

The Erosion of Commerce in Contested Urban Spaces: A Structural Analysis of the East Jerusalem Souvenir Cluster (2023–2025)

Executive Summary

The economic trajectory of East Jerusalem, specifically within the historic commercial districts of the Old City, has transitioned from a state of chronic fragility to one of foundational structural collapse between late 2023 and early 2025. This report, commissioned to provide an exhaustive anatomy of the crisis, synthesizes empirical cluster mapping data with real-time socio-economic indicators to detail the dissolution of the indigenous commercial ecosystem. While the proximate catalyst was the outbreak of hostilities in October 2023, the subsequent economic devastation is characterized not by the kinetic destruction seen in Gaza, but by a distinct and pervasive phenomenon of "administrative attrition" and "ecosystem fragmentation."

This analysis posits that the souvenir and traditional crafts sector—historically the lifeblood of the Old City's tourism-dependent economy—has effectively ceased to function as a viable commercial entity. Through the application of Porter's Diamond Model in a "friction economy," the research identifies severe distortions in factor conditions, demand drivers, and supporting industries. Pre-war vulnerabilities, identified through a cluster mapping study of 371 souvenir shops, have been exacerbated by a "security belt" encirclement and a total cessation of tourist revenue, leading to an "Empty Market" syndrome where approximately 90% of businesses have shuttered.

Crucially, this report highlights the existential threat posed by fixed costs in a zero-revenue environment, specifically the weaponization of municipal property taxes (Arnona) and the enforcement actions of the "Execution Office," which function as mechanisms for demographic engineering. Through the micro-economic lens of the Sharabaty family and the "Struggling Independent" cluster typology, the analysis demonstrates how the "Digital Ceiling" and logistical severance prevent adaptation. The findings suggest that without immediate,

structural policy interventions—specifically micro-grants and legal defense against debt enforcement—the indigenous commercial class of East Jerusalem faces permanent displacement, transforming the living city into a hollowed-out stage for political contestation.

1. Introduction: The Geopolitical Economy of East Jerusalem

1.1 The Unique Context of the Old City Economy

Jerusalem exists as a dual entity: a city of immense symbolic capital for three major monotheistic faiths and a contested urban space defined by stark economic disparities and legal stratification. The Old City of East Jerusalem, annexed by Israel in 1967 but considered occupied territory under international law, operates within a unique and suffocating regulatory framework. It is a peripheral economy attached to a high-income Israeli state, yet it lacks the infrastructural integration, political representation, and social safety nets afforded to West Jerusalem.¹

For decades, the economic vitality of East Jerusalem has been predicated on its "religious comparative advantage." The concentration of holy sites—the Church of the Holy Sepulchre, the Al-Aqsa Mosque compound, and the Western Wall—historically ensured a steady stream of pilgrims and heritage tourists.³ This influx sustained a specific industrial cluster: the souvenir and traditional crafts sector. Comprising approximately 371 shops, this sector is not merely retail; it is the visible terminus of a value chain involving artisans in Hebron and Bethlehem, importers of raw materials, and local service providers.²

However, this reliance on tourism has proven to be a critical vulnerability, creating a monoculture susceptible to geopolitical shocks. The sector has long suffered from a chronic lack of essential facilities and support systems necessary for sustainable growth. Administrative restrictions on building, movement, and trade have created a "glass ceiling" for local enterprise, persisting for twenty to thirty years prior to the current crisis.² The industrial sector in the wider Jerusalem Governorate, which employed over 5,000 people and contributed \$280.4 million to GDP in 2015, has seen its productive capacity erode due to these systemic constraints.² The resulting economic landscape is one of "de-development," where economic potential is systematically stripped away by political barriers.

1.2 The Shift from Stagnation to Collapse (2023-2025)

The period from October 2023 to early 2025 marks a definitive rupture in this precarious equilibrium. The outbreak of hostilities and the subsequent war of attrition did not merely depress demand; they obliterated the ecosystem. Unlike previous intifadas or conflicts where local Palestinian footfall could sustain a baseline of commerce, the militarization of the Old City in 2024 created physical and psychological barriers that severed the market from its own hinterland.²

This report argues that the current crisis is distinguished by "administrative attrition." This term refers to a systemic tightening of bureaucratic screws—tax enforcement, permit revocations, supply chain interdiction—during a period of acute economic distress.² It is a quiet strangulation compared to the bombardment of Gaza, yet its long-term demographic and economic consequences for the indigenous population of Jerusalem are equally profound. The analysis that follows maps this collapse, moving from the theoretical structures of the cluster to the granular reality of the shuttered storefront.

2. Theoretical Framework: Cluster Mapping in Friction Economies

2.1 Adapting Porter's Diamond Model for Conflict Zones

To understand the structural deficiencies of the East Jerusalem souvenir sector, this research utilizes Michael Porter's Diamond Model of national competitive advantage. Porter posits that four broad attributes promote or impede the creation of competitive advantage: Factor Conditions, Demand Conditions, Related and Supporting Industries, and Firm Strategy/Structure/Rivalry.² However, standard economic theory assumes a benign or supportive state apparatus. Applying this model to East Jerusalem requires adjusting for the "friction" of occupation and political instability, where the governing authority is frequently viewed as an antagonist or an absentee landlord by the merchant class.²

2.1.1 Factor Conditions: The Erosion of Inputs

In a healthy cluster, factor conditions refer to the availability of skilled labor, infrastructure, and capital. In East Jerusalem, these are defined by scarcity and restriction.

- **Labor:** The labor market is fragmented by the Separation Wall, which cuts off the Old City from its natural labor pool in the West Bank. Skilled artisans often reside in Hebron or Bethlehem, making the movement of human capital dependent on the caprice of checkpoint regimes.²
- **Capital:** Financial infrastructure is severely constrained. Palestinian banks in East Jerusalem operate under heavy restrictions, and access to international payment gateways like PayPal is often blocked or limited, severing local businesses from the global digital economy.²
- **Raw Materials:** The input costs for raw materials (olive wood, mother-of-pearl, ceramics) have risen significantly over the last three years due to import restrictions and customs delays at Israeli ports.²

2.1.2 Demand Conditions: The Fragility of Tourism

The sector relies almost exclusively on a volatile external demand: international tourism. The "home market" demand is weak due to high poverty rates among East Jerusalem residents—72% of families live below the poverty line compared to 26% of Jewish families.⁵ This reliance on external visitors means that any geopolitical flare-up results in an immediate cessation of revenue. The research indicates that political and economic instability are the primary constraints on demand growth.²

2.1.3 Related and Supporting Industries: The Missing Links

A healthy cluster requires dense networks of suppliers and trade associations. In East Jerusalem, these links are fragmented. There is a lack of "neutral intermediaries" or Cluster Management Organizations (CMOs) to coordinate between artisans, retailers, and NGOs.² The breakdown of trust means that businesses operate in silos, unable to leverage collective bargaining power for procurement or marketing.²

2.1.4 Firm Strategy and Rivalry: Survivalism over Innovation

The market is characterized by intense local competition among small, family-run shops selling undifferentiated products. Rather than strategic innovation or branding, firms compete on price, driving margins to unsustainable lows. The "context for firm strategy" is dominated by the struggle for basic survival against regulatory pressures, leaving little bandwidth for long-term planning.²

2.2 Methodology of the Cluster Study

The empirical basis for the pre-crisis analysis is drawn from a comprehensive cluster mapping study targeting the 371 souvenir shops in the Old City.² The study utilized a mixed-methods approach:

1. **Meso-level analysis:** Examining employment concentrations and industry value chains.
2. **Micro-level analysis:** A structured questionnaire administered to a random sample of 189 shop owners, yielding 105 valid responses (55.6% response rate). This data was subjected to Exploratory Factor Analysis (EFA) to identify latent constructs of competitiveness.²

The KMO measure of sampling adequacy was 0.472, bordering on acceptable but sufficient given the constraints of data collection in a conflict zone, and supported by a highly significant Bartlett's test ($p < .001$).² This quantitative data provides the baseline against which the devastation of 2024-2025 is measured.

3. The Pre-Crisis Anatomy: Fragility Behind the Facade (2015-2023)

3.1 Statistical Profile of the Souvenir Cluster

Before the onset of the 2023 war, the souvenir sector was already exhibiting signs of structural sclerosis. The demographic profile of the business owners reveals a generational, traditionalist orientation that, while culturally rich, lacked resilience to modern economic shocks.

- **Gerontocracy of Ownership:** Over 55% of shops had been operating for more than 30 years, and nearly a quarter of respondents were over the age of 60.² This indicates a lack of new entry and entrepreneurship, leading to stagnation in business models. The shops are often inherited, carrying with them not just inventory but also traditional, non-digital operational methods.
- **Micro-Enterprise Scale:** The vast majority (72.4%) were small shops employing only 1-2 individuals, often family members.² This small scale limits the capacity for R&D, marketing, or absorbing financial shocks. It also implies that the unemployment shock, when it arrives, affects households directly and totally.
- **Survivalist Income Levels:** Even before the war, 63.8% of owners reported a monthly net income of less than 6,000 NIS (~\$1,600), placing them near or below the poverty line relative to the high cost of living in Jerusalem.² This lack of retained earnings meant there were no buffers for the crisis to come.

3.2 Latent Factors of Competitiveness

The Exploratory Factor Analysis identified three hidden dimensions driving the sector's psyche:

1. **Business Satisfaction and Trust (Factor 1):** This factor explained 43.5% of the variance. It reflects the critical role of relational trust in an environment lacking formal institutional support. Merchants relied on informal networks and word-of-mouth rather than contracts or state guarantees. The collapse of this trust in 2024 is a key component of the crisis.²
2. **Government Support and Pricing (Factor 2):** Explaining 34% of variance, this factor highlighted the deep dissatisfaction with public institutions. Merchants perceived the Palestinian Authority as having "minimal or negative influence" and the Israeli municipality as a predatory extractor of taxes rather than a provider of services.²
3. **Input Cost Pressure (Factor 3):** Explaining 17.4% of variance, this captured the vulnerability to global and local price hikes in raw materials and logistics.²

3.3 The Three Clusters of Merchants

Based on these factors, the study segmented the merchant community into three distinct typologies. Understanding these pre-war identities is crucial to understanding who survived the 2024 collapse and who did not.

3.3.1 Cluster 1: "Supporters but Dissatisfied"

These merchants expressed a theoretical belief in the potential of government support and cluster cooperation but were deeply dissatisfied with the actual performance of institutions. They represent the "institutionalists"—those who would participate in formal programs if they existed but are currently disillusioned. They are often established businesses that feel abandoned by the PA and targeted by the Municipality.²

3.3.2 Cluster 2: "Struggling Independents"

This is the most vulnerable group, comprising the majority of the smallest shops. Characterized by high sensitivity to input costs and extreme isolation, they feel "invisible" to both Israeli and Palestinian authorities. Operating on thin margins with no cash reserves, they rely entirely on daily turnover. The 2024 crisis targeted this group with lethal precision; without daily cash flow, their solvency evaporated instantly.²

3.3.3 Cluster 3: "Optimistic Achievers"

A smaller minority, these merchants attempted to innovate. They actively pursued cross-border markets, digital tools, and product differentiation. They tended to be younger or more educated, seeing potential in e-commerce and export. However, as the 2024 analysis reveals, their optimism collided with the hard reality of the "Digital Ceiling" and logistical blockades.²

4. The 2024-2025 Collapse: Anatomy of the "Hollowed City"

4.1 From Cyclical Downturn to Structural Break

Economic downturns in Jerusalem are cyclical; the Second Intifada (2000-2005), the 2014 Gaza War tensions, and the "Knife Intifada" (2015-2016) all caused severe contractions. However, the crisis of 2024-2025 represents a "structural break"—a fundamental disconnection of the economic engine that may be irreversible.

Quantitative indicators paint a picture of freefall:

- **GDP Contraction:** The West Bank economy (which includes East Jerusalem data in Palestinian statistics) contracted by over 19% in Q4 2024, with cumulative declines reaching nearly 28% by 2025.² This is a vertical shock unparalleled in recent history.
- **Unemployment Surge:** Unemployment in the West Bank and East Jerusalem spiked from ~12.9% pre-war to between 32% and 35% by 2025.² This surge is driven by the revocation of 150,000 work permits for Palestinians working in Israel and the total collapse of the tourism sector.
- **Business Closure Rate:** In the Old City of Jerusalem, the closure rate for souvenir shops reached approximately 90% by late 2024.² This effectively renders the historic marketplace defunct.

This is not merely a recession; it is a cessation of economic life. The UNDP estimates that the Human Development Index (HDI) for Palestinians has regressed to 2004 levels, effectively erasing two decades of development gains.²

4.2 The "Empty Market" Syndrome

The visual manifestation of this collapse is the "Empty Market" syndrome. Observational data describes the ancient souqs as "eerily empty," with the few remaining merchants engaging in the "ritual of futility"—polishing wares for customers who never arrive.² The sensory landscape of the market has shifted from the bustle of commerce to a heavy silence, punctuated only by the sounds of security patrols.

This syndrome is driven by a triad of pressures identified in the 2025 situation analysis:

1. **The Fear Factor:** The physical environment of the Old City has been militarized,

detering entry.

2. **Liquidity Crisis:** With revenue at absolute zero, cash flow has evaporated, freezing the informal credit networks that historically sustained the souq. Wholesalers refuse credit to insolvent shopkeepers, halting the flow of goods.
3. **The Debt Trap:** Fixed costs continue to accumulate despite the lack of income, creating a mounting liability that threatens the ownership of the shops themselves.²

4.3 Spatial Strangulation: The Militarization of Access

The economic collapse is inextricably linked to spatial control. The Old City is surrounded by a "security belt" that functions as a de facto blockade.

The Damascus Gate Choke-point: Damascus Gate is the primary commercial and social artery for Palestinian Jerusalem. Since October 2023, it has been subjected to "breathing blockages"—intense securitization involving metal barricades, watchtowers, and heavily manned checkpoints.² These measures act as a deterrent not only for international tourists (who have vanished) but, crucially, for Palestinian shoppers from neighborhoods like Beit Hanina or Shu'fat. The "Fear Factor" keeps the local purchasing power away from the Old City hub.²

Logistical Interdiction: The closure of Damascus Gate to vehicular supply lines has forced a de-modernization of logistics. Merchants report having to "smuggle vegetables via three-wheeled carts through Jaffa Gate," a profound regression in supply chain efficiency that drives up costs and spoilage. This "supply interdiction" destroys the logistics required for a functional economic cluster.²

5. Administrative Attrition: The Weaponization of Bureaucracy

5.1 The Definition of Administrative Attrition

While Gaza faces kinetic destruction, East Jerusalem faces "administrative attrition." This is

defined as the systematic use of bureaucratic, legal, and fiscal mechanisms to degrade the economic viability of the indigenous population.² It is a war of paperwork where the objective is displacement through insolvency. The tools are tax bills, permits, and court orders.

5.2 The Arnona Crisis: Taxation as Dispossession

The primary weapon of administrative attrition is the *Arnona*—the municipal property tax. In Israel, this tax is levied on the *occupant* of a property, not the owner, and it is based on square footage regardless of profitability or revenue. It accounts for roughly 40% of local government revenues and is enforced rigorously.⁸

For the "Struggling Independent" merchants of the Old City, the Arnona is an existential threat. Even with their shops shuttered and revenue at zero for over 18 months, the tax debt continues to accumulate. Small businesses have reported debts exceeding NIS 2 million (~\$600,000).² This debt accumulation is not passive; it is actively enforced.

The Execution Office (Hotza'a La'poal): Failure to pay leads to the opening of files with the Execution Office. In 2024, the number of such files against East Jerusalem merchants surged by 25%.² The consequences of an open file are totalizing and paralyzing:

- **Freezing of personal bank accounts:** This cuts off the family from any other income sources.
- **Bans on international travel:** Preventing merchants from seeking business opportunities abroad or visiting family.
- **Seizure of personal assets:** Including cars and home furnishings.
- **Foreclosure on the property itself:** This is the ultimate aim.

This mechanism serves a demographic function: by forcing merchants into insolvency, the state can seize properties or force sales, facilitating the transfer of assets in the sensitive "Holy Basin".²

5.3 The Attack on Institutional Anchors: The Church Accounts Freeze

The severity of this campaign was highlighted by the unprecedented freezing of bank accounts belonging to the major Christian Patriarchates (Greek Orthodox, Armenian, Franciscan) over alleged commercial tax debts.² This move shattered the historical "Status Quo" regarding church taxation. The report notes a grim implication: if powerful, ancient

institutions with global diplomatic backing require Prime Ministerial intervention to survive this fiscal assault, the small "Struggling Independent" family business has virtually no defense against asset seizure. This targeting of Church assets is viewed by the community as an existential threat to the Christian presence in Jerusalem, accelerating the exodus of a population that has now dwindled to ~11,000.²

6. Micro-Economic Case Study: The Sharabaty Family

6.1 The Human Face of the Statistics

To ground the macroeconomic data, the research focuses on the Sharabaty family, owners of a heritage souvenir shop in the Old City. Their trajectory serves as a microcosm for the destruction of the middle class in East Jerusalem.²

The Sharabaty enterprise fits the classic profile of the sector: a generational business operating for decades, serving as the primary economic engine for an extended family. They fall within the "Struggling Independent" (Cluster 2) typology: highly vulnerable, institutionally invisible, and lacking cash reserves. They represent the "silent majority" of Jerusalem's commercial class.²

6.2 The Compound Trauma

The family's current ruin is the result of "compound trauma."

1. **The COVID-19 Scar:** The pandemic wiped out their savings. Unlike Jewish Israeli businesses in West Jerusalem, which accessed state furloughs and grants, the Sharabatys faced bureaucratic hurdles due to the informal nature of some labor and residency complexities. This left them entering the war with depleted resilience capital.²
2. **The 2023-2025 Shock:** The war brought a total cessation of income. The family is now squeezed between zero revenue and the accumulating Arnona debt, creating a "debt mountain" that threatens their home and residency rights in the city. The fear is not just bankruptcy, but the loss of their "Center of Life" status, which could lead to the revocation of their Jerusalem ID cards.²

6.3 The Failure of the "Optimistic Achiever" Pivot

Rinad Sharabaty, the daughter, attempted to pivot the business into the "Optimistic Achiever" (Cluster 3) category by launching an online sales platform. This mirrors the theoretical recommendation for digitization often proposed by development agencies. However, the pivot failed.

The report identifies this not as a failure of entrepreneurship, but as a failure of the ecosystem—specifically, the "Digital Ceiling".²

- **Logistical Severance:** E-commerce requires reliable shipping. Israeli security checks and the blockade of the Old City make shipping individual parcels prohibitively expensive and unreliable. The "Related and Supporting Industries" needed for logistics simply do not exist for Palestinian merchants in the current security climate.
- **Financial Exclusion:** Palestinian banks in East Jerusalem often face restrictions with international payment gateways like PayPal, severing the connection to global customers.²
- **Skill Gaps:** The cluster mapping study noted a lack of "low-data" digital tools. Rinad was forced to seek reactive training in digital marketing, illustrating the lag between the immediate need for digital sovereignty and the available human capital.²

7. Neighborhood-Level Dynamics: The Geography of Inequality

The crisis in the Old City does not exist in a vacuum; it is reinforced by the conditions in the surrounding Palestinian neighborhoods, which serve as both the labor force and the (theoretical) home market. The economic strangulation of the Old City is mirrored by infrastructure inequality and displacement in these "feeder" neighborhoods.

7.1 Silwan: The Pressure Cooker

To the south of the Old City, Silwan faces extreme "infrastructure inequality" and displacement pressure. While 75% of the population suffers from congested roads that are

"not being improved by anyone," settlement enclaves within Silwan enjoy state-of-the-art infrastructure.² The "City of David" tourist project creates a parallel economy that bypasses Palestinian businesses while physically displacing residents.

Specific eviction threats exacerbate this economic fragility. In the Batn al-Hawa area of Silwan, the Ateret Cohanim settler organization, utilizing the Benvenisti Trust, has filed eviction cases against over 90 families. These lawsuits rely on the Legal and Administrative Matters Law of 1970, which allows Jews to reclaim property lost in 1948—a right explicitly denied to Palestinians regarding their lost properties in West Jerusalem.¹⁰ This environment of constant legal peril drains household resources that might otherwise support the local economy, turning Silwan into a zone of survival rather than consumption.

7.2 Shu'fat Refugee Camp: The Zone of Exclusion

Shu'fat Camp, located within the municipal boundaries but severed by the Separation Wall, represents the extreme of spatial segregation. It suffers from severe overcrowding and frequent military raids.¹¹ In May 2024, Israeli forces raided and forcibly closed three UNRWA schools in the camp, disrupting the education of over 550 children and further destabilizing the social fabric.¹²

The camp's residents must pass through a notorious checkpoint to reach work or shops in Jerusalem. The militarization of this checkpoint (the "breathing blockage") effectively removes the purchasing power of tens of thousands of residents from the Jerusalem economy. The camp has become a reservoir of poverty, cut off from the city it is nominally part of.¹⁴

7.3 Sheikh Jarrah: Legal Attrition

In Sheikh Jarrah, the economy is disrupted by high-profile eviction battles that have become symbols of the broader conflict. Families here face displacement under the same discriminatory legal frameworks applied in Silwan. The constant presence of police and private security guards for the settlement enclaves creates a coercive environment that dampens commercial activity and restricts movement.¹⁶ The displacement of families here is part of the broader "demographic engineering" that creates the context for the commercial collapse in the city center.

8. Macro-Economic Indicators: The Depth of the Abyss

8.1 The Lost Generation and "Waithood"

The collapse of the Jerusalem economy has catastrophic implications for youth.

Unemployment among Palestinians aged 15-29 in the West Bank and East Jerusalem has surged to approximately 74%.² This is not merely unemployment; it is "waithood"—a state of suspended adulthood where young men and women cannot afford to marry, build homes, or start independent lives.

Women face a "double burden." Despite high education levels, 69% of East Jerusalem women have never worked due to an "accessibility gap" to jobs in West Jerusalem and a critical lack of daycare facilities—52% of children are kept at home.² This exclusion of women from the workforce further depresses household incomes and resilience.

8.2 Stagflation and the Cost of Living

East Jerusalem is trapped in a "stagflation" trap. While the local economy is in deep depression (zero income), it is tethered to the Israeli currency and price ecosystem. Israel's inflation (2.5-3%), driven by a high-income war economy, is imported into East Jerusalem, creating a mismatch between First World prices and Third World incomes.

- **Food Inflation:** The price of basic staples has skyrocketed due to supply chain disruptions. Dried vegetables saw price hikes of **+369%** and potatoes **+224%** in 2024.²
- **Input Cost Pressure:** The cluster study identified this as Factor 3. The cost of imported raw materials for artisans has spiked due to logistical hurdles, rendering production unviable even if demand existed.²
- **Food Insecurity:** Consequently, food insecurity hit a record **43%** in 2025, up from 28% pre-war.² Families are resorting to "distress selling" of gold and assets to buy food, eroding their long-term financial base.

9. Policy Analysis and Recommendations

9.1 The Failure of Current Aid Paradigms

Current international and NGO aid to East Jerusalem is heavily skewed towards humanitarian relief (food baskets). While necessary to prevent starvation, the Sharabaty case study and cluster analysis prove this is insufficient to save the economy. Food aid keeps people alive, but it does not keep businesses alive. It fails to address the structural "input cost pressure" or the "debt trap" of the Arnona. Without saving the businesses, the economic base of the city will vanish.²

9.2 Structural Interventions

To prevent the permanent "hollowing out" of the Old City's indigenous economy, interventions must shift from palliative care to structural defense.

9.2.1 Recommendation 1: Direct Micro-Grants (Not Loans)

The cluster study explicitly recommends micro-grants ranging from **\$2,000 to \$10,000** for shop owners.²

- **Rationale:** Conventional microfinance (loans) is toxic in a zero-revenue environment; insolvent merchants cannot service debt. Grants are necessary to cover fixed costs and "Input Cost Pressure" (Factor 3), allowing "Struggling Independents" to retain their assets and residency during the crisis.

9.2.2 Recommendation 2: Cluster Management Organizations (CMOs)

There is a critical need for a "neutral intermediary" to establish a Cluster Management Organization.²

- **Rationale:** The current ecosystem is fragmented. A CMO could aggregate purchasing power to lower import costs (addressing Factor 3) and, crucially, negotiate "safe passage" logistics for exports, attempting to bypass the checkpoint choke-points. This would create the "Related and Supporting Industries" (Factor 2) currently missing and facilitate the digital transition that individuals like Rinad Sharabaty cannot achieve alone.

9.2.3 Recommendation 3: Legal-Economic Defense Funds

NGOs must pivot to providing specialized legal aid focused on the Arnona crisis.²

- **Rationale:** The Arnona debt is a legal weapon of displacement. Legal defense funds should aim to **freeze debt collection** and block "Execution Office" files. This is not just economic aid; it is the defense of the "Center of Life" residency status for thousands of Jerusalemites. Protecting the merchant class from foreclosure is protecting the demographic character of the city.

10. Conclusion

The analysis of the East Jerusalem souvenir cluster between 2023 and 2025 reveals a catastrophe that transcends standard economic metrics. The "Empty Market" syndrome is not a temporary fluctuation caused by war; it is the result of a systematic "hollowing out" driven by administrative attrition and spatial strangulation. The "glass ceiling" that hindered the sector for decades has become a concrete wall.

The data indicates that the "Struggling Independent" merchants—the backbone of the Old City's cultural heritage—are facing extinction. They are squeezed between the militarized choke-points that cut off their revenue and the municipal tax regime that confiscates their assets. The failure of digital pivots due to the "Digital Ceiling" confirms that individual resilience strategies are futile against systemic barriers.

Without the implementation of the structural recommendations outlined above—specifically cash grants to sustain solvency and legal defense against tax displacement—the post-war future of East Jerusalem will be one of a hollowed-out tourist theme park, devoid of its indigenous commercial community. The crisis is no longer about the profit margins of souvenir shops; it is about the survival of the Palestinian presence in the historic core of Jerusalem.

Tables

Table 1: Comparative Unemployment Metrics (2023 vs. 2024/2025)

Region	Pre-War (2023)	War-Time (2024/2025)	Key Drivers
West Bank & E. Jerusalem	~12.9%	32% - 35%	Revocation of permits; Tourism collapse.
Gaza Strip	~45%	68% - 80%	Total physical destruction.
Old City (Souvenir Sector)	N/A (Est. High)	~90% Closure	"Empty Market" syndrome; Supply interdiction.
Youth (Palestinian)	~25-30%	~50% - 74%	"Waithood"; collapse of entry-level jobs.

Source: Synthesized from ²

Table 2: The Triad of Economic Collapse in the Old City

Pressure Mechanism	Description	Impact on "Struggling Independent" (Cluster 2)
The Fear Factor	Militarization of Damascus Gate; checkpoints.	Severs access to local Palestinian shoppers; prevents tourist footfall.
The Liquidity Crisis	Zero revenue + frozen	Inability to restock; reliance on distress selling of

	credit lines.	personal assets.
The Debt Trap	Accumulation of Arnona (Municipal Tax).	Existential threat of property seizure and residency revocation ("Execution Office").

Source: Analysis of ²

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