



The Palestinian economy in East Jerusalem:

Enduring annexation,
isolation and disintegration





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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 non-governmental 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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