100 dunums of land confiscated to build it upon (some 18 per cent of the total West Bank land confiscated for the construction of the barrier). The most affected areas include Kafr 'Aqab, Shu'fat refugee camp, parts of Anata', Ras Khamis, and A'Sawahira A'Sharqiyeh. Residents of these areas now need to go through checkpoints, which are often overcrowded, with significant delays in travel time, to access health, education and other services to which they are entitled as Jerusalem residents.

The 55,000 Jerusalemites directly affected by the barrier that cuts through annexed East Jerusalem are required to pay municipal taxes as they still live within the greater Jerusalem Municipality. However, they do not all enjoy services such as water, sewage, road maintenance, postal services and garbage collection (or the same level of such services as Jerusalemites living within the barrier). As a result of their physical separation from East Jerusalem, such areas also suffer from a security vacuum and increased lawlessness. The Israeli police rarely enter the municipal areas outside the separation barrier while the Palestinian Authority does not have security jurisdiction in these localities, leading to growing crime and drug trafficking in these communities (Rosenberg, 2011).

Meanwhile, Israeli settlements throughout East Jerusalem have expanded steadily since 1967, with 201,000 settlers living in 16 settlements and suburbs within the barrier by 2010, a population almost as large as the Palestinian population of the city (PCBS, 2011). These Israeli urban residential communities and industrial zones, spread around the northern, southern and eastern borders of the municipality as well as within the heart of Palestinian neighbourhoods in East Jerusalem, have transformed the physical landscape and possibilities for urban planning. They wholly exclude the Palestinian population and scarcely reflect their interests: only 13 per cent of the annexed zone area of East Jerusalem is designated for housing for Palestinians as compared to triple that area designated for Israeli settlers (Palestinian Authority, 2010). Even within those designated zones, construction in Palestinian neighbourhoods to accommodate the natural growth of a population under pressure is severely hampered by cumbersome and complex procedures that oblige Palestinians to sometimes resort to "illegal building", which is more often than not subject to Israeli demolition orders. It is estimated that since 1967, 1,500 housing units in East Jerusalem have been thus demolished, at an increasing rate that in past years has reached around 80 annually (PCBS, 2011).

Access and freedom of movement of people and goods are crucial for any economy, not least that of OPT and East Jerusalem. Together with border sovereignty, they are essential for investment and vibrant internal and external trade. Commerce is deeply rooted in the economy of East Jerusalem, one of the major contributors to output and employment, which accounts for the largest number of economic enterprises in the Jerusalem Governorate and East Jerusalem within the Barrier (PCBS, 2010c). OCHA data reveal that there were a total of 51 obstacles to movement in East Jerusalem, including checkpoints, road blocks, road gates and other barriers, such as the separation barrier. Palestinians from the rest of the Jerusalem area and OPT cannot enter J1 areas. Hence the economy has lost access to a major component of its traditional consumer base, while Israelis from West Jerusalem restricted travelling to Palestinian areas of East Jerusalem in the aftermath of the intifada. Indeed a separate Israeli transport and commercial infrastructure has been developed since then, including a new urban rail line, to ensure "transport contiguity" between West Jerusalem and Israeli settlements encircling and bypassing the Arab areas of the city to the north, east and south.

The separation barrier has accelerated the disengagement of West Bank residents from East Jerusalem markets and further internal market disarticulation. Jerusalemites living in Abu Dis to the east now travel to Bethlehem and Hebron to the South, Al-Ram residents travel to Ramallah in the north, and Palestinians from the West Bank who work in Israel and used to shop in villages like Bethany on their way back from work no longer do so. Moreover, the additional restrictions of the permit system have limited the travel of worshippers to East Jerusalem on Fridays for prayer in the Al-Aqsa Mosque, an important clientele for East Jerusalem merchants. Shrinking demand from Palestinian consumers has been a major factor in the closure of more than 280 shops in East Jerusalem during the last 15 years, 50 of them in the Old City alone. Other north-east suburbs such as Al-Ram outside the barrier were severely impacted by restrictions on movement; as a result 63 out of the 110 shops in Al-Ram's central market were closed after the construction of the barrier (OCHA, 2007).

East Jerusalem also lost access to relatively cheap products from the West Bank due to restrictions on movement of goods and the required trade permits, which are both complex and expensive. Since June 2010, Israel banned pharmaceutical, dairy and meat produced in the West Bank from entering East Jerusalem (and Israel), claiming that Palestinian standards were not suitable for the Israeli market (Palestine Trade Centre, 2010b) and thus causing an estimated annual \$48 million in losses to the Palestinian economy. This prohibition has deprived the producers in OPT from accessing a key consumer market and also deprived East Jerusalem consumers of alternatives that are much cheaper than those they are obliged to procure from the Israeli market. Marketing opportunities were also lost to East Jerusalem producers with the tight restrictions on the entry of Palestinians who live in the rest of OPT and who used to be an important component of demand for East Jerusalem goods and services. Even when goods are allowed into East Jerusalem, they have to go through commercial checkpoints requiring "back-to-back" transfer of goods between trucks, thereby increasing transportation and transaction costs for Palestinian producers.

C. Restricted civil rights and municipal services

Civil rights and participation are an important determinant of the accumulation of human capital. The civil rights of the population of Jerusalem depend on their citizenship status, as differentiated by the type of identity card they hold (Hever, 2007). One group of East Jerusalem residents are Israeli Jewish citizens who enjoy full civil rights and are well empowered. In a second group are Palestinian Arab citizens of Israel living and working in East Jerusalem, who in theory have the same rights as Jewish citizens but in practice are part of a population group that is disadvantaged with regards to allocation of development resources by the State. A third

group, and the focus of this study, is constituted by Palestinian Jerusalemites living within the barrier, who are residents of Israel but not citizens of any State. A subgroup of these are an even less privileged class of Jerusalemites who reside within the boundaries of (annexed) municipal Jerusalem but outside the barrier (and are still considered residents of Israel). Yet a fifth group of Jerusalemites lives in the part of East Jerusalem that was not annexed (J2) and hence have no residency or any rights whatsoever in Israel, and are nominally under the civil jurisdiction of the Palestinian Authority.

The Palestinians of annexed East Jerusalem were classified as “permanent residents”, a status that granted them the right to live and work in Israel without the need for special permits, in addition to the official entitlement to social services and health insurance (Association for Civil Rights in Israel (ACRI), 2010). Nevertheless, to access services, residents of East Jerusalem need to prove their permanent residency to both the National Insurance Institute and the Ministry of Interior. Identification cards can be revoked at any time, according to Israeli laws and regulations, and various restrictive provisions are applied to the holders of these identification cards (B’tselem, 2011a). Palestinian East Jerusalemites must obtain an Israeli re-entry visa when travelling abroad, and are subject to revocation of residency rights when living abroad for more than seven years.

Furthermore, permanent resident status is not transferrable through marriage, which only entails “family unification” treatment, never an easy matter and even more stringent since 2003. In May 2002, the Israeli Government enacted decision no. 1813 on illegal residents of Israel and family unification, which effectively bans family unification if the spouse is Palestinian (Ayyub, 2008). Unlike citizenship, this status is also not passed to children. Sources estimate that more than 10,000 Palestinian children in East Jerusalem are unregistered because of such provisions (OCHA, 2011b).

While permanent residents receive social benefits and health insurance, they are not considered “full citizens” nor do they hold the citizenship of any country (though many retain the right to use Jordanian passports as travel documents). While they are allowed to participate in municipal elections in Jerusalem, only a handful actually does. Under Israeli law, Palestinian Jerusalemites are not allowed to vote or be elected to the Israeli parliament, but they have the option of applying for Israeli citizenship, a rare occurrence. Their status differs from that of residents of other areas of the occupied territory since East Jerusalem residents have the right to work and travel within Israel. They must pay Israeli national insurance, income and municipal taxes and are subject to Israeli laws and policies, including building and planning laws and residency requirements.

The municipal property tax, *armona*, levied by the Jerusalem municipality on Palestinians living in East Jerusalem includes both residential and business taxes. These taxes are calculated on the basis of, among other things, the characteristics of the area of dwelling, the “rating” of the neighbourhood, and the quality of construction. However, numerous objections have been raised to these taxes, because of the disproportionately low municipal expenditure on East Jerusalem and its generally worse socioeconomic conditions compared to cities in Israel. It is estimated that Palestinian neighbourhoods of East Jerusalem (which host 30 per cent of the city’s population) received only 11.72 per cent of the municipal budget in 2003 (Margalit, 2006) and 7 per cent in 2009 (ACRI, 2009). Data from the Israeli Interior Ministry show that Jerusalem has the highest rate of *armona* among the 10 largest cities in Israel (Tzur, 2010). In 2009, Palestinians paid some 55 per cent of Jerusalem municipality *armona* charged/owed (Jerusalem Institute for Israel Studies, 2011), reflecting inter alia the preferential rates applied to Jewish settlers in East Jerusalem as part of government-sponsored settlement of the city.

Despite so many complex requirements for Jerusalemites to remain eligible for municipal and social services and hence maintain their residency rights, the historical orientation of economic, social and cultural life has since 1948 been towards the rest of the West Bank and Jordan. These dynamic relations have yet to be ruptured. Despite many physical and legal obstacles, integrative forces directed towards the Arab hinterland predominate over the still limited and selective links that have developed with the Israeli economy and State. Indeed, many of the restrictions affecting residency, housing and employment of these Palestinian Jerusalemite “permanent residents” actually increase the pressure on them to leave the city. Many must choose between either maintaining their legal status/job/home elsewhere in the West Bank or in Amman, or cutting those links and attempting to cope/survive in the isolated East Jerusalem environment in order to maintain their “permanent resident” status in their ancestral homes and city, never an easy choice.

II. The Structure and Evolution of the East Jerusalem Economy

Just as East Jerusalem constitutes a special subset in the experiences of the Palestinian people of occupation and settlement since 1967 (as compared to the rest of OPT), so is its unique situation treated apart in published statistical series. The PCBS covers many aspects of social and economic life in its *Jerusalem Statistical Yearbook*, the only published national account series that include regional accounts for East Jerusalem exist for the period 1994–2000. For the prior period, though, there are only partial estimates. Also, since 2001 regional accounts have been discontinued in PCBS publications, creating something of a gap in coverage of that part of the occupied territory’s economy. Israel’s Central Bureau of Statistics counts the Palestinian population of East Jerusalem in social and economic series, and another Israeli institution (the Jerusalem Institute for Israel Studies (JIIS)) also publishes the *Statistical Yearbook of Jerusalem*, but without differentiating by region or population group. Thus, Israeli official sources offer few insights into the economy of Palestinian East Jerusalem.

Nevertheless, through a better understanding of what is empirically known about the structure and performance of the East Jerusalem economy prior to 2000, and in the light of the overall trends of the rest of the OPT economy since then, a clearer picture is drawn below to illuminate what may be known about the East Jerusalem economy today. This is supplemented (in subsequent sections) by highlights of the structure and performance of the different sectors of the East Jerusalem economy, so as to better grasp its strengths and weaknesses. The statistical appendix to this report includes the most pertinent available socioeconomic data for East Jerusalem and serves as the source for figures cited here, unless otherwise mentioned.

A. The macroeconomy: declining contribution to Palestinian gross domestic product

At the end of a positive growth trend in the 1980s on the eve of the first intifada, and well before the 1993 Oslo Accords that ushered in a new context for East Jerusalem economic development, it was estimated (UNCTAD, 1994) that the East Jerusalem economy contributed around 15 per cent of the GDP of the OPT (or some \$250 million in 1990). In particular, East Jerusalem constituted an integral element of the West Bank regional economy with which it was still well connected: 16 per cent of its population, 14 per cent of its labour force, 18 per cent of domestic employment and over 16 per cent of its gross national product (including factor income and transfers). Its centrality as a tourism and related services centre was then still reflected in its contribution of over one third of the value added by the West Bank (private and public) services sector. Indeed the East Jerusalem economy’s historically high reliance on tourism, transport and related services (alongside weak manufacturing and construction sector performance) is seen in their overwhelming share of East Jerusalem output, estimated at around 80 per cent in 1987.

The East Jerusalem economy had begun by the mid-1960s to recover from the adverse impact of partition of the city in 1948 by rebuilding itself within the Jordanian economy and reorienting itself eastwards. Its occupation in 1967 was a shock of no less magnitude than that of 1948, abruptly interrupting the West Bank’s economic links to the east and subjugating them to the interests of the occupying power coming from the west. The first intifada disrupted the East Jerusalem economy as much as the rest of the occupied territory, with steep losses from declining tourism, commerce and punitive Israeli economic measures (tax raids, curfews, etc.) continuing into the early 1990s. In 1972, the Israeli authorities issued “general exit” orders allowing Palestinians access to East Jerusalem and Israel, but this was changed in June 1989 when Israel restricted these general permits. In the aftermath of the first Gulf war (1990–1991), Israel adopted a new policy whereby Palestinians were required to obtain an entry permit to Israel, and introduced the first “closures”, cutting off East Jerusalem from the rest of OPT.

The physical and economic separation of East Jerusalem from the rest of the West Bank was halted amidst the recovery of the first years after the Oslo Accords, but soon resumed and accelerated after 2000, encouraged by the systematic Israeli “separation” policies pursued since then. What should have been a “golden era” for the East Jerusalem economy in the post-Oslo period characterized by open borders, increased regional tourism and economic revival in OPT, in fact produced mediocre results for East Jerusalem. In particular, any marginal improvements over the period were quickly reversed soon after the outbreak of the second intifada in the heart of East Jerusalem itself in September 2000.

Tables 5 and 6 (appendix 1) on the national accounts of East Jerusalem only cover the period 1994–2000, but reveal the basic contours and path of the economy in an important period characterized by the most optimal policy environment in place since 1967. GDP growth in East Jerusalem was positive in most of the post-1994 years, but reversals in 1996 and again in 2000 (by 2.1 and 3.6 per cent respectively) undermined any sustainability of growth. More indicative, however, is that while per capita GDP in OPT grew by an annual average of under 1 per cent from 1994 to 2000 and of over 2 per cent in the rest of the West Bank, with relatively strong population growth, per capita GDP growth in East Jerusalem was stagnant, despite some positive spurts in 1995 and 1998–1999. While these data account for the effect of the adverse impact of the outbreak of the intifada in 2000, the East Jerusalem economy initially was less affected by this than the rest of OPT. Thus even with the best possible policy environment over much of the previous two decades, the feeble economic performance reveals the weak capacity of the East Jerusalem economy to recover from shocks, along with its growing disarticulation from its natural hinterland economy.

While the services sector predominated in East Jerusalem output in this earlier era (rising from 36 to 40 per cent between 1994 and 2000), manufacturing collapsed (from 14 to 6 per cent) and construction quadrupled, but only to 8 per cent, while the transport and communications share of GDP of East Jerusalem doubled to 23 per cent by the end of the period. The contribution of East Jerusalem to OPT aggregate demand in the 1990s was not always commensurate with its share of Palestinian GDP in this period (around 8 per cent), reflecting the relative predominance of private consumption opportunities in the local economy (as compared to relatively constrained public consumption or public or private investment). East Jerusalem contributed 10 per cent of OPT final consumption, and 10 per cent of net exports of

goods and services, while its share of OPT total gross capital formation in buildings trebled from 2 to 6 per cent by 2000.

The scale of the decline of the East Jerusalem economy within the broader Palestinian economic context is most dramatically illustrated by its falling contribution to Palestinian GDP. From an estimated 14–15 per cent share of total pre-intifada GDP of OPT (UNCTAD, 1994), the East Jerusalem contribution to GDP was estimated by PCBS at the start of the Oslo interim period at just over 8 per cent. Notwithstanding the overall improvement of the economic environment after 1993, the East Jerusalem share of the OPT economy continued its downward trend (PCBS, 2003), to below 8 per cent by 2000, a strong indicator that East Jerusalem benefitted relatively less than the rest of OPT from the so-called “peace dividend” of the post-Oslo phase.

Available data for the period since 2000 regrettably do not allow for similar calculations, but data on the value added by the main economic sectors provide an alternative path for estimation. This confirms the persistent decrease in the weight of the East Jerusalem economy relative to the economy of the OPT over the past decade. Though the real GDP of East Jerusalem has increased by relatively small increments since 2001, its relative size has fallen because economic growth in East Jerusalem has lagged behind that of the remaining OPT, which only began to recover starting in 2008. It has been estimated that the separation barrier has incurred over one billion dollars in direct losses to Palestinian residents in Jerusalem and that its adverse impact in terms of lost opportunities endures at the rate of \$200 million per year (Palestinian Authority, 2010). Sectoral data indicate that the size of the East Jerusalem economy compared to that of the remaining OPT had fallen to below 7 per cent by 2010 (PCBS, 1999–2011), equivalent to half of its share 20 years earlier – a dismal testament to the decline of the East Jerusalem economy and its growing isolation under prolonged occupation, notwithstanding the concomitant “peace process”.

Since 2000, some economic indicators suggest a higher standard of living in East Jerusalem compared to the remaining West Bank. For instance per capita GDP in East Jerusalem was estimated at \$1,365 (in current prices) in 2002 compared with \$1,200 in the remaining West Bank (Palestine Economic Policy Research Institute, 2011) and the average monthly household consumption in East Jerusalem is higher than in the rest of OPT. This is indicative of a number of factors: the generally higher income and living standards in urban areas than in rural or refugee camp communities; increasing incorporation of East Jerusalem into the Israeli economy (where higher income and expenditure levels are the norm); and the increasingly divergent growth path of the East Jerusalem economy as compared to trends in the rest of OPT. Such apparent “advantages” should not, however, be mistaken for real developmental or welfare gains, which are elusive at best in the context of Palestinian economic endurance in East Jerusalem, as UNCTAD’s assessments of Palestinian economic prospects have demonstrated in a variety of contexts over the past 28 years.

B. Internal trade and services

PCBS data (see appendix 1) indicate that there were 6,680 economic enterprises in the Jerusalem Governorate (2,659 in the J1 area and 4,201 in the J2 area) in 2009, a mere 30 per cent increase compared with 1999. In the 10 years between 1999 and 2009 a total of 1,390 new enterprises were established. Of these, 1,044 were in the J2 area, while only 346 were established in the J1 area (PCBS, 1999–2011). This is unusual taking into consideration that almost two-thirds of the East Jerusalem population lives in the J1 area, but appears to highlight the impact of economic, political and administrative disadvantages facing entrepreneurs in the annexed areas of East Jerusalem (J1).

Internal trade and related activities account for the largest share of economic enterprises at both the J1 and J2 levels. Out of the 6,860 enterprises in the Jerusalem Governorate in 2009, 58 per cent were in wholesale, retail trade and repairs (PCBS, 2003). As for J1, 66 per cent of economic enterprises were involved in trade and trade related activities. In 2009 these enterprises employed 3,256 workers, or one-third of the total number of employed persons in East Jerusalem.

Enterprises in this sector tend to be small to micro, mirroring the rest of OPT. About 96 per cent of trade enterprises employed between one and four workers in 2009. In 2008, 1,303 of these enterprises employed 2,646 workers.

Available data provide a certain sense of relative magnitude and overall trends: Data from 2008 show that trade in J1 areas contributed a total output of \$100 million, \$83 million in gross value added and \$16 million in intermediate consumption.⁴ Gross fixed capital formation in this sector was extremely low, at \$203,000. Although the number of enterprises and workers in the sector has increased relatively during the last decade, most of the increase took place in J2. An example is the retail trade sector, the largest subsector within trade activities, where the number of enterprises increased by 40 per cent since 1994 in J2, while it has only increased by 17 per cent in J1 area in 16 years. This lagging performance of the J1 economy compared with internal trade enterprises in East Jerusalem outside the barrier is yet another indicator of the perverse effects on the East Jerusalem economy of J1’s annexation without integration into the Israeli economy.

The services sector is the largest contributor to GDP and employment in OPT. In 2009 it employed 40 per cent of Palestinian workers – 30 per cent of all employed in the West Bank and 60 per cent in Gaza (PCBS, 2010c) – and accounted for 21 per cent of real GDP in OPT (excluding East Jerusalem/J1). The main activities within the services sector include hotels and restaurants, real estate activities, education, health, social work and other community and social services.

The sector plays a similar role in the economy of Jerusalem Governorate as a whole: The number of enterprises in the services sector was 1,385 in 2008. During the same year, 620 of these registered enterprises operating in services activities were in J1, employing 3,977 workers. Labour force data on the Jerusalem Governorate shows that the sector “services and others” has been the largest employer since 1999. In 2007, the sector employed 37 per cent of the Jerusalem Governorate working labour force. This share has been gradually increasing. By the end of 2010, the sector accounted for more than 41 per cent of the employed labour force in East Jerusalem (PCBS, 2010c).

In 2008 the services sector generated a total output of \$87 million; the gross value added was \$73 million. The year 2001 recorded a high point for the services sector. Since the sector was relatively less affected by the initial impact of measures, gross value added reached \$80 million, and total output was \$120 million. That year was also a high point for the labour market with 7,153 workers employed in the sector, receiving \$87 million, compared with 3,977 workers paid \$28 million in 2008 (PCBS, 2010c). Some subsectors are affected almost immediately by political instability (such as the hotel sector) that causes declines in the sector’s contribution, while others are less vulnerable to adverse shocks (such as education and health services). Eventually, however all sectors of the East Jerusalem economy were affected by the second intifada, as gross fixed capital formation in the sector fell drastically since then, decreasing from \$14 million in 2001 to a mere \$66,000 in 2008 (PCBS, 1999–2010).

C. Tourism and transportation

Because of the city of Jerusalem’s paramount spiritual significance for Muslims, Christians and Jews, the most important religious sites are located within East Jerusalem, especially its Old City, and Bethlehem. Tourism facilities naturally are concentrated nearby. According to PCBS data, in 2009 there were 369 enterprises classified as hotels and restaurants in the Jerusalem Governorate, 169 of them in J1, employing 680 workers. Together with internal trade, hotels and restaurants account for 25 per cent of the employed workforce in the Jerusalem Governorate, second only to the services sector which employed 32 per cent of the employed workforce in the Governorate in 2009 (PCBS, 2010c). Studies have suggested that tourism and related activities constitute some 40 per cent of the J1 area economy output (Abul-Su’ood and Jweiles, 2008).

But even within the restrictive environment it experiences, East Jerusalem continues to dominate the Palestinian tourism sector. For example, in 2009 43 per cent of the hotels in OPT were located in East Jerusalem and 48 per cent of the guests in OPT stayed there (PCBS, 2010a). However, the sector has been gradually diminishing since 2001. Just one year into the intifada, the number of functioning hotels fell by one-third, from 43 in 2000 to 29 in 2001 (PCBS, 1999–2011). By 2009, the number of active hotels in the Governorate was still lower than it was in 2000.

It is not only the number of active hotels that has been fluctuating during the decade that followed the second intifada, but also the number of guests, which plunged by a staggering 86 per cent, down from 217,041 guests in 1999, to a low of 29,497 in 2002. However, the last four years witnessed a noticeable recovery with the number of guests reaching a 10-year high in 2009 (219,494 guests). While hotels are a key indicator to observe in the sector, several other activities depend on and fluctuate with tourism such as restaurants, traditional souvenirs and handicrafts, travel agencies and tour guiding.

The East Jerusalem transportation sector has played an important role in OPT and it has grown noticeably in order to adapt to new transport routes which have emerged parallel to the Israeli settlement road system in OPT. Transportation in East Jerusalem has similarly evolved in line with the new geographies of occupation, while also benefitting from the revival of tourism flows to Israel and OPT since the mid-2000s. Its importance has already increased since the first intifada as green-plated Palestinian vehicles were banned from entering East Jerusalem and Israeli areas, including the airport and seaports. East Jerusalem-owned public transport vehicles (taxis, minibuses and tourist buses), which have Israeli plates, have filled the gap upon Israel’s tightening of restrictions on the movement of Palestinian people and goods since the late 1980s. The complex procedures at main crossing points between East Jerusalem and the rest of OPT require parallel fleets of East Jerusalem and West Bank registered vehicles to transport workers, worshippers and others to the crossing points where they change vehicles, similar to the “back-to-back” freight trade handling arrangements managed by Israeli authorities at the commercial crossing points between the West Bank and Jordan.

The sector includes three subsectors: land transport, supporting and auxiliary transport, and post and telecommunications. The total number of enterprises within the Jerusalem Governorate classified as part of this sector was 105 in 2009, 79 of which were located in J1 areas (PCBS, 2010b). In J1, output and intermediate consumption decreased in this sector between 2007 and 2008, even though gross value added increased. Apart from the years 2003–2004, the sector has shown

relative stability in J1. The average number of personnel engaged in the sector during the period 1999–2008 was approximately 670 workers, from a high point in 1999 at 966 workers, to a low reached in 2001 of 497 workers. The average compensation for the period 1999–2008 was \$6.5 million per year, with a high \$8.5 million in 1999 and a low of \$4 million in 2001 (PCBS, 1999–2011). The contribution of the sector to employment was stable during the last decade. It accounted for 8.6 per cent of the employed labour force at the end of 2010, while the decade's average was 8.4 per cent (PCBS, 2011).

D. Industry, agriculture and sectoral diversification in East Jerusalem

The industrial sector includes economic activities of mining and quarrying, manufacturing, and electricity and water supply. Manufacturing is the largest subsector. Out of the total number of enterprises in the Jerusalem Governorate, 576 were in manufacturing in 2008 (mainly furniture), 236 in food and 148 in beverages and 53 in wearing apparel (PCBS, 1999–2011). Due to the increasing restrictions on industrial permits and zoning within Palestinian areas of J1, most of the Governorate's industrial enterprises are located in J2. The latest PCBS data indicate that there were 951 industrial enterprises in the Jerusalem Governorate in 2009, only 16.5 per cent of which were located inside J1 (PCBS, 1999–2011).

While the number of workers engaged in the sector decreased during the last decade from 6,490 in 2001 to 2,528 in 2008, the gross value added and the gross value added per worker increased. The gross value added in 2008 accounted for 15.2 per cent of industrial gross value added in OPT and the highest level recorded by the sector since 1999. The sector ranks fourth when it comes to contribution to employment in the Jerusalem Governorate, trailing behind services, "commerce, hotels and restaurants" and the construction sectors. The sector employed 12.1 per cent of the working labour force in 2010, and has continued to contribute between 12 and 15 per cent during the last 10 years (PCBS, 2011).

The history, location and political status of East Jerusalem play the overriding role influencing its economic activities within the broader Palestinian economy, with some structural differences between the two areas. The agricultural sector has declined in both regions: in the remaining OPT it contributed close to 13 per cent of GDP in 1995, 10 per cent in 1999 and a low of 5 per cent in 2010, (PCBS, 2012). However, due to limited agricultural land and restricted movement to those areas, the weight of the sector in the economy of East Jerusalem has never been essential.

The agricultural sector plays a small role in the economy of the Jerusalem Governorate, and an especially marginal role in J1. PCBS data indicate that there were 150 agricultural enterprises operating in the Jerusalem Governorate in 2009; only four of them were in East Jerusalem. The total area of cultivated land in the Jerusalem Governorate was 21 km² in 2008. The main crops are field crops (wheat and barley), fruit trees (olives and grapes) and vegetables (tomatoes and cucumbers). The agricultural sector's contribution to employment is also tiny – by the end of 2010 the sector employed 1.6 per cent of the total working labour force in the Jerusalem Governorate. During the last decade its highest contribution to employment was registered in 2006, a mere 2.7 per cent, when dire economic conditions that year forced workers who lost their jobs in construction and industry to seek temporary employment in agriculture (PCBS, 2011).

As part of the overall trend of the Palestinian economy in the past 20 years, the sustained decrease in the share of agriculture and manufacturing in GDP has been mirrored by an increase in the share of the services and construction sectors. While there are economic sectors that have contributed in a relatively similar manner to GDP in East Jerusalem and the remaining OPT, such as internal trade and manufacturing, other economic sectors play differential roles. Hotel and restaurant activities are relatively less significant in the economy of the remaining OPT, as compared to East Jerusalem. Overall, the contribution of hotels and restaurants to GDP declined in the post-second intifada period, but has been recovering during the last few years. The transportation sector also carries higher weight in the economy of East Jerusalem than in that of the remaining OPT, mainly due to the inability of West Bank vehicles to enter East Jerusalem and Israel. Its contribution to GDP increased by six percentage points from 1995 to 2009, and a similar increase was witnessed in the first five years from 1995–1999, from 13 per cent to 19 per cent. The services sector remains the largest sector in both the economies of East Jerusalem and the remaining OPT, contributing on average a quarter of GDP in the remaining OPT and around 40 per cent in East Jerusalem in the last 10 years.

E. An economic and financial "dis-enabling" environment

The preceding review underscores the prominence of occupation and political factors in shaping economic outcomes in East Jerusalem, as elsewhere in OPT. The years 2002 and 2006 provide illustrative, if extreme, examples. In 2002 the Israeli army carried out military operations, entered Palestinian cities and imposed a curfew for several weeks, and 2006 witnessed the Palestinian Legislative Council elections and their aftermath. These years witnessed a general decline in economic activity and an increase in unemployment, including in East Jerusalem. Other periods, such as 2008–2011, were marked by relative stability and economic recovery. But the history of occupation is marked by recurring cycles of relative calm, economic growth spurts and individual prosperity, which have repeatedly proven less powerful than the imperatives of confrontation between the Palestinian people and occupation. Such "sudden stops" of this or that Palestinian "growth miracle" were witnessed in the late 1970s, 1987, 1996, 2000 and 2006 and there is no reason to believe that outcomes will differ in the future (Khalidi, Taghdisi Rad, 2009).

Nevertheless, the Israeli occupation impacts the economy of East Jerusalem through the same distortions that apply to the remaining OPT, but also through measures that are specific to the economy of the Jerusalem Governorate, specifically in J1 areas. Occupation has affected the economy of East Jerusalem at multiple levels, including the labour market, product market, trade and investment. Palestinian labour flows to Israel impact the Palestinian economy through transfers, aggregated demand, the domestic wage level and domestic labour market conditions, and thus affect the core of the Palestinian economy. The relatively high wages of workers in Israel compared with those in OPT have exerted upward pressure on wages in East Jerusalem, and thus increased labour costs to Palestinian producers despite low productivity, and undermined the competitiveness of Palestinian products which lose out to imports, mainly, from Israel.

Investment promotion is a key issue for the Palestinian economy. Foreign investment flows and open borders for financial capital are key elements of the Palestinian Authority's economic policy orientation. Realization of this goal is hindered by restriction on travel of investors and, no less importantly, the limited area available for investment. Land suitable for investment endeavours in manufacturing, agriculture and other activities is mostly inaccessible for these purposes. Apart from these impediments that apply to OPT, there are special obstacles that Jerusalemites face in efforts to develop their economy.

Palestinian households and businesses in East Jerusalem face several impediments related to access to finance and credit, whether for consumption, investment or housing purposes. The effects of lack of access to credit have been compounded by the particularly high prices in East Jerusalem, compared to the rest of OPT. While workers from East Jerusalem have higher average nominal income than those in the remaining OPT, they still face higher prices, and have to deal with expensive building permit fees, which make it harder to own homes or start a business without adequate access to financing. Odeh (2008) estimates the total cost of a building permit – including applying for water and sewage services, taxes and administrative fees – at about NIS 110,000 (\$30,000). Despite the need for financing there are no working branches of Palestinian banks in J1; the operating Israeli banks' branches are limited and do not cover the basic needs of East Jerusalem Palestinians.

The problem, however, is not merely the lack of Palestinian bank branches in East Jerusalem. Palestinians are hesitant to open accounts in Israeli banks or to rely on them for financing, whether for housing mortgages or business purposes. One of the reasons for this is the language barrier. Bank operations and documents are all in Hebrew, which most Palestinians in Jerusalem do not command, especially with regards to technical terms used in banking documents. However, the critical barrier is the fear of losing collateral property to Israeli entities in case of default. Inability to pay loan principal or interest in time could jeopardize the client's property such as houses, land and businesses. This forces Palestinian residents of East Jerusalem to resort to Palestinian banks operating in J2 areas or in nearby cities such as Ramallah, Jericho and Bethlehem. However Palestinian banks have restrictions of their own – they do not accept real estate guarantees from Palestinian East Jerusalemites. Even though deposits in Palestinian banks of East Jerusalem residents amount to about \$200 million, as a result of certain jurisdictional considerations, certain banks operating in OPT do not provide housing loans unless the clients are from Palestinian Authority-controlled areas of East Jerusalem (J2). Approved applicants are typically government employees with a steady income, but they are charged relatively high interest rates in the range of 8.5 per cent (Palestine Trade Centre, 2010a).

In a rare nod to the special problems of the East Jerusalem economy, some international circles have noted the financial obstacles constraining the economy of East Jerusalem. For example the Middle East Quartet on the peace process emphasized, in its April 2011 report to the Ad Hoc Liaison Committee for the Coordination of the International Assistance to Palestinians meeting in Brussels, that among the Quartet's main targets in East Jerusalem had been "expanding access to mortgage loans to provide improved housing opportunities to Palestinian East Jerusalemites" and "raising funds for investment in East Jerusalem to be channeled towards small to medium enterprises as a means to revitalize the local economy" (Office of the Quartet Representative, 2011). However, donor interventions in East Jerusalem have remained minimal and disparate, with little visible impact. The Islamic Development Bank has channelled support to public health facilities and other social welfare projects in East Jerusalem, in partnership with United Nations agencies, and some Arab aid helped in renovation of Palestinian properties in the Old City. But compared to the challenges of Palestinian social survival and economic development in East Jerusalem, efforts have been piecemeal and marginal.

The preceding investigation has depicted a hostile environment for Palestinian Jerusalemites and their economy, in which Israeli authorities are oriented principally towards serving the interests of a settler population in their midst and Palestinian authorities are effectively incapable of intervening in East Jerusalem and managing

or otherwise sustaining the economy. It is indeed remarkable that a distinct Arab economy has survived and that Palestinian society has maintained its political, cultural and historical identity. The East Jerusalem economy since 1994 and especially since 2001 has been left to fend for itself and maintain its integrity, attempt to preserve its deep roots in the West Bank (and Jordanian/Arab) economy and safeguard its interests against those of an endlessly encroaching, and often threatening, Israeli settlement campaign in East Jerusalem that has continued unabated, especially over the past decade.

In the absence of any political representation, and since the closure in 2001 of Palestinian Authority institutions that had been permitted to operate in East Jerusalem from 1994, Jerusalemites are effectively leaderless and adrift, and their social and economic fate remains as uncertain as that of the ultimate legal disposition of the city of Jerusalem. The strong “integrative” forces of adaptation to the Israeli regulatory framework and exchange with the Israeli economy exert a powerful pull on the Palestinian population of the city to conform and acquiesce under Israeli rule. But the discriminatory municipal and economic policy treatment of Palestinian Jerusalemites as compared to most favoured Israeli settler communities, paradoxically not only pushes Palestinians to seek to maintain economic relations with the traditional hinterland, but also serves to reinforce Palestinian social and cultural solidarity in East Jerusalem despite four decades of foreign occupation. The inadequate social service system serving Palestinian Jerusalemites and the alarming rates of poverty in East Jerusalem, reviewed in the following section, are yet additional factors that simultaneously pressure and unite Palestinians in the city and set them apart from other Palestinian “regional economies” under Israeli occupation.

III. Social conditions: Individual and Communal Impoverishment

Compounding the increasing fragmentation and hollowing-out of a once vibrant and well-connected urban economy of East Jerusalem, social conditions have deteriorated in an unprecedented manner. The economy is battered by the same shocks affecting the rest of OPT in downturns, but hardly benefits from OPT’s recovery in upturns. Furthermore, social conditions remain bereft of the same attention and resources that public authorities provide to Jewish communities in the western sector and in settlements in the east. An assessment of the complex and myriad challenges of East Jerusalem social development (welfare, municipal and social services, housing and related factors affecting Palestinian society) is beyond the scope of this report. However, to provide further context for understanding the distinct challenges faced by the Palestinian economy in East Jerusalem, some pertinent aspects of social conditions are reviewed below.

A. Palestinian labour and poverty in East Jerusalem

Like any urban economy, Jerusalem has historically exercised a strong pull on Palestinian job-seekers, from different regions of the West Bank, before and after the Israeli occupation. A Palestinian agrarian population from the surrounding villages, especially of the southern, Hebron region, has looked to East Jerusalem as an alternative to increasingly limited land and rural employment opportunities. This rural-urban migration over the decades sustained the Palestinian Arab character of East Jerusalem even while other pressures were pushing a significant percentage of the East Jerusalem white-collar labour force to seek employment in labour markets elsewhere in OPT (especially in nearby Ramallah and Bethlehem), mainly in the services sectors, civil society organizations and the public sector. Other lower skilled occupational categories of the East Jerusalem labour force also found employment in the Israeli economy (in West Jerusalem or further afield), mainly in the industrial and services sectors, as well as in the construction sector (Khawaja, 2009). PCBS data show that in 2009 about two-thirds of the East Jerusalem labour force worked in East Jerusalem and elsewhere in OPT, while the remaining 35 per cent worked in Israel and its settlements (PCBS, 2010c).

There are several factors that contributed to the rise of this pattern of workforce distribution. The most important one is the diminished capacity of the East Jerusalem economy to create job opportunities. The complicated procedures to obtain building licences make it too difficult for Palestinians to construct new units either for residential or investment purposes, while the closure of the city to Palestinians from the remaining OPT resulted in the closedown of about 25 per cent of East Jerusalem enterprises (Khawaja, 2009). The difficult labour market conditions are compounded by a growing labour force, where about 9,000 Palestinians enter the labour force annually, exacerbating the pressure on East Jerusalem’s job market.

The size of the labour force in East Jerusalem in 2010 was approximately 56,000 workers (PCBS, 2010c), which represents around 6 per cent of the total Palestinian labour force. The overall labour force participation rate was 39 per cent in the same year. As Hever (2007) noted: “Successive policies of limiting Palestinian workers, curfews, closures (since 1991) and immigrant labour inflows to replace Palestinian workers were blows to the Palestinian domestic income and have created a large increase in unemployment.”

Prior to the second intifada, unemployment rates in the West Bank and East Jerusalem were largely similar. PCBS data shows that unemployment rates in 2000 were 12.1 per cent and 11.5 per cent in the West Bank and East Jerusalem respectively (PCBS, 1999–2011). However, as with other areas of the West Bank, East Jerusalem was affected by the Israeli measures implemented since then, and unemployment rates rose sharply in 2002 to a record 28 per cent in the West Bank and East Jerusalem. This pushed Palestinians to resort to various coping strategies such as self-employment, especially in agriculture and family business, moving across economic sectors, and part-time work.

Along with renewed growth in Israel and OPT in recent years, this “flexibility” of the Palestinian labour market allowed unemployment to decrease gradually and by 2010 was at 17.2 per cent in the West Bank and went back to pre-2001 levels of around 12 per cent in East Jerusalem (PCBS, 2011). The greater reduction in East Jerusalem than in the West Bank may be attributed to the absorption of part of the Palestinian labour force into the Israeli labour market, an option not available for West Bank workers and one of the few premiums that East Jerusalem workers may be seen to enjoy compared to their compatriots.

A shared characteristic of the unemployed in the West Bank and East Jerusalem is the high percentage of the educated among them. In 2009, the percentage of those East Jerusalem unemployed who had completed 13 years of education or more was 25 per cent, while it was

39.5 per cent for those who had completed between 10 and 12 years of education (PCBS, 2010c). In spite of broad similarities with the rest of the West Bank, there are two unique characteristics of the labour force in the Jerusalem Governorate. The first is the higher rate of full employment in East Jerusalem, 84 per cent in 2009, compared to 70 per cent in the rest of OPT, with 16 and 30 per cent respectively of the employed labour force considered underemployed.⁵ The second is the relatively low unemployment rate among women in East Jerusalem, 13 per cent, compared to the West Bank at 18.8 per cent (PCBS, 2010c).

The past decade witnessed a structural shift in the employment status of working persons in East Jerusalem. On the one hand, the percentage of self-employed persons dropped from 15.4 per cent in 2000 to 8.4 per cent in 2009. On the other, the percentage of wage employees increased from

76.2 per cent in 2000 to 80.6 per cent in 2009. This is explained by the fact that in the aftermath of the second intifada a number of self-employed shop owners were forced to close down their businesses and seek wage employment elsewhere (PCBS, 2010c).

Meanwhile, in East Jerusalem the participation rate of the female labour force is low, even in comparison to the West Bank, at 11.4 per cent in 2009 compared to 67.6 per cent male participation rate in the same year. Though this might seem surprising for an urban population, this is mainly due to the difference in size of the agricultural sectors of East Jerusalem and the rest of the West Bank. In previous years, the agricultural sector in the West Bank has contributed between 5 and 8 per cent of GDP and accounted for more than 10 per cent of the employed workforce, whereas this sector plays a minor role in the economy of East Jerusalem, accounting for less than 2 per cent of the employed workforce (PCBS, 1999–2011). Another reason for low female participation in the labour force is that Palestinian women in East Jerusalem are reluctant to seek employment in the unfamiliar and challenging Israeli economy, a key source of employment for the Palestinian male population of East Jerusalem.

The distribution of employed persons among economic sectors also witnessed several changes in the new circumstances created by the increasingly distinct growth path of the East Jerusalem economy. The percentage of workers employed in the construction sector dropped from 20.9 per cent in 2000 to 12.2 per cent in 2006, but increased again to 20.4 per cent in 2010, while the percentage of workers absorbed by the services sector and other branches increased from 27.2 per cent in 2006 to 28.2 per cent in 2010.

There are several forms of discrimination against East Jerusalem Palestinians that characterize their relations with the Israeli labour market. According to Jerusalem non-governmental organizations, employment conditions of East Jerusalem Palestinians are harsh and manipulative, and Palestinian workers are not allowed to participate in Israeli labour unions. In addition to being paid less than Israeli workers, East Jerusalem Palestinian workers have a longer working day, the average length of which exceeds 10 hours, often with no compensation for the extra work hours as provided for in Israeli labour law (Khawaja, 2009).

Palestinians traditionally form the lowest rank in the Israeli labour market; they work in jobs categorized as least desirable, difficult, and dangerous. Manual labour, such as construction workers hired on a daily basis, is dominated by Palestinians. Although Palestinians constitute about 30 per cent of the total population of the city of Jerusalem, they form 43 per cent of the unskilled labour force. While facing the same cost of living and market conditions as Israelis in East Jerusalem, the average monthly wage for East Jerusalem Palestinians working in Israel and its settlements was NIS 4,032 in 2009 (PCBS, 2010c), which is less than half the average monthly wage in Israel – NIS 8,131 in 2009 (Israeli Central Bureau of Statistics, 2010).

Data vary on the poverty rate among Palestinians in East Jerusalem because of the different standards and poverty thresholds used by Israeli and Palestinian statistical sources. According to JIIS (2012), poverty among Palestinians in East Jerusalem has been rising steadily over the past decade, whereby 77 per cent of “non-Jewish” households⁶ in Jerusalem were under the Israeli poverty line in 2010, compared to 25.4 per cent of Jewish families who lived below the poverty line in the same year. The East Jerusalem data mirror the poverty divide between Arab and Jewish citizens of the State of Israel, whereby according to the same source, 53.2

per cent of non-Jewish households in Israel were classified as poor, compared to only 14.3 per cent of Jewish families. Indeed, poverty is almost fourfold as prevalent among Palestinian households in East Jerusalem as it is on average in Israel as a whole and well above the rates prevalent among Arab citizens of Israel proper. The picture is bleaker when it comes to children. In 2010, 84 per cent of Palestinian children in East Jerusalem were poor, compared to 45 per cent of Jewish children. Though Palestinians accounted for a third of the city's population and had such a high proportion of their children living under the poverty line in 2010, only three welfare offices were operating in East Jerusalem compared to 18 in western Jerusalem serving Israelis. The average daily wage in 2007 was lower in Jerusalem (NIS 232) than in the rest of Israel (NIS 269.7), and almost 40 per cent of workers in Jerusalem receive the minimum wage. Yet the average daily wage of Palestinian Jerusalemites working in Israel and Israeli settlements was NIS 137.5 in 2007, or half of the Israeli average and 59 per cent of the Jerusalem average. Furthermore, the annual average per capita income of Jewish Israelis was \$23,300 in 2007, or eight times the average income of the Palestinians in East Jerusalem (JHS, 2011).

B. Restricted access to educational and health services

Because of OPT's limited natural resources, human capital has special importance as a key asset for the economy. Persistent economic adversity has forced Palestinians to rely on emigration and education to cope with high poverty and employment (Hilal and Johnson, 2003). Alongside access to health and cultural rights, educational opportunities play significant roles in the development of human capital, and consequently the development of the economy as a whole.

The education system in East Jerusalem has been greatly affected by Israeli policy neglect. It is run by multiple authorities: some schools are under Israeli education authorities, many others are private providers, while the Palestinian Authority or the Jordanian administration (Ministry of Awqaf Islamic Affairs and Holy Places) run public schools and the United Nations Relief and Works Agency for Palestine Refugees in the Near East provides education up to secondary level for residents of the two refugee camps located within East Jerusalem municipal boundaries (Shu'fat and Qalandiya). Given the variety of educational services providers, there is no standardized curriculum, with both Palestinian Authority and Israeli curricula competing for primacy; as such, the quality of education varies widely across institutions.

According to the Israeli compulsory education law, all children between the ages of 5 and 18 years are entitled to free education and the Israeli Ministry of Education is responsible for overseeing and providing education in East Jerusalem. All Palestinians who hold valid Jerusalem identification cards should be entitled to the option of enrolment in municipal schools. But less than half of school-age children needing to attend municipal schools actually are able to do so; East Jerusalem faces a severe classroom shortage and many students are turned away from municipal schools, forcing families to seek alternatives that are often costly.

According to a report of Israel's State Comptroller, in the academic year 2007/2008, there was a shortage of at least 1,000 classrooms in East Jerusalem at all levels and only 257 classrooms had been added since 2001 (OCHA, 2007). Moreover, the provision of new schools in East Jerusalem is frustrated by zoning and planning restrictions that hinder construction of educational facilities. Approximately 5,000 Palestinian school-age children are not enrolled in any institution, while some sources state that the post-elementary dropout rate in municipal schools could be as high as 50 per cent (ACRI, 2010). This has fostered child labour in informal activities and higher rates of juvenile delinquency. Meanwhile, seeking proper schooling in bordering communities of the West Bank can jeopardize residency rights in the city for students and their families, who must be able to demonstrate that they are studying in East Jerusalem establishments.

The effects of restricted access to education are compounded by the lack of recreational and cultural services and outlets for the youth of East Jerusalem. For example, West Jerusalem has 1,000 public parks compared to only 45 in East Jerusalem; 34 swimming pools compared to 3 in East Jerusalem; 26 public libraries compared to a mere 2 libraries in East Jerusalem; and 531 sports facilities against only 33 in East Jerusalem (B'tselem 2011b). The discrepancies even in such sociocultural services highlight the entrenched disadvantages of the Palestinian population of Jerusalem.

Difficulties related to access to education in East Jerusalem are indicative of the wider discriminatory policy against Palestinians living under Israeli control. The lack of equality in educational opportunities is captured by the Equality Index of Jewish and Arab citizens in Israel published by the Association for the Advancement of Civic Equality (Sikkuy, 2009).⁷ Although the Index is an indicator of equality between Jewish and Palestinian citizens within all of Israel, it can be a strong indicator of the situation in East Jerusalem. In fact, as has been seen with poverty, the Arab-Jewish disparity in East Jerusalem is usually much higher than that generally in Israel. In 2007 the education index was 0.34, indicating high inequality and disadvantage to Palestinians.

Primary education faces numerous difficulties in East Jerusalem. While Israeli law stipulates that all children aged 5–18 are entitled to free education, one of the most pressing issues in access to education in East Jerusalem is the shortage of classrooms. In the past decade only about 260 new classrooms were built. As a result of classroom shortage, schools have resorted to double shifts, and "alternative" non-official physical structures are used as classrooms (OCHA, 2011b). According to Jerusalem municipality figures, about half (704) of East Jerusalem classrooms were "substandard" in 2009, of which 221 were housed in "unfit" buildings (ACRI, 2010).

Physical access is one of the main impediments facing Palestinian students in East Jerusalem, where 20 per cent of students faced difficulties reaching their schools in 2007. The separation barrier affected school times by increasing the journey time for many students, while other schools suffered from overcrowding (OCHA, 2007). This has contributed to a high dropout rate among Palestinian students in East Jerusalem. Israeli western Jerusalem has a 7.4 per cent dropout rate, while in East Jerusalem the rate is a staggering 50 per cent.⁸ No doubt these dismal outcomes reflect the differential budget allocation for elementary school students: in East Jerusalem they are estimated at NIS 577 per student, less than one quarter of the per-student budget allocated in western Jerusalem (Applied Research Institute – Jerusalem, 2009).

Not only have primary and secondary education, which are key to the development of human capital, been affected by occupation, but higher education also has been restricted. A case in point is the Al Quds University in Jerusalem, which had more than 10,000 registered students in 2009. The main campus is located in the village of Abu Dis in the J2 area of the Jerusalem Governorate. The university was not only severely affected by checkpoints and the separation barrier, which physically passes through the campus and required the establishment of several campuses within J1, but students from J1 area also suffer from the fact that Israeli authorities do not recognize the degrees issued by the university. This further complicates the prospects for a growing youth population, educated under one (Palestinian Authority) system but unable to seek and keep suitable employment within that economy, while educationally unsuited to integration into the theoretically accessible, but effectively out-of-bounds, Israeli labour market.

While Palestinians living in the J1 area, inside the wall, have access to health services provided by the Israeli health care system, including the six hospitals in East Jerusalem, others from OPT as well as those who now live behind the wall have limited access to such services. Moreover, even those on the J1 side of the wall face a number of difficulties, as explained below. According to the Fourth Geneva Convention, article 56, "the Occupying Power has the duty of ensuring and maintaining, with the cooperation of national and local authorities, the medical and hospital establishments and services, public health and hygiene in the occupied territory". Under Israeli law, East Jerusalem residents are entitled to Israeli health services since they pay monthly instalments to the Israeli National Insurance Institute. However, significant access problems persist (OCHA, 2011a).

Historically, residents of the West Bank and Gaza relied on health-care providers in East Jerusalem for more specialized and urgent care.⁹ However, often patients are either severely delayed or denied entry into East Jerusalem for treatment. The combinations of checkpoints, separation barrier, difficulty in obtaining entry permits and ongoing blockade on Gaza have stifled access to health care and in turn reduced the potential market for East Jerusalem's relatively advanced private health-care providers. (Al-Maqassed and Augusta Victoria Hospitals in the city remain among the more advanced Palestinian hospitals in the West Bank.)

East Jerusalem residents who live on the West Bank side of the separation barrier also face difficulties in accessing health care as they must pass through checkpoints to reach health-care providers. Moreover, the imposition of a quota on the number of permits issued to health-care staff with West Bank identification cards has made it difficult for hospitals in East Jerusalem to hire new staff as applications for permits are often denied. As a result, the number of health-care staff in East Jerusalem hospitals with West Bank identification cards dwindled from 1,168 (about 70 per cent of all staff) in 2007, to 915 (about 62.5 per cent) by March 2009. Furthermore, according to OCHA, hospitals and patients in East Jerusalem are denied access to the much cheaper pharmaceutical products manufactured in the West Bank since they are not allowed entry into East Jerusalem even if prescribed by East Jerusalem doctors.

As the Palestinian Ministry of Health cannot operate in East Jerusalem, Palestinians have no choice other than resort to the Israeli health-care system, and Palestinian hospitals in East Jerusalem are similarly obliged to link to the Israeli health system in order to provide (and be reimbursed for) the services covered by Israeli health insurance schemes. Most of these hospitals have recently tried to establish mobile clinics in the West Bank to meet the needs of the population not able to access the services in East Jerusalem. However, the ongoing restrictions on movement fostered financial crises; hospital revenues declined significantly while costs remained very high (operational costs and staff salaries). The Palestinian Authority is indebted to these hospitals by several million dollars, which makes it more difficult for these hospitals to survive. There are no mental health clinics in East Jerusalem – the one that existed before was recently moved to western Jerusalem. As a result, the ensuing distance, transportation costs, linguistic barriers and lack of staff who speak Arabic have undermined the access of Palestinian Jerusalemites to mental health care (Physicians for Human Rights, 2008).

Palestinians from the rest of OPT need permits to access medical treatment in East Jerusalem. For those patients who request financial assistance from the Palestinian Ministry of Health the process includes several steps. First “a request is submitted by the patient’s physician to the Referral Abroad Department ... of the [Palestinian Ministry of Health], which determines the eligibility of the patient and designates a hospital. The patient then sets up an appointment with the hospital following which, the [Referral Abroad Department] or the hospital sends a request to the Israeli Civil Administration to issue a permit for the specified period of the appointment or operation” (OCHA, 2011b). This is not to mention the suffering of patients through delays incurred in crossing checkpoints even after they have received those permits. Palestinians who were separated from the service areas relatively recently by the separation barrier also spend efforts and time and need permits to access health services, in addition to which most medical forms are in Hebrew only, constituting another barrier.

Access for patients and staff is not the only constraint affecting the East Jerusalem health system. Hospitals require the same difficult-to-obtain permits needed for construction, which makes it extremely hard for them to renovate or expand facilities. This led East Jerusalem hospitals to seek alternative solutions, including renting hotels, to accommodate patients.¹⁰ Moreover, hospitals are obliged to buy Israeli products which can cost up to five times more than Palestinian-produced pharmaceuticals (OCHA, 2011b).

C. Economic vulnerability and social fragility: the Old City as a microcosm¹¹

At the heart of the story of the East Jerusalem economy lies its greatest potential strategic asset, the Old City of Jerusalem, a walled off area of less than 1 km² (actually 900 dunums). Today’s Old City streets, buildings and walls were constructed in the Mamluk and early Ottoman periods, from the fourteenth century A.D. onwards, giving the whole area a medieval and largely Islamic architectural and cultural landscape.¹² Within its boundaries are to be found some of the holiest religious sites. Over 100 religious institutions in the Old City impart an additional sense of the City’s spiritual sanctity. A significant proportion of the residential and commercial property in the Old City is owned by Islamic private endowments in perpetuity managed for centuries by Jerusalem families, or public charitable and religious institutions administered by Jordanian, Israeli and Christian Church authorities.

The busy markets of the Old City cater to tourists, worshippers and shoppers visiting from nearby West Bank villages and from around the globe, comprising some 2,400 establishments, of which 200 are manufacturing or other crafts workshops. Around 2,000 commercial properties (around half of which traded in tourist goods, foodstuffs, restaurants and various services) are spread along the main avenues of the Old City and largely in its historic commercial zones. The small number of manufacturing workshops in the Old City are microenterprises, often producing goods for sale in nearby tourist shops, a longstanding though increasingly fragile intersectoral link. Less than 10 per cent of commercial and manufacturing establishments are Jewish-owned, though half of the Old City’s educational institutions were Jewish.

The Old City is an employment centre, insofar as many proprietors live elsewhere in East Jerusalem and many of the educational, religious and social service institutions are staffed by employees from elsewhere in East Jerusalem or the West Bank. But it is a population centre as well (see appendix 1), notwithstanding its crowded conditions. Some 6,000 families live in the Old City in 5,600 housing units. The Old City population has continued to grow over the past decades, reaching 40,600 by 2010, up from 32,300 in 1995. The Jewish share of the Old City population also rose in that period, from 8.6 per cent to 11.4 per cent by 2002, but in subsequent years the total Jewish population stabilized at under 3,900 (since 2008), a share of around 10 per cent of the Old City population. The strong pressure for Palestinian repopulation in the Old City to preserve and renew neglected properties or to safeguard residency status made the Palestinian Arab population grow to over 35,000 by 2010. Given the Old City’s extreme shortage of space and limited possibilities for vertical construction, this strong Palestinian population growth appears to have constituted a counterweight that places limits on further Jewish settlement of the Old City.

Palestinian Arabs (Muslims and Christians) live almost exclusively in the so-called Muslim, Christian and Armenian “Quarters”. Today’s “Jewish Quarter” is a zone that was constituted by the Israeli authorities in the aftermath of the 1967 war (Ricca, 2007). When some 200 homes in area known as *Harat al Magharabi* (“Moroccan Quarter”) were demolished by the Israeli Army to make way for the Western Wall plaza, a swath of adjacent properties in *Harat al Sharaf*, *Harat al Ghazaleen* and *Bab al Silsilah* (“Muslim Quarter”) were expropriated and consolidated with the nearby area where a Jewish community in the Old City had resided for centuries. This established the new “Jewish Quarter” in the Old City. The majority of the Jewish population of the Old City resides there, with a total population growing slowly, to 2,500 by 2008. Preliminary JIIS estimates indicated a relatively large increase by 2010 to 3,100, indicating intensification of Israeli residential and educational/religious projects in that part of the Old City.

Sustained Israeli settlement of the Old City since 1967 and its intensification in recent years especially outside the “Jewish Quarter” has transformed the regulation of commerce and property rights in the Old City. Israeli jurisdiction has been imposed over civil affairs and property rights, while the local economy is more oriented towards the Israeli economy than other areas of East Jerusalem. As Israeli settlement has extended into the mainly Arab areas of the Old City, it may be deduced from available data (appendix 1) that as many as 1,000 Israelis had set up residences and religious institutions in purchased or expropriated properties outside the “Jewish Quarter” by 2010. Though their demographic significance is minimal amidst some 35,000 Palestinian Arabs living in the Old City (and thousands more who work there but live outside the walls), these 1,000-odd settlers have established residences and religious institutions throughout the Old City, which form part of the wider Israeli security presence and control of the Old City.

The resident Palestinian population of the Old City is one whose composition continues to change over time, as more affluent Jerusalemites move out of the cramped space of the Old City to other areas of East Jerusalem, and lower-income workers and Jerusalemites from outside the barrier move in. The rate of poverty among Arab households was estimated at above 50 per cent in the mid-2000s. Similarly the composition of the Jewish population has shifted over time with a greater preponderance of Orthodox families, who often are lower-income in comparative Israeli terms. More than any other segment of the East Jerusalem Palestinian population, of which the Old City accounts for almost 15 per cent, these Jerusalemites are caught between the front lines of interaction with Israeli settlers and authorities on a daily basis and the front lines of the struggle to preserve and assert Palestinian cultural and political identity and its Islamic and Christian roots. This has entailed a growing sense of siege and conflict for indigenous Palestinian residents who perceive their lifestyles, livelihoods and social cohesion to be at risk in the discordant climate reigning in the Old City, with religious fervour easily degenerating into communal tensions.

Social tensions have been aggravated by a duality in housing conditions and in social and cultural services between the Jewish and other “Quarters” of the Old City. This shows up, for example, in certain vital statistics such as higher Arab infant mortality; higher housing density in Arab areas especially in the “Muslim Quarter” (53 persons/1,000 m² compared to 19 persons in the “Jewish Quarter”); and a less renovated/maintained housing stock, with 30 per cent of Palestinian dwellings in 2002 still lacking running water, 40 per cent unconnected to the sewage system and dampness a major problem for most buildings owing to defective plumbing systems. Public health concerns remain high in Arab-inhabited areas owing to inadequate garbage collection services, sewage and drainage networks and lack of public spaces (parks, sports facilities and playgrounds). In addition to the above constraints, limited cooperation between Palestinians and Israeli security and social service authorities has also meant inadequate systematic attention to critical weaknesses in social cohesion and conditions, such as drug use and addiction, correlated to weak socioeconomic status, family violence and child neglect, youth in distress and high dropout rates from school, and intolerance and racism (Glass and Khamaise, 2005).

In short, however similar to the challenges faced by the Palestinian economy and population in East Jerusalem and the Old City might be, the latter represents an extreme case of the adverse and complex social and economic impacts of annexation without integration and with isolation and prolonged decline. The endurance of these Palestinians under duress also offers a glimpse into the survival, coping and adapting strategies to which Jerusalemites have resorted in maintaining a distinctive, if dependent and vulnerable, Arab economy at the heart of the Old City’s “global” market, while striving to maintain links with the rest of the Palestinian economy. This precious heritage also constitutes the supreme resource for a future Palestinian economy and its core, emanating from Jerusalem and integrated with all markets – east, south, north and west – as explored further in the following section.

IV. Conclusions and Recommendations

Israel’s occupation and unilateral annexation of East Jerusalem in 1967, followed by its incorporation into Israel in 1980 by law, have gone in tandem with economic separation from the rest of the Palestinian economy and at an increasing pace during the last decade, which witnessed deep physical and demographic alterations to the City. Measures to this effect include expansion of Israeli settlements in East Jerusalem as well as the construction of the separation barrier, in a manner that effectively has erased the so-called “Green Line” which had defined the borders of Israel until 1967. Of special concern is that recent years have witnessed an acceleration of the processes which have stymied East Jerusalem’s development since 1967: further impoverishment, increased demolitions of Palestinian infrastructure (especially homes) and the expansion of Israeli settlements particularly in the areas surrounding East Jerusalem and Bethlehem (Office of the United Nations Special Coordinator for the Middle East Peace Process, 2011). This has added to the existing physical fragmentation between different Palestinian “bantustans” – drawing on South African experience of economically dependent, self-governed “homelands” existing within the orbit of the advanced metropolis, which has been applied in studies on the economic geography of occupation in the Palestinian case.¹³

It should be recalled that East Jerusalem is merely living one version of the socioeconomic impact of confrontation with prolonged occupation in the context of an

expanding settler/colonial-type enterprise (Jabary et al., 2012), which is widely accepted as the main cause of the failure of Palestinian economic development efforts (UNCTAD, 2012). As has been discussed in this special report, economic separation resulted in the contraction in the relative size of the East Jerusalem economy, its detachment from the remaining OPT and the gradual redirection of East Jerusalem employment towards the Israeli labour market. One clear result has been that the contribution of the East Jerusalem economy to the Palestinian economy has been limited to its two basic sectors, services and tourism, while other productive sectors, especially construction and manufacturing, languish or disappear. The growing detachment has negatively affected both the economies of East Jerusalem and the remaining West Bank.

Indeed, what this examination of the East Jerusalem economy demonstrates is that however singular its development experience, its evolution cannot be understood in isolation from its changing relations with the other economies to which it is, or has been in the past, more or less connected. The shocks to which the East Jerusalem economy has been subjected over half a century rarely came from within: external integrative or disintegrative pressures have exerted a powerful influence on the path and structure of its development which has left it with much-reduced domestic productive capacity. From a vibrant city which was largely Arab prior to 1948 and trading with other Palestinian and regional markets to the east, south, north and west, a divided Jerusalem after 1948 implied an abrupt disconnect with most of its historical trading partners. This provided a relatively impoverished economic landscape as Jerusalemites struggled to reorient their lives under Jordanian rule until 1967.

The next adverse shock to East Jerusalem's socioeconomic fabric and structural integrity came with the occupation and the Israeli unilateral annexation in 1967 and its sudden incorporation into the economy and State of Israel. While this did not cut East Jerusalem's existing economic links with its natural hinterland in the West Bank, links with Jordan and Arab countries became severely strained. Israeli control of border crossings restricted the flow of persons and goods across them, a structural constraint which endures until today. Nevertheless, Jerusalemites picked up the pieces and made the best of two less than second-best worlds, namely preserving economic links with the West Bank and Jordan as best as possible, while not ignoring new opportunities offered by access to Israeli markets. While the following 30 years or so did not witness a major shift in these orientations, the lopsided incorporation of East Jerusalem into the Israeli economy of greater Jerusalem and long-term neglect by public authorities meant that it lagged behind all its "comparators": Israelis in both sectors of Jerusalem, Arab citizens of Israel and even the Palestinians under Palestinian Authority jurisdiction. By the end of the 1990s, the new growth, investment and national economic reconstruction opportunities enjoyed by the rest of OPT after the Oslo Accords had largely bypassed East Jerusalem and contributed to its growing detachment from the general economic and social trends enveloping it.

With the latest shock to East Jerusalem since 2001 coming through the construction of the barrier and intensification of aggressive Israeli settlement in the eastern part of the city, it is a wonder that the Arab "non-permanent resident" population has remained in place and a largely cohesive, if leaderless, community. The East Jerusalem economy began to recover from this downturn in the second half of the 2000s. But its exclusion from Palestinian Authority jurisdiction in the rest of the West Bank deprived it of much of the positive spin-offs of the 2008–2011 boom, largely focused in Ramallah and some other West Bank cities. Increasingly, East Jerusalem finds itself on a fragile economic trajectory of its own.

Nevertheless, Jerusalemites have against all odds safeguarded the core of their economy concentrated in the Old City and extending through its eastern and northern suburbs, stubbornly resisting further encroachment on the limited resources they can still muster and adapting to changing circumstances as best they can. Jerusalemites have developed a degree of dependence on employment opportunities in the Israeli market, providing a much-needed offset to the closing of economic opportunities towards the east. But for its sustenance and strategic depth the East Jerusalem economy is still able to rely primarily on exploiting its most precious and inalienable asset: the enduring Arab/Islamic/Ottoman heritage of its Old City with its equally compelling Holy Places and the tourism flows, related services and revenues that they generate. This implies that for all the conflicting pressures that the East Jerusalem economy faces from different sources, it maintains a distinct identity, purpose and potential that must be reflected and strengthened as part of any survival and development strategy or programme for the city.

A report by the International Crisis Group (ICG), published since the completion of this UNCTAD report, has explored many of the aspects of East Jerusalem's complex relations with the forces engulfing it that have not been covered here, in particular the political and social pressures from without and within (ICG, 2012). The conclusions of the ICG investigation, indicatively subtitled "the withering of Arab Jerusalem", echo one of the key themes of the preceding analysis of the city's economy and are no brighter than those sketched out by UNCTAD: "After some 45 years of occupation, Arab Jerusalemites suffer from political and cultural schizophrenia, simultaneously connected with and isolated from their two hinterlands: Ramallah and the West Bank to their east, West Jerusalem and Israel to the west" (ICG, 2012, p. 25).

It is natural that in attempting to better understand the economic challenges faced by East Jerusalem, the preceding analysis has resorted, as needed, to comparisons with the other markets and economies with which it has interacted over the years: first Jordan, then the rest of OPT including Gaza and most recently only the West Bank, not to mention Israel and its settlements in East Jerusalem and the economy of the Arab citizens of Israel.

This has been necessary not only because these other markets constitute the main economic partners of East Jerusalem and their weight has ultimately determined the development path of an East Jerusalem economy adrift in a multifaceted legal, demographic and political limbo. No less pertinent is that Palestinian development elsewhere under Israeli sovereignty offers lessons in economic survival and social steadfastness that are reflected in the East Jerusalem context. Jerusalemites have much to learn from their compatriots' experiences of a century of confrontation with adversarial "settler colonial" forces: from "de-development" of the Gaza Strip under Israeli occupation, to "individual prosperity and communal impoverishment" in the West Bank, to the socioeconomic experience of Palestinian Arab citizens in Israel that have been analysed as "internal colonialism", "disadvantaged regional economic development", "partial inclusion" or "incorporation without integration".¹⁴

They also have much to impart, as a variety of strategies have been employed by Palestinians in East Jerusalem and elsewhere to cope, adapt and endure Israeli occupation and settlement. Despite the myriad obstacles that exist, the East Jerusalem economy is not yet, and need not become, a lost or solitary cause. In fact, it constitutes a formidable front in a broader Palestinian strategy of economic "steadfastness" and maintenance of a distinct social, cultural and political identity. While Palestinian Authority, international, Arab and Islamic support and funding will be needed if East Jerusalem is to do better than simply survive, there is little certainty of salvation coming from external sources, in the light of the past two decades of gradual disconnection of East Jerusalem from the development fortunes of the rest of OPT. However, drawing on its core human resources and sociocultural assets and on the inviolability of the status of the city of Jerusalem under international law, Jerusalemites still have resort to a range of survival measures within the existing legal and regulatory framework, even while awaiting the funds that have been pledged over the years to East Jerusalem social, economic and cultural development, but not so often delivered, by donors and friends near and far.

While there is clearly a need for economic interventions to ease the constraints on the economy of East Jerusalem, economic and social development requires political progress and improved horizons for ending occupation in line with relevant United Nations resolutions. By the end of 2012, 45 years after the unilateral annexation of East Jerusalem, such a prospect seems dim indeed and the limited support that East Jerusalem has received from donors has had at best a palliative effect and largely been unable to stem socioeconomic decline. That being said, targeted interventions designed to have a catalytic effect are urgently needed and can always be helpful to indigenously-led efforts to survive and develop. There is no dearth of sectors identified by Palestinian sources for support and there are adequate preliminary studies and plans of the feasibility of possible interventions.

Given the absence of any broadly representative and functional political representation of Palestinians in East Jerusalem in their dealings with public and international authorities, such interventions in the current environment may be more usefully focused on how to assist the private sector and non-governmental social service providers in East Jerusalem. The absence of Palestinian legislative or executive authority in East Jerusalem, and the neglect of Israeli authorities of the various Israeli and international reports on the dire socioeconomic conditions that Palestinians Jerusalemites face, calls for an especially creative and flexible approach, which makes the best of the legal opportunities within the de facto Israeli framework to protect, sustain and nurture Palestinian economic interests in the city. This is of paramount importance with respect to alleviating hardship in the Old City.

Alongside such efforts, the Palestinian Authority has highlighted the need for new sustained investment to safeguard East Jerusalem's critical role as the capital of a future Palestinian State and has undertaken indicative planning exercises that assume the possibility to guide investment in East Jerusalem, and rebuild its economy and infrastructure (Palestinian Authority, 2010 and 2011). Palestinian Authority planning (without any corresponding resources having been identified) envisions a mix of investments by government, private sector and donors. The plan indicates a total investment over three years in the range of \$428 million, out of which the private sector would contribute \$210 million. Investment would be allocated among three main clusters reflecting broadly the key socioeconomic challenges in East Jerusalem today: social protection and development (\$75 million), economic development (\$328 million), and human rights (\$25 million). The economic development cluster includes three sectors: the economy (\$77 million), tourism (\$127 million) and housing (\$124 million).

Private investment funds have also emerged; one is the holding company Al Quds Holding, recently launched with an initial capital of \$20 million. By May 2012, 33

shareholders had contributed between \$25,000 and \$1,000,000 each. The company intends to invest in multiple sectors including the housing, tourism, health, education and housing sectors (Al Quds Holding, 2011). Development in East Jerusalem stands to benefit from feasibility studies of investment in specific strategic sectors – such as tourism, education, housing and services – for targeted support and removal of constraints on their growth (Palestine Economic Policy Research Institute, 2011). The Old City economy represents an especially worthy beneficiary in such an eventuality.

Housing is a key problem facing Palestinians in East Jerusalem that calls for a more significant (and costly) intervention, including legal aid for impoverished homeowners under threat of expropriation or demolition or trying to obtain building permits. There is also a need for developing alternative sources and mechanisms for providing housing loans and mortgage financing and while the company Padico Holding has recently initiated a housing project in Sharafat, it will only provide 128 new housing (Partners for Change, 2008). In any case, developing alternative sources for general consumer and business financing can potentially play a major role in attracting investment in housing and construction, and in the business climate in general.

The Palestinian Authority should also consider a mechanism with the Palestinian Monetary Authority and Palestinian banks in the rest of OPT to enable those banks to extend loans for investment in East Jerusalem, with investment risk properly managed and shared. The financing gap can be overcome through the establishment of a well-managed and funded agency whose task is to guarantee loans for business and investment projects in Jerusalem. Alongside the need to revitalize various professional associations, trade unions and chambers of commerce, reviving the “Higher Council for Tourism” as the local focal point on tourism is an option worth pursuing. Such a body could be responsible for supporting tourism and its subsectors, including hotels, restaurants, tour guides and tourism agencies, and handicrafts and channelling private investment and international support.

Needless to say, if it were so inclined, the Israeli Government could go much further in meeting its obligations as an occupying power by acting with vigour to improve the economic conditions in East Jerusalem and the well-being of its Palestinian residents, as well as ending settlement activities and the occupation of East Jerusalem. In the meantime, steps forward could include removing restrictions on the movement of people and goods, reconsidering patterns of taxation, services provision, investment laws, building permits and procedures, as well as the promotion of equal access to health and education. For example, in November 2012, civil rights advocates on behalf of Palestinian residents of East Jerusalem pursued their claims all the way to the Israeli Supreme Court. As a result of their successful appeal, the Court obliged the Jerusalem municipality to provide adequate garbage bins and collection services for Palestinian neighbourhoods, considering the high *arnona* municipal taxes they pay and the debilitated state of their communal infrastructure. There is an entire programme of such possible measures that are incumbent on Israeli authorities, but the record to date suggests that they are less interested in integrating the Palestinian East Jerusalem economy than in excluding Jerusalemites from the city and replacing them with Israeli settlers. Daily confrontations between aggressive settlers in outposts in the Old City and in small implantations in other predominantly Palestinian Arab quarters of the city, alongside the intensification of government-funded settlements ringing the city from the east, imply nothing less.

While Palestinian Jerusalemite non-governmental organizations, social and religious institutions and civic groups certainly could do more to enhance their coordination with each other and with the Palestinian Authority and other authorities, especially the Israeli municipality and social service providers, they also need to maintain unity of vision and coherence of action, given the many divisive forces operating in their midst. Taking into account the multiple jurisdictions and government authorities (Israeli, Palestinian Authority and Jordanian) with which Palestinians in East Jerusalem must maintain the validity of personal status documents and deal on a daily basis professionally and otherwise, the challenge of simply remaining a Jerusalemite is in itself a development strategy. Similarly, building economic links with Palestinian Authority employers and investors (or clients/markets) offers Palestinians in East Jerusalem attractive alternatives to second and third class status in the Israeli labour market and preserves the historic economic relation with the Palestinian and Arab hinterland. This too implies long-term policies to reinforce and deepen such trends where they exist and to encourage them when feasible.

More pressing, however, is the need for more effective coordination among various organizations involved in providing support to Palestinian Jerusalemites, especially given the constraints on the Palestinian Authority in delivering development, humanitarian relief or services in East Jerusalem. There are several entities (non-governmental and bilateral donors, the United Nations and other international organizations) operating in East Jerusalem, separately or in coalitions. The effectiveness of their interventions in favour of Palestinian Jerusalemites can be enhanced by greater harmonization, prioritization and coordination to maximize synergy and complementarities. This is not to mention the need for more vigorous representations to the concerned Israeli authorities regarding different aspects of socioeconomic discrimination affecting Jerusalemites.

Indeed, unlike donor relations with the Palestinian Authority in the West Bank and with development and relief needs in Gaza which are programmed, coordinated and monitored in sectoral working groups, East Jerusalem is either grouped together with other areas or simply not treated as a distinct issue with its own sets of problems and needs. As with its economic relations, East Jerusalem is in a “development cooperation limbo”. The nominal Palestinian Authority has no executive powers in Jerusalem, the sovereign Israeli authorities consider East Jerusalem an obstacle or at best peripheral to their core concerns and programmes in the city and international agencies are unable to catalyse development interventions in a coherent or effective way. These are all urgent shortcomings that need to be addressed candidly in any future programmes to relieve and develop the East Jerusalem economy.

The disputed status of Jerusalem under international law means that external interventions are not only legitimate, but also incumbent upon the international community which in 1949 assumed the moral responsibility for the city’s future. For example, the United Nations and the international community are in a unique position to help fill the Jerusalem data gap through monitoring and compiling socioeconomic data in a systematic way for occupied East Jerusalem as defined by the post-1967 configuration, within the broader context of it as part of the city of Jerusalem, as defined in the relevant United Nations resolutions. The PCBS could also consider reissuing national account estimates for East Jerusalem, as needed for any strategic planning for the reintegration of the city into the Palestinian national economy. But the need for such assistance goes beyond data, research and planning, and calls for a formalized mechanism such that donor aid is more effectively targeted, channelled and managed in close consultation and cooperation with the Palestinian people in East Jerusalem and their representative institutions and/or authorities.

It cannot be ignored that the history of the city of Jerusalem over the millennia has been one of strife, bloodshed, conquest, and dramatically shifting fortunes for those changing populations who have resided there. Drawn into this maelstrom have been not only the three monotheistic religions, but at one time or another many of the nations and peoples of the world. This bare historical truth and the harsh socioeconomic realities endured today by Palestinian Jerusalemites should not obscure that for all those deeply attached to Jerusalem, it is also the city of divinity and ascension of atonement and redemption, the “City of Peace”.

When recommending partition of Palestine in 1947, the assembled nations of the world could not recommend dividing the city of Jerusalem, which they believed should be administered for the benefit of all Jerusalemites, regardless of their nationality, religion or race. The course of events since then imposed a new reality on the ground if not in the law books, first of Israeli-ruled western and Jordanian-ruled eastern Jerusalem and afterwards of Israeli-annexed East Jerusalem. But an international consensus persists (in Security Council resolutions 242, 338 and 478) that the occupation/annexation of East Jerusalem must be reversed, notwithstanding “facts on the ground”.

This unique status of the city of Jerusalem in history and in international law should provide a moral compass and realistic vision to guide any Palestinian or other strategy for the survival and prosperity of Palestinian East Jerusalem. This in turn should serve above all to ensure the reintegration of the East Jerusalem economy into its historical hinterland to the east, the north, and the south, while ensuring a more balanced exchange with the west; indeed this should pave the way for Jerusalem to resume the natural course of its history.

Notes

¹The term East Jerusalem is generally used here with reference to the annexed areas of Jerusalem, or J1, while J2 refers to those parts of East Jerusalem outside the separation barrier. Jerusalem Governorate is used to represent J1 and J2 when referring to data from the PCBS. The “City of Jerusalem” refers to western and eastern sectors of the city and is largely synonymous with the area under the jurisdiction of the Israeli municipality of Jerusalem.

²Cattan (1981), p. 8, citing General Assembly resolution 181 (II).

³In 1980 the Israeli Knesset passed the Basic Law: Jerusalem, Capital of Israel, stating that “Jerusalem, complete and united, is the capital of Israel” (http://www.knesset.gov.il/laws/special/eng/basic10_eng.htm).

⁴Intermediate consumption is the total goods and services consumed as inputs, used up or transformed during the production process.

⁵Underemployment exists when there is insufficient volume of employment. According to PCBS, it includes persons who worked less than 35 hours during the reference week. One example of this is persons who work part-time.

⁶The classification used in Israeli statistics, the overwhelming majority of these households being Palestinian.

⁷The Equality Index includes several sectors such as health, housing, education, employment and social welfare. The education equality index contains more than 17 indicators and variables,

including enrolment rates, dropout rates, education infrastructure, output, etc. The Index ranges between 1, indicating inequality in favour of the Jewish population, and -1 indicating inequality in favour of the Palestinian population in Israel, while zero indicates complete equality.

⁸ The second highest dropout rate in Israel was in the Arab village of Jisr-Zarka, with an 11.8 per cent rate.

⁹ Since 1967 East Jerusalem has been the main secondary and tertiary health provider for all Palestinians in OPT, and the allocation of the main hospitals, specialized clinics and high-skilled staff has been concentrated in the Jerusalem area.

¹⁰ For more, see the interview with Dr. Tawfiq Nasser in OCHA (2011b).

¹¹ Information in this section is adapted from Glass and Khamaisi (2005) and JIIS (2009, 2010 and 2011).

¹² For a popular and accessible history of Jerusalem, see Armstrong (1997).

¹³ See, for example, Farsakh (2005), South Africa Human Sciences Research Council (2009) and Israeli Committee against House Demolitions (2012).

¹⁴ Roy (1997), Khalidi and Samour (2011), Zureik (1979), Khalidi (1988), Rosenhek (2010), Sa'adi (1995) and Jabary et al. (2012), respectively.

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^{*} Unofficial English translation of original Arabic title.

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Appendix 1. Tables and figures

Table 1. Value added by economic activity in East Jerusalem – constant 1997 prices, 1994–2000

| <i>Economic activity (value in US\$ millions)</i> | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|-------|-------|-------|-------|-------|-------|-------|
| Agriculture and fishing | 6.4 | 6.6 | 4.6 | 3.9 | 5.2 | 4.3 | 3.7 |
| Mining, manufacturing, electricity and water | 55.2 | 59.3 | 62.2 | 52.1 | 57.1 | 55.1 | 53.2 |
| Of which manufacturing | 22.3 | 39.4 | 35.9 | 34.1 | 40.8 | 39.9 | 38.8 |
| Construction | 29.8 | 35.8 | 35.6 | 19.5 | 12.3 | 8.3 | 7.0 |
| Wholesale and retail trade | 40.1 | 53.8 | 46.4 | 48.3 | 41.6 | 46.6 | 46.2 |
| Transport, storage and communications | 83.2 | 70.4 | 54.7 | 45.1 | 41.7 | 41.4 | 40.9 |
| Financial intermediation | 1.7 | 1.5 | 1.2 | 2.0 | 1.5 | 1.5 | 1.4 |
| Other services | 143.1 | 139.8 | 125.4 | 123.9 | 105.9 | 114.6 | 99.4 |
| Of which hotels and restaurants | 26.0 | 26.4 | 23.0 | 22.3 | 23.4 | 26.0 | 22.9 |
| Public administration and defence | -1.6 | 4.3 | 7.6 | 14.7 | 25.3 | 24.9 | 25.6 |
| Gross domestic product | 358.1 | 371.7 | 337.9 | 310.3 | 291.1 | 297.2 | 277.6 |
| Annual growth rate | -3.6 | 10.0 | 8.9 | 6.6 | -2.1 | | 7.0 |

| <i>Economic activity (percentage)</i> | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|--|------|------|------|------|------|------|------|
| Agriculture and fishing | 1.8 | 1.8 | 1.4 | 1.3 | 1.8 | 1.5 | 1.3 |
| Mining, manufacturing, electricity and water | 15.4 | 16.0 | 18.4 | 16.8 | 19.6 | 18.6 | 19.2 |
| Of which manufacturing | 6.2 | 10.6 | 10.6 | 11.0 | 14.0 | 13.4 | 14.0 |
| Construction | 8.3 | 9.6 | 10.5 | 6.3 | 4.2 | 2.8 | 2.5 |
| Wholesale and retail trade | 11.2 | 14.5 | 13.7 | 15.6 | 14.3 | 15.7 | 16.6 |
| Transport, storage and communications | 23.2 | 18.9 | 16.2 | 14.5 | 14.3 | 13.9 | 14.7 |
| Financial intermediation | 0.5 | 0.4 | 0.4 | 0.6 | 0.5 | 0.5 | 0.5 |
| Other services | 40.0 | 37.6 | 37.1 | 39.9 | 36.4 | 38.6 | 35.8 |
| Of which hotels and restaurants | 7.3 | 7.1 | 6.8 | 7.2 | 8.0 | 8.7 | 8.3 |
| Public administration and defence | -0.4 | 1.1 | 2.2 | 4.7 | 8.7 | 8.4 | 9.2 |

Table 2. Value added by economic activity in East Jerusalem as share of OIPT, 1994-2000 (US\$ millions)

| <i>Economic activity</i> | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|--|------|------|------|------|------|------|------|
| Agriculture and fishing | 1.6 | 1.4 | 0.9 | 0.9 | 1.1 | 1.0 | 0.9 |
| Mining, manufacturing, electricity and water | 7.6 | 8.3 | 9.2 | 8.4 | 9.4 | 7.8 | 7.4 |
| Of which manufacturing | 3.8 | 6.5 | 6.3 | 6.5 | 7.7 | 6.3 | 6.1 |
| Construction | 9.9 | 5.5 | 8.8 | 6.3 | 4.3 | 3.6 | 2.6 |
| Wholesale and retail trade | 7.8 | 9.8 | 9.6 | 10.3 | 10.4 | 8.8 | 7.9 |
| Transport, storage and communications | 22.1 | 23.4 | 22.2 | 23.8 | 29.7 | 29.1 | 28.4 |
| Financial intermediation | 0.9 | 0.9 | 0.9 | 1.9 | 2.0 | 2.3 | 3.8 |
| Other services | 13.3 | 13.7 | 12.9 | 14.0 | 13.8 | 14.6 | 12.2 |
| Of which hotels and restaurants | 42.1 | 31.6 | 29.8 | 33.1 | 39.7 | 39.1 | 34.2 |
| Public administration and defence | -0.3 | 0.8 | 1.6 | 3.2 | 5.8 | 6.4 | 8.3 |
| Gross domestic product | 7.8 | 7.6 | 7.5 | 7.7 | 8.1 | 8.5 | 8.4 |

Table 3. Gross domestic product by expenditure in East Jerusalem, 1994-2000 - constant prices (US\$ millions)

| <i>Final use</i> | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Final consumption | 561.9 | 521.0 | 542.9 | 463.7 | 465.0 | 435.0 | 412.2 |
| Household final consumption | 475.0 | 447.7 | 469.3 | 392.0 | 391.6 | 369.3 | 344.3 |
| Government final consumption | 61.5 | 51.7 | 54.9 | 51.1 | 50.8 | 42.9 | 46.9 |
| Gross capital formation | 62.3 | 81.2 | 63.8 | 42.4 | 29.4 | 21.2 | 18.3 |
| Gross fixed capital formation | 88.0 | 80.6 | 63.6 | 42.1 | 29.1 | 21.0 | 18.1 |
| - Buildings | 56.1 | 77.8 | 61.6 | 40.7 | 27.9 | 19.9 | 17.1 |
| - Non-buildings | 1.9 | 2.8 | 2.0 | 1.4 | 1.3 | 1.0 | 0.9 |
| Net exports of goods and services | -266.1 | -230.5 | -268.8 | -195.9 | -203.3 | -159.0 | -152.9 |
| Exports | 215.3 | 221.7 | 196.5 | 181.2 | 176.7 | 169.8 | 158.6 |
| Imports | 481.3 | 452.3 | 465.2 | 377.0 | 380.0 | 328.9 | 311.5 |
| Gross domestic product | 358.1 | 371.7 | 337.9 | 310.3 | 291.1 | 297.2 | 277.6 |

Table 4. Gross domestic product by expenditure in East Jerusalem as share of OPT, 1994-2000 (percentage)

| <i>Final use</i> | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|-----------------------------------|------|------|------|------|------|------|------|
| Final consumption | 9.8 | 8.9 | 10.1 | 9.5 | 10.4 | 10.1 | 9.8 |
| Household final consumption | 10.7 | 9.7 | 11.0 | 10.1 | 11.2 | 10.7 | 10.1 |
| Government final consumption | 5.3 | 4.9 | 5.6 | 5.9 | 6.5 | 6.6 | 7.6 |
| Gross capital formation | 4.1 | 3.8 | 4.0 | 3.1 | 2.5 | 2.0 | 1.7 |
| Gross fixed capital formation | 4.0 | 4.0 | 4.2 | 3.3 | 2.6 | 2.1 | 1.8 |
| - Buildings | 6.4 | 6.2 | 6.2 | 4.7 | 3.7 | 2.8 | 2.3 |
| - Non-buildings | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Net exports of goods and services | 10.1 | 7.4 | 10.7 | 8.7 | 9.7 | 8.4 | 7.6 |
| Exports | 24.2 | 23.2 | 21.4 | 23.6 | 24.2 | 25.5 | 26.4 |
| Imports | 13.7 | 11.1 | 13.6 | 12.5 | 13.5 | 12.8 | 12.0 |
| Gross domestic product | 7.8 | 7.6 | 7.5 | 7.7 | 8.1 | 8.5 | 8.4 |

Table 5. Major national accounts variables for East Jerusalem at constant prices, 1994-2000 (US\$ millions)

| <i>Indicator</i> | <i>Palestinian Territory</i> | | | | | | |
|--|------------------------------|-------|-------|-------|-------|-------|-------|
| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
| Gross domestic product | 358.1 | 371.7 | 337.9 | 310.3 | 291.1 | 297.2 | 277.6 |
| Income vis-à-vis non-residents, net | 146.2 | 185.4 | 184.3 | 134.2 | 136.7 | 118.8 | 80.5 |
| Compensation of employees, net | 148.0 | 184.9 | 181.4 | 132.5 | 137.6 | 122.2 | 91.5 |
| Property income, net | -1.8 | 0.5 | 2.9 | 1.7 | -0.9 | -3.4 | -11.0 |
| Gross national income | 504.4 | 557.1 | 522.2 | 444.5 | 427.8 | 415.9 | 358.1 |
| Current transfers vis-à-vis non-residents, net | 4.9 | 27.2 | 55.9 | 74.7 | 37.2 | 36.1 | 42.6 |
| Gross disposable income | 509.3 | 584.2 | 578.1 | 519.2 | 465.0 | 452.0 | 400.8 |
| Final consumption | 561.9 | 521.0 | 542.9 | 463.7 | 465.0 | 435.0 | 412.2 |
| Savings | -52.7 | 63.2 | 35.3 | 55.4 | -0.1 | 17.1 | -11.4 |

Table 6. Major national accounts variables for East Jerusalem as share of OPT, 1994-2000 (percentage)

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|--|-------|------|------|------|------|------|-------|
| Gross domestic product | 7.8 | 7.6 | 7.5 | 7.7 | 8.1 | 8.5 | 8.4 |
| Income vis-à-vis non-residents, net | 18.1 | 19.3 | 20.3 | 20.6 | 23.9 | 19.5 | 16.9 |
| Compensation of employees, net | 19.3 | 20.1 | 20.9 | 23.7 | 28.9 | 23.6 | 23.0 |
| Property income, net | -4.3 | 1.3 | 7.8 | 1.9 | -0.9 | -3.7 | -14.1 |
| Gross national income | 9.3 | 9.5 | 9.7 | 9.5 | 10.3 | 10.1 | 9.5 |
| Current transfers vis-à-vis non-residents, net | 0.8 | 6.3 | 13.0 | 15.9 | 7.5 | 8.1 | 8.1 |
| Gross disposable income | 8.4 | 9.3 | 9.9 | 10.1 | 10.0 | 9.9 | 9.3 |
| Final consumption | 9.8 | 8.9 | 10.1 | 9.5 | 10.4 | 10.1 | 9.8 |
| Savings | -17.9 | 14.9 | 8.4 | 24.5 | 0.0 | 6.9 | -15.7 |

Table 7. OPT gross domestic product per capita growth by region, 1994-2000 (percentage)

| | Gross domestic product per capita | | | | | | |
|------------------------------------|-----------------------------------|------|------|------|------|------|----------------------|
| Region | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | Average 1995-2000 |
| OPT | -9.3 | 4.5 | 7.4 | 6.0 | -3.3 | -1.0 | 0.7 |
| Remaining West Bank and Gaza Strip | -9.5 | 4.3 | 7.5 | 6.7 | -2.9 | -1.3 | 0.8 |
| Jerusalem | -6.5 | 6.7 | 5.6 | -1.4 | -7.1 | 2.2 | -0.1 |
| Remaining West Bank | -9.6 | 8.0 | 8.4 | 8.1 | -2.2 | 0.9 | 2.3 |
| Gaza Strip | -9.2 | -3.2 | 5.9 | 4.0 | -4.3 | -5.0 | -2.0 |

Table 8. OPT gross domestic product per capita by region at constant prices, 1994–2000

| Region | Gross domestic product per capita | | | | | | | | | |
|------------------------------------|-----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1994 | 1994 | 1994 |
| OPT | 1 466.4 | 1 617.2 | 1 548.2 | 1 441.5 | 1 359.7 | 1 405.6 | 1 420.0 | 1 420.0 | 1 420.0 | 1 420.0 |
| Remaining West Bank and Gaza Strip | 1 458.3 | 1 612.3 | 1 546.2 | 1 437.7 | 1 347.8 | 1 388.2 | 1 406.2 | 1 406.2 | 1 406.2 | 1 406.2 |
| Jerusalem | 1 569.7 | 1 678.6 | 1 572.9 | 1 488.9 | 1 509.9 | 1 625.1 | 1 589.5 | 1 589.5 | 1 589.5 | 1 589.5 |
| Remaining West Bank | 1 644.3 | 1 819.7 | 1 684.4 | 1 553.4 | 1 436.5 | 1 468.1 | 1 485.4 | 1 485.4 | 1 485.4 | 1 485.4 |
| Gaza Strip | 1 166.9 | 1 285.8 | 1 327.8 | 1 254.2 | 1 206.0 | 1 259.8 | 1 326.2 | 1 326.2 | 1 326.2 | 1 326.2 |

Table 9. Number of hotels and hotel rooms in the Jerusalem Governorate, 1996–2010

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------|-------|-------|-------|-------|-------|------|------|------|------|------|-------|-------|-------|-------|-------|
| Hotels | 39 | 44 | 48 | 42 | 43 | 29 | 21 | 20 | 23 | 18 | 22 | 25 | 29 | 34 | 29 |
| Rooms | 1 786 | 2 102 | 2 225 | 2 054 | 1 996 | 836 | 915 | 907 | 985 | 869 | 1 209 | 1 249 | 1 317 | 1 580 | 1 497 |

Source: PCBS (1999–2011).

Table 12. Sources of population growth in the Old City of Jerusalem, by population groups, 2004-2008

| Subquarter | Year | Population at end of year | Annual growth (%) |
|---------------------------|-------------|---------------------------|-------------------|
| Quarter 6 (Old City) | 2004 | 35 894 | 1.5 |
| | 2005 | 36 577 | 1.9 |
| | 2006 | 37 075 | 1.4 |
| | 2007 | 365 965 | -0.3 |
| | 2008 | 36 681 | -0.8 |
| Jews and others | 2004 | 3 945 | -0.5 |
| | 2005 | 3 942 | -0.1 |
| | 2006 | 3 894 | -1.2 |
| | 2007 | 3 856 | -1.0 |
| | 2008 | 3 847 | -0.2 |
| Arabs | 2004 | 31 949 | 1.7 |
| | 2005 | 32 635 | 2.1 |
| | 2006 | 33 181 | 1.7 |
| | 2007 | 33 109 | -0.2 |
| | 2008 | 32 834 | -0.8 |
| Old City – Jewish Quarter | 2004 | 2 451 | 2.7 |
| | 2005 | 2 476 | 1.0 |
| | 2006 | 2 546 | 2.8 |
| | 2007 | 2 555 | 0.4 |
| | 2008 | 2 485 | -2.7 |

Source: Jerusalem Institute for Israel Studies (2012), *Statistical Yearbook of Jerusalem*.

Table 10. Percentage distribution of employed persons in Jerusalem Governorate by economic sector, various years

| Economic activity | 1996 | 1999 | 2009 | 2010 |
|---|------|------|------|------|
| Agriculture and hunting | 0.7 | 2.3 | 1.7 | 2.8 |
| Mining, quarrying and manufacturing | 14.8 | 14.6 | 13.5 | 12.9 |
| Construction | 17.3 | 21.6 | 18.6 | 20.4 |
| Commerce, hotels and restaurants | 29.9 | 27.0 | 25.5 | 24.1 |
| Transportation, storage and communication | 10.1 | 7.2 | 9.1 | 11.6 |
| Services and other branches | 27.2 | 27.3 | 31.6 | 28.2 |

Source: PCBS (1999-2011).

Table 11. Percentage of families below the poverty line in Jerusalem – Jews/non-Jews, 2009 and 2010

| Poverty rate (percentage) | | | | | | | Town/area |
|---------------------------|--|--|--|--|--|--|-----------|
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Source: Jerusalem Institute for Israel Studies (2012), *Statistical Yearbook of Jerusalem*.

Table 13. Population of the Old City of Jerusalem, by age, quarter, subquarter and statistical area, 2010

| Statistical area | 0-4 | 5-14 | 15-24 | 25-44 | 45-64 | 65-74 | 75+ | Median age | Total |
|------------------------------|-------|-------|-------|-------|-------|-------|-----|------------|--------|
| Old City - Muslim Quarter | 3 865 | 7 601 | 6 072 | 8 278 | 4 048 | 865 | 454 | 21.4 | 31 182 |
| Old City - Jewish Quarter | 394 | 590 | 804 | 685 | 422 | 133 | 82 | 22.3 | 3 105 |
| Old City - Armenian Quarter | 142 | 301 | 262 | 418 | 318 | 97 | 90 | 30.0 | 1 613 |
| Old City - Christian Quarter | 395 | 846 | 737 | 1 302 | 888 | 296 | 239 | 30.2 | 4 707 |

Source: Jerusalem Institute for Israel Studies (2012), *Statistical Yearbook of Jerusalem*.

Table 14. Distribution of tax-paying non-residential properties according to Quarter and Economic Sector in 1996 and 2002

| Quarter | Shops and offices | Industrial and crafts shops | Institutions including educational | Municipality | Bank properties | Religious properties | Other properties | Total |
|-----------|-------------------|-----------------------------|------------------------------------|--------------|-----------------|----------------------|------------------|-------|
| | | | | 1996 | | | | |
| Muslim | 823 | 82 | 32 | 8 | 2 | 14 | 16 | 977 |
| Christian | 780 | 97 | 8 | 3 | - | 15 | 10 | 913 |
| Armenian | 124 | 7 | 15 | - | 1 | 24 | 2 | 173 |
| Jewish | 169 | 16 | 44 | 13 | 1 | 14 | 2 | 259 |
| Total | 1 896 | 202 | 99 | 24 | 4 | 67 | 30 | 2 322 |
| | | | | 2002 | | | | |
| Muslim | 823 | 84 | 41 | 8 | 2 | 21 | 20 | 999 |
| Christian | 817 | 85 | 14 | 3 | - | 17 | 11 | 947 |
| Armenian | 132 | 5 | 21 | - | - | 27 | 2 | 187 |
| Jewish | 176 | 17 | 71 | 12 | 1 | 12 | 5 | 294 |
| Total | 1 948 | 191 | 147 | 23 | 3 | 77 | 38 | 2 427 |

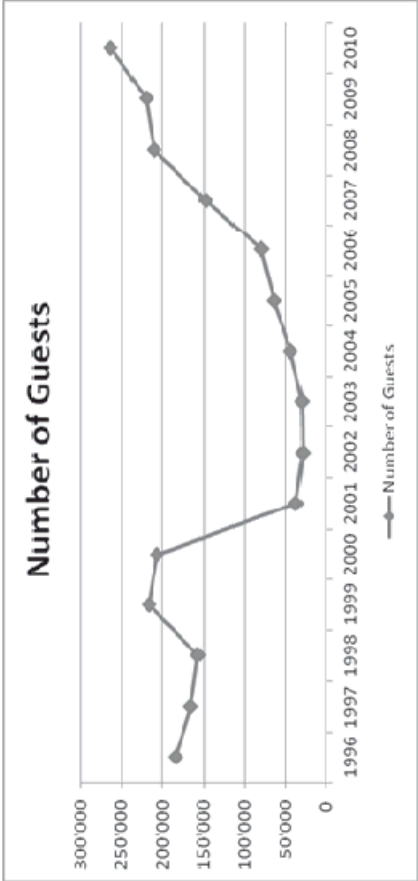
Source: Jerusalem Institute for Israel Studies (2002/2003), *Statistical Yearbook of Jerusalem*, No. 20.

Table 15. Municipal taxes for the Old City in 2002 (NIS thousands)

| | <i>Residential taxes</i> | <i>Exemption on residential taxes</i> | <i>Rate of exemption (%)</i> | <i>Non-residential taxes</i> | <i>Exemption on non-residential taxes</i> | <i>Rate of exemption (%)</i> |
|-----------|--------------------------|---------------------------------------|------------------------------|------------------------------|---|------------------------------|
| Christian | 1 396.0 | 465.4 | 33.3 | 10 576.9 | 3 887.7 | 36.8 |
| Armenian | 1 345.2 | 296.3 | 22.0 | 1 737.7 | 618.4 | 35.6 |
| Jewish | 2 336.0 | 495.8 | 21.2 | 3 544.9 | 1 528.2 | 43.1 |
| Muslim | 3 895.4 | 1 429.2 | 36.7 | 11 073.4 | 3 432.0 | 31.0 |
| Total | 8 972.6 | 2 686.7 | 29.9 | 26 932.9 | 9 466.3 | 35.1 |

Source: Glass and Khamisi (2005).

Figure. Number of guests in Jerusalem Governorate hotels (1999-2010)



Source: PCBS (1999-2011).

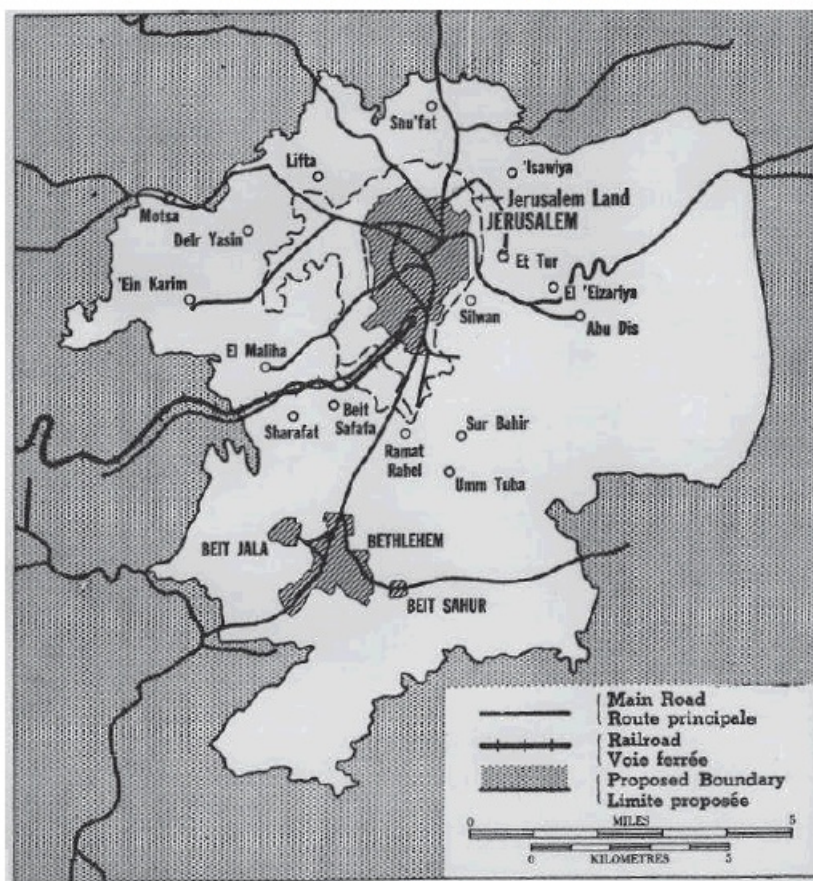
Appendix 2. United Nations maps of Jerusalem

Map 1. United Nations Partition Plan (1947)



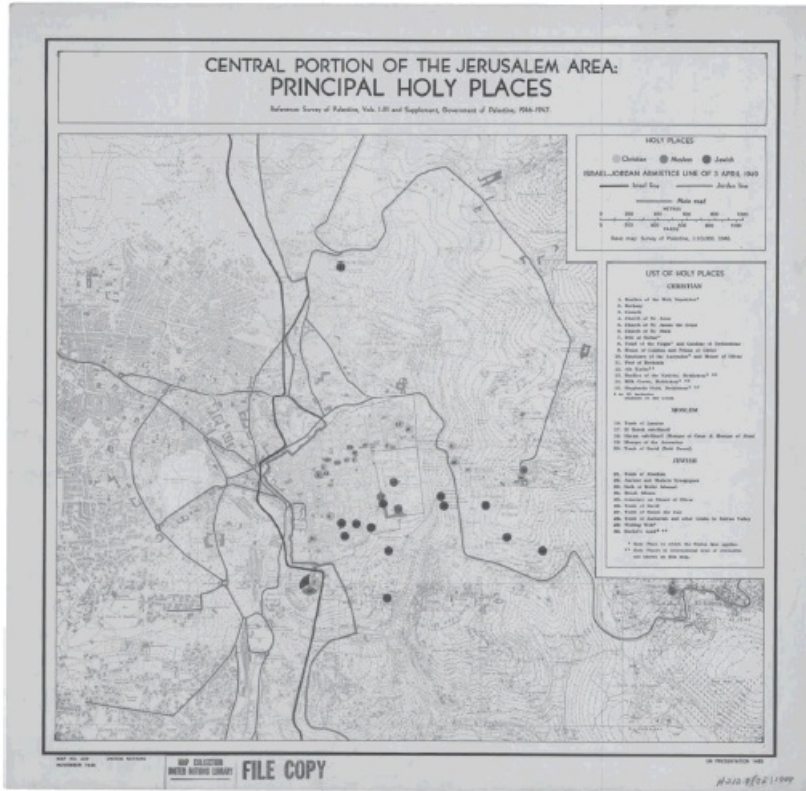
Source: United Nations Information System on the Question of Palestine (UNISPAL).
Available at <http://unispal.un.org/unispal>.

Map 2. City of Jerusalem: boundaries proposed (1947)



Source: UNISPAL Map No. 104(b), United Nations presentation 600(b), November 1947. Available at <http://unispal.un.org/unispal.nsf/9a798adbf322aff38525617b006d88d7/3f1bd9477022a0c285256cc500530c1f?OpenDocument> (accessed 21 March 2013).

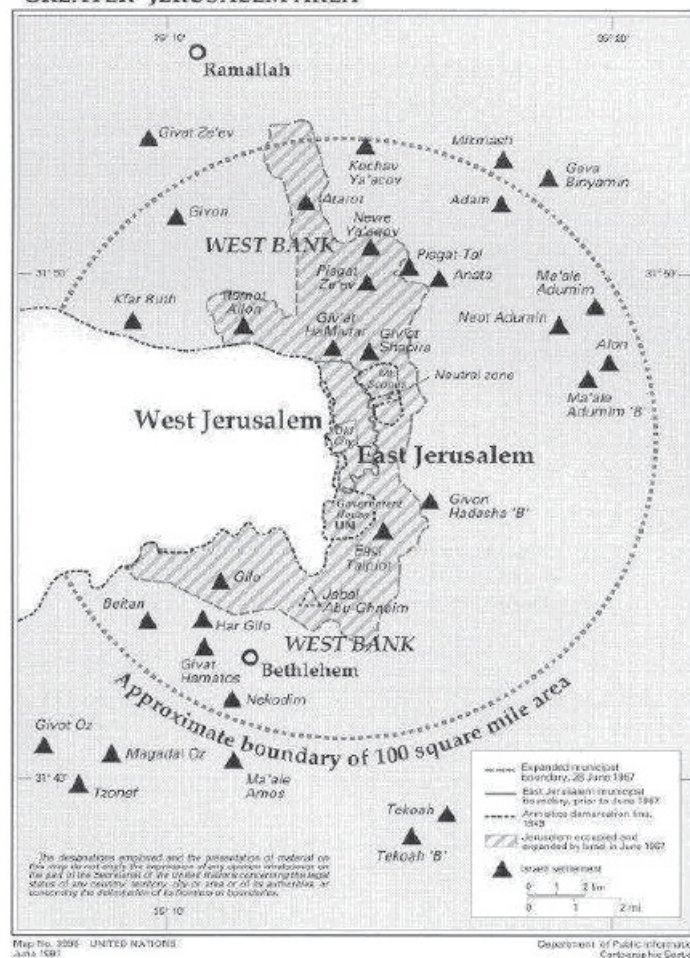
Map 3. Central portion of the Jerusalem area: principal Holy Places (1949)



Source: UNISPAL. Available at [http://unispal.un.org/unispal.nsf/9a798adbfc322aff38525617b006d88d7/36a5809a27a0ce1f85256cc5007536a8/\\$FILE/m0229.jpg](http://unispal.un.org/unispal.nsf/9a798adbfc322aff38525617b006d88d7/36a5809a27a0ce1f85256cc5007536a8/$FILE/m0229.jpg) (accessed 21 March 2013).

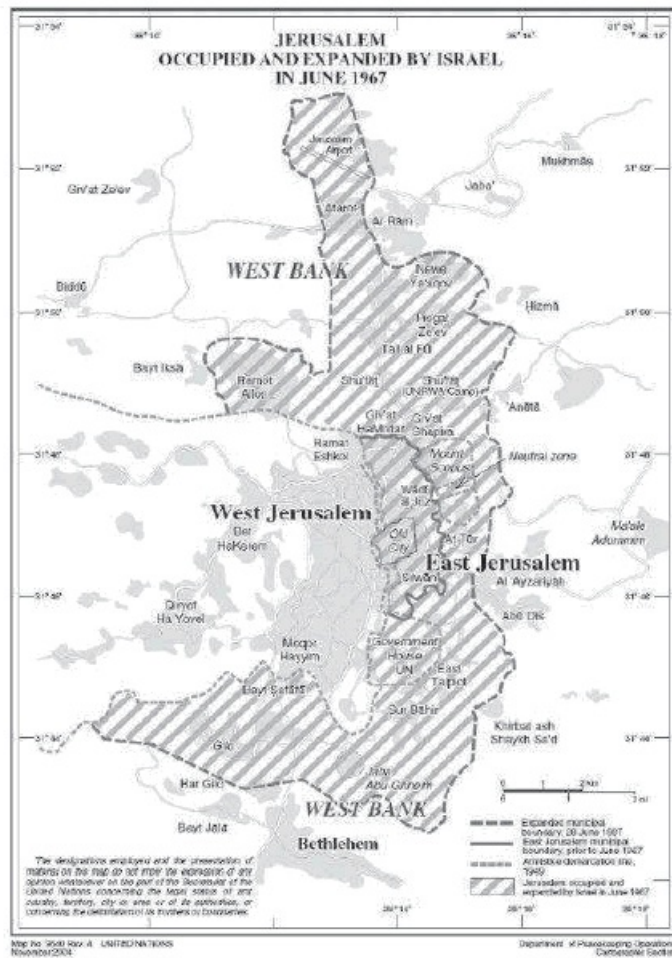
Map 4. "Greater" Jerusalem area (1997)

"GREATER" JERUSALEM AREA



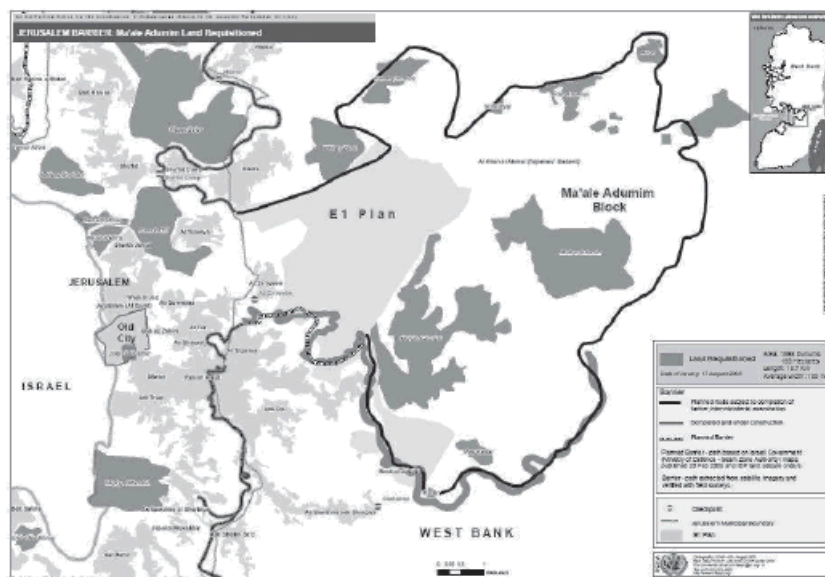
Source: UNISPAL, 2 June 1997. Available at
<http://unispal.un.org/unispal.nsf/9a798adbf322aff38525617b006d88d7/a4af80394a992d1f85256b98006db20d?OpenDocument> (accessed 21 March 2013).

Map 5. Jerusalem occupied and expanded by Israel in June 1967 (2004)



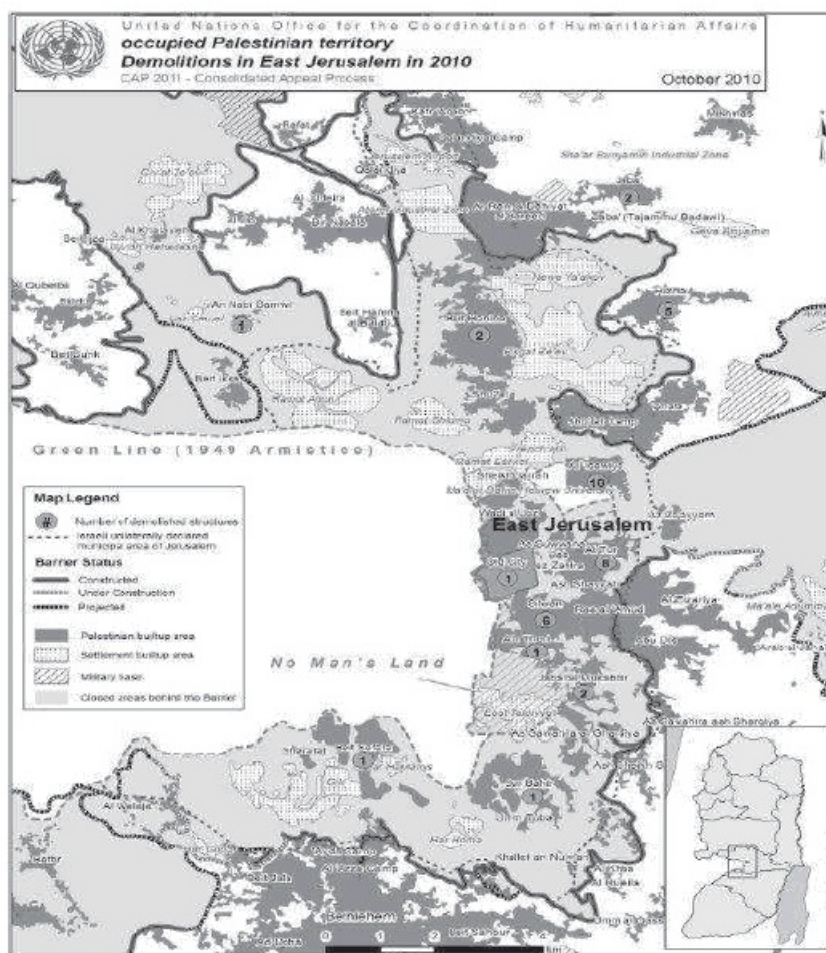
Source: UNISPAL. Available at <http://unispal.un.org/unispal.nsf/9a798adbf322aff38525617b006d88d7/531ebcc5d61a4e5e852571af0062a899?OpenDocument> (accessed 21 March 2013).

Map 6. Jerusalem barrier (2005)



Source: OCHA, 17 August 2005. Available at <http://unispal.un.org/unispal.nsf/9a798adbf322aff38525617b006d88d7/907afcc38debf8fd8525706f0054c214?OpenDocument> (accessed 21 March 2013).

Map 7. Demolitions in East Jerusalem (2010)



Source: OCHA, 31 October 2010. Available at <http://unispal.un.org/unispal.nsf/9a798adbf322aff38525617b006d88d7/662e5fac88c806b0852577f2006c6d2f?OpenDocument> (accessed 21 March 2013).