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Internal Obstacles to West Bank Industrial Development: Governmental and Private Management Decisions

Loai Aburaida[1] Flávio Nunes[2*]
1.An-Najah National University, Faculty of Economics and Social Sciences, Department of Geography, Al Jamiaa St, Nablus, 00972 West Bank, Palestine
2.University of Minho, Department of Geography, CEGOT-UMinho, 4800-058 Guimarães, Portugal

Abstract
Obstacles to industrial growth and development on the West Bank are various and are of different magnitudes, causes and nature, and not all are the result of the Israeli occupation. There are also constraints to West Bank industrial development that stem from the influence of internal options. The main objective of this study, that crosses qualitative and quantitative methodological approaches (in-depth interviews and a questionnaire to a statistically representative sample of the West Bank manufacturing activities), is to disclose and discuss two major internal obstacles that should receive more attention and effort from the Palestinian National Authority in order to overcome their negative impacts on local industrial competitiveness. On the one hand, hindrances caused by governmental decisions related to reduced incentives to assist local firms dealing with fund-raising issues; as well as a policy of high taxation that limits firms' capability to face difficulties and grow by embracing new projects and investments; and the absence of a broader economic strategic policy to promote West Bank industrial development. On the other, obstacles that stem from outdated production processes associated with low technological investment in local firms, as well as from the low priority given to the quality of local production and to advertising and promotion investments.
Keywords: Economic Geography; Industrial Development; Palestine; West Bank; Industrial Policy; Industrial Management

1. Introduction

Whilst the Oslo Accords of 1993 created the conditions for the establishment of the Palestinian Authority (Naqib, 2003), the Israeli occupation is still a reality along the West Bank, even in those territories where the Palestinian Authority was supposed to have full administrative control (PCHR, 2016). This external influence is responsible for several obstacles to West Bank industrial development and growth. According to the framework of this occupation, Israel turned the West Bank into both a source of cheap labor for the Israeli economy and a successful trade arena for its products (Aburaida, 2017). In addition, Israel imposed major constraints on Palestinian economic activity, specifically industrial, which continue to impede its growth and competitiveness (Epstein, 2002). In fact, the data presented by MAS (2013) in a study entitled 'The Palestinian Economy After 20 years of Oslo Accords', indicated that the share of the industrial sector contribution to Palestinian GDP declined from 22.3% in 1994 to less than 12% at the end of 2012. In opposition, the services sector share rose from 25% in 1994 to 58% at the end of 2012¬. According to Rantisi (2016), this evolution was responsible for a huge increase in the Palestinian trade deficit, underlying that in 2014 Palestinian exports to international markets amounted to US$943 million and Palestinian imports amounted to around US$5.7 billion. This trend is a consequence of a registered decline in total investment in the Palestinian industrial sector during the period 1994-2000 (Al-Qumsan, 2005). All these figures demonstrate the difficulties currently faced by a shrinking industrial sector that has been progressively losing its relevance to Palestinian society.

The low dynamic of this industrial sector, mainly composed of traditional and small businesses (PCBS, 2013-a), is also proven by its restriction to the local market and its failure to attract direct foreign investment (El-Jafari, 2016). Meanwhile, data from Palestinian labour force surveys (PCBS, 1996, 2015) indicate an increase in the unemployment rate from 13.9% in 1995 to 25.9% in 2015 and in this context it has been advocated that industrial sector development might contribute to solve this social problem, as the Palestinian industrial sector is working at 50% of its production capacity, and if it would be able to increase its production capacity to 70% that would create about 40,000 new jobs (Attiyani, 2016).

In order to reverse this worrying declining trend that currently characterizes West Bank industrial sector, and in order to create the conditions to reinforce its contribution to Palestinian development, it is important to debate the most relevant constraints that are currently impeding its growth. Some of these constraints are caused by external influences, mainly concerned with the Israeli occupation (Aburaida, 2017). Nevertheless, and despite these external imposed obstacles, it is also important to discuss those internal obstacles to West Bank industrial development that result from options taken by the Palestinian Authority, or because of private management decisions taken by industrial owners and managers. The main object of this study is to identify those constraints to West Bank industrial development which were originate in a sequence of governmental and private management decisions.

There already exist studies focused on the main constraints of industrial competitiveness on the West Bank. However, this research needs to be updated, as it was conducted before the Oslo Accords and the emergence of the Palestinian National Authority, so in a completely different political context (Ennab, 1979; Bahiri, 1987; Abu Ashokr et al., 1991; Taha, 1993). Other past research did not cover all the West Bank and its industrial sector, but focused only upon a single West Bank region or city (Ghanem, 1997; Al-Jamal, 2003; Hlahalh, 2008; Farah, 2014) or a specific manufacturing branch (Al-Salihi, 1996; Al-Aghber, 2007; Awdi & Ahmed, 2008; Abed, 2012). The present study seeks to complement past research by covering all of the West Bank territory and its industrial sector.

2. Research methodology

By combining qualitative and quantitative methodological approaches (in-depth interviews and questionnaires), this study approaches a more comprehensive vision of the internal obstacles faced by West Bank industry and its implications. Initially, 12 in-depth interviews were conducted with relevant stakeholders in the West Bank industrial sector. The interviewees were selected with a view to a diversified set of perceptions of the current situation of West Bank industry, namely the most relevant obstacles to its development and the key challenges that those obstacles create to local entrepreneurs in the conquest of new markets inside and outside the West Bank. The diversity of opinions was guaranteed by conducting interviews with local institutions and various opinion makers of different nature, including government agencies, private entrepreneurs, sectoral associations, labour unions, and university research centres.

Based on detailed information collected in these in-depth interviews, it was possible to design a questionnaire, that in a second phase was applied to a representative sample of West Bank manufacturing activities. With this questionnaire it was possible to get original information about the most important difficulties faced by the West Bank industrial sector, and problematize and discuss it closely. To guarantee the legitimacy of the conclusions of this study, the survey was applied to a statistically representative sample of all West Bank manufacturing activities. For the sample definition, it was important to know the total number of West Bank industries. The most recent data collected by the Palestinian Central Bureau of Statistics (PCBS, 2013-a) about West Bank manufacturing activities is the 'Establishments Census 2012', that points to 12,657 industrial units operating in 2012 in the West Bank territories. In order to gain a statistically representative sample, 134 questionnaires were used, which means that the results are achieved from a sample representing the reality of West Bank manufacturing industry with a margin of error less than 10% and a confidence level higher than 95.5 (Arkin & Colton, 1967). However, and to achieve a better representation of the field, it was decided that the questionnaires would be distributed to a stratified random sample depending upon three criteria:

• The sample has the same proportion of industrial units by manufacturing activity, as it was revealed by the most recent West Bank industry census. So, the highest proportion of questionnaires were collected in the two most relevant manufacturing activities in the West Bank, according to number of firms, which are 'metal products manufacturing' and 'wood and furniture manufacturing'(taken together, these two branches amount to a total of 44.9% of all West Bank industrial units, and aggregates 41.8% of the 134 questionnaires).

• The sample has the same proportion of industrial units by firm size (in terms of the total number of workers), as it was revealed by the most recent West Bank industry census. As the industrial sector in the West Bank is characterized by the clear dominance of micro-sized firms (76.8% of all factories employed only one to four workers), this was also the group that concentrates the higher proportion of questionnaires (78.4%, corresponding to 105 questionnaires).

• Geographically, the sample has the same proportion of industrial units by governorate, as it was revealed by the most recent West Bank industry census. As West Bank industrial units are mainly concentrated in Hebron in the south and in Nablus in the north, those were also the two West Bank governorates where the highest proportion of questionnaires were done. The number of factories in Hebron reached 3,033 in 2012, representing almost a quarter of all West Bank industry, and in this governorate a total of 32 questionnaires (23.9% of the total) were applied. In Nablus governorate are located almost one-fifth (19.4%) of the total industries on the West Bank, and 18.6% of all questionnaires were done there.

3. Government decisions restraining West Bank industrial development

Countries usually apply economic policies to promote the growth of domestic industries, as those are essential to favour economic growth and job creation and to solve trade balance deficit problems by contributions through exports. This protection of domestic industries can be achieved through various public polices: low taxes on income; exemptions or tax deductions on raw materials; public investment; loans with subsidized interest rates, or even protectionist measures such as the imposition of high customs on imported goods (Jayanthakumaran, 2000; Bussière et al., 2011).

If these measures are applied by governments worldwide in order to develop industrial sectors and reinforce the competitiveness of domestic products, this does not appear to be a priority for the Palestinian Authority on the West Bank, consequently local industries face severe problems, related mainly with fund-raising issues, high taxation, and the absence of a broad economic strategy policy to support the development of the West Bank industrial sector.

3.1 The lack of public incentives to assist industrial activities deal with fund-raising issues

According to the survey results, more than two-thirds (70%) of the West Bank industrial units claimed to have difficulty obtaining funds whenever they need capital to feed the production process, to deliver clients' orders on time, to make any relevant investment in their facilities, to acquire new technology, or to get involved in new projects. A dynamic and competitive industrial sector constantly requires access to capital in order to maintain competitiveness and ensure growth over time. However, Palestinian industrial entrepreneurs are facing difficulties with this basic requirement, which is particularly problematic as there is an almost absence of government financial incentives to the industrial sector. In fact, government funds are the least relevant capital source for ongoing investment in the West Bank industrial sector (Figure 1). Less than 5% of West Bank industrial units had ever benefited from public funds to help growth, which clearly demonstrates the lack of public support for industrial development, in spite of its huge relevance to Palestinian development.

It would be expected that if there are no particular government incentives to fund industrial projects, private firms would approach commercial banks. But this is not easy, especially in a weak economy where many of these industrial firms are micro or small companies facing various challenges to get their products to the markets, a reality that causes frequent cash flow problems and sometimes even greater financial problems. Therefore, industrial owners rely upon other capital sources to finance their activity as a way of dealing with the difficulties of raising capital from banks or from government financial support bodies.

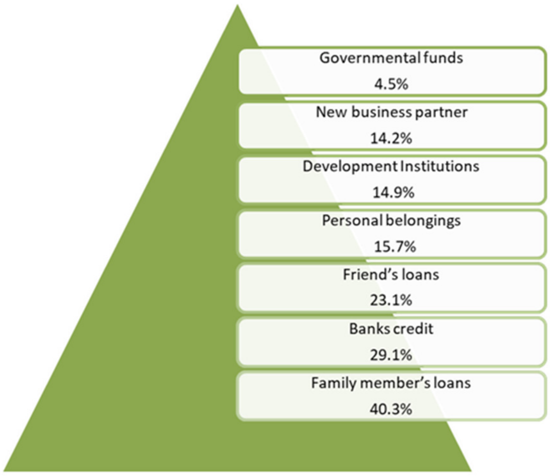

Figure 1. Main capital sources used by West Bank industry

Note: The % sum does not amount to 100% as it is was a multi-choice option question

The most common solution on the West Bank when industrial entrepreneurs need to overcome financial problems is getting funds from family members, a frequent practice in more than 40% of West Bank industrial units, which is a higher proportion than those firms (around 29%) that use the banking system when they face financial difficulty. These results show the relevance of an informal but extremely important credit system, upon which West Bank industry depends. This conclusion is reinforced by analysing the ranking of capital sources for West Bank industry, where it can be seen that a friend's loan (low interest rates in comparison with bank loans) are the third most relevant source of capital for industry development.

Cultural and social reasons related to the lasting difficulties faced by locals and the strong social relations between citizens and families in Palestinian society help us to understand the importance of this financial practice, on which is based an informal credit system that supports West Bank industry. Nevertheless, there are other reasons why the formal credit system is not so relevant. It is important to mention that for religious reasons many Palestinians do not take out loans, and many small and poorly accountable firms are not able to fulfil the conditions in order to qualify to apply for and receive bank funds. Also, the unstable political context makes banks more cautious and rigorous when granting credit, especially to firms with questionable guarantees.

> *"The reduced amount of funds granted the industrial sector by financial institutions is due to the existing political context, and the uncertainty about the future. It is also caused by the difficulties of providing guarantees demanded by the banks, due to the lack of proofs of land ownership, or the bank's preference for investing the greater part of Palestinian money in deposits outside Palestine." (Interviewee 10).*

Curiously, the strength of the West Bank informal credit system enable us to better appreciate that only around a quarter of West Bank business owners strongly agree with the assumption that the difficulties encountered in obtaining financial support from commercial banks have a negative impact on their firm's growth.

3.2 High taxation policy on industrial activities

Countries aiming to promote industrial sector development usually create a package of legislation and supporting laws to favour a firm's growth, such as reduced customs and taxes. This occurs especially when it is important to stimulate economic growth in order to mitigate financial deficits or create jobs opportunities (Mehmet, 2002; Bussière et al., 2011), and when it is intended to help a non-vibrant industrial sector facing several obstacles to sell products in the domestic and foreign markets, as is the case of West Bank industry. However, West Bank industry struggles against many constraints without any tax reliefs. On the contrary, on the West Bank there is a high taxation policy imposed both on imported raw materials and on final production (Figure 2), reducing the positive role that local industry can play to assist Palestinian economic growth. In fact, the majority of West Bank industrial owners/managers (53.7%) strongly agree with the assumption that customs levied on imported raw materials and taxes levied on final production have a negative impact on local industry competitiveness.

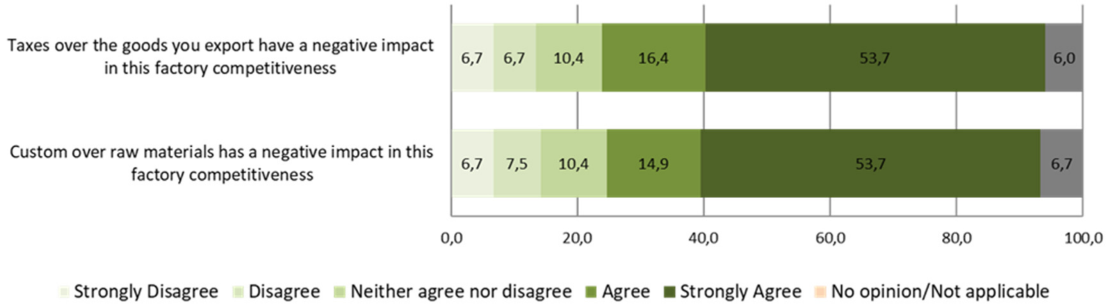

Figure 2. The influence of customs and taxes on West Bank industrial competitiveness

The Paris Economic Protocol signed in 1994, an economic agreement that was part of Oslo Accords, was, according to some Palestinian economists, a major error on the part of the Palestine Liberation Organization since it was against the interests of the Palestinian economy, while being accepted by the Palestinian Authority which did not demand its revision or negotiation (MAS, 2012; Shu'aybi, 2013). The Paris Economic Protocol introduced customs, increasing raw material prices by 30%, which is the reason why more than two thirds of the firms' respondents (68.6 %) believe that customs on raw materials imported from Israel and from other countries have a negative impact on local industrial competitiveness (the ones that agree or strongly agree with this assumption). This figure reinforces the idea that it is crucial to begin negotiations with Israel aiming for the complete revision of the Paris Economic Protocol. For instance, some of the interviewees recommend the importance of distinguishing imported raw materials that are non or semi-processed, and differentiating the customs taxes accordingly.

> *"There are high customs on raw materials as a result of The Paris Economic Protocol. In addition, there are no borders controlled by Palestinian authorities, so Israeli factories are exempt from tariffs on some West Bank raw materials for Israel's food industry, while there is no exemption for the Palestinian industry, and sometimes the customs rate is up to 30%, leading to an increase in product prices." (Interviewee 2).*
>
> *"There is an increase in the prices of some products as a result of imposing high customs and tariffs on raw materials, in addition to the extra fees that might be paid when raw materials stay stored in Israeli ports." (Interviewee 5).*

High taxation on industrial production is a result not only of the Paris Economic Protocol but also from a double taxation policy promoted by the Palestinian Authority, combining taxes on the firm's profits, and simultaneously taxes on the firms' owners net profits, which constitutes a constraint against industrial production. In the absence of natural resources and with weak economic sectors, taxes are the main source of funds for the Palestinian government, which has led to the double taxation policy on Palestinian firms. The first tax is on the firms' profit (15-22%, based on the type of firm and its profit), while after the distribution of the net profit to shareholders in the form of dividends, there is a second tax of around 10% on each shareholder dividend. In the case of a single owner company, they will also pay a tax from the firm's net profits to the government, plus income tax against personal income. So the owner pay taxes twice, one from the firm as an independent entity, and the second from its personal income. This is a relevant issue as most of the West Bank industries are micro and small-sized firms with only a single owner.

Besides taxes, there are also a number of fees imposed on companies by different institutions: licence fees per square metre demanded by the Ministry of Local Government; fees for licencing procedures demanded by the Ministry of Economy; fees for civil defence demanded by the Ministry of Civil Defence; fees to engage in economic activity demanded by the Ministry of Finance; fees for quality supervision certificates demanded by the

Palestine Standards Institution (PSI), and fees demanded by the Chamber of Commerce (Abdul-Rahman, 2005). Additionally, it is also important to mention that VAT on the industrial sector is much higher in comparison with the commercial sector, for example, on the production of a particular product, a tax of 17% must be paid, while a tax of 4-6% must be paid on the same item if it is being imported from abroad, which negatively affects the development of Palestinian industry.

3.3 Absence of a government strategy to promote local industry competitiveness

When firm's owners were asked to give their opinion about government policies focused upon the West Bank industrial sector (land acquisition, international marketing actions, opening new firms, testing new products, innovation investment, …), half of them stated that there are serious negative impacts caused by the complete absence of a government strategy targeted to promote local industry competitiveness.

Whilst, there is an Investment Promotion Law that regulates the process of granting public incentives to attract new capital to the industrial sector, it is especially targeted at supporting relatively large investments, those with investment capital exceeding US$100,000 (Odah & Ahmed, 2008). But the West Bank industrial sector is mainly composed of micro and small-sized industrial projects, which feel overlooked by government priorities. Several interviewees suggested that the Investment Promotion Law should also be revised to embrace small-scale projects, encouraging also these entrepreneurs to invest in the West Bank, as they are extremely relevant in the Palestinian society and economy. There are a number of problems that obstruct small-sized firms' performance that could be mitigated if their role was recognized, especially when these local entrepreneurs start their businesses, such as land acquisition and other infrastructure problems related to their facilities, licencing registration procedures, or difficulties in international marketing promotion.

> *"There are many weaknesses in the Investment Promotion law; it is old and needs to be revised." (Interviewee 1).*
>
> *"The government does not provide any funding or assistance in order to participate in exhibitions inside and outside the West Bank." (Interviewee 5).*

To promote its economic growth, Palestinians need to develop a coherent industrial strategy and also to have good governance, by strengthening their existing institutions and their missions (more efficient state institutions). Several interviewees criticized the absence of a political strategy for the industry sector. To help draw up this strategic policy, it is important to be aware of the industrial owners' opinions. In terms of suggestions to overcome this lack of public support for the industrial sector, the sample survey results offer a ranking of the most needed government actions to secure industrial sector growth on the West Bank (Figure 3). The top five suggested measures can be organized into three different levels of public intervention.

The first level aggregates the most urgent political actions, which are related to measures to modernize local firms and help them become integrated into international trade, in order to finally enable the entrance of West Bank industry into the globalized economy. On the one hand, public support is needed to help them to acquire new machinery in order to modernize and improve their production processes and quality, as most of their machinery is imported and customs taxes are high. On the other hand, political measures are important to help expand the markets for Palestinian goods, with international promotion actions and other complementary measures that could facilitate the exportation of local products. It is important to underline that, according to this survey, exportation is currently absent from more than 98% of West Bank firms, if we exclude the Israel market.

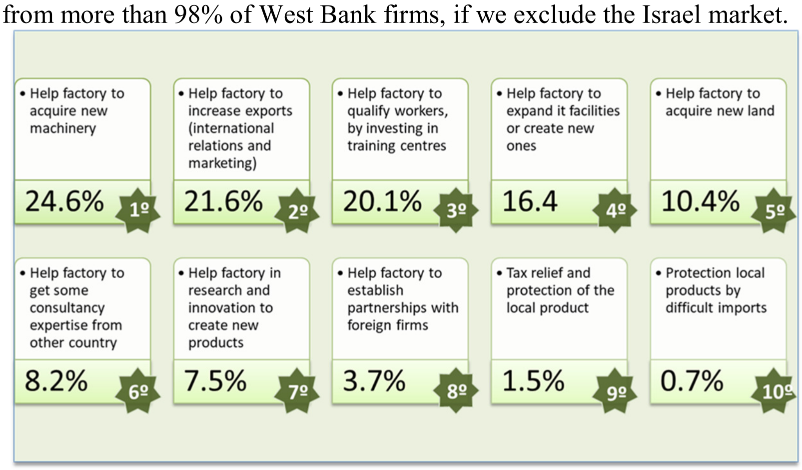

Figure 3. Ranking of the most relevant government measures to support West Bank industry, based on the firm's owner's opinion

Note: the % sum does not amount to 100% as it is was a multi-choice option question

At this level, some interviewees suggested the importance of providing information to local businessmen about opportunities in foreign markets in order to facilitate export-oriented business strategies. They have little expertise when trading with foreign markets and in the few cases where they have done so, this was a result of hard and lonely efforts and persistence. Besides such promotional actions, negotiations and mutual cooperation between the Palestinian government and the Israeli government in the field of exportation is needed. These negotiations are essential in order for Israel to facilitate exports from the West Bank to foreign markets, in this way allowing the West Bank to take advantage of trade agreements already signed with foreign countries (PALTRADE, 2016).

On a second level, it was suggested that measures to qualify local human resources are relevant to improve the production processes and increase the competitiveness of local industry. For the firm's owners, these measures should be on the top government priorities for the industrial sector. For instance, by investing public funds in training centres to improve the expertise and qualifications of workers, giving them better skills to perform their professional duties.

Finally, on a third level the relevance of infrastructural political measures was identified in terms of helping firms to expand/modernize their facilities, or by assisting them in land acquisition processes to facilitate the construction of new and more appropriate facilities. The absence of high-quality industrial parks forces this economic sector to face a primary and elementary challenge which is related to the lack of appropriate facilities to conveniently perform their production processes, therefore enhance their firms growth. According to this survey, more than two-thirds of West Bank industries (67.2%) are located inside residential areas, and half of West Bank industry operates in a fragment of a residential building. This land problem issue demands that adequate industrial parks are constructed where industrial owners/managers can build their factories with better infrastructural conditions and incorporate more modern and efficient production technologies.

4. Private management decisions restraining West Bank industrial development

As we have seen, 83% of West Bank industrial production is locally consumed inside the West Bank. However, despite this excessive dependence upon the domestic market and the urgency of increasing the proportion of exports, the West Bank is still a market with great potential for local firms. It is important to underline that, according to Douglas (2012), only 15% of the West Bank's local demands are satisfied by local Palestinian products, while 85% of these demands are satisfied by Israeli products and products imported from other foreign countries. According to several references registered during the interviews, reduced demand for local products is not only a consequence of unfair competition by Israeli goods (Shawa, 1991; Abu Ashokr et al., 1991; Musa, 2007; Aburaida, 2017), but also due to the poor quality of products made in Palestine, which is a consequence of outdated production processes resulting from business management options.

4.1 No priority on technological modernization

In the West Bank there are firms that use entirely manual production processes, and in fact handicraft goods production remains an important local source of jobs. A total of 15% of local firms' production processes are totally based on manual procedures, and these firms are exclusively dependent upon the workers' know-how (mainly in pottery, wood, fabrics, wool, or glass). Regarding not only the handicraft activities but all industrial firms in the West Bank, it is possible to conclude that the production processes of local firms are characterized by the use of antique and non-appropriate machinery, making it difficult for local firms to achieve the high-quality standards of competing goods. According to the survey, 54% of the firms' owners are anxious that their machines are old or outdated with negative consequences for the quality of the goods they sell.

Outdated production processes in local firms were clearly detected by this survey (Figure 4), as its results show that in almost half of West Bank firms the production processes are totally or mainly geared to the handmade, while a small proportion (10% of total West Bank manufacturing activity) use production processes that are predominantly modern and carried out in a mechanical automatic/computerized way.

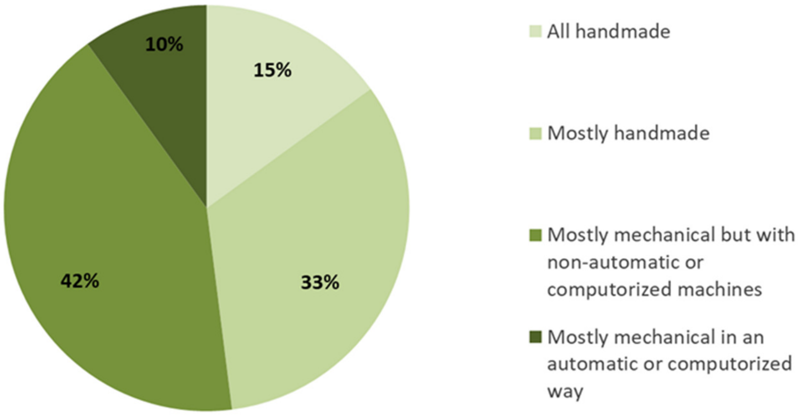

Figure 4. Production processes in West Bank industrial firms

These outdated production processes that mainly depend upon manual work or non-automatic machinery are importantly a result of financial problems related to difficulties in gaining credit (Table 1), especially so in micro and small-sized firms. If financial difficulties were mentioned by half of the survey respondents, in the second rank of the main reasons for the lack of modernization in the production processes (mentioned by 28% of all respondents), it is the lack of confidence that industrial owners feel regarding financial investment when they face so many difficulties to sell their production in the local and foreign markets. The third most mentioned reason relates to difficulties in importing new machines, owing to Israeli regulations and control of Palestinian imports. It is important to highlight that in 85% of West Bank firms the majority of their machines are imported (39% from Israel, 8% from neighbouring Arab countries, and 53% from other foreign countries), and half the firms' owners declared that they have faced obstacles when buying equipment from abroad.

Table 1. Top five main reasons for the lack of modernization in the production processes of West Bank industry

Order	Reasons	Firms (N°.)	Firms (%)
1°	Financial difficulties	66	49.3
2°	Market small dimension (reduced sells)	38	28.4
3°	Difficulties related with the importation of new machines	33	24.6
4°	Inappropriate factory facilities (small size and with bad infrastructures)	26	19,4
5°	Lack of qualified workers to deal with more recent machinery	21	15.7
6°	The factory production is already modern with adequate technologies	7	5.2

Note: the % sum does not amount to 100% as it is was a multi-choice option question

We should underline the fourth reason (mentioned by almost 20% of local firms) that justifies the owners' decision not to invest in more modern and technologically sophisticated machinery. One fifth of all respondents mentioned that these investments are not feasible given their poor and inappropriate factory facilities. In fact, reduced access to land makes it difficult to plan adequate industrial zones, where industrial owners can build their facilities with all the needed infrastructural conditions to incorporate more modern and efficient production technologies. It is important to stress that the area A defined in the Oslo Accords, which was supposed to be fully controlled by the Palestinian National Authority, represents only 3% of the West Bank (Beinin, 1999).

Owing to one or more of the above-mentioned issues, the reality is that it is difficult to pursue the technological modernization of local production processes. In fact, only 5% of West Bank industrial firms consider that they have adequate and modern technologies, which allow them to have production processes responsible for goods of high quality. On the contrary, in more than two-fifths (43%) of West Bank industries the majority of their machines were bought second hand due to their lower prices. Second-hand machines are susceptible to breakdown with negative consequences for the production process. Such machinery is not guaranteed by the manufacturer, and in case of breakdown their repair is carried out in 41% of West Bank firms by local factory staff

4.2 Local firm preferences regarding low-quality products

Some options adopted by local managers may have been harmful for their firms' growth. If the use of non-adequate machines increases production costs, in order to compete with the prices of foreign goods many owners decided to reduce the quality of their production as a way of maintaining their profits (for instance, by reducing the quality of the raw materials used). This is a management decision that in some way is responsible for the inability of local goods to compete for the West Bank market with Israeli products or with the imported products from other countries.

> *"Palestinian industries suffer from poor quality because, with the extra production costs that come from the Israeli occupation and the need to compete with foreign goods, we should see a reduction in the profit margins of local firms. But factory owners still want to pursuit the highest profits, which leads to a reduction in the quality of local products." (Interviewee 1).*
> *"The poor quality of local products comes from cultural behaviours. Firstly, local factories begin to produce high-quality goods, and then when these goods are required their quality starts to deteriorate to increase the firm's profits." (Interviewee 9).*

The decisions of cost control that have resulted in the low quality of local production not only problematize any strategy to achieve a greater proportion of the West Bank market, but also make it difficult to increase exports. In fact, 30% of respondents are aware that the quality of the goods they produce does not meet the quality standards required to be exported, and just 7% conform to the management quality specifications of international standards and norms, possessing the Quality Certification ISO 9001, which means that they comply with the requirements of quality production and management, something that an increasing number of major purchasers require their suppliers to hold (ISO, 2015).

The majority of West Bank industrial owners (70%) are aware that there are many improvements to be made concerning their production and working methods (hygiene and safety procedures, environmental requirements, social responsibility actions, etc.). For instance, it is not uncommon to find a West Bank industry in which unsafe industrial procedures are associated with child labour practices. The results of the '2012 Palestinian Labour Force Survey' showed that the percentage of working children in the 10-17 age group, whether paid or unpaid (unpaid family members), reached 5.8% of the total number of children on the West Bank (PCBS 2013-b). This worrying reality was noticeable in some factories visited during the survey.

4.3 Reduced investment in marketing and advertising

If the conquest of a higher share of the West Bank market is a strategic goal of local firms, their owners should recognize the relevance of investing in marketing and advertising, stimulating local consumers through several platforms (television, radio, newspapers, outdoors, social media etc.) to purchase their goods. This investment is considered essential so that these firms' products achieve a large number of potential consumers and manufacturers gain knowledge of customer preferences (Jørgensen, Taboubi, & Zaccour, 2001). However, on the West Bank only around 35.8% of all manufacturers are aware of the importance of such immaterial investment in advertising promotion actions, as an important way to help them to get more clients to their products.

Nowadays, a website is considered the entrance way to the space of flows that characterizes this digital era (Weber, 2009), helping firms not only to disseminate their activity worldwide and potentially gain new partners for new business projects, but also as a way to get more clients (in the local and external markets) through e-commerce practices. Economic analysts have considered e-commerce to be the new engine of economic development, as it is an effective and quick way to complete deals and transactions and promote products and services (Boateng et al., 2008). However, according to the survey results, recognition of the enormous potential associated with these new management tools is not yet widespread among West Bank industrial owners. In fact, only half of these firms have a website to promote their activities and products, and just 30% allow their products to be sold via the e-commerce method. Training sessions aimed at firm's owners need to be put in place to upgrade the quality management of these firms in order to guarantee the success of marketing efforts and strategies to increase sales of West Bank industrial products.

5. Conclusion

Almost 25 years after the establishment of the Palestinian National Authority, the weakness of the West Bank industrial sector is in part a consequence of external forces, namely all the limitations imposed by Israel on control of Palestinian territory, summarized by Aburaida (2017). Among such determinants we should emphasize the negative consequences arising from the Palestinian Authority's lack of control over its external and internal borders, namely obstacles in the importation of raw materials (given high import tariffs for the use of Israeli ports and harbors) or obstacles to sell West Bank goods in local and foreign markets (difficulties caused by Israeli checkpoints as well as by the Standards Institution of Israel - SII- which imposes high standards on Palestinian products in order for them to be accepted in Israel or be exported to international markets). Continuing insecurity and political instability is another source of obstacles to local firms, as the achievements of the Oslo Accords have not ended the instability between Israel and Palestine, which affects the West Bank economy. In fact, societies with a strong foreign military presence by an external force are societies with tend to have an uncertain and ambiguous future, are less trustful, and consequently less attractive to investment (domestic and foreign). Unfair competition affecting West Bank goods is also a key obstacle to local firms, a situation mainly caused by the Paris Economic Protocol that gave the impetus to Israeli products to invade the Palestinian market while preventing Palestinian products from entering the Israeli market. Finally, it is important to mention some adversities and limitations in the use of local facilities. By decision of the Israeli occupation forces, West Bank firms face several difficulties in the use of local infrastructure, which is especially felt in two domains - road accessibility and access to water and electricity.

Nevertheless, not all obstacles faced by West Bank firms are originate in external factors related to the Israeli occupation. This study emphasizes the relevance of those internal constraints to West Bank industrial development, that result from political measures promoted by government decisions or from private management decisions taken by industrial owners.

The Palestinian National Authority has not pursued any broad, coherent, and strategic industrial policy to favour West Bank industrial development and reinforce the competitiveness of domestic products. In fact, no priority has been given to the application of an industrial policy based on low income tax, exemptions or tax deductions on raw materials, public investment in industrial parks, loans with subsidized interest rates, or even protectionist economic measures as the imposition of high customs on imported goods.

Less than 5% of West Bank industrial units had ever benefited from public funds to help growth, clearly demonstrating the lack of public support for industrial development, in spite of its huge relevance to economic growth in any country. Most Palestinian industries (70%) face several problems related to fund-raising. However, these firms must rely upon an informal credit system (mainly based on family assistance, self-financing and loans from friends) as a way of dealing with the difficulties they face vis-à-vis the banking system and the lack of government financial support.

Not only the Palestinian Authority avoid distribute financial support to incentive and stimulate industrial investment projects, as it follows a high taxation policy over local production. In case of high customs on raw materials, these are mainly a consequence of the Paris Economic Protocol. Many firms' owners argue that the Palestinian Authority should recognize the urgency of its revision by distinguishing imported raw materials, if they are non or semi-processed, consequently differentiating the customs levies. On the other hand, the high taxation on industrial production is a local decision promoted by the Palestinian Authority and is severely criticized by local firms, as it promotes a double taxation policy, combining taxes on the firm's profits, and simultaneously taxes on the owner's net profits, which constitutes a constraint on production. Besides, there are also a number of fees imposed on companies by various government institutions, which increase production costs and reduce local industry competitiveness.

There are several other obstacles concerning the lack of government support for local industry. Whilst there is an Investment Promotion Law that regulates the process of granting public incentives for investment in order to attract new industrial projects, it is targeted at supporting relatively large investments which are not common in the West Bank economy as it is mainly composed of micro and small-sized industrial projects. Another obstacle relates to the absence of industrial parks and difficulties of land access faced by owners that seek to invest in more appropriate facilities. It is important to remember that area A defined by the Oslo Agreement, which was supposed to be fully controlled by the Palestinian Authority, represents only 3% of the West Bank surface, not to mention that the wall built by Israel to spatially segregate the West Bank has swallowed large areas of West Bank lands. In a reality in which the majority of local firms are inside residential areas (half of them in buildings that combine industrial and residential functions) the land problem creates difficulties for industrial development. But the local government has not invested in the creation of adequate and well-planned industrial parks where industrial owners could build their facilities with better infrastructure, as well as better conditions to incorporate more modern and efficient production technologies. It is important to mention that the land problem is one reason for the owners' decision not to invest in more modern and technologically sophisticated machinery. A quarter of local firms mentioned that such technological investment is not feasible given their poor and inappropriate facilities.

There are also internal obstacles to industrial development that result from private management decisions. According to Douglas (2012), only 15% of West Bank demands are satisfied by local Palestinian products, while 85% of these demands are satisfied by Israeli products and from products imported from other foreign countries. Based on several references done during the interviews, reduced demand for local products is mainly due to the poor quality of industrial products made in Palestine, which is a consequence of outdated production processes resulting from disinvestment in technological modernization, problems related to business management options, and the lack of qualifications and specialization of local firms' human resources.

This survey results show that a small proportion of the West Bank manufacturing activities use production processes that are mainly conducted with modern technologies and in a mechanical automatic/computerized way (only 5% of local firms consider that they have adequate and modern technologies, and in 43% of West Bank industries the majority of their machines are second-hand). This disinvestment in technology and in the modernization of local production processes results not only from fund-raising problems faced by West Bank firms, but also from management decisions related to the lack of confidence to invest in their businesses when they face so many difficulties to sell their production in local and foreign markets.

There are also problems related to business management options that in some way are also responsible for the inability of local goods to compete for the West Bank market with Israeli products or with those imported from other countries. These are mainly decisions of cost control that have resulted in the low-quality standards of local production, in the difficulty to ensure health and safety requirements in industrial workplaces, to avoid child labour practices, or to upgrade advertising and promotion methods of local goods.

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