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Palestine Economic Policy Research Institute (MAS)

**تطوير تنافسية وزيادة حصة المنتج الوطني:
قطاع صناعة الأثاث**

**Developing the Competitiveness of Palestinian
Product and Increasing its Market Share:
Furniture Sector**

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The Palestine Economic Policy Research Institute (MAS)

Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

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MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

- ♦ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ♦ 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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Developing the Competitiveness of Palestinian Product and Increasing its Market Share:
Furniture Sector

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Foreword

In line with the fundamental principles underlying its mission– providing research-based economic policy recommendations– the Palestine Economic Policy Research Institute (MAS) is conducting studies on different productive sectors of the economy under its program entitled: "Improving Competitiveness and Share of National Products". The present study on the Palestinian furniture sector marks the first in a series of five studies MAS is currently carrying out and which will be published successively.

MAS's approach involves carrying out pilot studies for each of the five sectors believed to have potential in terms of growth and opportunities: leather and footwear; pharmaceuticals; food industries; furniture; and tobacco. Each pilot study will provide a literature review, examine the current state of the sector vis-à-vis past periods, and assess its development potential before proceeding to the next stage -should the results of the first stage be encouraging - in which a more in depth study will be carried out in order to find ways to develop the sector, increase its share in the local markets and improve its export prospects. The findings of this study suggest that the share of the furniture sector in industrial production is considerable and is constantly improving. Indicators signal promising figures in terms of contribution to the GDP, production and employment capacity, number of businesses, as well as volume of foreign trade and export growth.

We hope the key findings and policy recommendations of this study will help all stakeholders in devising the steps necessary to develop the furniture sector.

On behalf of MAS, I would like to extend my sincere thanks to the main researcher and everyone who contributed to this study. A special thank you also goes to the Arab Fund for Economic and Social Development for its continuous support of MAS's research engagements, not the least of which is funding this series of sectoral studies.

Nabeel Kassis, PhD
Director General

Abstract

In documenting the current state of the Palestinian furniture sector and its development over the past decade, this exploratory research study investigates the prospects of developing the sector's competitiveness and increasing its market share. To achieve this, the study examines the sector's internal and external environments and conditions, its basic structures in terms of employment, output and value added, in addition to other variables that demonstrate its operation while taking into consideration the specificity of the Palestinian environment. Through this approach, the study endeavors to highlight the requisite industrial, trade and regulatory policies to address inherent impediments, increase employment, enhance the share of domestic products and promote exports.

The study shows that the furniture subsector (especially household furniture), has witnessed a quantum leap in terms of output and employment, despite obstacles and challenges impeding its development. As the economic indicators show, the sector has experienced significant growth, evidenced by the downward trend of household furniture imports and upward trend of exports, especially to the Israeli market. That being said, the sector's operational capacity is not fully utilized, especially in the category of children's furniture. In addressing these issues, the study examines various aspects of the industry, such as the nature of work in the sector, the applied industrial policies, the role of official and non-official bodies, the working environment in relation to sources of financing, management and marketing, costs of production, and used raw materials.

The study reveals a need for rehabilitation and training, and a severe shortage of skilled workers, which is negatively affecting the Palestinian market, especially in the field of upholstering. It was found that the root cause of this problem is that majority of the Palestinian skilled workers leave their jobs after acquiring the needed skills and training in Palestinian factories and enter the Israeli labor market where they are offered better wages. On another level, the study confirms that innovative and creative designs are rare in this industry. Most of the

designs for mass production are copied from elsewhere, and the few original Palestinian designs in the market are usually custom-made and on demand.

Regarding competitiveness, the study highlighted the competitive advantage of domestic products compared to imported products despite their similar price level. In terms of general quality, the former has won consumers' confidence, though in terms of finishing quality, the latter exceeded domestic products. In addition, the quality of most domestic production is classified as 'medium', which has increased the demand for domestic products due to their compatibility with consumers' income levels. All in all, the competitiveness of domestic products has improved and their market share has increased as compared to imported products.

The study found that the majority of the furniture sector's establishments are family businesses that resort to self-financing rather than bank financing, because of the stringent lending measures. Investment in the foam industry has helped achieve the strong growth in the household furniture industry, which has in turn increased the competitiveness of domestic products compared to imported products. The study has also identified a number of challenges hindering the sector's development, most importantly; the acute shortage of skilled workers due to their leakage to the Israeli market in search of higher wages, in addition to the low finishing quality of domestic products. Notwithstanding the many challenges and constraints, the majority of producers interviewed for the study were optimistic about the future and are willing to further invest in the sector.

In conclusion, the study recommended focusing on: the facilitation of lending options by encouraging banks to play an active role in the development of appropriate and encouraging lending policies; developing and diversifying the current vocational and technical education program by including the full spectrum of specializations; establishing a Palestinian Furniture Academy of Crafts and Design that offers vocational training and education in the different fields of the profession; regulating inspection of the Palestinian standards and specifications; and investigating the possibility of resorting to

protectionist industrial policy for the foam sector , based on further in-depth study; and evaluating the policy of “industrial clusters”, possibilities for their expansion, and increasing the number of affiliated members to ensure wider skills and knowledge transfer among the producers.