Analysis of Competitive Advantage of the Basic Industries in Palestine Based on the Porter’s Diamond Model

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Abstract
Michael Porter offered a model that allows examining why some states are more competitive and why some industries within states are more competitive than others are. In this way, Porter’s diamond model of national competitiveness was detected as a model with which to assess the sources of competitive advantages of an industry in a particular country and it can help realize the competitive status of a nation in global competition. This model consists of four national determinants of competitive advantage: factor conditions, demand conditions, related and supporting industries, and firm’s strategy, structure and rivalry. The Porter’s theory is that these factors interact with each other to form conditions where innovation and competitiveness occurs. As the purpose of this study is to apply porter’s theory about national competitiveness on the Palestinian economy, the well known model in the literature developed by Porter was used. In this study, the competitiveness of the main sectors that have an important place in Palestine was investigated by using Porter’s Diamond model. To achieve the aim of the research both primary and secondary data collection techniques were used. The collected data was analyzed and evaluated according to the diamond model. So, we grabbed at an opportunity to evaluate the current situation according to the factors in the model and to detect areas that provide facilities to improve the competitiveness of the sectors.

Keywords: Porter’s Diamond Model, Palestinian Economy, Competitive Advantage.

1. Introduction
The ongoing globalization process day by day makes it difficult for companies to compete even more. The world’s economic, social and technological changes with the acceleration of globalization, international trade relations, and the removal of borders between countries, such as communication and transportation technologies have revealed the need for continuous self-assessments of the organizations. In order to be relevant to the changing and developing world, to obtain a larger share of growing markets, convert threats to opportunities and to survive have been the primary objectives for companies. The companies are being managed for these purposes, will gain competitive advantage. However, to make this a sustainable and to increase competitive advantage of firms, firms must spend an intense effort. To achieve a sustainable competitive position can be realized through firms and sector specific strategies.

The competitive strategies implemented by following the changes in firms, shows the competitive position of
those firms in the industry and this situation is an important topic for the consideration of all the companies operating in the sector. In this context, Porter's diamond model which was developed to measure the level of competitiveness is an important model. In this model, “factor conditions”, “demand conditions”, “related and supporting industries”, and “firm strategy, structure, and competition” are the decisive factors with the “government” and the “chance” factors. (İsmail B. & İnci F. D., 2012). Revealing the competitiveness position of the main and sub variables affecting firms in the industry and making recommendations for what should be done to increase the strength of the industry's international competitiveness were the basic purposes of this study.

With regard to the Palestinian economy, satisfying the factors of competitiveness becomes more challenging due to many political uncertainties. The protracted conflict in the region with Israel has further aggravated the structural weaknesses of the Palestinian economy. According to the latest Economic Monitoring Report issued by the World Bank's about the state of the Palestinian economy, it was stated that the prolonged system of closures and restrictions is causing lasting damage to the competitiveness of the Palestinian economy and although the Palestinian institutions have the required capacity to exercise state functions, the Israeli-imposed economic restrictions continue to constrain sustainable economic growth. This situation is unlikely to change as long as political progress remains absent.

The present economic situation of the Palestinian industrial firms is an outcome of a series of historical events, so understanding the structure and the performance of the Palestinian economy within such a context helps to frame and analyze well-established problems and patterns from this perspective. Among the reasons for this account is that there is no separation between the present economic and industrial situation in Palestine and its historical and political context.

Overall, it is not the aim of the researcher to offer historical events about the Palestinian-Israeli conflict. The aim is to study the factors of competitive advantage of specific industries which contribute most to the Palestinian economy taking into consideration the specific economic structure of the Palestinian economy. These factors are the ones determined from Porter’s Diamond (1990).

2. Competitive position of analyzed sectors in Palestine deals with the thorough review of the four important sectors

- Stone Cutting, shaping& Finishing Industry Cluster
- Tourism Industry
- Olive-Oil Industry Cluster
- Plastic Cluster

The industries as listed above represent the most significant industries in Palestine. In selecting such industries in the well-known Palestinian circumstances, it was not possible to apply normal criteria applied in other similar studies whereby the industries share in the world's exports was the main consideration for choosing them for analysis. Nevertheless, the following economic indicators were used for the purpose of industry selection:
- Contribution to the GDP
- Employment of labor force

Stone Cutting, shaping& Finishing Industry Cluster

3. Industry’s overall Performance and Significance to National economy

One of the most important sectors in Palestinian industry, the marble and stone industry has been ranked 12th in the world. The Hebron district alone holds 66% of the Palestinian marble production. The rest of the quarries and stonecutting companies are mainly in the Bethlehem and Nablus districts. Stonecutting is a traditional source of income for the Palestinian economy. There are more than 1100 stone production factories in the West Bank. The
quarried material is cut into a rich range of pink, sand, golden, and off-white bricks and tiles known as Jerusalem stone.

According to Pal Trade, an organization whose goal it is to lead the development of Palestinian trade, the industry employs about 15,000 administrative, skilled and unskilled laborers. Annual wages average approximately $6000 per year for unskilled workers, the highest wage paid to unskilled laborers in any major industry in Palestine. Average annual product sales per employee are approximately $40,000.

Annual production of finished stone and marble is 30 million meter square. The annual sales amount to $ 600 million. The annual average output per worker in the stone industry is higher than in any other sector and is estimated at $ 32,500 per year. This encouraged the firms in this industry to expand their scale of operations to meet the demand and increase their profits as a result of relative high productivity of labor in the industry.

For this reason, the stone cutting industry is considered significant for the Palestinian economy and is one of the main contributors to the construction sector. Exports of Palestinian stone products exceeded 15% of total industrial exports, and 25,000 workers are employed in this industry. The latest figures about the Stone cutting industry show that this industry represents 4.5% of the GDP and is ranked as the second in terms of exports. The stone cutting industry has reached its highest growth rates after the construction boom which resulted from the expectations created by the Peace Process presented in the Madrid conference held in year 1991.

On the other hand, it will be useful to remember the Stone cutting industry is challenged on many fronts, all of them critical to restoring the health and sustainable growth of the industry.

In order to understand these challenges, the researcher interviewed owners of stone cutting factories and labor working in the industry in the north side of west bank. The main question asked was concerned with the current challenges which are preventing such industry from achieving higher growth rates, and representing a higher percentage out of the total GDP.

Listed below are some of the major challenges as mentioned and repeated by several workers and owners in the industry:

- Israeli restrictions imposed on the parts of land where stones are available. The Palestinians have lost control over many of these areas according to changing political conditions.
- old and inadequate technology
- Lack of machinery for the finishing phase, therefore, manual finishing of building stones is used rather than machines.
- Lack of water supplies in the areas of work.
- Confiscation of equipments needed for stones extraction by the Israeli forces.
- Lack of Government support which is represented by the Palestinian authority.
- Poor infrastructure (electricity and roads)
- Limited thickness of the exploitable layers
- Chaotic location of quarrying sites
- Closeness of the quarries to the residential area
- Calcium carbonate powder and sludge coming from the processing factories
- lack of conformity to international product standards
- lack of awareness about the concepts of quality and environment
- very poor packaging
- limited management and marketing expertise
The Stone cutting industry is a very specific link in the industry value chain; the value chain is summarized here below:

The stones used for construction are called dimension stones. High explosives are used in extracting stones, and they must be free of cracks, joints and impurities. Dimension stones are sold to stone cutting factories to trim the blocks and subdivide them into slabs. The most common machines used include both frame and circular saws. At the customer’s direction, the contractor will take delivery of the cut stones and work with the engineer, architect, and other skilled laborers, to produce the building. The customer typically makes the purchase decision directly from the stone cutting factory.

Geographic distribution of the quarries is an important aspect which will be considered in the analysis and thorough review of the four determinants of competitive advantage in the Stone cutting industry. Stone quality is generally linked to where the stone is quarried. There are five major areas from which stones are quarried. In order of quality, they are:

- Heron (Yata)
- Nablus
- Hebron (Bani Neim)
- Jenin (Kabatiah)
- Bethlehem

4. Analysis of Stone cutting industry based on the Diamond Model

Factor conditions refer to the nation’s circumstances in so-called factors of production, or the basic inputs necessary to compete in an industry, such as labor, land, natural resources, infrastructure, and capital. Factors can be categorized into two categories: “Basic factors” and “Advanced factors”. Basics factors are the ones inherited by a nation or created through moderate investment, including natural resources, climate, and unskilled or semi skilled labor. On the other hand advanced factors are developed through sustained investment in both human and physical capital, such as modern data communications infrastructure (porter, 1990). According to porter, there are also generalized and specialized factors, and the most significant competitive advantage results when a nation possesses factors needed to compete in a particular industry that are both advanced and specialized. From this perspective, porter sees that the most important factors are the ones created not inherited such as skilled labor and scientific based technologies.

For the purpose of testing this part about porter’s view of the factor conditions, the following factors were thoroughly reviewed to make such an assessment:

- Location with respect to regional markets
- Supply of labor
- Investment in machines and technology
- Availability of supply of raw materials
- Infrastructure (roads, water, electricity, communication)
- Land
Location
Palestine has a favorable location with respect to regional markets (Jordan, Gulf States, and Israel). The Palestinian economy is open to the other economies throughout the world.

Supply of labor
There is an adequate supply of unskilled labor and few supply of skilled labor. Nevertheless, according to a study conducted by the forum of the Palestinian work called “stone and marble are the Palestinian white oil” it was stated that the productivity of the Palestinian labor working for this industry exceeds the productivity of other labor working for other industrial sectors in Palestine and also exceeds the productivity of labor working for the stone cutting industry in other countries. This means that the Palestinian labor productivity is the highest amongst the other countries and according to the latest studies the output per employee has reached into an average of $30,000.

The high productivity is due to the long and accumulated expertise that the Palestinians have gained from their parents and grandparent throughout the years. It has always been a traditional source of income for many of the Palestinian people and now it’s a very significant sector and as called by many “the white gold of the Palestine”

- Use of technology and machines:
As per interviews with owners, we were told that although the use of new equipments and machines has been deployed into this sector, but this was limited and still not implemented in many of the stone factories and Quarries. In some of the factories, it was that traditional and manual tools are still used for the extraction of stones; some labor still used their hands. This situation exposes labor to many risks of getting seriously injured.

The use of dredging and rigs for the mining and extraction of the stones is considered is costly. The new methods such as bombs are more efficient and less costly. This in turn causes the cost of production to be relatively high.

- Supply of raw materials:
The stones are considered as the direct raw materials needed for stone cutting. The stones are available in commercial quantities and are known for their good quality, different colors and sizes. For this, the stone and marble factories have been able to produce different types of the stones to meet the various demands of the customers.

The stones are distributed over a high range of mountains from north of Palestine to the south of Palestine. According to recent studies, the number of establishments is equal to 1124 including stone factories, Quarries, workshops, and other related companies. Regarding the geographic distribution of such establishments, Hebron and Bethlehem includes the largest portion of stone factories and establishments which constitutes 70% of the total number of establishments in Palestine. This is due to flatness of land in these areas which helps make the process of cutting stones easier. The rest of the establishments exist in the north of Palestine between Ramallah, toolkarem, and Nablus.

The Palestinian stone has unique characteristics and most of its types comply with the international standards for good stone quality. Therefore, the Palestinian stone competes with best quality stones worldwide. Some of these characteristics which make such stone unique are: hardness, water resistance, maintains its shape and quality for hundreds of years.

Infrastructure: There is poor infrastructure in the areas where stones are available such as roads, water, electricity, communication.

Land: land is expensive; the price of dimension stones has risen from $15 to $200 per m3 over the past 20 years.

Summarized assessment of all factors:
+ Favorable location
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+ Adequate supply of labor
+ Availability of stones
  - Poor infrastructure (electricity supply per capita of around 680 kWh is low compared to countries of similar income levels, water
  - Equipment and machines (low investment in new technology and new machines)
  - Expensive land

The factor conditions are FAIR in the short term and WEAK in the long term. Nevertheless, we see that only the factors possessed by inheritance are considered to achieve competitive advantage. i.e. Raw materials exist by nature; labor has the experience and knowledge as they learned from the old generation how to cut stones, NO investment is made in labor to add to their existing knowledge, no investments in new machines are made except in few factories.

- Demand conditions

According to porter, nations gain competitive advantage in industries where the home demand gives their companies a clearer picture of emerging buyer needs, and where demanding buyers pressure companies to innovate faster than their foreign rivals. A firm gains competitive advantage from the presence in its home nation of world-class buyers, suppliers, and related industries.

Due to the historical tradition of local stone building, demand conditions had created the most sophisticated customers for this product. So, we can assume demand by expatriate Palestinians is the most sophisticated demand in the world for stone quality and design. Sophisticated customers visit many manufacturers before purchasing. High quality stone is used in construction of villas and private houses, while low quality stone is used in construction of buildings.

According to the latest statistics, the stone cutting industry achieves an amount of $ 600 million of annual sales. These are due to 60% of Local consumption in Israel, 15% of external consumption, and 25% of local consumption in Gaza and West bank.

The highest percentage of stones goes to Israel for the lack of skilled labor that is able to form the stones in their appropriate form for construction. Also, settlements are built of a certain type of stone for its historical value.

The 15% of external consumption represents exports mainly to Jordan, Gulf countries, Canada, USA, Japan, China, Russia, and Australia.

The low percentage of exports is due to the high shipping cost which results from the border security procedures imposed by Israel. The Palestinian trucks carrying the stones should stop several times on the borders where goods should be moved into another truck. Using several trucks is costly. Also, goods could be damaged from this procedure. As a result, the product cost is higher and the price is not competitive in relation to the international prices.

The local consumption is low representing only 25% of annual sales because of the existence of imported marble products which is highly demanded in the Palestinian market although it’s considered of lower quality. The local produced marble is less competitive for the following reasons:

- Low investment in marketing.
- Low gross margin
- The absence of certain standards to regulate the process of importing goods, and check the quality of imported products.

Summarized analysis

+ Local demand is relatively high (including Israel consumption)
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+ Demand by expatriate Palestinians is the most sophisticated demand
+ High quality stone is used for villas and private construction

External demand is fair but restricted.
The demand conditions are STRONG. Sophisticated customers motivate companies to innovate faster than their foreign rivals.

- Related and supporting industries:
In porter’s view, when local supporting industries and suppliers are competitive, home country companies will potentially get more cost efficient and receive more innovative parts and products. This will potentially lead to greater competitiveness for national firms.

In Palestine, this can be hardly achieved because the related and supported industries are ineffective. Most of the construction materials, other than stones, are imported from Israel. The absence of internationally competitive suppliers and thus the low bargaining power of firms have adversely affected the Palestinian competitiveness because it increases the cost of production. On the other hand, frequent closures, causing major disruptions in the supply of raw materials have added a tremendous cost pressure.

While some of the tools needed for stone cutting are locally produced, they were limited to the cutlery and few hand tools. Technology and spare parts are imported mainly from Italy and Germany. Nevertheless, there is slow spreading of technology among firms. As mentioned by one producer “the lack of information on the features of new machines, caused rejection to replace the old machines with the new one”

Industry suffers heavily from shortage of trading facilities. Exports are done through Israeli and Jordanian agents.
The financial service sector is not very supportive in terms of providing loans to businesses to finance the purchase of good quality machines, repairs, pay wages, and buying raw materials. All of these transactions are financed from individual private savings.

Summary of analysis
- Technology and spare parts are imported
- Slow spreading of technology among firms
- Lack of trading facilities
- Most construction materials are imported from Israel
- Relatively undeveloped banking system

Related and Supporting industries are WEAK
Related industries are those in which organizations can organize or allocate activities in the value chain when competing, or those, that produce complement goods (i.e. buyers, building factors and/or technologies in general. The presence of related industries often results in new competitive industries, and offers opportunities to informational and technological exchange.

Competitive advantage in supplier industries gives potential competitive advantage to firms in many other sectors in several ways. First, the firms have effective, rapid and early access to the most cost efficient input. These sectors offer cost-effective inputs, but they also take part in the upgrading process, thus encouraging other firms in the chain to innovate. Second, even more important are the opportunities of continued co-ordination between supplier and buyer industries, regarding innovation and upgrading processes. Third, competitive advantage occurs from close working relations among supplier and buyer industries. When native supporting industries are competitive, firms take advantage of more cost efficient and innovative inputs.

Nation successful industries (sectors) are usually linked through vertical (buyer/supplier) or horizontal (common
general buyers, technology, channels, etc.) bases. Vertical clusters create high quality, while the horizontal clusters create highly competitive firms.

- Industry structure, Strategy, and Rivalry

**Structure**
The Stone cutting industry structure is same as the structure of most of the manufacturing sectors in Palestine; large number of small establishments. Most firms are family owned and the highest concentration of establishments is in Bethlehem and Hebron.

**Strategy**
The strategy employment by most firms is the focus on the short-term profits. This has led into a weak competitive position. Most firms target the average local market while some target specific customer segments at higher levels supply. Competition is based on Price not Quality (Add interview with famous firm)

**Rivalry**
Because of the weak market structure, rivalry is weak, and competition is mainly based on price. It is easy for new firms to enter the industry which could lead to future concerns about further development in the sector. Moreover, there is little cooperation between firms in such matters as exchanging information about new technologies and opportunities in foreign markets.

**Summarized analysis**
+ Some manufacturers do serve specific customer segments
- most firms are family owned
- High domestic rivalry (no barriers f entry and exist for a relative capital/labor ratio is required)
- Competition is largely based on price
- Lack of large-scale cooperation among firms

**Industry strategy, Structure, and Rivalry are WEAK**

- The Olive-Oil Industry Cluster

Industry’s overall Performance and Significance to National Economy
Olive is one of the principal crops in the agricultural sector representing (20-30) % in the mass years. Olive and Olive oil production contributes between 5-10% to GDP. This industry also contributes to the economy by creating seasonal jobs and contributing positively to the balance of trade.

Olive is a dry land crop, which conserves scarce water as well as being a natural feature of landscape. On the other hand, the olive oil has medical value and nutritional value. Fluctuations in olive oil production from year to year are due to natural circumstances and cultural practices.

Analysis of Olive Oil industry based on the Diamond Model

- Factor conditions:
The Palestinian olive oil industry has a very favorable climate. It became part of the social and cultural tradition. Picking and share cropping are practiced in a manner to avoid the high cost of labor. Therefore, no major inputs are used in this process. Pressing machines are old and half automatic, lack of investment in refining, absence of vocational and lab research and development.

Olive oil industry is highly concentrated in the northern districts of Palestine (Nablus, Jenin, and Tulkarem&Qalailya). The percentage of olive oil production, olive production, the percentage of operating olive presses, and olive oil products produced by the automatic presses is higher in the north representing an average of 70%.
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Olive trees exist as a natural renewable resource and a natural feature of landscape and so is a valuable natural resource for Palestine. Labor is mainly utilized in the picking, pruning, and pressing of the olive. Pressing machines are used but are old and half automatic. Labor still follow the traditional way and there is no training provided for them to improve their performance.

In terms of the production cost it’s relatively low since labor are the main factors of production and account for more than 80% of the total cost. No other major inputs are employed. The wages for picking and pressing olives are relatively higher than those paid for labors in other sectors. The percentage of labor employed in this sector reaches to 4-7% out of total labor employed in agricultural sector. This percentage may decrease or increase depending on the production from year to year.

**Summarized analysis**

+ Climate factors
+ Dry land farming
+ Labor utilized in picking olives
- Pruning
+ Sharecropping to avoid high labor cost.
+ Picking machines
-/+ Pressing machines
- Old and half automatic presses.
- Lack investment in refining
- Vocational training
- Labs, research and development.

**Factor conditions are WEAK**

- Demand Conditions:
  Olive Oil is a regional product, 80% of west bank olive oil production is allocated to domestic market, and 20% is exported. The rural consumers buy their needs of olive during the harvesting season.
  Fluctuation in annual production which is caused by natural phenomena and cultural practices affects the stability of the market and farmer’s income, the need to exploit the climate condition and cultural practices is vital to the development of the industry.

**Summarized analysis**

- Local demand is not sophisticated so would not improve standards of production
- Brands of Olive oil are not produced and consumed
- There are many substitutes of seed oil to olive oil
+ Consumption habits help achieve economic stability
- Export demand has been highly restricted.

**Demand Conditions are WEAK**

- Related and supporting industries

In terms of vertical linkages, the plastic industry represents a major related supplier, the cans and bottles used for packaging olive oil represent approximate of 30% of total plastic sales.
  The rest of inputs required for production are mainly imported, i.e. the olive presses are imported and are not even equipped to produce high standard oil. For the high restrictions imposed on the imports including long procedures and the imposed taxes, producers are not encouraged to import new technology and machines.
Horizontal linkages are weak and are represented by few informal sales channels. There is a lack of stores selling olive oil, little information on marketing strategy, and little differentiation in packaging options (most use barrels for local market and plastic for export. The financial sector does not provide sufficient support to motivate olive oil industry. Obtaining credit and loans is very difficult.

**Related and supporting industries are very WEAK**

- Industry structure, Strategy, and Rivalry

**Structure**
The olive oil industry is a very traditional one and family owned. So mainly, the production and sales of olive oil is performed traditionally lacking sufficient quality control and standards. The large number of wholesalers and intermediaries cause an increase in domestic prices.

The strategies lack marketing strategies, product differentiations, quality control and standards.

**Summarized analysis**
- Jordan is the only outlet to olive oil exports
- Difficult to gain access to international markets
- Diversification and specialization producing brands of oil

- Exploiting dry land and climatic conditions to produce renewable resources.
- Quality control and standards are limited.

The strategy, structure, and rivalry are weak

**Tourism Industry**

Industry’s overall Performance and Significance to National economy

Palestine has an important place in the world which can attract tourists towards it. This is due to many reasons of which the most important is that Palestine is a holly place for all of the religions and many people from all out of the world come to visit for religious reasons. Also, there are cities in Palestine of much historical importance such as Jericho as considered the oldest city in the world.

Palestine is also known for its good climate, and its strategic location since it’s surrounded by many of the Middle East countries such as Jordan, Lebanon, and Egypt.

Tourism is an important aspect of the economic development for Palestine lacks resources required for other sectors such as in the industrial sector, most of the raw material are imported. Therefore, tourism is the most likely sector to grow within current Palestinian constraints.

According to the latest studies, the number of hotel residents in hotels has reached to 264,000 residents where 12% are Palestinians and 34% are from Europe. The number of tourism establishments including hotels, gift shops, restaurants. Nevertheless, the productivity of labor in this industry is $15,974 which is considered low in relation to the labor productivity in other sectors.

The Tourism industry contribution in the GDP is 4%. This percentage is considered low if we compare it to the industry contribution in the GDP of other countries such as in Israel which represents 6%, in Jordan 20%, Egypt 13%, Lebanon 37%. On the other hand employment opportunities created by this sector do not exceed the 2%, which is also considered low relatively.

Analysis of Tourism industry based on the Diamond Model

- **Factor conditions**

There are several positive factors to tourism in Palestine. They include, but not limited to unique historical and religious sites, close to each ther, proximity to neighboring countries, attractive landscape and scenery, pleasant
climate, and fair telecommunication facilities. But the positive factor conditions are overshadowed by negative factors such as inadequate infrastructure, insufficient investment in tourist facilities, total dependence on Israeli exit/entry points, limited and very expensive development land, limited and insufficient water supply, poorly trained workforce and ad reputation in terms of safety and security.

**Summarized analysis**
+ Unique historical and religious sites
+ Sites are close to each other
+ Pleasant climate
+- Fair telecommunication facilities
- Inadequate infrastructure
- Insufficient investment in tourist facilities
- Dependence on Israeli borders and entry/exit
- Limited and expensive development land
- Limited and insufficient water supply
- Poorly trained workforce
- Reputation is bad in terms of safety and security.

**Factor conditions are FAIR**

- **Demand conditions**
  Tourism industry was most affected by the intifada (year 2000). The number of hotel residents was decreased almost by 90% due to the instability and the unsafe conditions in Palestine. The local demand for tourism increased again especially after reduction of the Intifada effect, and was even more than before Intifada. The launching of the peace process has increased the trend of tourism, but was not sufficient to make Local demand high. Local demand remains limited and unsophisticated. The main reason for that is the political condition. People are not encouraged to spend hours on the (Qalandya border) to reach Jerusalem, Jericho, or Bethlehem. Gaza is totally isolated, although it has more potential to attract the tourists from everywhere because of its location on the Mediterranean Sea. Also, still there are insufficient investments in the areas, there are still few number of hotels and restaurants, and a lack of facilities and activities. The Tourism which can lead into real economic development mainly results from foreign Tourists, because this can lead into the foreign currency circulated in the region, and the spending of tourists will affect the economic cycle in all directions. More spending in tourism, means more revenues to tourism, more tax collections, more government spending, and if these government spending are used to improve the infrastructure and build facilities in these areas, this sector would show more improvement and positively affect the economy. This is the optimistic point of view, but the fact is that without a peace process or a change in the political conditions, there will be no significant increase in the performance of this industry. There is no airport to facilitate movement of tourists. The entry and exit borders are totally controlled by Israeli, and the Israeli tourism companies force the tourists to follow certain program. The latest studies show that although many tourists come to visit the Palestinian cities such Bethlehem and Jericho, and Ramallah, but only 50% of them really could stay in Palestinian hotels. This would decrease the effect of tourism on economy, because the hotel residency rate plays a major role in the tourism industry beside its effect on other industries.

**Summarized analysis**
+ Increasing tourism in the region
+- Strong base of religious tourists willing to rave uncertainty
- Limited and unsophisticated local demand
- Foreign tourists spending is limited to gift shops, restaurants, and only few goes to hotels

**Demand Conditions are WEAK**

- Related and supporting industries:

In this regard, Tourism plays a very important role to develop the several sectors of the Palestinian economy. The tourism sector is related but not limited to the following sectors:

- Car rental and bus services
- The craft industrial (Souvenir shops)
- Traditional Clothing
- Food industry (restaurants)
- Manufacturing (soaps, shampoos)

In Palestine, the effect of related industries is not significant, since many of the related industries rely on importing resources and goods from abroad. So the increase in tourism at the current condition will have minimal effect on developing the other sectors and the economy. The revenues derived from tourism in foreign currency will go back again to import the resources and products needed as a result of increasing tourism activity.

**Summarized analysis**

+ Fair car rental bus services
+ Sufficient souvenirs shop
+/- Growing number of 2-4 stars hotels
- Insufficient basic tourist facilities
- Lack of entertainment
- Little restaurant variety
- Weak cooperation/coordination among clusters
- Insufficient educational training centers for tourism

**Related and supporting industries are FAIR to WEAK**

1) Industry strategy, structure, and rivalry

There is insufficient number of tourism companies to invest in tourism sector, so there is no competition which would create better services and facilities. Also projects performed in this regard are concentrated in Bethlehem and Ramallah. Also there is lack of marketing strategies to target foreigners, and lack of communication between travel agents and tourism companies. The existence of restaurants and hotels in Palestine cities still surprises many of the foreigners who did not visit to see Palestine.

**Summarized analysis**

- Conservatism
- Highly sensitive to political changes
- Seasonal
- Absence of national characteristics and tradition

**The Industry strategy, structure, and rivalry are WEAK**

- The Plastic Industry

Industry’s overall Performance and Significance to National economy

The plastics industry began in Palestine since 1963, so the number of plastic factories today is about 165 factories in the Palestinian territories, 65 factories in Gaza and 100 in the West. The number of workers in these
factories is estimated at about 3500 workers.
The plastics industry accounted for 6-4% of the output of the industrial sector in Gaza & West Bank. The plastic cluster has maintained since 1990 and up to date one of the highest growth rates in comparison with other sectors and has created the highest economic value per industrial worker.

Analysis of competitive advantage of the industry based on the DIAMOND

- **Factor conditions**
The plastic industry in Palestine has the advantage of adequate supply of labor with relatively low wages. Yet this industry suffers from relatively high raw material cost, high –energy-cost, high interest rates, as well as the shortages of capital and resources for research and development. Most of the plastic factories are operating and Gaza, increasing the cost of transportation.

**Summarized analysis**

+ Low wages rate
+ Adequate supply of labor
+ Adequate facilities
- Second hand machinery
- High interest rates
- High raw material costs
- High transportation costs
- High energy costs

The factor conditions are **WEAK**

- **Demand Conditions**
The importance of the plastics industry results from the volume of demand for plastic products in various sectors, there are countless Plastic products which make demand very high.

Studies show that the most important plastics products in Palestinian market, is sanitary, agricultural, and household and electrical appliances, wires, Packaging Materials, Toys, bottles, plastic, cork, plastic aluminum, leather profile, water cannons and tubes, nylon bags, rolling shutters and supplies refrigerators.

Thus, demand and consumption on the plastic products is very high. The local consumption represents 90% of the total consumption, while only 10% are exported to Israel. As the studies indicate that The Palestinian family spends 10% of their income on direct plastic products such as sanitary and household, Toys...Etc.

The demand for plastic products is not sophisticated; there is no customer loyalty to motivate differentiation strategy. There is almost no promotion or brands; the local demand is mainly affected by seasonal swings.

**Summarized analysis**

+ High local demand for plastic in agricultural sector
+ high demand for construction
- Low demand from advanced industry
- Little branding or customer loyalty
- Seasonal swings

**Demand conditions are FAIR**

- **Related and supporting industries**

Raw materials such as chemicals and polymers are imported, preventing the plastic firms from vertically integrating along the product and supply chain. Molds are also imported through Israel, and most of the key inputs
are either sourced in Israel or obtained through Israeli importers. This causes high transportation costs, and constraints on transferring new technology from abroad.

There are few supporting industries. Moreover, there is lack of communication between them. Horizontal integration is also weak because the finance sector is weak in terms of providing the needed capital. Adding value sectors including the advertising and Training services, research and development are also unsatisfactory. Nevertheless the packaging industry works efficiently with the plastic industry.

**Summarized analysis**
- Most key inputs are imported
- High transportation costs
- New technology imported
- Few supporting industries locally
- Lack of specialized research institutions

The cluster is very WEAK

- Industry structure, strategy, and Rivalry

Over half of the factories are operating in Gaza, where most are family operated businesses. This creates an industrial sector that is fragmented and not realizing the advantage of economies of scale.

Firms in general lack advertising tools and marketing strategies. They also lack environmental awareness, and they are not capable to allocate resources for research and development. Their main consideration is to produce simple types of plastic products, instead of differentiating their products.

The threat of new entrants is not high because of the high startup costs (machinery and facilities), low brand identification, large economies of scale. Still, the Rivalry is considered high for the lack of direct access to inputs, lack of product differentiation, high availability of higher quality substitutes where the cost of switching substitutes is not high, this would weaken the industry’s attractiveness.

**Summarized analysis**
- Lack of advertising and marketing strategies
- Small family operated businesses
- Lack of research and development
- Lack of environmental awareness

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