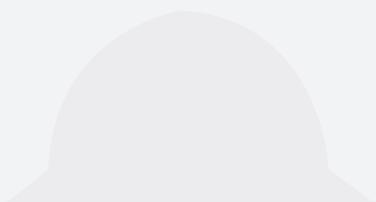


# **Effects of Separation Wall on the Economy in Arab Jerusalem**



**2008**

Civic Coalition for Defending the Palestinians' Rights in Jerusalem  
(CCDPRJ)

**Prepared by:**

Na'ila Jweiles      Azzam Abul-Su'ood

Arab Chamber of Commerce and Industry – Jerusalem

Editing By:

Annie Bodmer-Roy

Supported by:

Design & Printing: 3rd Dimension: 02 2413903/4



# Table of contents

<b>5</b>	<b>1. Introduction</b>
<b>7</b>	<b>2. Wall effect on the economic sectors</b>
8	2.1. Commerce sector
11	2.1.1. Retail trade inside the City
12	2.1.2. Wholesale trade (distribution and agencies)
12	2.1.3. Reciprocal trade
13	2.2. Industry sector
14	2.3. Tourism sector
16	2.4. Services sector
17	2.4.1. Transport
17	2.4.2. Contracting services
18	2.4.3. Electricity
18	2.4.4. Financial sector
<b>19</b>	<b>3. Employment in Jerusalem City</b>
<b>23</b>	<b>4. Infrastructure and facilities</b>
<b>25</b>	<b>5. Investment in Jerusalem City</b>
<b>27</b>	<b>6. Ability of Jerusalem economy to cope with the present situation</b>
<b>29</b>	<b>7. Conclusion</b>





## 1. Introduction

The Separation Wall in Jerusalem area is a major factor affecting the economy of Jerusalem. This paper follows the stages of the Wall's construction to outline the political, economic, social and security goals of Israel, who aims to isolate Jerusalem from its the rest of the occupied Palestinian territories, restricting access from the West Bank and facilitating access to and from Israel.

The construction of the Wall is key to this aim, the first step of which was carried out after 1967 war with Israel's unilateral decision to annex East Jerusalem and thus 'unify' the two parts of the City. This was followed by expanding the boundaries of the City and imposing taxes and other economic and social laws on Arabs in Jerusalem. These were further accompanied by discriminatory policies adopted by Jerusalem Municipality with the aim of forcing Arab residents out of Jerusalem by increasing municipal taxes, reducing municipal services, severely restricting the issuance of building licenses, and failing to allocate a qualified industrial zone for the Arabs.

Over the forty years of occupation, the Jerusalem economy has witnessed fluctuations intrinsically linked to the political situation in the region. The main phenomenon however, has been the gradual regression in the Jerusalem economy since the first Intifada in 1987 and the steep decline accompanying the "tunnel incidents" in 1997 and the second Intifada in late 2000 (despite strong economic improvement in the first nine months of 2000) . The construction of the Separation Wall adds to the steep decline in Jerusalem's economy to a level that can be described as 'catastrophic'.

The decline in the different economic sectors in Jerusalem is in large part a result of various oppressive measures by the Israeli occupation since 1967 up to the present day. The construction of the Wall has played a significant role in the decline of Jerusalem's economy, causing an imposed isolation of

the City from its surroundings. As one cannot fully understand the effects of the Wall on the economic situation in Jerusalem without addressing to the other factors that also impact the economy, all such factors had to be considered. We relied on data available at the Chamber and statistics and data collected by the Chamber for the purpose of developing various studies in relation to Jerusalem, as well as statistics available from the Palestinian Central Bureau of Statistics (PCBS). We tried to ensure as much as possible accuracy in the data available to us, knowing that the special status of Jerusalem makes collection of utterly accurate data a difficult task. .

This research aims to presents an accurate picture of the economy in Jerusalem and calls for serious consideration to be taken to the effects of the Wall on the Jerusalem economy and subsequent necessary steps to reverse these effects.

Naila Jweiles

Computer and Informatics manager

Arab Chamber of Commerce and Industry  
Jerusalem

Azzam Abul-Su>ood

General director

Arab Chamber of  
Commerce and Industry  
Jerusalem



## 2. Wall effect on the economic sectors

The majority of economic sectors in Jerusalem have been adversely affected by the construction of the Wall, which has reduced the Jerusalem's financial link to the Palestinian economy and increased its links to Israel's. In this way, the Wall contributes to Israel's policy of weakening the Arab presence in Jerusalem, including Arab economy. Measures to implement the policy include:

Establishing military barriers and checkpoints at entrances to Jerusalem.

Denying access to Jerusalem for Palestinians from the West Bank and Gaza Strip unless with special permits.

Tightened security checks of goods imported by Arab merchants from abroad and hindering their clearance at seaports and airports, resulting in increased transport and storage cost and consequently inability to compete with goods imported by Israeli agents.

The Separation Wall comes as one of the most serious measures thus far, severely affecting occupied Jerusalem by isolating it from its Palestinian surroundings. This study examines the effects of the Wall on commerce, industry, tourism, services, employment, infrastructure and investment.

## **2.1. Commerce sector**

Commerce in occupied Jerusalem depends on shoppers in the City, who are composed of the following groups:

- a. Local residents
- b. Residents of villages around Jerusalem
- c. West Bank and Gaza Strip residents
- d. Jewish Israelis
- e. Arabs from inside Israel
- f. Tourists

Since 1994, the numbers of shoppers from villages around Jerusalem and from the West Bank and Gaza Strip began gradually decreasing, until the Intifada when the number of shoppers in Jerusalem decreased significantly, reaching about 40% of usual numbers of shoppers in the City. This is attributed to the following reasons:

1. Establishing military checkpoints and hindering entry to Jerusalem for people from villages around the City and from other Palestinian cities.
2. Increased cost of goods transport due to checkpoints and increased closure due to the construction of the wall.
3. Increased cost of goods clearance at ports due to security search.
4. Imposing numerous taxes on Arab citizens without consideration given to their income levels or living standards. Tax authorities also mistrust income statements of Arab dealers and producers and exaggerate estimations of their income.
5. Increased numbers of street vendors due to increasing unemployment rates, which adversely affects the situation of official taxpaying businesses.
6. Decreased average income per capita in the City and consequent decrease in income available for shopping, with a large proportion of the population limiting their purchases to food and other essential items only.

7. Decline in the numbers of Jewish shoppers in the Arab Jerusalem since the first Intifada and their almost complete absence in the years 2001-2004 .
8. Almost complete absence of tourism activities in the years 2001-2004.
9. Preventing tourists from entering Al-Haram As-Shareef Compound and decreasing the number of visiting hours.
10. With the construction of the Wall, over 120,000 citizens are forced to pass through checkpoints in order to enter the City.
11. A number of commercial establishments in Jerusalem laid off some of their employees due to decreased sales.
12. Strict denial of entry to Jerusalem markets for Palestinian products, especially food items such as dairy products and eggs, which are cheaper than similar Israeli products.

Although statistics indicate that there are 5921 economic establishments in Jerusalem, including commercial and other types, only about one third of this figure are members in the Chamber of Commerce in Jerusalem. Figure 1 presents the number of economic establishments in Jerusalem (PCBS). Figure 2 presents the number of establishments registered at the Chamber of Commerce by sector, demonstrating the importance of the commercial sector in the City.

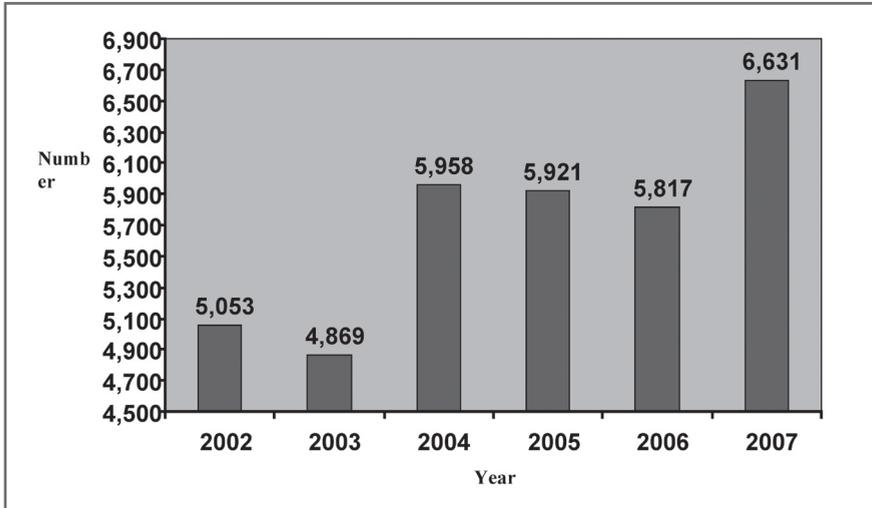


Figure 1: Number of economic establishments in Jerusalem district 2002-2007 (PCBS)

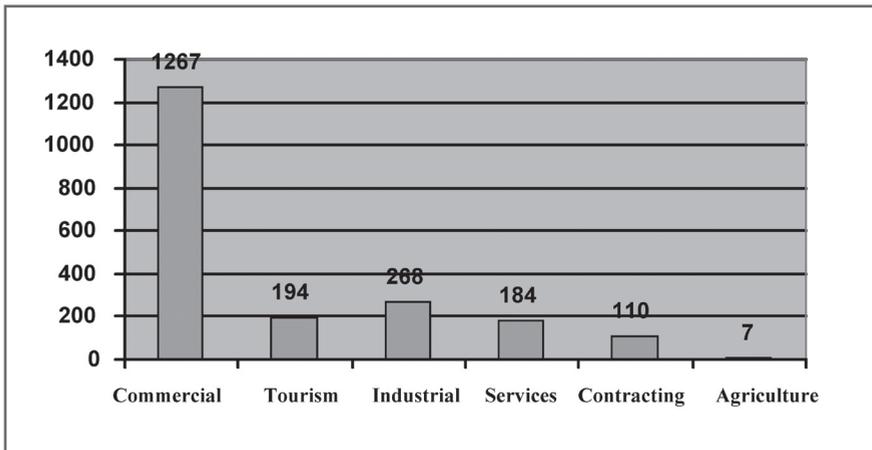


Figure 2: Distribution of members in the Chamber of Commerce by sector, 2007 (Chamber of Commerce) 2007

Table 1 presents types of economic activity in Jerusalem City in terms of the number of establishments, number of workers and production size in 2007 according to data published by PCBS in June 2008.

Table 1: Number of establishments, workers and production size in the commercial sector, 2007 (PCBS 2007)

Economic activity	No. of establishments	No. of workers	Production size (\$1,000)
Automobile sale and maintenance, fuel sales	118	391	18,176.5
Wholesale trading	25	107	2,837.1
Retail trading and repair of personal goods	1367	2560	37,622.9
Total	1510	3058	58,638.5

### 2.1.1. Retail trade inside the City

As demonstrated in Table 1, the retail trade has the largest production size and number of workers. This large share of retail trade is due to the numbers of shoppers from outside the City, an increased commitment by local residents to shop in their City and the increased number of Arabs from Israel shopping in Jerusalem over the past five years. In addition, PCBS estimates that production size has increased by 50% compared to its level as of 2001 for example. Even constituting the largest economic commerce type, retail trade has actually declined to about 40% of its size in 2000 (Chamber of Commerce)

In summary, the adverse Israeli measures have resulted in the following effects:

- a. Significant decline in the number of people from outside the City shopping in Jerusalem commercial market.
- b. About half of local residents tend to shop outside Jerusalem (sounds contradictory because above it said that the large size of retail is because locals were increasingly committed to shopping in Jerusalem)
- c. Merchants holding West Bank IDs and owning shops in Jerusalem face difficulties in reaching their shops and need to obtain permits to do so.
- d. Retail dealers from Jerusalem district who hold West Bank IDs need to obtain permits to access the City, however these are not easily obtained.

### **2.1.2. Wholesale trade (distribution and agencies)**

Arab wholesale dealers, agents and suppliers face unfair competition with Israeli dealers, including expensive security checks at Israeli ports and high costs at military checkpoints.

This discrimination may cause the Arab dealers, agents and suppliers to lose their agencies or at least face some decline in the size of their sales Or is this speculation?). In summary, wholesale trade is affected in the following ways:

- a. Decreased number of wholesale dealers.
- b. Increased price of goods.
- c. Isolation of areas that have been vital for Jerusalem economy, such as Bir Nabala – a major center for wholesale trade, storage and supply to Jerusalem and the rest of the West Bank. The same applies also to areas in the east, southeast, north, northwest and northeast to Jerusalem. This isolation is directly caused by the construction of the Wall and its accompanying checkpoints.

### **2.1.3. Reciprocal trade**

Reciprocal trade refers to transport and exchange of goods, in this instance between different Palestinian cities and districts. The Chamber of Commerce applied a questionnaire on reciprocal trade in Jerusalem and the suburbs in order to assess its status in view of the constant closure and the construction of the Wall . Findings were as follows:

1. Dealers of food items in Jerusalem have almost stopped trading with Gaza Strip. About 20% of wholesales used to be directed at Gaza Strip in the past .
2. The cost of transport associated with reciprocal trade has increased by 30-40% .
  - a. The majority of Jerusalem wholesalers' warehouses are located in West Bank areas. The cost of transporting goods from these warehouses to shops in Jerusalem (Bethany to Jerusalem or Al-Ram to Jerusalem, for example) has increased by 30%.

- b. Bir Nabala area has become a new problem in respect to transporting goods to Jerusalem, since dealers are forced to use lengthy routes and transport cost has increased by over 40%.
- 3. Passage of goods through Israeli checkpoints (Z'ayem checkpoint for dealers from Bethany area) is not subject to particular guidelines and according to dealers, is subjected to the mood of soldiers manning these crossings. Goods have to be turned back or kept loaded on trucks until the soldiers' shift changes. Sometimes soldiers regard the goods as coming from Arab producers just because they carry labels of their contents in Arabic.
- 4. A considerable number of companies have been forced to register twice as an Arab company in the West Bank and as a Jerusalem-based company with Israeli registration.
- 5. A considerable number of companies have been forced to rent warehouses in Israeli areas and started to issue shipping vouchers from the company's address in these warehouses. This means that such businesses are being registered as trade between Israel and the West Bank or Israel and East Jerusalem.
- 6. Dealers suffer from inadequate provision of clearance vouchers from Palestinian tax departments.
- 7. Fewer numbers of Jerusalemites living beyond the Wall are shopping in the City due to difficulties in passing through the Wall and checkpoints. These include psychological, physical and financial difficulties (resulting from the significant increase in transportation costs).

## **2.2. Industry sector**

Industry comprises about 14% of Jerusalem economy. The largest single industry in Jerusalem is considered to be Jerusalem Tobacco Company, with sales tax on cigarettes constituting a major source of local tax income for the Palestinian Authority (PA), bringing around US \$60 annually to the PA treasury.

A number of factories in Jerusalem and suburbs, including in the shoes, textile, leather garments and babies > diapers industry, have been forced to reduce their production or totally shut down their business due to:

1. Decreased demand on local products (especially non-food products) to one third only.
2. Weak competitive abilities of local products in view of the increased cost of delivery caused by the closure.
3. Problems facing workers' access to their work sites and decreased number of production hours to around one third only.
4. Increased cost of raw materials due to the increased cost of transport from ports and security searches.
5. Increase cost of transport and delivery of ready-made products.
6. Increased potentials for export due to difficulties at Israeli ports and through border crossings with Jordan and Egypt.
7. Increased percentage of losses in materials due to damages caused by security checks and long hours of transport.
8. Many industrial producers turned their businesses into importers of the same goods they used to produce due to the effects of globalization and inability to compete global prices and products.

### **2.3. Tourism sector**

The tourism sector comprises about 40% of economy in East Jerusalem.

This sector has been among the most affected since the outburst of the Intifada due to the following:

1. Tourist flow to Jerusalem severely dropped and all reservations were canceled between October 2000 and by the end of 2005.
2. Arab hotels in Jerusalem (43 hotels) started to shutdown and gradually lay off their workers and employees. In 2003, the occupancy rate was less than 8% across 37 hotels. In the 6 remaining hotels, occupancy rates ranged between 10-23% in the same year. The following table illustrates the development of Arab hotels working in Jerusalem in the period 2000-2007:

Table 2: Number of hotels and rooms in Jerusalem district by year

Year	# hotels	# rooms
2000	43	1997
2001	29	836
2002	21	915
2003	20	907
2004	23	985
2005	18	869
2006	22	1209
2007	26	1249

3. Banks began requiring tourist transport companies (17 companies owning 220 tourist buses in mid 2002) to pay the renewal fees for 90% of their buses in 2000. In view of companies' inability to pay their dues, over 70% of the buses were sold, some in public auction and for very cheap prices as being impounded by banks. As a result, the number of tourist buses decreased to less than 60. Between 2005-2007, some tourist transport companies managed to purchase about 35 new buses. However, the available number of such buses in the City remains inadequate to meet the needs of the tourism sector.

4. Unemployment levels reached an unprecedented low at over 35%.

5. A number of souvenir shops were forced to shut down in view of their inability to pay recurrent expenses and taxes (up to 350 shops in late 2002 alone). This number was subsequently reduced by almost one half as some shopkeepers managed to change the type of their business.

6. Travel agencies were disrupted and some limited their activities to ticket sales only. In addition, the 160 Arab tourist guides in occupied Jerusalem have been unemployed most of the time between 2000-2004. The business for tourist restaurants has also declined to its lowest levels during that period.

7. Although tourism in occupied Jerusalem has improved since the beginning of 2005 and some hotels managed to resume functioning, competition has increased due to 3 new Israeli hotels adjacent to local tourist sites

## 2.4. Public service sector

With regard to the public service sector, this study can draw only a limited picture due to lack of information. What information is available suggests that this sector could be the most affected by the construction of the Wall.

### 2.4.1. Transport

Prior to 1987, 47 passenger transport companies used to work on fixed routes between Jerusalem and other Palestinian cities and villages. After 1987, licenses held by these companies were canceled one after another until their number was reduced to 17 companies currently operating. (REF) Nevertheless, it is safe to say that the transport sector in Jerusalem is the only sector that has managed to flourish in the past five years for the following reasons: .

1. Jerusalem-registered vehicles can have access to Israeli ports and can use the bypass roads, while Palestinian vehicles are banned from using these roads. Therefore, Jerusalem-registered vehicles often replace other vehicles with Palestinian registration in offering services to Palestinian West Bank-based companies.

2. Passenger transport companies have been reorganized and their buses renewed, bringing order back to the transport sector.

The table below illustrates the number of establishments and workers in the transport sector, as well as their total production in US \$1000:

Table 3: Number of establishments and workers and production size in the land transport sector in 2004.

Economic activity	# establishments	# workers	Production size in US \$1000
Land transport	58	521	14,650.8
Total	101	790	30,149.1

## 2.4.2. Contracting services

Unlicensed building is the only means available to Jerusalemites given the increasing demand on housing units and the Israeli policy of restricting the number of building licenses granted by Jerusalem municipality as well as the very high cost of obtaining a building licenses, which can be as high as US \$100 per square meter.

The construction of the Wall has been accompanied by a number of measures taken by the municipality in relation to unlicensed building. These include:

1. An evident increase in the demolition of unlicensed buildings.
2. Confiscation of machinery used by contractors working on an unlicensed building, in addition to heavy fines.
3. Exerting pressures on suppliers of building materials.
4. Denial of work permits to West Bank workers wishing to work in the construction sector in Jerusalem, leading to increased cost of building as wages of workers from Jerusalem are usually higher than wages for those from the West Bank.
5. Raids and inspection in construction sites, whether licensed or unlicensed, to search for West Bank workers who do not have work . These workers are arrested and fines are imposed on them and/or on the contractor.

With the increased migration of people from areas beyond the Wall to areas inside the Wall, construction works have decreased in areas outside the Wall, such as Al-Ram, Bethany, Bir Nabala and others. However, this has not been matched with increased construction works inside the Wall, leading to a decline in the prices and rent fees of houses and lands outside the Wall and a very sharp increase in the prices and rent fees inside the Wall (40%). The decline in the contracting sector is estimated to be more than 50% since the year 2000. In addition, the proportion of vacant apartments in some areas such as Al-Ram has reached about 30% of total apartments.

### **2.4.3. Electricity**

Dues owed to the Electricity Company have been sharply increasing. In response, the company was forced to increase its staff in order to run decentralized offices in the peripheral areas, leading to increased operational costs.

The company started to address this issue by using modern economic methods, such as the introduction of prepaid chargers, rescheduling of consumers dues, the linkage line with Jordan, and a project for solar energy in the production of electricity. All these solutions have contributed to the prevention of collapse in the electricity sector.

### **2.4.4. Financial sector**

1. Banks: The Jerusalem economy is almost wholly dependent on Israeli banks as Arab banks are banned from practicing within the City. Nevertheless, Arab banks offer some services to Jerusalem traders through some branches located in the district outside the City. These services are inadequate as the banks, in offering credit services, do not accept real estate guarantees from traders and other citizens from Jerusalem City.

2. Arbitrary measures against money changers in the City: Money changing is one of the services that has a sizable impact on the Jerusalem economy. A major Israeli measure against this sector was a simultaneous raid by military forces on a number of money changing offices, where over US \$1 million were confiscated from money changers who were notified that they were practicing illegally and that they should register at the Israeli official authorities and abide by the relevant Israeli systems and instructions. This act comes in spite of the fact that some of these offices have been working in money changing for generations, including before the occupation. When the money changers sought to recuperate the confiscated money, the Israeli authorities refused to return it and considered these amounts as part of tax settlements. Many of these money changers were able to go back in business after they had to fully abide by the relevant Israeli laws.



### 3. Employment in Jerusalem City

**A** rapid overview of the status of economic establishments in Jerusalem demonstrates that 45% of the establishments are located within the municipal borders, with tourist establishments composing about 28%. 55% are located within the district but outside the municipal borders. There is no industrial zone in the City.

An analysis of the number of economic establishments shows that their number has been declining by an average of 100 per annum since 1999 and through 2002. Since 2002 however, the number has started to increase, partially in light of improvements in the tourism situation and partially because of some university graduates' tendency to establish their own businesses due to their inability to find a job within their field of specialty. At the present time there are 6631 economic establishments in the City, but 97% of these are small-scale ones. The decline in the numbers of economic establishments is a result of the prevailing economic situation, the deteriorated status of tourism, closure and checkpoints, and most recently the Wall, which is expected to cause a sharp decline and to a larger extent during the coming period.

Although a superficial view to the matter may indicate that the situation of economic establishments in Jerusalem is better off than that of similar establishments in the West Bank and Gaza Strip, the realities on the ground point to the opposite. The Wall is in fact isolating Jerusalem from the West Bank, as an attempt to integrate the remaining numbers of Jerusalemites inside the Israeli delineated borders Jerusalem into the Israeli economy and society. The increasing number of establishments is only a sort of masked unemployment.

In Jerusalem City, about 9,000 new workers enter the labor market on an annual basis, with university students comprising about 15% of the new work force. The rest are school dropouts or students completing their secondary education. Usually, the Israeli labor market absorbs 35-40% of the total, while the rest turn to the Palestinian market in Jerusalem and PA areas for employment in the private and public sectors. At best, the public sector can absorb 10% only, leaving a large proportion of the responsibility to the private sector.

There is also a problem related to ex-prisoners, who have been detained by the Israeli authorities for security charges. After their release, ex-prisoners face problems in finding employment at any Jerusalem-based establishment.

Taking into consideration the elevated unemployment rates in Jerusalem, which peaked in 2002 at 23% for those holding blue (Israeli) IDs and 30% for those holding West Bank IDs (the district average was 27%). It is estimated that there are more than 20,000 unemployed workers in Jerusalem City and district (currently or in 2002?), indicating the large scale of the problem..

Recent years have witnessed a decline in unemployment rates compared to 2002. However, as we stated above, this was a sort of shift from full unemployment to masked unemployment. This decline reflects the fact that many unemployed workers have given up registering as unemployed because they have lost hope of finding a job through these offices.

Nevertheless, the unemployment rate remains high compared to international standards and even to the rate of 1999, which was 10% lower

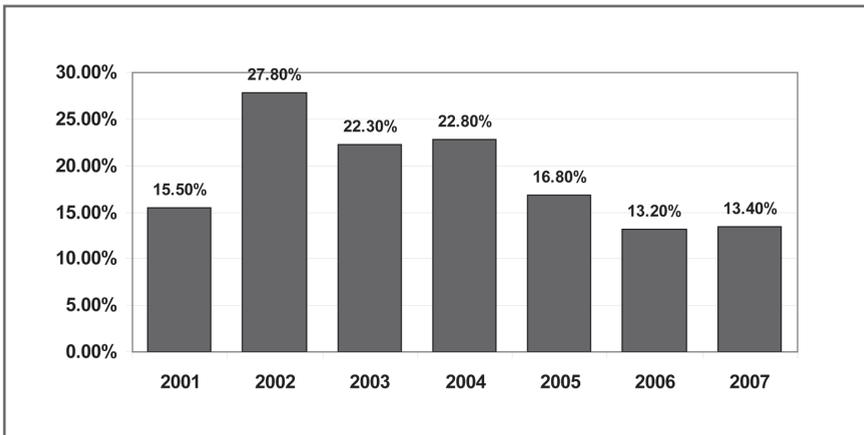


Figure 3: Unemployment rate in Jerusalem district, 2001-2007.

The figure above shows a gradual decline in unemployment since 2002, especially in 2005, when tourism in the City started to improve.

The problem becomes more serious, however, when we look at the current capacity of Jerusalem's economy to absorb the workforce. Investment in projects to provide employment for workers is difficult due to the migration of capital from conflict areas to safer and more stable areas. This situation provides a pessimistic outlook for the problem of unemployment in Jerusalem.

In view of the Israeli plan to reduce reliance on the Arab work force and increase reliance on foreign workers, especially those coming from southeast Asia, Arab Jerusalemites have been directly affected by this situation although they carry blue IDs as opposed to West Bank IDs. Many of them have lost their jobs and been registered at the Israeli labor offices as unemployed.

Any schemes to increase or improve social allowances for the unemployed – and this is what Israel is doing in spite of some reservations and complications when it comes to the Arab citizens of Jerusalem – will eventually lead to

creating an idle army of passive recipients and will never contribute to reviving our society and economy.



## 4. Infrastructure and facilities

**D**espite the responsibility of Jerusalem Municipality to provide facilities and maintain infrastructure throughout the City, there is an obvious inattention and neglect of the Arab parts of Jerusalem on part of the municipality. The most important indicator in this regard is the Israeli statistics, which show that the expenditure of Jerusalem municipality on services in Jerusalem's Arab neighborhoods does not exceed 5% of its total expenditure in all areas of the City, although the Arab population comprise 35% of the total population and pay 33% of the total municipal tax revenues.

No industrial zone is established in East Jerusalem to serve Arab industrialists. As a result, many have been forced to rent or purchase lands or buildings for their establishments in the industrial zone of Qalandia (Atarot). Arab establishments in Atarot comprise almost 40% of the total establishments in the area.

The housing shortage resulting from the reverse migration from outside the City to inside is a major problem for Jerusalemites. The City has gone through a significant decrease in income levels against a huge increase in expenditure levels, particularly in regard to the increased housing costs. The Israeli policies of denying or restricting building licenses and demolishing houses built without a license result in the need for at least 1000 new housing units to be built annually. This situation is further aggravated by the scarcity of lands due to land confiscation and construction of Jewish neighborhoods in the periphery of the municipal borders, as well as the fragmentation of land ownerships, the threats of the so-called guardian of absentees' properties, and land stealing by forgers and mobsters

.The situation necessitates the adoption of the following steps:

1. Funding the development of structural schemes for small lots in order to make them suitable for building.
2. Solving the possible number of cases of fragmented ownerships, using the expertise of legal, engineering and urban planning offices.
3. Encouraging vertical construction of the existing buildings by increasing the number of floors and finding an engineering office to develop the relevant schemes and follow up the licensing process.
4. Working to revoke the order to close the Palestinian Housing Council in Jerusalem and increasing the funding of this Council in order to expand the scope of loans to include the costs of licensing as well.
5. Providing additional funding to organizations working on the reconstruction of the Old City in order to expand their work and increase the number of restored houses while preserving the architectural heritage of Jerusalem. Recruiting a specialized office to assess the restoration works carried out to date and to provide guidance to the existing reconstruction organizations.
6. Forming popular neighborhood committees that would assume resolution of conflicts and address social issues and land disputes.
7. Supporting legal defense organizations in Jerusalem to confront the silent expulsion of Jerusalemites, especially in cases related to the Wall , ID withdrawal and land confiscation.
8. Pressuring Arab banks to accept Jerusalem-based real estate guarantees in offering credit services to Jerusalem traders and citizens.



## 5. Investment in Jerusalem City

To help generate investment in East Jerusalem, focus should be given to investments and search for investors, particularly encouraging long term investments that are developed in the course of several years. Donor support should be directed at establishing an industrial zone with a full range of services to encourage investment in long term projects. Although local and Arab investors exist, as well as surplus funds to invest in, there is always reluctance to make investments and employ the surplus of local funds because of fears of instability in the region. In other words, East Jerusalem has been regarded a high risk area for investment, preventing potential investors from investing their funds in the City and prompting them to find investment opportunities outside the City for domestic product surplus.

Therefore, we should invest part of external support funds in alleviating investors' fears. The best way to do so is to create an investment guarantee fund that would ensure adequate revenues from investments and guarantee that the political and security situation will not affect investors' projects. The management of such fund should be protected from opportunistic intentions and political factionalism.

Attention should also be paid to training. The German model of vocational training, led by the German Chambers of Vocations is perhaps the best model for us to adopt. This model helped the Germans to rebuild their shattered economy after World War II. Jerusalem suffers the same lack of investment, and we can also succeed and excel as Germany did if we manage training approaches well. The vocational model can help us improve our small-scale establishments and turn some into medium-scale establishments that can absorb the new labor force entering the labor market, reducing unemployment rates.

The successful experience of the Chamber of Commerce and the Union of

Chambers of Commerce in the training and employment project for new graduates should be adopted and the number of beneficiaries should be increased, as it will eventually provide people with expertise to help develop Jerusalem's economy in general.

Jerusalem economy is mainly dependent on tourism, services and trade, with industry comprising a small proportion only and agriculture missing at all. The current unemployment rate stands at about 13.4%. The newcomers to the labor market are estimated at 9000 new workers per year. The private sector is the largest employer in the City, but second to the Israeli market, which is attempting to reduce absorption of Arab labor force. The Palestinian market remains the largest employer for Arab university graduates, but these may start to face great difficulties in reaching their worksites upon the completion of Wall construction (WHY?). During the period 2001-2004, tourism suffered a complete recession, leading to disruption of the City's tourist assets, selling of some tourist facilities and utilization of others for different functions.

In this regard, the following is recommended:

1. Link 20 hotels in Jerusalem with credit sources to help renew their infrastructure.
2. Ensure credit sources to fund the renewal of tourist buses in the City.
3. Create additional tourist attraction sites in Jerusalem other than religious sites to discourage tourists from opting to stay in West Jerusalem.
4. Increase the number of international projects aimed at creating new job opportunities in Jerusalem.
5. Revive handicraft business in Jerusalem, especially in streets with the highest level of closed shops in the Old City.
6. Support the transport sector in order to replace the Israeli transport services operating in Palestinian areas.
7. Provide soft loans for housing purposes, including licensing costs , in order to encourage development of licensed building projects that can absorb the largest possible number of workers.
8. Develop the capacity of training institutions in order to help train skilled laborers in various fields of specialty (vocational training).
9. Support legal consultation organizations, which defend the rights of Jerusalemites in the economic, social and services fields.



## 6. Ability of Jerusalem economy to cope with the present situation

The Separation Wall will strangle East Jerusalem's economy if it maintains its current form and composition. The City has to adapt its economy in order to quickly manage and cope. In the absence of a national authority governing East Jerusalem, the private sector should take initiative and develop its ability to cope with the challenges of survival in the coming period. The following steps are recommended for the private sector to follow:

1. Focus economic endeavors on tourism, which is the main potential for increased revenue for Jerusalem.
2. Working to extend foreign tourists' stay in East Jerusalem. Each additional hour will bring the City an additional income of about US \$25 million per year.
3. Direct potential investments in Jerusalem towards the tourist sector, which requires:
  - a. renovating the tourist infrastructure that was damaged between 2000-2005,
  - b. creating new and diversified tourist attraction sites and keeping abreast with new developments in the tourism industry,
  - c. increasing the promotion of Jerusalem as a stand-alone tourist site as well as within joint tourist programs with neighboring countries,
  - d. developing the cultural and recreational life in Jerusalem to respond to and keep up with tourist needs in a more attractive way, and encouraging the private sector to invest in this field,

- e. increasing the number of Arab hotel rooms by establishing new hotels able to compete with the Israeli hotels,
  - f. turning Saladin Street and Zahra Street to pedestrian areas,
  - g. reviving handicraft industry in Jerusalem by encouraging fathers to train the younger generations or through training courses abroad (shop owners at Silsilah Gate may be encouraged to use that area for this purpose), and
  - h. reviving the Qattanin market in the Old City, as well as renovating Mamluki and Turkish baths.
4. Encourage investment in housing and construction to ensure availability of adequate houses for the largest possible number of East Jerusalemites.
5. Increase attention to renovating houses in the Old City, including houses outside Jerusalem walls, in order to ensure a better life quality for residents and attractiveness of the Old City for tourists.

As part of its constant struggle for survival, Jerusalem City needs to adapt its situation to the new developments imposed by the Separation Wall. Since there is no national authority to serve the Arab residents of Jerusalem and there is no official political leadership in the City, the private sector remains the only sector that can move relatively freely and can lead the City in this struggle for survival in order to maintain the Arab appearance and culture of East Jerusalem.



## 7. Conclusion

In conclusion, this study indicates that a lot can be done to preserve Jerusalem City from being fully annexed to the Israeli economic system and to keep it economically self-reliant.

We estimate that Jerusalem City is in need of immediate investments in the range of US \$150 million as a starting point for the coming three years. These investments should include the fields of housing, tourism, renovation of the Old City and development of handicraft industry in the City.

In order to encourage local, Arab, Islamic and international investment in East Jerusalem and relieve investors' fears of risks associated with investment in the City, the creation of a US \$50 million fund to provide guarantees against investment risks is essential to attract capitals (\$50 million?).

Investment in Jerusalem should not be viewed as solely an economic endeavor subject to the factors of win or lose, but rather a national and religious endeavor to preserve the Arab character of the Holy City.

In order to encourage external investors, we should first encourage local investment and demonstrate the ability to convince investors, starting from networking and integration of tourist, commercial, cultural, educational and service sectors to provide a solid platform against Israeli competition.





