



Palestine Economic Policy Research Institute (MAS)

# **Ways to Increase the Market Share of Palestinian Products**

**Ibrahim Hantash**

**2012**



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**The Palestine Economic Policy Research Institute (MAS)**

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- ♦ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ♦ Disseminating up-to-date socio-economic information and research results.
- ♦ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ♦ Strengthening economic and social policy research capabilities and resources in Palestine.

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### **Ways to Increase the Market Share of Palestinian Products**

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## Foreword

Increasing the market share of domestic products has always been a topic of interest to Palestinian institutions -private and public sectors alike- as well as agencies that seek to address the issues and challenges of development. This interest has peaked as a result of the direct tension between the maximization of the share of national products in the domestic market and the vulnerability of Palestinian stability under the Israeli colonial occupation, which seeks to uproot Palestinians from their homeland. Several calls to promote Palestinian national products and dispense with Israeli products, which have Palestinian or foreign alternatives, have been made since the early years of the occupation, especially during the first intifada 1987-1992. Those calls, however, lacked robust implementation mechanisms, excepting the sensitization of citizens to the importance of encouraging national products-primarily increasing economic growth and employment opportunities, as well as encouraging young Palestinians to seek jobs at home rather than abroad.

With respect to shifts in attitudes and the unification and solidification of shared normative socio-political aspirations, these calls have had a positive impact. Nevertheless, they have not achieved their desired goals, mainly due to the sluggish response of Palestinian national industries to the ever-increasing demand for such products, let alone the inability of these industries to improve the quality and competitiveness of their products in the face of seemingly insurmountable Israeli competition. The inability to meet increasing demand and improve the quality of products can, in turn, be attributed to two things: the deterioration of the investment climate (impeding start-up ventures capable of expanding production capacity and quality development); and the producers' assumption that citizens' demands for Palestinian products (at the expense of Israeli products) could be tentative and seasonal.

The calls to replace Israeli and imported goods with national products, after the creation of the Palestinian National Authority in 1994, have been pushed to new heights. The PNA has development-friendly strategies and policy tools that can be utilized to promote national industries, such as direct taxes, government procurement and other specifications. However, the policies of the PNA are governed and conditioned by the Paris Economic Protocol, on the one hand, and the Israeli control over the crossings and internal trade routes, on the other. These realities must be

considered when aspiring to increase the market share of Palestinian national products. These efforts aim to inform decision-makers of the potential, the opportunity, as well as the instruments available to promote Palestinian national products.

I would like to thank the author and the research director, who supervised the development of its content, information provided, and results. I would also like to thank all participants (whom provided data), and reviewers and panelists from various sectors and institutions, whom provided a comprehensive review of the study and its results.

Our sincere thanks are extended to the Arab Bank for Development in Africa and the Al-Aqsa Fund for funding this study, which is part of the research program of the Palestinian National Authority Research priorities.

**D. Samir Abdullah**  
**Director General**

## **Executive Summary**

Countries around the world seek to promote increasing domestic production and attain larger local and international market shares. In the quest to support national products while adhering to international obligations, countries intervene and use available economic policy tools, of which there are three in common use: Import reduction through local import substitution; or promotion of exports and an aggressive focus on foreign markets; or lastly, a combination of the two or mixed strategy.

These issues are at the forefront of the Palestinian National Authority's policy objectives because of the tremendous challenge posed by unemployment and poverty in the occupied Palestinian territory. Palestinian endeavors to promote robust national production is especially important given the effect Israeli restrictions, especially those regarding internal and international trade, have on already weak and vulnerable productive sectors. This situation requires serious interference from the Palestinian decision-making community, which is has to act extraordinarily to find mechanisms through which it can support domestic production while increasing market share.

The PNA's ability to identify economic policies that can bolster national production and increase market share remains limited in light of Israel's continued control of border crossings and Palestinian natural resources, as well as Israel's ongoing violation of the provisions of the Paris Protocol that regulate economic relations between the PNA and the State of Israel. This study hopes to shed light on various strategies that have the potential to increase the market share of national production within a constantly changing environment. The findings and recommendations of the study are particularly revealing given the dearth of information on the market share of local products, particularly in light of the scattered efforts to promote local products.

The study developed a number of criteria to select the target sectors, including foreign trade status; product share in the Palestinian consumer basket; sectoral contribution to employment; value added as a percentage of total; and inter-sectoral cooperation. In light of the criteria, the analysis was limited to the industrial and agricultural sectors. Despite its significant share in the economy, the services sector was excluded due to the fact that the public sector is the main service provider in the OPT. Additionally,

local producers of services in the private and public sectors fulfill most of the domestic demand for services.

In order to calculate the market share of the target productive sectors the study considered the sales volume of firms in specific sectors. The method measures the domestic sales share of specific firms in total sales (domestic and imported products) in the local market. Though more accurate and comprehensive, the method of aggregate demand was not used because it fails to consider the significant differences in market sectors and it includes sectors (e.g. services) that are not within the scope of the present study.

The results showed that, as in the majority of economic sectors and activities, the market share of local products in domestic and overseas markets is relatively low. For example, the market shares of chemical products, wood industry and the paper industry were 21%, 28% and 34%, respectively. In contrast, some industries, like footwear and leather, food, and clothing, hold market shares above 50%. Only in very extreme cases, like that of the furniture industry, was there market of over 80%. However, it is important to note that representatives of the various sectors have serious reservations concerning these figures. For them, these shares are not real and the real ratios are much lower. The decline in market share may be attributed to the low level of consumer confidence in local products as well as to the lack of awareness of the importance of buying national products. Rising imports from international markets reduces the market share of the domestic products. Consumers either prefer cheaper products come from Arab countries and China or higher quality and more variety products from Israel and European countries.

The market share of local products is conditioned by supply and demand side determinants. On the demand side, market share is conditioned by the purchasing power of consumers, their preferences and product awareness. Available information indicates a decline in the purchasing power of local consumers and a low level of confidence in local products. On the supply side (which is linked to the ability of producers), the issue lies not in the ability to increase production but rather in the capacity to produce goods of good quality.

Choosing the right strategy to increase market share primarily depends on the goals behind increasing the market share. If the goal is to increase employment, then import substitution and the creation of local alternatives (which relies on increasing domestic production and the number of

workers) might well do the job. However, if the goal is to reduce the trade balance deficit and raise productivity by through training and technology transfers, then what we actually need is an export promotion policy. Together, the two policies can achieve both goals. Obviously, political and economic volatility in the Palestinian territory triggers changes in the strategies needed to increase market share.

Evidently, there are several policy strategies available to Palestinian decision-makers who wish to maximize the market share of domestically produced. However current data (related to poor economic self-reliance and the continued Israeli occupation and its practices that paralyze development and economic growth) indicates that the current strategy should focus on the rationalization of imports and protectionism against the flow of cheap goods that do not conform to Palestinian standards and specifications to increase the share of national production.

The study offers a number of detailed short term (address current situation) and long term (can be implemented at a later stage, once facts on the ground have changed the political and economic situation).

**Short Term Policy Recommendations:**

- ✧ Provide a wide array of credit facilities for agricultural and industrial projects (requires a decrease in consumer loans). The Monetary Authority can work to amend relevant policies and laws and develop appropriate instructions to increase the share of lending to such projects.
- ✧ Formulate a comprehensive strategy to promote marketing awareness among business owners. Organizations (such as PALTRADE, chambers of commerce and industry associations) can play a prominent role through expanding their services to include programs and training courses on marketing aspects.
- ✧ Exert efforts to set up exhibitions featuring local products and extending the scope of such exhibitions to include communities other than the main urban centers. Other policies involve partnerships with supporting institutions in other countries, as well as the conduction of marketing studies of promising and potential markets. Institutions entrusted with this task include the Ministry of Economy and Agriculture and supporting institutions such as industries union, PALTRADE and chambers of commerce.
- ✧ Broaden import sources to take advantage of price differences and product quality.

- ✧ Develop the Palestinian Standards Institution (PSI). This would include the creation of calibration laboratories as well as, the rehabilitation of management and technical human resources in order to adhere to international auditor quality certifications and the International Institute for Standards, as well as joining other relevant institutions. It is also critical that the ministries of the PNA make sure that private sector firms carrying out government projects comply with the Palestinian standards and specifications.
- ✧ It is on the responsibility of producers themselves to enhance performance and improve products to gain consumer satisfaction in both domestic and overseas markets. This can be achieved through different approaches: allocating more funds for research and development in order to improve the amount and quality of production; expanding products and producing high-quality goods; paying attention to finishing and packaging; making sure local products are penetrating all the Palestinian territories; creating strategic partnerships with international companies in terms of marketing and production; and developing new pricing policies based on increasing sales by reducing prices (through lowering costs and reducing the profit margin) without compromising the quality of the products.
- ✧ The role of shops is central to the effectiveness of strategies and policies: Shops allow for the display of goods in an appropriate, eye-catching manner; they ensure that goods are permanently available; they help to reduce profit margins; they encourage consumers to buy local products; and they urge suppliers to make special offers to attract consumers.

**Long Term Policy Recommendations:**

- ✧ It is imperative to bring to an end the economic structural distortions caused by the Israeli occupation that burden the productive sector. To ameliorate the structural problems, a government needs to rehabilitate infrastructure and the establish and develop industry support institutions, particularly private training centers. Such policies would reduce the costs of investment and increase worker productivity.
- ✧ Reform the training curricula in schools to meet the demands of the market; upgrade training tools; and offer university programs particularly required in the market. Proper training and the production of highly-qualified labor would raise productivity levels and reduce production costs, allowing an increase in enterprise competitiveness. The Ministry of Education and specialized training institutes can play an important role in this area.

- ✧ The new situation would allow the PNA to conclude bilateral and collective trade agreements (even with Israel) and create new economic partnerships. In this case, the PNA should improve the terms of trade, apply reciprocity and maximize the benefit of domestically produced products in global markets.
- ✧ Patronizing export industries and making sure the facilities required in the development of these industries are in place, with an eye to increase their access to global markets. This can be achieved by 1) encouraging producers to modernize production equipment and machinery; 3) intensifying the use of capital by means of tax and duty exemptions on imported equipment; 4) providing duty exemptions on research and development; and 5) developing skills and training.
- ✧ Policy should seek to allocate financial resources and mobilize managerial and technical expertise. Feasibility studies also need to be conducted on a number of strategic projects (e.g. cement factory, iron melting plant, power generation plants, water projects and wells, oil refinery, fodder plant). Technically speaking, these projects can reduce the import bill by 50% and replace imported goods with local products, thus increasing the market share of domestic products.