

The Jerusalem Policy Forum

**A joint project of
The Peace and Democracy Forum and Ir Amim**

**From Dissonance to a Permanent Status Destination
Creating Policy Options to Pave the Way to Final Status**

Economic Development in East Jerusalem

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The Peace and Democracy Forum and Ir Amim

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The Jerusalem Policy Forum

Jerusalem is a city of vital importance to Palestinians and Israelis, as well as to three world religions: Christianity, Islam and Judaism. Jerusalem is destined to play a pivotal role in any future political agreement between the Israelis and the Palestinians.

The Jerusalem Policy Forum is a joint project of the Peace and Democracy Forum, a Palestinian NGO, and Ir Amim, an Israeli NGO. The Jerusalem Policy Forum acts on the assumption that the optimal resolution of the conflict between Israelis and Palestinians lies in a viable two-state solution, in which Jerusalem will serve as the capitals of both states. Therefore, the Forum is committed to thwart any action that may prejudice and prejudice the two-state solution in Jerusalem and its surroundings.

A steering committee from these organizations directs the work of the Forum:

- Prof. Elinoar Barzacchi
- Terry Boullata
- Avraham Burg
- Amos Gil
- Abdel Qader Husseini
- Prof. Nazmi al Ju'beh
- Saman Khoury
- Sarah Kreimer

The Forum acts as a joint caucus for creating and advancing policies and actions which further Israeli and Arab Jerusalem in a manner that ensures the dignity and welfare of all residents, and safeguards their holy places and their historical and cultural heritages.

In addition, a broad network of Palestinian and Israeli experts on Jerusalem issues, from a variety of professional disciplines, implements the work of the Forum, aiming to create a reality more conducive to advancing final status negotiations on the issue of Jerusalem.

Executive Summary

The Jerusalem Policy Forum (JPF) recognizes that any settlement of the Palestinian/Israeli conflict must and will resolve the status of Jerusalem. In the meantime, Jerusalemites, both Israeli and Palestinian continue their lives, confronted, complicated, and made worse by the difficulties of the conflict.

In an effort to develop a more equitable and prosperous Jerusalem and facilitate its future political division, the JPF convened an Economic Working Group of Israelis and Palestinians to identify economic development policies, programs, and projects that will help East and West Jerusalem become fully functional cities capable of serving as the capitals of the states of Palestine and Israel, respectively. The JPF's strategy is to provide a flexible guideline for the economic development of East Jerusalem that takes into account the changing political environment in which Jerusalem will likely be governed as Israeli and Palestinian leaders proceed toward a permanent status agreement.

The Economic Working Group realizes that the possibility of resolving Jerusalem's political status is threatened by the current situation in East Jerusalem. Planning and development policies in East Jerusalem limit and prevent, rather than encourage, economic development in East Jerusalem. Thus, East Jerusalem today is not an economic asset to Jerusalem as a whole, but rather an increasingly marginalized and detached community, constituting an economic burden on the city. With the impending completion of the Separation Barrier that increasingly isolates East Jerusalem from its natural markets, by restricting the movement of people, goods and services with the West Bank, East Jerusalem is becoming increasingly poor and dependent on Israeli systems, from which Palestinian Jerusalemites are alienated politically.

The continuation of the status quo situation implies continued Israeli control over East Jerusalem, isolation of the economy of East Jerusalem from that of the West Bank and Gaza and only limited costly integration with the economy of Israel.

In order to move from this current situation, in which all Jerusalemites lose, toward a sustainable future for two future capitals in the Jerusalem urban area, the Economic Working Group recommends the following approach:

1. Although Jerusalem will become two cities, one the capital of Palestine and one the capital of Israel, it should operate as a coordinated economic space – to take maximum advantage of the natural markets, economies of scale in infrastructure, and to ensure the maximum mobility and economic activity for its residents, visitors, and investors. In this future scenario, Jerusalem as a whole will benefit from East Jerusalem's return to act as the heart of the Palestinian territories in the West Bank, and play its expected role as the economic and social center for Palestinians.
2. Even now, East Jerusalem can and must begin to plan, advocate and implement economic development policies, programs, and projects, both in conjunction with Israeli

authorities, with Palestinian authorities, and on its own, recognizing that when Palestinian legal authority comes, it will already have foundations for a functioning, sustainable economic program.

3. While it is currently under the legal authority of Israel, the regulatory framework governing East Jerusalem must be brought in line with principles of equitability, in order to serve the economic development needs of Palestinian residents and businesses in Jerusalem.

In order to pursue this approach, the Economic Working Group recommends building a **Jerusalem Economic Development Forum**, whose mission it will be to include business leaders and organizations who will work on the economic development agenda to strengthen the economic institutions and assets of East Jerusalem, and to build partnerships with businesses in the region – in the Palestinian metropolitan area of East Jerusalem, in West Jerusalem, and beyond. This non-governmental forum will begin the work of economic development that will eventually become East Jerusalem's economic development agency.

1. The Forum will begin the process of developing a strategy to convert liabilities and obstacles into opportunities through for a Sustainable Urban Economic Development Plan for Arab (East) Jerusalem
2. The Forum will itself and working with others use all legal and public avenues to ensure equitable regulations in the following fields: tax policy impact on business by sector; property registry; and planning
3. The Forum will work with Palestinian and Israeli security officials to facilitate the movement of people and goods between East Jerusalem and all contiguous areas, comprising its natural labor market.

The Economic Working Group of the Jerusalem Policy Forum recognizes that the steps proposed in this paper are severely impeded by current security and regulatory policies, which are unlikely to change significantly as long as the political conflict remains unresolved in Jerusalem. At the same time, the fact that genuine economic development in East Jerusalem requires resolution of its anomalous status in the framework of a political agreement in no way absolves the parties from doing what must and can be done, here and now.

The following paper is the work of the Economic Development Working Group of the Jerusalem Policy Forum. Its content is the result of the members' discussion on the future of Jerusalem.

Mission

As our leaderships move forward to a final status arrangement for the City, there is a range of actions that must be considered, planned, and set in motion even now – that we should not wait any longer to begin the **process** of building a sustainable, market-driven economy, for both Palestinian (East) and Israeli (West) Jerusalem.

Setting the Vision: Imagining a Different Future

As we begin this process, we want to be goal-oriented, and focus on the practical steps to achieving our goals. One process that is useful in identifying concrete economic goals is to “imagine” what economic stories we want to read about East Jerusalem in the future, say 10 years from now. The vision of the strategy is that East Jerusalem would return to act as the heart of the Palestinian territories in the West Bank, and play its expected role as the economic and social center for Palestinians. While these “stories” are just hypothetical, they should illustrate the positive effects of specific policies, programs, and projects that need to be put into place now or in the near future. Now, the task is to “reverse engineer” these headlines and to identify and implement the actual policies, programs, and projects that will achieve these results...

Dateline: Al Quds/Jerusalem, Palestine, 2017

Google/Yahoo Joint Venture Dedicate Global Service Center in Beit Hanina

Sony Ericson Triple Size of Middle East Call Center at Atarot Technology Campus

Al Quds University Dedicates Expanded Joint Research Center with Hebrew University in Abu Dis and Sign IP Sharing Agreements with Three European Universities

30 Year Jerusalem Bonds Raised to “A” Rating in Latest Offering; Issue Oversubscribed Mainly by European and Asian Buyers

Palestinian GDP Rises by Double-Digits for 3rd Year

Higher Proportion of Graduates from Hebrew University and Al Quds University Taking Local Jobs

Jerusalem Environment Ranked Among Top 10 in World Thanks to Rapid Implementation of Integrated Economic Development and Environmental Master Plans

City Finance Directors: City’s Budget Forecast - Sustainable Surplus for Next Year

Approach

This desired economic future depends on a stable political environment in which the long-standing Palestinian/Israeli conflict is resolved. Our approach to economic development is built on a combination of increasing the competitive economic activity and the sustainability of those activities. Simply, we seek to increase our economic activity by strengthening and growing the East Jerusalem economy in a way that allows us to preserve and sustain the city's economy.

Economic Activity

- ❑ Create economic interdependence between East Jerusalem and its natural markets, including West Jerusalem
- ❑ Create an internationally-recognized economic zone that permits free trade and labor movement

Sustainability

- ❑ Build on competitive competencies and assets to create a diversified industry base
- ❑ Restructure the City's tax base to support quality of life/government services on an equitable basis to all segments of the community
- ❑ Institute a fair and equitable tax structure, competitive with other regions/economies
- ❑ Preserve and protect of private property

In a two-capital future, will Jerusalem operate as one or two economic entities? Will Jerusalem/Al Quds be two cities in one largely integrated (or common) urban economic space or two cities within two largely separate economies?

From an economic point of view, the win-win model is an "open" economic space: two cities each linked to their respective countries with an integrated (or coordinated) economy. Whatever regime will bind the two States apply also to East and West Jerusalem as two capitals for two states. East Jerusalem completely linked to the Palestinian State, and West Jerusalem completely linked to the State of Israel, with good economic relations based on a free trade agreement as the most probable scenario. The political and security regimes during the interim period (until final status arrangements for the City are determined) need to address this economic approach, allowing political independence, but permitting and encouraging economic interdependence...

Importantly, the concept of a common economic space does not mean that Jerusalem cannot be divided into two distinct cities governed by a strict border regime between the two cities. Indeed, an economic commons means that, economically, it will be most beneficial to both Palestinians and Israelis, offering a more competitive location for international investments and building a tax base for public services and a sustainable quality of life for each city. Further, this document addresses the economic development steps to be taken from this point until the final status of the City is achieved, it must be done on the basis of the current economic status, which

is an economic commons, though an imperfect and imbalanced one.

Ultimately, the trade regime that is developed between Israeli and Palestinian Jerusalem should maximize the potential for an economic commons, while recognizing the political independence of each country.

Economic Context

Current Economic Conditions

The strategy must be built on economic assets, and must address ways of overcoming liabilities. Following is a summary of these assets and liabilities. A fuller description of these is included in the Appendix and supporting materials.

Economic Assets

- ❑ Population – almost 1 million people live in the greater Jerusalem area, including West and East Jerusalem and their hinterlands.
- ❑ Workforce – rapidly growing workforce.
- ❑ Education – basic educational levels competitive within region; literacy levels and higher education achievement
- ❑ Cultural institutions and heritage – world class cultural and historical artifacts, sites, and attractions.
- ❑ Religious center – major religious sites for Judaism, Christianity, and Islam with authentic, indigenous population
- ❑ Industry strengths – existing tourism industry, including logistics, hospitality, tours, and shopping; leading higher educational institutions in region.

Economic Liabilities

- ❑ **Palestinian East Jerusalem**
 1. Restricted mobility
 2. Limited employment opportunities; dependence on West Jerusalem for employment
 3. Limited access to “natural” market, including Palestinian areas and within Jerusalem; limited attraction to W Jerusalemites
 4. Marginalized economic activity; few major value-added companies
 5. High structural unemployment/low incomes
 6. Limited capital resources and asset base
 7. Limited infrastructure; no competitive, ready-to-go sites and buildings
 8. Uncertain macro economic conditions
 9. Stigmatized by “disputed territory” label chills international investment
 10. Illegal, unplanned development, demolitions
 11. Confusing, overlapping legal and traditional processes for resolving conflict

❑ **Israeli West Jerusalem**

1. Highest poverty rates in Israel; high structural unemployment; low labor force participation
2. Declines in key sectors
3. Security and safety issues; uncertainty and unstable investment climate
4. Substantial office and commercial vacancies
5. Limited areas for population growth/residential development
6. Limited access to “natural” geographic market

❑ **Jerusalem as a whole**

1. Increasing poverty of city as a whole
2. Flight of middle-class; intellectuals; brain drain
3. Wide disparities between rich and poor; between those favored by current regulations, and those hobbled by them -- marginalizing much economic potential
4. Evolution into ‘frontier town’ marginalized by Palestinians and Israelis as “too difficult to deal with”
5. Isolation from natural markets
6. Limited tax base; structural budget deficit; inability to sustain quality services for all residents

The orientation of economic development policies over the past 40 years has been to accelerate Israeli development in East Jerusalem, and to obstruct and limit Palestinian development. The cumulative result of these policies has been to transform the Palestinian community in Jerusalem into a marginalized, increasingly poor and detached community, largely dependent on the economy of West Jerusalem, and cut off from its natural markets to the East.

The economic conditions within East Jerusalem have deteriorated. The economy is characterized by low labor force participation, limited opportunities, low wages (relative to West Jerusalem), limited public investments in communities and infrastructure, inadequate municipal services, little private investment or capital accumulation (wealth), and, as a result, unsustainable fiscal conditions and a deteriorating economic base.

Within the context of the Palestinian/Israeli conflict, the economic situation in East Jerusalem endangers both the economy of the city as a whole and the possibility of reaching an optimal political and economic future.

Recommendation: Sustainable Development Plan for Economic Stability in Jerusalem

Given the economic conditions in Jerusalem, the Economic Working Group recommends the following “strategic framework” for the development of policies, programs, and projects that will balance *planning, development, and investment* in East Jerusalem. This framework covers the basic and necessary components for a viable and sustainable economic development plan.

Returning to the “reverse engineering” methodology for our “different future,” the following actions are designed to create an attractive and competitive environment for economic development and would constitute major components of the Sustainable Economic Development Plan for Jerusalem:

1. ***Strengthen Economic Assets/Anchors*** – This recognizes that any development is built on the City’s economic strengths and exploits its core competencies – those features that distinguish it from other Cities and regions. Jerusalem’s assets include its historic and holy sites, education and medical centers, and its tourism industry. Other assets are the city’s skilled, multi-cultural, educated workforce, research centers, and large employers (and their supplier and customer networks).
2. ***Attract and Retain Viable Business*** – This activity uses the City’s economic assets and focuses efforts on sustainable businesses with value-added networks. In particular, this activity will focus on tourism, education, services, and biotechnology. In addition, this focuses on those sectors that can take advantage of the unique location of East Jerusalem between Israel and the Arab world.
3. ***Prepare the Workforce*** - This recognizes the competitive need for a *prepared* workforce. Necessary activities include work readiness training, general and customized skills training, entrepreneurial and management training, as well as “continuing” education to enhance the growth and retention of the workforce.
4. ***Build Economic Infrastructure*** – This activity involves preparing the region economically for business, including the trade policies, movement of goods and labor, taxes, etc. The city’s economic infrastructure must be competitive, reliable, and safe in order to grow, attract, and retain businesses.
5. ***Improve Governance*** – East Jerusalem has the rare opportunity to plan an efficient and effective local government. Although it currently lacks “authority,” now is the time that it must establish the systems, policies, programs, and projects to “begin” local governance. This planning should include land use planning, master planning, environmental planning, fiscal planning, and infrastructure and development planning.
6. ***Facilitate capital formation*** – Capital is the key to economic development. Strategic efforts must begin to open new sources of capital, including the creation of a “capital market” for private and public projects in Jerusalem, attraction of commercial lenders to the market, and the leverage of capital resources to rebuild communities.
7. ***Leverage Capital Investment*** – East Jerusalem must attract capital investments in land and buildings in order to be in the market and “ready” for development. It must create a critical mass of quality, ready-to-go spaces in order to be “noticed” in the international

market.

8. ***Create Economic Development Capacity*** – Similar to efforts to “improve public governance,” described above, East Jerusalem must create the economic development institutions that will lead development efforts, initiate policies and programs, and promote, market, and deliver economic developments to East Jerusalem.

Immediate Actions

1. Build a Jerusalem Economic Development Forum that will include business leaders and organizations who will work on the economic development agenda to strengthen the economic institutions and assets of East Jerusalem and its hinterland and build partnerships with West Jerusalem and beyond. This non-governmental forum will begin the work of economic development NOW that will eventually be assumed by an official East Jerusalem economic development agency.
2. Use all legal and public avenues to ensure equitable regulations in the following fields:
 - a. tax policy impact on business by sector
 - b. property registry
 - c. planning
3. Institute a third party monitoring and evaluation group during the interim period for economic development in East Jerusalem.

Building on this framework, the following actions represent the first steps that can be taken to implement the economic development plan in each of the areas identified above. These actions are divided into three time-frames: immediate – those actions that can be implemented in the current situation; interim – those actions that can be implemented during final status negotiations; and final status – those actions that only can be implemented after a two-state resolution.

Strengthen Economic Assets/Anchors	When
1. Universities – the largest employer and catalyst for economic development	
a. Ensure recognition for degrees from Palestinian universities in Israel [1]	Immediate
b. Coordinate curriculum to ensure the acceptance/transfer of credits between universities in Israel and Palestine [1]	Immediate
c. Build partnerships with world class universities for shared research, appointments, and fellowships [2]	Interim
d. Support plans to expand campus facilities [1]	Long-Term
2. Corporate Research	
a. Attract funding to provide direct research support in target market niches (based on competencies) modeled after BIRD Fund [2]	Interim
3. Enhance Tourism Sector – recognize tourism as number one industry in Jerusalem and anchor for future growth	
a. Strengthen Amenities and Cultural Environment	
i. Alter plan for redevelopment of Said en Said (Damascus Gate, bus station) to leverage cultural, religious aspects, and environmental aspects to strengthen Arab (East) Jerusalem [1]	Immediate
b. Create brand for regional co-marketing initiatives [1]	Immediate
c. Improve environmental quality by balancing the needs of residents and businesses	
i. Launch East Jerusalem environmental master plan [1]	Interim
4. Transportation	
a. Ensure reliable, streamlined, and affordable access via road, rail, and air	
i. Create high value stops in Arab East Jerusalem that benefit Palestinian residents and business [1]	Interim
ii. Preserve airport area as a site for future international travel [1]	Immediate
iii. Develop business plan for private operation of regional airport	Interim

Attract/ Strengthen Viable Business

Leverage regional assets to start, retain, expand, and recruit businesses in industry “value chain”

- 1. Retain Anchor Businesses

- | | |
|---|--------------------------|
| <ul style="list-style-type: none"> a. Lower the cost of doing business <ul style="list-style-type: none"> i. Arnona – revise classifications to ensure level playing field [1] | Interim |
| <ul style="list-style-type: none"> b. Create a secure and dependable workplace (ensure reliable access for workers, employers, suppliers, customers, investors) | Interim/Final Status |
| 2. Recruit Competitive Firms | |
| <ul style="list-style-type: none"> a. Identify core industry strengths (e.g. tourism, medicine, higher education, services) | Immediate |
| <ul style="list-style-type: none"> b. Identify businesses that build on regional core competencies and begin to recruit[2] | Interim |
| <ul style="list-style-type: none"> c. Encourage and facilitate any types of local and international investments that can help boost the economic development in East Jerusalem, which will have a positive impact on Jerusalem as a whole. | Interim and Final Status |
| <ul style="list-style-type: none"> d. International investors should be granted visas to come to East Jerusalem | |
| 3. Encourage start-ups | |
| <ul style="list-style-type: none"> a. Create industry network; connect to regional and global network such as Start-up Jerusalem [2] | Immediate |

Prepare Workforce

- | | |
|---|--|
| <ul style="list-style-type: none"> 1. Improve basic educational achievement [2] <ul style="list-style-type: none"> a. Testing b. Teacher Certification and Pay c. Curriculum Standards d. Classrooms | Immediate & Interim,
dependent on
Education Policy |
| <ul style="list-style-type: none"> 2. Create targeted vocational and higher educational incentives [1] <ul style="list-style-type: none"> a. Domestic to offer opportunities to residents b. Foreign to attract children back to region | Interim
Final Status |
| <ul style="list-style-type: none"> 3. Link education grants with retention in region [1] | Interim |
| <ul style="list-style-type: none"> 4. Create Regional Learning Center to sponsor customized job training for residents and new jobs | Immediate |
| <ul style="list-style-type: none"> 5. Fund scholarships for academic achievement [2] | Interim |
| <ul style="list-style-type: none"> 6. Fund continuing education programs for workforce [2] | Immediate |

Build economic development infrastructure

- | | |
|--|-----------|
| <ul style="list-style-type: none"> 1. Create and promote industry assets, trade opportunities, and job openings [2] | Immediate |
|--|-----------|

- | | |
|---|---------|
| 2. Sponsor trade missions (in and out) [1] | Interim |
| 3. Recruit industry leaders and key talent, leveraging cultural amenities and research opportunities [1] | Interim |
| 4. Create access to services, including language and telecom [1] | Interim |
| 5. Institute a security regime that ensures freedom of movement and accessibility to the city of Jerusalem by Palestinians and Israelis | Interim |

Improve Public Governance

- | | |
|--|--------------|
| 1. Create “equal” planning and development processes [1] | Immediate |
| 2. Complete land registry/deeds to permit lienable assets [1] | Interim |
| 3. Facilitate development permitting processes [1] | Final Status |
| 4. Institute and enforce fair land use controls [1] | Final Status |
| 5. Maintain public infrastructure and spaces, including water, sewer, parks, and roads in accord with environmental master plan [2] | Final Status |
| 6. Create competitive tax climate, improve tax collections and equitable expenditures [1] | Interim |
| 7. Create incentives to offer “unfair” competitive advantage (must overcome long term disadvantages in East Jerusalem) in business development and recruitment [1] | Final Status |

Facilitate Capital Formation

- | | |
|---|-----------|
| 1. Business | |
| a. Support small business lending | |
| i. Support development fund to provide access to credit [2] | Immediate |
| b. Leverage VC Fund formation; | |
| i. attract competitive management with global standards (e.g. Portland Trust) [2] | Immediate |
| c. Open and encourage competitive commercial banking services | |
| i. Attract Palestinian Banking institution – remove restrictions on registration [1] | Immediate |
| ii. Open Palestinian, Arab and international banks in East Jerusalem based on fair competition; Israeli Banks working in East Jerusalem should introduce all their services for businesses and individuals in Arabic. | Immediate |
| 2. Community | |
| a. Promote the creation of a development bank to focus capital for community-based projects, including neighborhood commercial developments and housing | |
| i. Feasibility Study [2] | Immediate |
| ii. implementation | Interim |

Leverage Capital Investment

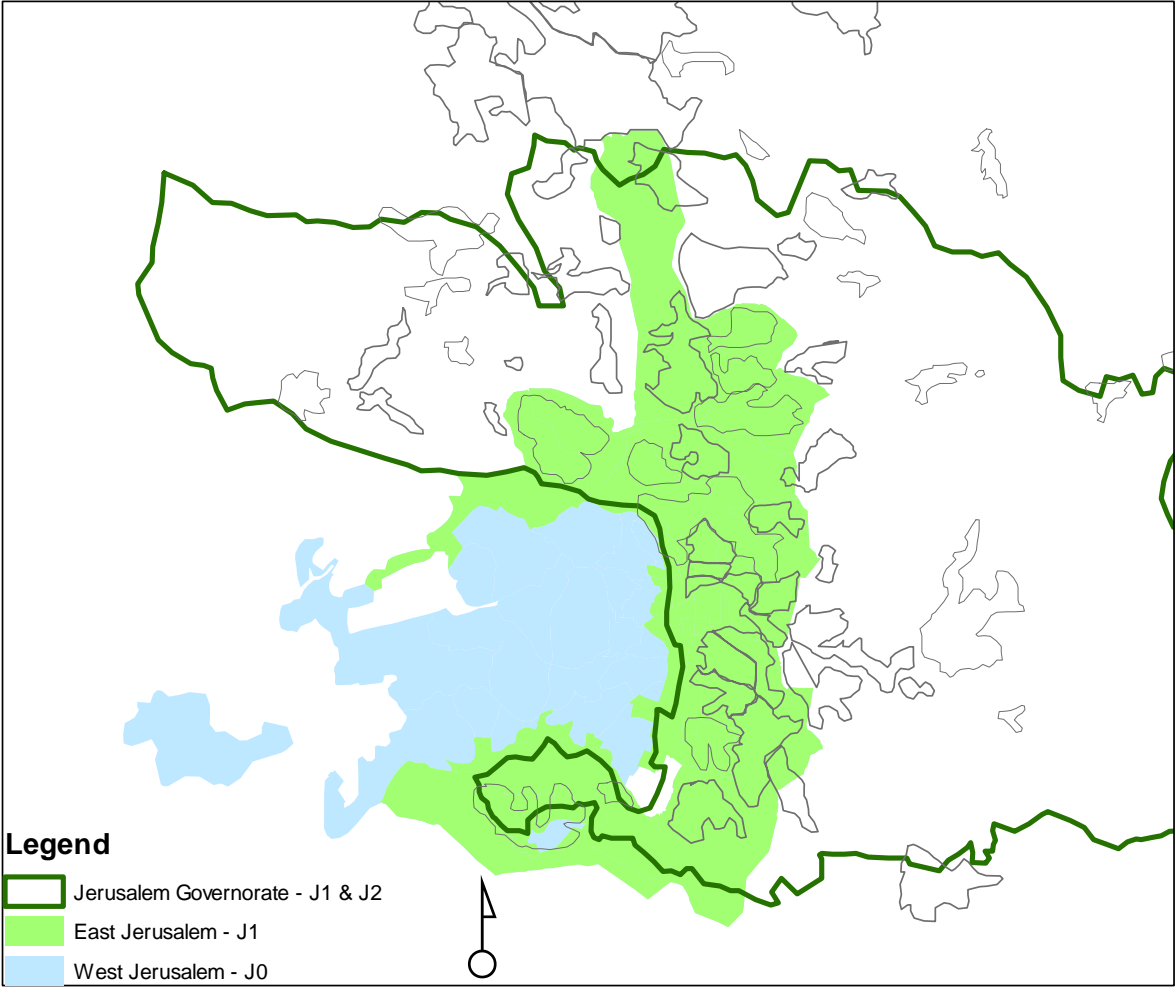
- 1. Sites and Buildings
 - a. Create a development loan fund to leverage the private development of competitive, “ready-to-go” land and buildings for economic development
 - i. Support redevelopment of Atarot [1] Immediate
 - ii. Support business development at Airport site Interim
 - iii. Support “ready” site and building program in business districts throughout East Jerusalem Interim
 - iv. support Palestinians in East Jerusalem to invest on the land they own, and give them tax exemptions and other investment incentives Interim
 - v. stop the confiscation of Palestinian land and the building of Israeli settlements in East Jerusalem ?????
- 2. Financing
 - a. Create conduit bond authority for public infrastructure and private site and building funding
 - i. Feasibility [2] Immediate
 - ii. Implement Interim
- 3. Residential Development
 - a. Restrictions on construction and housing sector in Jerusalem should be lifted, to enable business growth and development. Immediate
 - b. Stop the policies of demolishing Palestinian houses in East Jerusalem.

Create Capacity to Focus Economic Development Activities in East Jerusalem

- 1. Create Jerusalem Economic Development Forum, inviting business leaders and organizations who will work to strengthen the economic institutions and assets of East Jerusalem and to forge partnerships with West Jerusalem. Responsibilities would include:
 - a. Policy & Planning, including Research, Analysis, and Targeting Immediate
 - b. Strategy, including Promotion, Business Development, Outreach, Recruitment, Program Development, and Ombudsman-ship (hand-holding) Immediate
 - c. Financing, including Packaging, Analysis, Program management, Financial management Immediate

Appendix

Map



This map describes the Jerusalem region. It includes the whole area of municipal Jerusalem, including West (J0) and East (J1) Jerusalem. Overlaid on the municipal Jerusalem is the border of the Jerusalem Governorate (J1 & J2).

Barriers

The current economic conditions arise from a series of “barriers.” These barriers include intangible “perceptions” of Palestinians, Israelis and the international community, as well as tangible “policy” barriers that have evolved de facto or de jure.

In order to reach the desired economic future, these barriers must be removed.

Perception Barriers

These barriers have more to do with perceptions and expectations. As a result, we refer to these barriers as “meta barrier.” These are the “barriers” that must be removed in order to move forward now and into the future.

For Israelis

- Recognize that “de-development” is not a sustainable policy
- Recognize that a poor and dependent population is unstable and destructive for all communities
- Recognize that the Palestinian community must be treated as an equal partner in the planning and development process of E and W Jerusalem from hereon
- Recognize that Palestinians will eventually have control over the planning process of East Jerusalem.

For Palestinians

- Recognize that actions must be taken in the short and long term despite occupation
- Recognize that a strategy for sustainable and market-oriented development must be created and implemented
- Recognize that the Israeli community must be included in the planning and development process in E and W Jerusalem

For International Community

- Recognize that investment must be transparent
- Recognize that beneficiaries must be accountable
- Recognize that programs and investments must be sustainable

Policy Barriers

Further, barriers are in part caused, and otherwise made worse, by a series of policies and approaches -- by both Israel and the Palestinian Authority. These policies include:

- Targeted investment of public resources in Israeli Jewish neighborhoods/settlements in East Jerusalem

- ❑ Land confiscation; no land for amenities, or developable areas for industry and essential services
- ❑ No control of macro economic conditions including tariffs, taxes, and subsidies
- ❑ Planning and development obstacles for Arab/Palestinian community development
- ❑ Objections to Palestinian, Israeli, and/or international investment in “disputed” territory
- ❑ Tight export/import control; barriers to flow of labor and trade
- ❑ No support for development organization infrastructure – Chamber of Commerce (Palestinian chamber of commerce to be re-opened in East Jerusalem), Arab tourism association; Arab banks (to re-open in East Jerusalem); local or regional development authority
- ❑ Incomplete and/or inaccurate land registry
- ❑ Isolation from international market, investors, entrepreneurs and banks
- ❑ At-large (no district representation) municipal elections; no participation by Arabs/Palestinians
- ❑ No incentives for development in Arab (East) Jerusalem, thereby eliminating advantage in global business recruitment
- ❑ Disparity in planning and development capacity and involvement

Following are selected tables and charts of available economic information about East Jerusalem, including both Arab and Israeli areas, describing the conditions, challenges, and opportunities affecting the prospects for development in East Jerusalem:

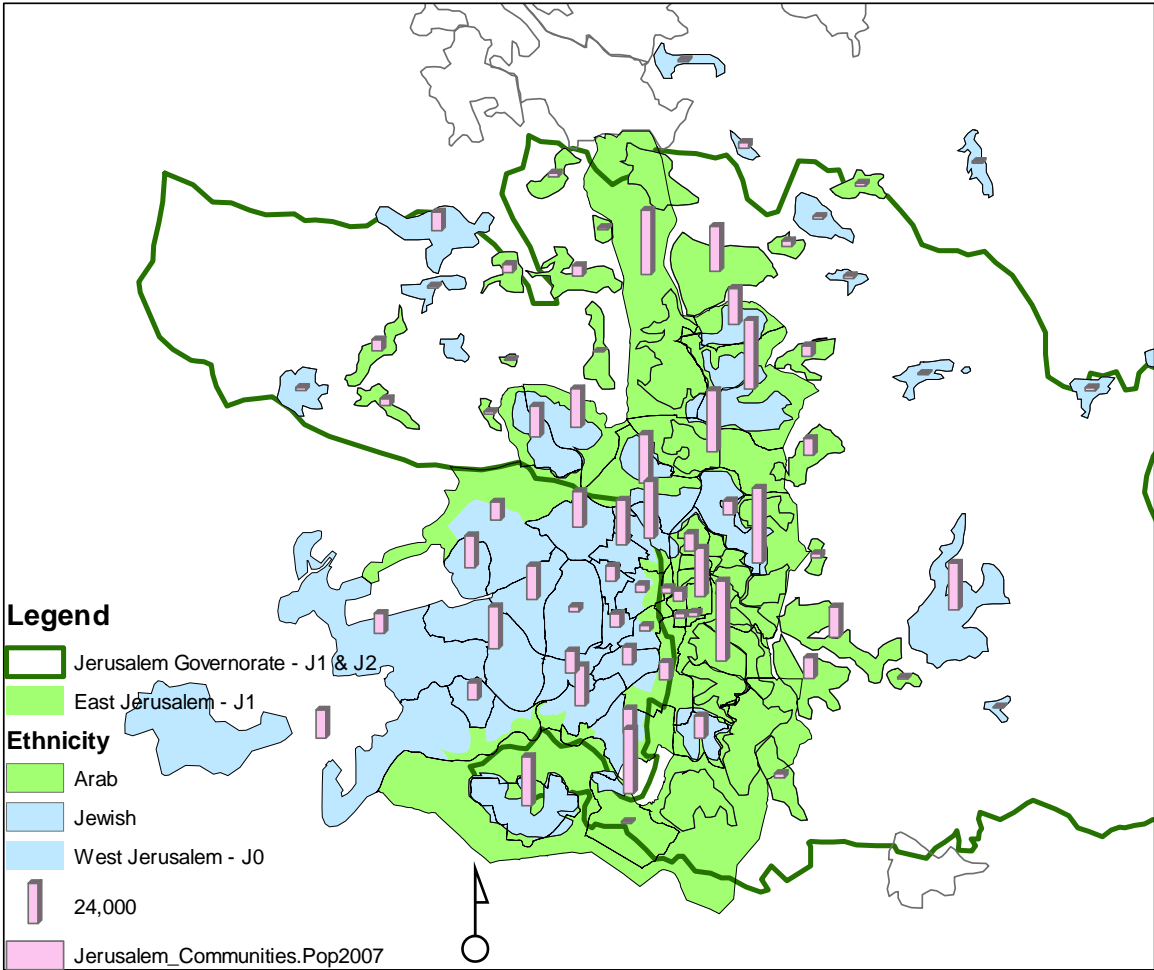
Demographics

Based on 2007 population estimates¹, the total population in East Jerusalem (J1), including both Jewish communities and Arab communities, is estimated at 413,000, of which 62% is Arab and 38% is Jewish. For the “greater” East Jerusalem area, including J1 and J2, the total population is estimated at 625,000, of which 414,000 (or 66%) is Arab and 211,000 (or 34%) is Jewish.

Arabs			Jews		
J1	J2	Total Arabs	J1	J2	Total Jews
61%	39%	100%	75%	25%	100%
		66%			34%

Table 1: 2007 Population Distribution Estimates.

¹ These estimates for the J1 & J2 Arab areas are based on 2007 Population Estimates from the PCBS. The J0 & J1 Israeli areas are based on projections from 2002 population estimates from JIIS based on overall average annual growth rates.



Within J1, the area identified as East Jerusalem within the Jerusalem Municipal boundary, the population resides on almost 70,000 dunams (70 sq km). Arab communities comprise 69% of the land area and Jewish communities comprise 31% of the land area

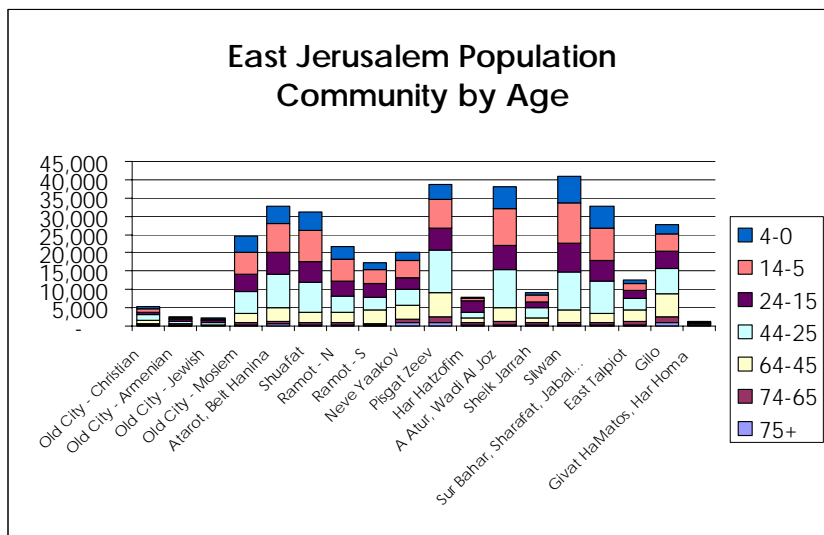
Table 2: Population Estimates from JIIS and PCBS, Analysis and Estimates

Su	A		A Total	J		J Total	Grand Total
	J1	J2		J1	J2		
Name							
A Atur, Wadi Al Joz	44,541		44,541				44,541
A Ram		26,730	26,730				26,730
Abus Dis		12,648	12,648				12,648
Al 'Eizariya		18,170	18,170				18,170
Al Jib		4,848	4,848				4,848
Al Judeira		2,215	2,215				2,215
Al Ka'abina		1,019	1,019				1,019
Al Qubeiba		2,160	2,160				2,160
An Nabi Samwil		228	228				228
Anata		10,048	10,048				10,048
Arab al Jahalin		1,258	1,258				1,258
As Sawahira ash Shariqiya		5,441	5,441				5,441
Ash Sheikh Sa'd		2,513	2,513				2,513
Atarot, Beit Hanina	38,266		38,266				38,266
Az Za'ayyem		2,568	2,568				2,568
Beit 'Anan		4,453	4,453				4,453
Beit Duqqu		1,671	1,671				1,671
Beit Hanina		1,447	1,447				1,447
Beit Ijza		700	700				700
Beit Iksa		1,639	1,639				1,639
Beit Surik		3,987	3,987				3,987
Biddu		6,650	6,650				6,650
Bir Nabala		6,360	6,360				6,360
East Talpiot				13,365		13,365	13,365
Gilo				29,263		29,263	29,263
Givat HaMatos, Har Homa				1,194		1,194	1,194
Har Hatzofim				8,350		8,350	8,350
Hizma		6,367	6,367				6,367
Jaba'		3,382	3,382				3,382
Kafr 'Aqab		10,873	10,873				10,873
Kharabyib Umm al Lahim		389	389				389
Mihmas		1,962	1,962				1,962
Neve Yaakov				21,495		21,495	21,495
Old City - Armenian	2,848		2,848				2,848
Old City - Christian	6,176		6,176				6,176
Old City - Jewish				2,492		2,492	2,492
Old City - Moslem	28,834		28,834				28,834
others		65	65				65
Pisgat Zeev				41,061		41,061	41,061
Qalandiyah		1,205	1,205				1,205
Qalandiyah Camp		9,466	9,466				9,466
Qatanna		7,829	7,829				7,829
Rafat		2,218	2,218				2,218
Ramot - N				23,048		23,048	23,048
Ramot - S				18,340		18,340	18,340
Sheik Jarrah	10,704		10,704				10,704
Shuafat	36,543		36,543				36,543
Silwan	47,710		47,710				47,710
Sur Bahar, Sharafat, Jabal Mukabar	38,355		38,355				38,355
Givat Binyamin-Adam					1,647	1,647	1,647
Givon Hadasha					1,280	1,280	1,280
Givat Zeev					11,013	11,013	11,013
Almon					756	756	756
Kidar					614	614	614
Pesagot					1,238	1,238	1,238
Kfar Adumim					1,877	1,877	1,877
Maaleh Adumim					27,795	27,795	27,795
Har Adar					1,815	1,815	1,815
Kokhav Yaakov					3,409	3,409	3,409
Maaleh Mikhmas					991	991	991
Grand Total	253,977	160,509	414,486	158,609	52,434	211,043	625,529

Residential Data

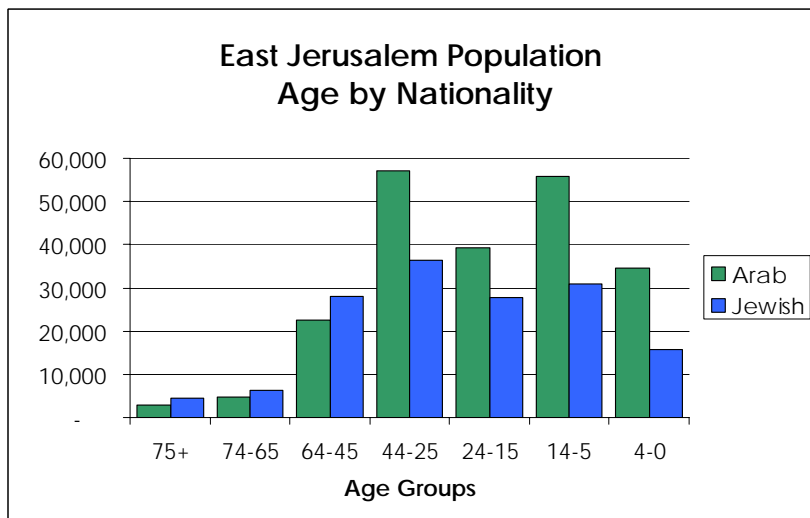
Due to Israel's restrictive policies, there is a large housing shortage for Palestinians in the city. Housing densities are accordingly unequal: while there are 1.9 persons per room in Palestinian areas, there is only one person per room in Jewish areas (Jerusalem Institute of Israel Studies, Statistical Yearbook of Jerusalem, 2002/03).

The number of demolished houses in Jerusalem Governorate Area J1 was 94 houses in the year 2005, and as a result of the expansion and annexation wall from Jerusalem governorate; 1,635 households (includes different communities within the governorate or out of it) that consist of 9,609 persons were displaced



39% of the residents of East Jerusalem are between 25 and 64 years old – 37% of the Arabs and 43% of the Jews

Figure 1: Age Breakdown by East Jerusalem Community, 2005 (JIIS)



37% of the residents of East Jerusalem are under 15 years old – 42% of the Arabs and 31% of the Jews

At current growth rates, the cohort that will be entering the labor force over the next 10 years is **seven times larger than the cohort that will be exiting...**
MIR, 3rd Qtr, 2005

Figure 2: Age Breakdown by Nationality, 2005 (JIIS)

Occupations and Industry

The East Jerusalem economy is comprised largely of services and tourism. Combined, these sectors comprise almost 60% of the employment in 2005.

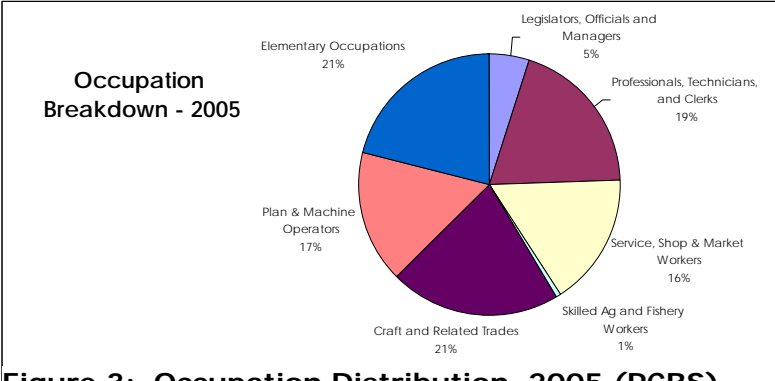


Figure 3: Occupation Distribution, 2005 (PCBS)

Occupations	2005	2004	2003	2002	2001
Legislators, Officials and Managers	5%	6%	6%	5%	3%
Professionals, Technicians, and Clerks	19%	24%	21%	22%	19%
Service, Shop & Market Workers	16%	17%	19%	16%	17%
Skilled Ag and Fishery Workers	1%	1%	1%	2%	3%
Craft and Related Trades	21%	19%	23%	23%	24%
Plan & Machine Operators	17%	16%	14%	13%	12%
Elementary Occupations	21%	18%	17%	19%	23%

Figure 4: Occupation Distribution by Year, 2001 to 2005 (PCBS)

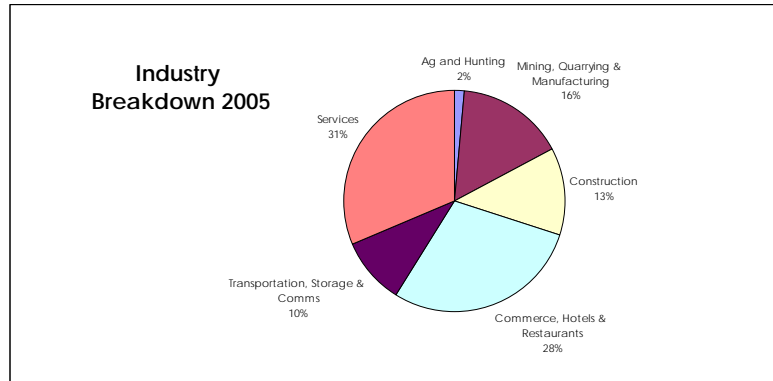


Figure 5: Industry Distribution 2005 (PCBS)

Industry	2005	2004	2003	2002	2001
Ag and Hunting	1.5%	1.3%	1.0%	1.9%	2.7%
Mining, Quarrying & Manufacturing	15.6%	12.4%	12.0%	13.9%	14.4%
Construction	12.8%	13.3%	19.0%	18.4%	21.9%
Commerce, Hotels & Restaurants	28.9%	28.2%	27.9%	27.9%	26.5%
Transportation, Storage & Comms	9.7%	9.0%	8.5%	7.6%	7.8%
Services	31.5%	35.8%	31.6%	30.3%	26.7%

Figure 6: Industry Distribution by Year, 2001 to 2005 (PCBS)

- East Jerusalem today is not an asset to Israel; rather it is an economic burden and a poor area that will continue to be poor and lacking a sense of belonging to the State of Israel. (due to Israeli occupation policies in the past 40 years)
- Today East Jerusalem is *de facto* separate from West Jerusalem due to the cumulative Israeli government policies that focused historically on the development of West Jerusalem.

Establishments by Sector	2005	2004	2003	2002	2001	1997
Ag	174	174	131	131	131	131
Mining	3	3	884	924	952	1001
Manufacturing	738	746				
Electricity & Water	4	4				
Construction	12	15	10	8	13	5
Wholesale, Retail, Repair	3557	3557	2709	2824	2854	2865
Hotels & Restaurants	324	325	256	264	265	265
Transportation, Storage, Comm	136	137	79	86	92	106
Financial Intermediation	44	44	60	60	60	56
Real Estate, Renting	224	227	209	213	218	222
Education	123	133	94	98	101	107
Health & Social Work	218	221	171	175	177	184
Community, Social, & Personal	364	370	266	270	272	276
Total	5921	5956	4869	5053	5135	5218

Figure 7: Number of Establishments by Year 1997 to 2005 (PCBS)

Of the 5,921 establishments in East Jerusalem, over 60% are in the trade sectors (including wholesale and retail shops) – largely serving the tourism market.

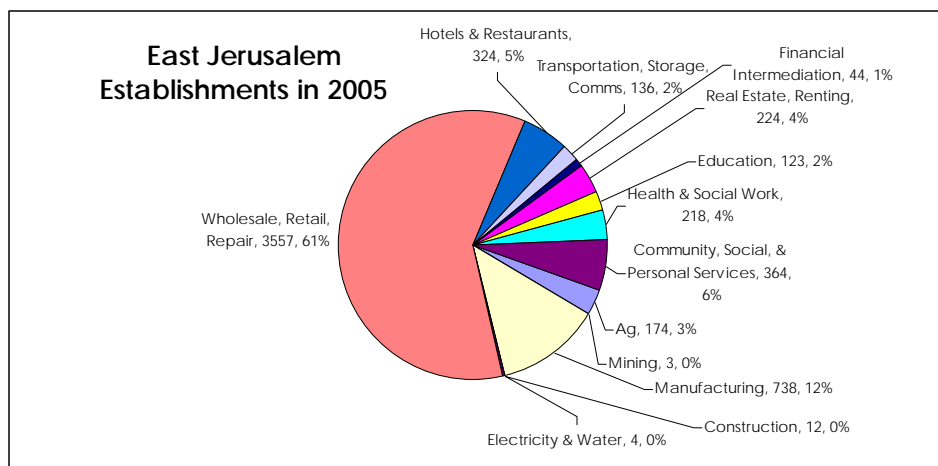


Figure 8: Distribution of Establishments by Sector, 2005 (PCBS)

Place of Work and Wages

Forty percent of the workforce in the Jerusalem Governorate (J1 and J2) works in Israel or Jewish settlements; those who live outside of the Separation Barrier must pass through either a formal checkpoint or military barrier.

		Total	Women	Men
Place of Work				
	Palestinian Territory	60%	92%	56%
	Israel/Settlements	40%	8%	44%
		100%	100%	100%

Figure 9: Location of Work Among Workers in Jerusalem Governorate (J1 and J2) in 2005 (PCBS)

	2001		2002		2003		2004		2005	
	Pal	Israel	Pal	Israel	Pal	Israel	Pal	Israel	Pal	Israel
Median Daily Wage	80	115.4	99.8	134.6	100	134.6	96.2	136.6	96.2	134.6
Average Daily Wage	88.1	113.9	102	129.2	106.7	138.3	103.1	137.5	104.9	137.2
Average Monthly Work Days	25	24.2	24.5	24.9	24.4	24.9	24.8	25	24.5	24.2
Average Weekly Work Week	43.7	47	41.1	46.7	39.7	46.6	41.1	46.8	41.6	45.6
(Source: Palestine Central Bureau of Statistics)										

Figure 10: Wage Levels in Jerusalem Governorate (J1 and J2) 2001 to 2005 (PCBS)

Labor Force Participation

Overall, in East and West Jerusalem, the number of working residents was 45.2% percent in 2006, compared to 48.6% percent in 1996.

The number of unemployed people in the year 2006 was 9.4%, compared to 8.4% nationwide.
 [Source: *Haaretz*, 15/05/2007]

	2005	2004	2003	2002	2001
In the Labor Force	37%	39%	38%	36%	38%
Outside Labor Force	63%	62%	62%	64%	62%
	100%	100%	100%	100%	100%
Full Employment	80%	74%	75%	71%	84%
Underemployment	3%	3%	3%	1%	1%
Unemployment	17%	23%	22%	28%	16%
	100%	100%	100%	100%	100%

Figure 11: Labor Force Participation 2001 to 2005 in Jerusalem Governorate (J1 and J2) (PCBS)

While lower education levels always hurt Labor Force Participation, people with higher education are being squeezed out of the labor force because of limited opportunities in those sectors that demand higher education.

Percentage Distribution of Population 15 Years+ from Jerusalem by LFS and Education						
	Total	13+	12-10	9-7	6-1	0
2001						
In	38%	55%	37%	42%	34%	6%
Out	62%	45%	63%	58%	66%	94%
2005						
In	37%	52%	38%	40%	29%	2%
Out	63%	48%	62%	61%	71%	98%
(Source: Palestine Central Bureau of Statistics)						

Figure 12: Labor Force Participation by Education Level in Jerusalem Governorate (J1 and J2) 2001 and 2005 (PCBS)

“Unemployment among men 15-24 stands at 43%...while roughly 70% of males who reached working age [in the last 7 years] are jobless” (MIR, 3rd Qtr, 2005)

Economic Anchors

Higher Education in East Jerusalem				
	04-05	03-04	02-03	01-02
Universities	2	2	2	2
Students				
Men	4176	3489	2916	3405
Women	4297	3630	3240	3363
Total Students	8473	7119	6156	6768
Total Graduates				
Men		614	20	424
Women		1282	106	884
Total Grads	0	1896	126	1308
Teaching Staff				
Men	308	45	352	385
Women	67	15	47	54
Total Teaching Staff	375	60	399	439
Community Colleges	3	3	3	3
Students				
Men	90	63	36	50
Women	347	292	235	221
Total Students	437	355	271	271
Graduates				
Men		13	14	26
Women		109	88	108

Figure 13: Higher Education Enrollment and Faculties in East Jerusalem from 2001 through 2005 (PCBS) | 34

The hospitality sector has thinned out substantially over the last 7 years, with fewer hotels and rooms. Room and bed occupancy rates have been rising since 2002; however, guest nights in 2005 were still less than 1/3 of their 2000 levels.

	2000	2001	2002	2003	2004	2005
Number of Hotels	43	29	21	20	23	18
Number of Rooms	1994	836	915	907	985	869
Guests	206,583	37,295	29,497	29,970	44,514	64,784
Beds	4,345	2,032	2,199	2,147	2,362	1,967
Average Room Occupancy	897	171	166	184	215	308
Room Occ Rate	44.40%	15.40%	19.70%	20.70%	23%	35.50%
Average Bed Occupancy	1,824	315	249	258	353	513
Bed Occ Rates	42%	12.10%	12%	12.20%	15%	26.10%
Guest Nights	665,929	114,811	90,847	94,227	128,843	187,284

Figure 14: Hotel Activity in East Jerusalem 2000 to 2005 (PCBS)

Economic Performance

The manufacturing sector produces almost 4 times more output and 2.5 times more gross value added than the services sector, though compensation levels are comparable in the two sectors.

Economic Activity in Jerusalem, 2004					
(Source: Palestine Central Bureau of Statistics)					
in US \$000					
Sector	Gross Value Added	Output	Compensation to Employees	Number of Persons Engaged	Enterprises
Food & Beverage	42,910	69,030	2,713	688	131
Tabacco Products					
Textiles	469	848	573	274	10
Clothes	3,337	5,957	632	208	55
Leather Tanning	877	2,279	373	117	13
Wood Products	76	376	-	7	6
Printing, Publishing	2,172	5,140	394	82	13
Chemicals	256	758	130	29	5
Non-Metallic Products	15,191	24,581	2,081	299	57
Basic Metals	15,048	29,777	3,073	795	271
Medical, Optical Equipment	4	19	-	3	3
Furniture	38,504	97,209	10,514	984	142
Manufacturing	118,844	235,972	20,482	3,486	706
Hotels & Restaurants	10,721	17,192	3,440	736	331
Real Estate Activities	8,072	9,912	2,183	506	238
Education	2,805	4,013	2,745	577	92
Health & Social Work	15,491	18,701	6,225	1,002	124
Other Community, Social &	8,804	12,587	2,474	822	370
Services	45,893	62,404	17,067	3,643	1,155
Total	164,736	298,376	37,549	7,129	1,861

Figure 15: East Jerusalem Economic Performance by Sector in 2004 (PCBS)

Economic Performance and Benchmark

		1999	2000	2001	2002	2003	2004	2005
GDP	(\$B)	4.2	4.1	3.3	2.8	3.1	3.3	3.4
GDP per capita	(\$)	1590	1410	1090	880	930	930	900
Real GDP Growth	(%)	8.8%	-5.6%	-14.8%	-10.1%	6.1%	2.7%	1.8%
Cumulative Real GDP per capita change since 1999	(%)		-9.6%	-26.5%	-37.2%	-36.8%	-38.2%	-40.0%
Poverty Rate	(%)	20.0%	27.0%	37.0%	51.0%	47.0%	48.0%	54.0%
Unemployment	(%)	12.0%	14.0%	26.0%	31.0%	26.0%	27.0%	28.0%

Source: World Bank, The Milken Institute Review

Figure 16: Overall Palestinian Economic Portrait 1999 to 2005 (WorldBank, MIR)

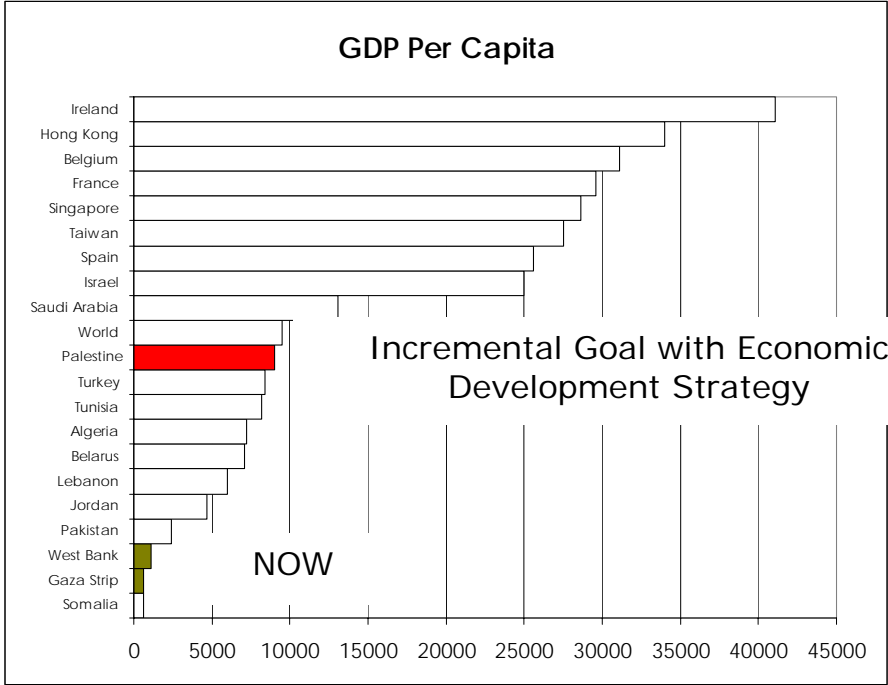


Figure 17: GDP per Capita for Selected Countries, 2006 (WorldBank)

Fiscal Condition

In 2002, East Jerusalem collections were 10% of the residential collections and 12% of the commercial collections City-wide

Arnona from Residential Development

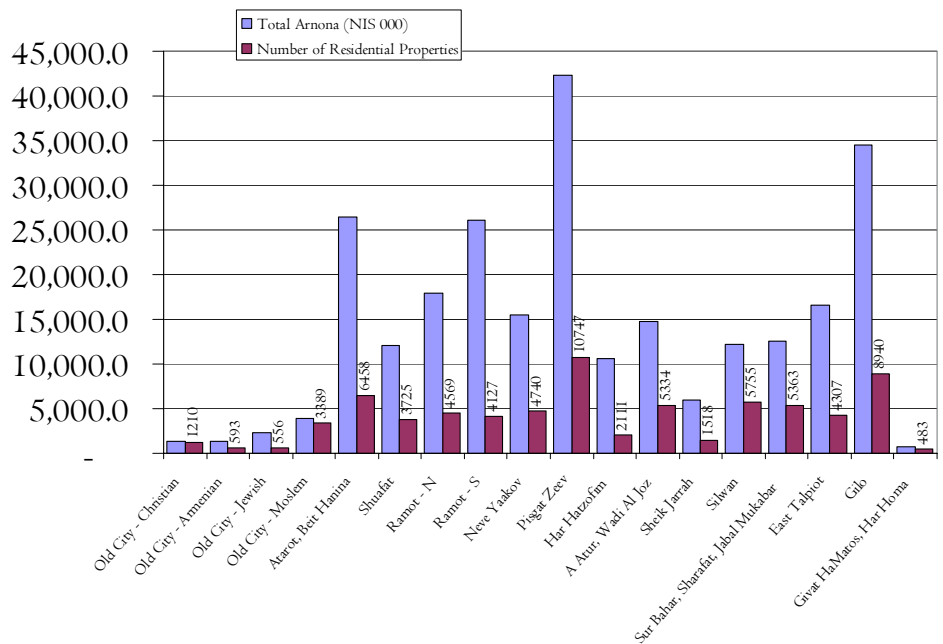


Figure 18: Arnona (Municipal Tax) Collections by Community in East Jerusalem, 2002 (JIIS, Municipality Data)

Arnona from Establishments in East Jerusalem

In 2002, NIS 159 million due from Establishments; NIS 257 million due from Residences; residential collection rate is 72% from Jews, 50% from Arabs, and 64% overall from East Jerusalem residences

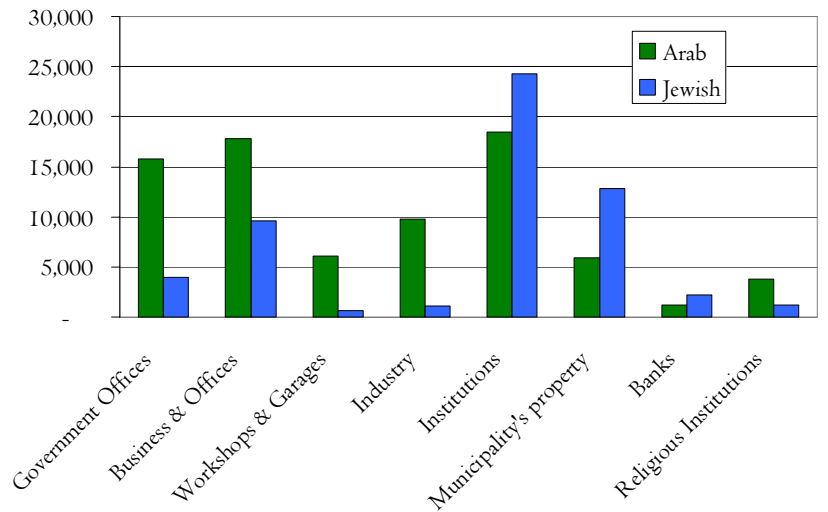


Figure 19: Number of Establishments by Type of Non-Residential Arnona in East Jerusalem, 2002 (JIIS, City)

Table 3: Residential Arnona Collection Rates for Jerusalem Neighborhoods, 2002

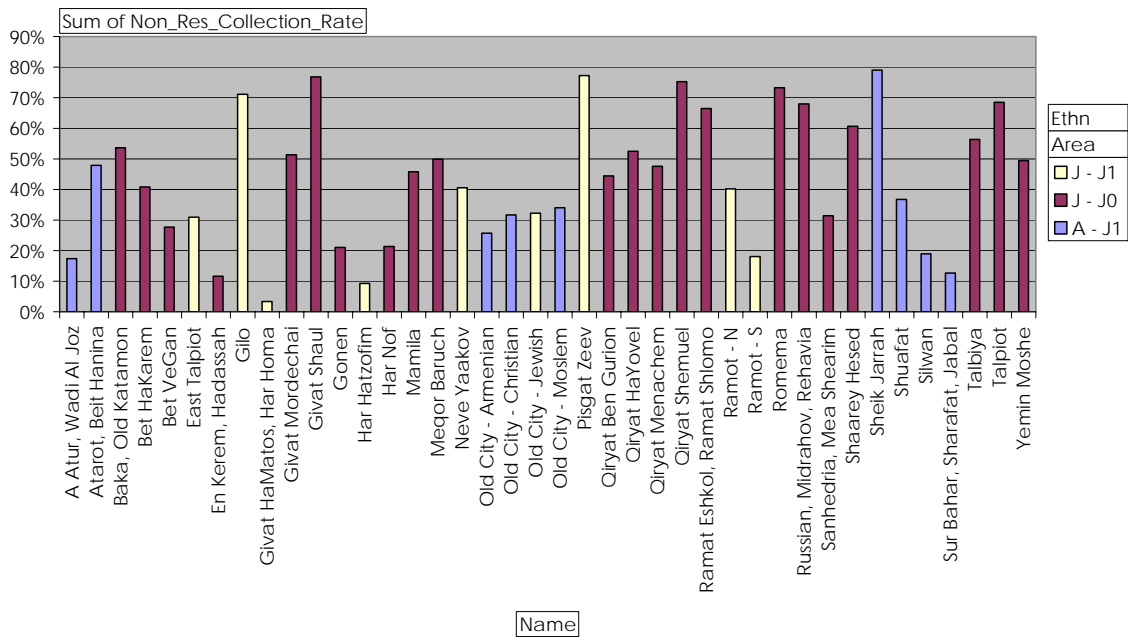
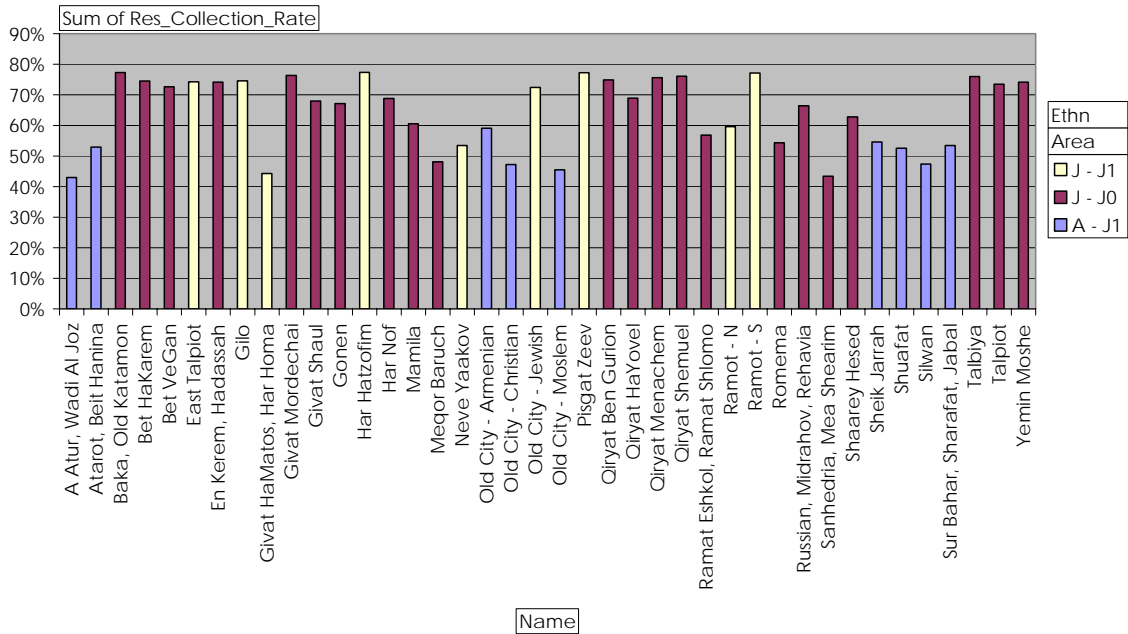


Table 4: Non-residential Arnona Collection Rates within Jerusalem Municipal Boundary, 2002

Business Conditions

West Bank and Gaza more competitive than Jordan in “getting credit” and “trading across borders”





	West Bank and Gaza	Israel	Ireland	Jordan
				
Ease of...	2006 rank	2006 rank	2006 rank	2006 rank
<i>Doing Business</i>	127	26	10	78
Starting a Business	173	15	6	133
Dealing with Licenses	108	101	20	70
Employing Workers	97	82	83	30
Registering Property	118	150	80	110
Getting Credit	65	7	7	83
Protecting Investors	99	5	5	118
Paying Taxes	55	62	2	18
Trading Across Borders	65	13	30	78
Enforcing Contracts	100	110	24	75
Closing a Business	151	36	7	84

Figure 20: “Ease of Business” Rankings for Selected Nations in 2006 (World Bank)

Economic Model Alternative Discussion:

Discussion of the characteristics of alternative approaches to the economic “interdependence” of Jerusalem

Common economic “space”:

- ❑ Shared assets
- ❑ Shared municipal risk over large asset base
- ❑ Shared revenues sufficient to provide shared services
- ❑ Economic interdependence
- ❑ Cost effective, efficient infrastructure
- ❑ Seamless, secure “border”
- ❑ Single, international trade regime
 - Free zone within City, with competitive foreign tariffs to attract global trade and investment
 - Fair trade, ensuring wages and working conditions at globally-competitive standards

Recommended

Separate economic “spaces”:

- ❑ Limited assets
- ❑ High municipal risks on over-leveraged asset base
- ❑ Limited revenue base with structural fiscal deficit causing dependence on debt and/or handouts Independence (back to back)
- ❑ Duplicative infrastructure
- ❑ High security, “insecure” border with population crossing regime
- ❑ Limited international markets
 - Supported markets by client relationships
 - Focus on low cost production

Not Recommended

Team members

Terry Boullata – Co-founder of the New Generation Kindergarten and School in Abu Dis, producer of documentaries on Jerusalem, and activist promoting peaceful settlement of the Israeli/Palestinian conflict based on international regulations.

Avraham Burg – Former Speaker of the Knesset.

Dan Catarivas – Director of the Division of Foreign Trade and International Relations at the Manufacturers' Association of Israel, where he coordinates activities between the Israeli and the Palestinian private sector. Served twenty years with the Israeli Government, his last position being Deputy Director General for International Affairs at the Ministry of Finance. In 1994 he established the Middle East and North Africa Department at The Ministry of Industry and Trade. He was also active in many of the different economic aspects of the Peace Process after the Oslo Agreement.

Sami Abu Dayeh – Jerusalemite businessman; owner of The Ambassador Hotel and NETours.

Yaakov Garb – Lecturer at Ben Gurion University (Blaustein Institutes), where he teaches and conducts research on environmental and urban issues. Until recently he was a Visiting Assistant Professor at Brown University (Watson Institute for International Studies), and the Director of European Programs for the Institute for Transport and Development Studies. He has worked on various issues in Jerusalem, and on the politics of mobility in Israel and Palestine.

Sarah Kreimer – Associate Director of Ir Amim; founder and former Co-director of the Center for Jewish-Arab Economic Development.

Raed Saadeh – President Arab (Palestinian) Hotel Association; Owner and General Manager of the Jerusalem Hotel, a boutique hotel for which he introduced the concept and did the design; founder and board member of the Palestinian Art Court; board member of the Mamal Foundation of Contemporary Art; board member of Sunbula organization for fair trade and product development; founder and Chairman of the Rozana Association for architectural heritage rehabilitation; and founder and ex President of Yabous Productions for performing arts, the organizers of the Jerusalem Festival.

Steven Zecher – Principal of Strategy Partner, an economic development advisory company aiding government and business; formerly, Executive Director of the Pennsylvania Economic Development Finance Authority and Manager for the Urban Redevelopment Authority of Pittsburgh in the USA, focusing on small business lending, policy, strategy, and project management. Currently works on business expansion projects in international markets, joint business projects between Palestinians and Israelis in Jerusalem, industrial surveys and development and financing strategy, and joint industrial development planning between Arab and Jewish towns within Israel.

**Prepared by Steven Zecher with input from Raed Saadeh
On behalf of the Economic Working Group**