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# Competitive Advantage of Palestinian Economy in Light of Porter Model

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**To cite this article:**

Orobah Ali Barghouthi, Mohammed Bayyoud. Competitive Advantage of Palestinian Economy in Light of Porter Model. *International Journal of Finance and Banking Research*. Vol. 2, No. 3, 2016, pp. 84-101. doi: 10.11648/j.ijfbr.20160203.14

**Received:** January 21, 2016; **Accepted:** May 17, 2016; **Published:** August 1, 2016

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**Abstract:** This paper examines work as guidance in formulating the relationship between Israeli and Palestinian Economy, in the context of fulfilling the requirements of Palestinian state as there are two scenarios related to trade relations between Palestinians & Israeli Economy, if it's custom union or free trade area, the shape of this relation Consist a framework for Economic Policies for Palestinian state. By reason of the findings of Michael Porter in 1998, this research focused on the determinants of competitive advantage as written by Michael Porter is done. In determining if the Palestinian economy has improved through the years, the parameters used in 1998 were adopted. The researcher adopted the determinants used by Porter in his study of the Palestinian Economy in 1998. Using these as parameters, the programs under the different areas in the PIF was assessed to come up with a paradigm to establish a competitive advantage for the State of Palestine based on the different areas of investment.

**Keywords:** Palestinian Economy, Porter Model, Michael Porter

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## 1. Introduction

The Palestinian National Authority traces its existence pursuant to the Oslo Accords between the Palestine Liberation Organization and the government of Israel as an interim body in 1993. The Palestinian National Authority (PNA) inherited a very troubled economy suffering from serious economic instabilities and distortions which include but are not limited to: Heavy dependence on outside sources of employment and trade, low degree of industrialization, trade deficit and inadequate public infrastructure and services.

The current economic condition is caused by several factors, some of which are common as in the less developed countries; but most of which are due to the prolonged Israeli occupation since 1967.

In order to handle the abovementioned imbalances and Distortions and build the competitive advantage of the Palestinian economy in the context of its strategic planning, the PNA has been working on creating suitable environment for the private sector, later establishing the Palestinian Investment Funds in 2003 to achieve the hoped for stage of development.

### 1.1. Objectives of the Research

This research conducted on the competitive advantage of the Palestinian nation in the context of the diamond model developed by Michael Porter aimed to:

To find out porters theory in building competitive advantage of nations to case of Palestine in order to know in which stage is the Palestinian economy in the way for building its competitive advantage.

To identify porter's diamond to 5 sectors in Palestine to discover the potentiality to building the competitive advantage for each studied sector.

### 1.2. Research Methodology

This study used the descriptive research strategy. The Descriptive research strategy is used to measure a variable or set of variables as they exist naturally and is intended to answer questions about the current state of individual variables for a group or individuals.

In this study, the existence of the programs of the Palestine Investment Fund needs to be presented. An assessment of the programs vis-a-vis Porter's determinants of national

competitive advantage was done for the second research objective. The current state of Palestine economy brought about by the impact of the PIF was also determined.

Qualitative study was also employed. Qualitative research according to Denzin and Lincoln (1994) involves studying things in their natural settings, attempting to make sense of or interpret phenomena in terms of the meanings people bring to them.

## 2. Literature Review

From this historical account, Dr. Mustafa further said that building and enhancing competitiveness of Palestinian economy was one of the most important economic challenges and one of the most important goals to improve the economic and social conditions of Palestinians. Through this, the parts of the economy should be assessed to advance development of the Palestine economy.

According to Porter (1990), nations pass through resource driven stage and the investment driven stage in order to be placed in the innovation driven stage. The nation gains its competitive advantage only in the innovation driven stage and this when it becomes able to create its own resources, developing new technologies, creating qualified and experienced human resources rather than importing them.

In Palestine, natural resources inherited have been an important factor in building the Palestinian economy and satisfying people basic needs from oil, soap, and food. Palestine also has developed in several industries such as in the shoe industry and plastic industry. PIF had major role in moving Palestine forward into the investment stage in certain industries mainly telecommunications, real estate, cement trading, and tourism. PIF has plans to move these industries into an innovation stage such as in the cement trading; PIF plans to invest in cement manufacturing in order to avoid importing cement. Also, PIF has plans to expand its investment to include the energy and agricultural sectors.

Palestinian Investment Fund held the government investments in Palestine, it is an entity between sovereign fund and investment fund, for according to the privacy of Palestinian economy which lack the private investments necessary for development process, PIF held its investments in Palestine not abroad as any sovereign fund, it is a limited company fully owned by the Palestinian National Authority. In 2003 the Palestinian Authority Transferred the assets managed by it to Palestinian Investment Fund that been established in order to invest the assets of PA. Palestinian Investment Fund Financially and administratively independent autonomous that governed by an independent board of directors and a general assembly representing public and private sectors, civil society, nongovernmental Organizations, and academia. PIF implements the investments that contribute in sustainable economic development in Palestinian Territory, maintain and increase the reserves of Palestinian economy, PIF owns direct majority and minority stakes in many companies and its investments with private sector take the shape of partnership

between private and public sector, even PIF play leading role in these investments. PIF manage assets of \$800million value, leading a investment program of \$4 billion that aim to stimulate economic growth and create around 100, 000 job opportunities during five years.

PIF has achieved important progress in that direction by persuasive investors in various sectors to keep on in spite of the difficulties they face as in having visas, crossing the bridge, bringing in equipment, and so on. What PIF has done is to discover sectors that have potential to gain profits that can attract investors.

Bernard Avishai (2010) mentioned “the Palestinian private sector that is very small is prepared for a development. Palestine’s Investment Fund, the PIF that own billion dollar, has been investing in construction and wireless telecommunications; for achieving strategic goals, PIF governed by a former World Bank official it Mohammed Mustafa.

The PIF was established in year 2003 with a capital majority of 574 million dollars, which represent the amount of assets and equity of the companies, which were originally owned, by the Palestinian authority and also the Palestinian authority investments in shares of private companies such as PADICO, PALTEL, and Electricity Company.

Palestinian Investment Fund nowadays is openly restricted corporation, completely owned by the citizens of Palestine. It is fiscally and organizationally self-governing and is governed by an independent General assembly and Board of directors.

The main goal of the PIF is to build up the national economy to provide its final shareholder - the people of Palestine, while generating attractive profits, decrease unemployment rates and poverty by increasing the number of jobs available in the market, encouraging competition, supporting local enterprises and the private sector, etc. The PIF aims at creation of 100,000 jobs during the upcoming ten years and strives towards the understanding of a sustainably growing and strong economy. This goal was set to be achieved by active work on achieving the following specific goal categories:

During four years Michael Porter’s has conducted a study handled the patterns of competitive success in ten leading trading nations in order to explore why nations gain competitive advantage in exacting industries and the implication for the strategy of a company and national economies. Porter also published a book “competitive advantage of nations”. This was not the first book to talk about competitive advantage of nations but is still considered to be the broadest in scope (grant, 1991).

Porter asserts on the role of government, as well as by affecting the corners of the diamond (Davies, H. and P.D. Ellis, 2000). Government has a role to support companies to raise their aspirations and move to higher levels of competitive performance. Governments can achieve this if it stimulate early demand for highly developed products, focus on particular factor creation, and motivate local rivalry by restrictive direct cooperation and enforcing anti-trust

regulations (Porter, 1990).

Companies compete in both, product and innovation process. In this phase the nation has power in the four corners of the diamond. richness is achieved and maintained if the nation proceeds to the stage of competitive advantage that driven by wealth, in which it fundamentally lives on its past and goes into decline. In the stage that is driven by wealth, the firms of the country are run by stewards, not by entrepreneurs. Trust in the value of competition is less concentrated and competition is condensed, as powerful firms seek protection through government policy. The incentive to innovate is decreased, employees become more interested in non-economic aspirations, and the goals of the national become more afraid with wealth distribution than wealth production (Davies, H. and P.D. Ellis 2000).

Porter, 1990 stated that "National prosperity is created, not inherited. It does not grow out of a country's natural endowments, its labor pool, its interest rates, or its currency's value, as classical economics insists". Porter also suggested that 'the only meaningful definition of competitiveness at the national level is national productivity'. Competitiveness depends on the productivity with which a nation uses its human, capital, and natural resources. The public and private sectors play different but interrelated roles in creating a productive economy.

In Palestine, Porter applied this theory to the Palestinian economy and conducted a study to show the current condition of the Palestinian economy. Porter concluded that Palestine has passed the factory driven stage, and is now moving towards the investment driven stage, where efforts should be focused on investing in new technologies, increase products qualities, and not only depend on natural resources inherited such as soap, oil, etc. On the other hand Porter discussed the diamond model as applied to the Palestinian economy and explained how government should play a role in satisfying the diamond factors at various stages of economy.

Nonetheless, the reviews, which addressed competitive advantage of nations, contain of different point of views to large extent, ranging from the submissive to the choleric with no consent in sight (Carney, 1991). Furthermore, both critics and supporters found very different grounds on which to condemn or admire, reflecting both their own fields of interest and the remarkable richness of their subject.

The first effort to clarify why countries connect freely in international trade has its starting point in 1876 with Adam Smith's theory of absolute advantage (Krugman & Obstfeld 2003).

According to this theory, a country can develop its prosperity if it specializes in producing goods and services in which it has an inclusive cost advantage over other countries and imports those goods and services in which it has an unconditional cost disadvantage. This theory explains why countries, through imports, can increase their benefit by concurrently selling goods and services in international markets. Adam Smith thus viewed trade as a positive sum game. Krugman criticized Porter's theory of competitive

advantage and other academics that support Porter about the international competitiveness of countries. According to Krugman (1991b, 1994a, 1994b, 1995a, 1995b, 1998), countries do not compete internationally. "They are not like firms, competing with rivals in the global market place". Kohler (2006: 140) also supports this belief that countries do not compete, because trade is a positive sum game and thus "a country's welfare is... determined by its absolute level of productivity and not by some international competitiveness rankings ... In a trading world, productivity is overstated, in terms of its benefit prospective by international exchange..."

Daniels (1991: 56) calls it "the indefinable thought of national competitiveness". According to him, there is no accord on how to determine, discuss and expect international competitiveness of countries, and "perhaps none is reasonable" Van Den Bosch (2002) and Van Prooijen (2002) have both discussed the role of the national environment in the competitive situation of industries and think that strong or weak uncertainty prevention performance should be considered as an important factor to determine the Competitive advantage in nations. They have also criticized Porter for not paying attention to the weight of national background on the competitiveness of nations in his diamond models.

The appraiser for Political Quarterly (Metcalf, 1991) blamed Porter for miss evaluating the government's role in building the competitive advantage of the nation, at the same time as Labor Party politicians in British in their reviewing for the London Review of Books (Brown and Mulgan, 1990) evaluated porter for advocating the involvement of the government in consolidating the competitive advantage of the country. In the Strategic Management Journal Grant (1991, p. 535), mentioned to theory of nations competitive advantage by Michael porter as a work that 'bridges the gap between international economics and strategic management, whereas causative to a large extent to strategic management and international economics.

Pressman (1991) in the Journal of Management mentioned that an essential approaching to be that firms cannot do in a foreign country what they have not educated at home, but articulated discomfort that if pursued in more specify the point of view in Michael Porter's diamond go round out to be indomitable by countries spirit and background. Upon A.J Smith (2010), even though Michael Porter's Diamond Framework has been comprehensively handled in the management literature,

Its concrete involvement to the body of understanding in the economic and management writing has never been elaborated. Adam Smith also mentioned that "Porter's Diamond Framework couldn't be considered a new theory that discuss the competitive advantage of nations but somewhat a structure that motivate sympathetic of the international competitiveness of firms". Gray (1991), in the International Trade Journal, inattentive on the failure of theory of Michael Porter's to be aware of the substance of price rivalry and the exchange rate in shaping international trade, even in highly developed goods.

Reich (1990) renowned from the studies he conducted in United States that what determines the wealth of a nation's people is the efficiency of those actions which take place within the countries restrictions, supported by the countries net assets income from overseas. "A part of every country's gross domestic product gained from the actions of corporations located in other countries. As corporation's actions become more global and less intense within their home foundation countries, it becomes less suitable to recognize a country's prosperity with the activities of those firms for whom it is considered the home foundation".

From this point of view Reich blamed Michael Porter when he mentioned that the competitiveness/efficiency of a country's people depends on the competitiveness of those institutions for which it is the home foundation. Nonetheless, Sagebien (1990, p. 95) set up that Porter's 'greatest contribution was in his description of competitiveness as national productivity'. Regarding measurement, Eilon (1990) pointed out that productivity is an appraisal of the efficiency with which inputs are used, while competitiveness is usually identified as the talent to secure market share in opposition to competition. On the other hand, Peng (2009: 125) mentioned that Michael Porter's theory about country's competitiveness was most modern theory that explains the international competitiveness of nations:

"It is the first multilevel theory to join firms, industries and nations, on the ground, but prior theories only work on one or two scopes".

As well, in the Journal of Development Economics, Adam Smith (1993) mentioned to Michael Porter's theory as "very important for the growth field" concentrating on the differences between essential factors and 'advanced' factors, the effort to build a more non-equilibrium analysis, and the exclusion of clusters, interpreted as Marshall an industrial districts, as the most important characteristic. Most debate of the competitive success of nations look at total, economy-wide measures like the balance of payment. Michael Porter selects a different starting point, beginning with individual industries and competitors and structuring to the economy as a total. Countries do not compete in the marketplace business institutions do, the act of individual firms in specific industries where competitive advantage is either won or lost. The Home Countries affect the capacity of its institutions to be successful in particular industries, with the failure or success or of hundreds of struggles in many industries shaping the state of a country's economy and its capacity to cut steps forward.

As a result of changes in patterns of world trade, more and more openness in the world economy, rapid diffusion of information and technology and the rise of the transnational organization. International competition at the firm level has been changed over the last years. It is this stressing on competition among firms in world markets that has changed intellectual interest in international competitiveness at a country level (Porter 1990a, 2003; Rugman 1990, 1991; Dunning 2000).

Michael Porter's introduction of the five forces competitive

model propelled strategic management to the very heart of the management agenda (Grundy, 2006). As such, it is important to understand the modern take on strategy as it relates to all matters of business and management and ultimately, how it can be used for the benefit of the organization in achieving its goals. Therefore, prior to pursuing any other train of thought, strategy must be defined. According to (Porter, 1996); strategy is the creation of a unique and valuable position, involving a different set of activities; strategy requires you to make trade-offs in competing-to choose what not to do; strategy involves creating "fit" among a company's activities. Therefore, this combination of position, trade-offs, and alignment of activities is the basis upon which strategy will be studied. In addition to his definition of strategy, Michael Porter has also provided contributions regarding competitive advantage, five forces model, diamond model, and generic strategies among others.

Ultimately, the notion of advantage and competition dates back to works such as the Art of War (Tzu, 2005), the Wealth of Nations (Smith, 1904), and David Ricardo's On the Principles of Political Economy and Taxation (Ricardo, 1951). However, the Smith began to apply advantage and competition in a format more oriented to business environments and markets whereas the Tzu was applied to military strategy. The subject of comparative advantage was raised by Ricardo. The importance of this is in relation to Smith's advocacy of free trade, as Ricardo took this advocacy one step further by explaining its potential for yielding profit.

It is also worthy to note the time frames in which these theories were proposed. The ages in which these philosophers and thinkers lived in greatly influenced the scope of their work. Again, the argument can be made that Tzu lived in a time where military expansion and success was the key to prosperity and minimizing economic losses. Therefore, his work focused on capitalizing on the efforts of military expansion as a success factor. This in contrast to the expansionist period in which Smith lived in the management of availability of resources was key to not only the survival of a nation, but its success, hence the title. Ricardo was able to take Smith's theory further by adding how this exchange can yield profit and began to convert this advantage into a tangible form.

The common thread between these theorists is that of advocacy of nations or states. A shift, however, regarding the emphasis on strategy and competitiveness at the firm level begins to take shape. Competitive activity of the firm creates internal organizational assets in the form of skills, routines, and knowledge as well as assets that cross the organizational boundary such as contracts, relationships, brand images, and networks (Nelson & Winter, 1982). Furthermore, Porter's approach to competitive advantage examines both a nation's endowments and also that of companies within the nation (Ranchhod, 2006).

### 3. Porter's Model

In this case, the framework proposed by Porter in terms consisting of four main determinants. Factor conditions, as the first determinant, are the nation's position in factors of production. The nature of home demand for the industry's product or service is labeled as demand conditions, and forms the second determinant. The third determinant, related and supporting industries, deals with the presence or absence in the national environment of internationally competitive related and supporting industries. The conditions governing how companies are created, organized, and managed, as well as the nature of domestic rivalry, form the fourth element. Two additional elements are added to this framework: chance (exogenous influences) and government (Van Den Bosch & Van Prooijen, 1992). This system of reinforcing determinants was dubbed 'the national diamond' by Porter.

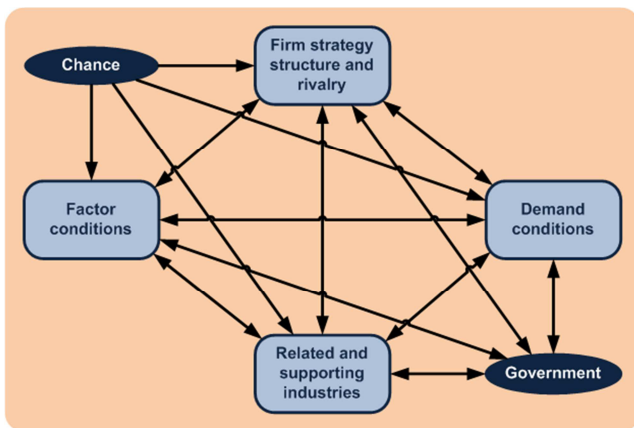


Figure 1. Porter's Model.

However, Porter's afore mentioned question opens the floor to debate the influence of culture on these organizations. This is critical in terms of defining where the greatest influence would reside, as if a local firm is desirable or prestigious, then the individual in an effort to attain that level of prestige in society would abide by the behaviors and norms of that firm to a greater degree than influences from national or ethnic sources. Thusly, when reviewing 'the national diamond' model, dimensions such as factor and demand conditions are affected by culture either directly or indirectly. Regardless, national culture is an important part of the national environment, and a description of the national environment would be incomplete without addressing national culture (Van Den Bosch & Van Prooijen, 1992).

In terms of national culture, it worth noting the work along the lines of cultural dimensions. It states that there are four core dimensions to Hofstede's framework:

- Individualism versus collectivism
- Power distance
- Uncertainty avoidance
- Masculinity versus femininity (Hofstede, 1980)

Individualism is defined as the degree to which people prefer to act as individuals rather than be members of groups, as opposed to collectivism which is a close knit social

framework in which people expect others in groups they belong to for protection and care. Power distance measures the extent to which a given society accepts power residing within institutions and organizations is distributed unequally. Low distance infers equality in the distribution of power amongst those with wealth and status, and those without wealth and status. High distance infers inequality in the distribution of power among those with wealth and status, and those without wealth and status. Finally, uncertainty avoidance measures the extent to which a society feels threatened by unsure or ambiguous situations and make an effort to avoid them. High uncertainty avoidance indicates that a society looks unfavorably on change and uncertain situations; whereas low uncertainty avoidance indicates a society embraces change and ambiguity (Hofstede, 1980).

#### Criticism of Porter

##### Ambiguity

With all of Porter's efforts towards advocating the cause of strategic management, it is only natural that certain points be subject to critiquing. Therefore, several items must be determined, such as products, firms, and competition. The discourse of competitive advantage is ambiguous as whether it is applied to firms or products (Klein, 2001). For example, Porter believes that a firm is differentiated from its competitors when it provides something unique that is valuable to buyers beyond simply offering a low price (Porter, 1985). However, there is nothing to definitively distinguish the firm or the products in terms of what is being offered, hence the ambiguity. On the other hand, buyers purchase products, not firms, and product attributes therefore create buyer value (Lancaster, 1979).

##### Relevance and Applicability Competitive Advantage

The fact that competitive advantage stems from the product or firm according to Porter may lead one to believe that it is something intangible and therefore something that can't be measured. This is in contrast to research undertaken by Kay and states: 'The strength of Glaxo's competitive advantage can be measured by looking at the ration of added value to the firm's gross or net output' (Kay, 1993). Therefore, the apparent lack of applicability regarding Porter's models would clearly detract from the effectiveness research oriented or competitive oriented use. To further substantiate this point, Porter has been affiliated with adhering to the design school of the Harvard Business School (Mintzberg, et al., 1998). In addition to this, Thusly, the framing of competitive advantage implies tangibility, so it can be objectively observed. (Klein, 2001).

##### Culture and Strategy

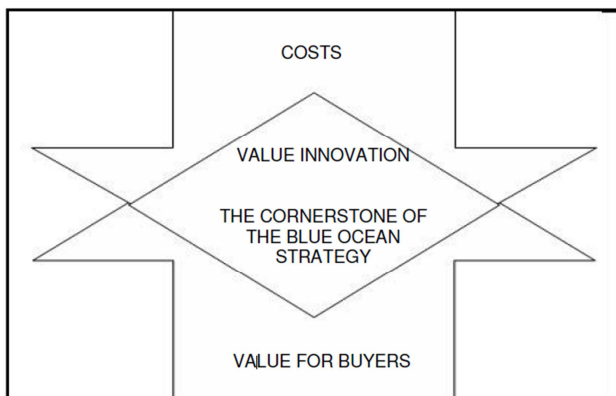
Another point of contention is the claim that each of Porter's generic strategies requires a different culture (Porter, 1980) (Porter, 1985). To further cement this point, the strategic logic of cost leadership usually requires that a firm be *the* cost leader (Porter, 1985). Thusly, a firm or country can only pursue one of the Porter's generic strategies (overall cost leadership, differentiation, focus, and product leadership) at one time or exclusively. In today's world, this seems to be increasingly difficult as the needs of countries, markets, and

ultimately consumers change with little or no warning.

Therefore, pursuant to the a fore mentioned Hofstede's dimensions of culture, there is also the issue of high context versus low context cultures. According to (Hall, 1976) high context cultures; (1) rely on environmental cues and context; (2) subtle cues to convey messages; (3) trust is more important than a formal contract; (4) indirect communication is prevalent. Low context cultures however; (1) rely on explicit verbal and written messages; (2) use clear words to convey messages; (3) prefer formal contracts or agreements to determine actions; (4) rely on direct communication and specific or explicit instructions. However, this can be problematic as subcultures have become more prevalent in any society, and seem to be a subversion to normalcy, in addition to the fact that they can bring together individuals who might otherwise feel neglected and allow them the opportunity to develop a more substantial sense of identity (Hebge, 1979). Thusly, the assumption that a nation or even a firm can have a single culture seems to be outdated and unlikely. As such, this assumption can be detrimental to a firm or nation in attempting to achieve its goals without fully understanding the unique needs of individuals and groups that would undoubtedly form these subcultures.

#### *Blue Ocean Strategy*

Another theory, Blue Ocean Strategy, revolving around strategy and competition surfaced around the following six principles; (1) reconstruct market frontiers; (2) focus on the big picture; (3) reach beyond existing demand; (4) get the strategic sequence right; (5) overcome formal barriers; (6) build execution into the chosen strategy (Kim & Mauborgne, 2005).



**Figure 2.** Blue Ocean Strategy.

#### *Blue Ocean Strategy Principle 1: Reconstruct Market Frontiers*

Reconstructing market frontiers is ultimately designed to eliminate competition. As such, a firm must examine alternative industries, the strategic groups within industries, the buyer chain, supplementary offerings, functional and emotional orientation of buyers, and lastly the time span needed for implementation.

#### *Blue Ocean Strategy Principle 2: Big Picture*

In this case, there must be an alignment of the planning

process to a value evaluation matrix to develop a strategy. This principle is reliant on strategies that allow for creativity and for the strategy to be easily understood and disseminated.

#### *Blue Ocean Strategy Principle 3: Reach Beyond Existing Demand*

Here, new markets are created thus affording a firm economies of scale. Also, in reviewing this principle, focusing on existing clients should be one strategy, in parallel to refining segmentation to meet the different needs of different buyers. This would protect a firm from trying to meet all customer preferences which often results in creating very small target markets.

#### *Blue Ocean Strategy Principle 4: Getting the Strategic Sequence Right*

Ideas and strategies should be developed with the intent of ensuring commercial viability. In other words, strategies should adhere to the following sequence; (1) buyer; (2) utility; (3) price; (4) cost; (5) adoption.

#### *Blue Ocean Strategy Principle 5: Overcome Formal Barriers*

The status quo must be challenged by employees and firms as this will result in overcoming the following obstacles; (1) cognitive obstacles; (2) resource limitation; (3) motivation; (4) organizational policies. This will allow for innovation and leadership to surface when drafting a new strategy that is implementable.

#### *Blue Ocean Strategy Principle 6: Build Execution into the Chosen Strategy*

The involvement of top, middle, and line management is critical to the success of any given strategy. As such, performance is required from all levels, in the form of cooperation in order to integrate a strategy that can be executed from its inception.

To do so, trust, cooperation, and volunteering must be prevalent in the firm across all levels of management. A fair process will create and enhance this environment, particularly when the various needs and input are taken into consideration. This will result in the rapid response to the organizational changes, thus enhancing the probability of the strategy to be implemented properly.

Story of successful industries, firms and countries show that necessary natural resource inputs can be imported so they can be used in high value-added products as Information-based industries, on the other hand, when local factors as labor, land and capital have to be used, it's not their general availability or their relative cost are the sources of competitive advantage but their highly specialized attributes or qualities qualify them to meet the specific needs of their industry, existing of a wide-ranging human resources highly educated from high school or college – educated may not entail or mean that we possess our competitiveness in foreign markets, the production resources be supposed to be highly focused in a exacting supplies of the industries.

Countries might be able to make achievements in products of industries that are mainly doing great at resources formation. Competitive advantages been generated from existence of high level institutions that first generate

dedicated recourses then work very hard in order to develop and promote them later in advanced step. Thus not just engineers are needed for a photographic industry but technicians proficient in optics.

We need specialized investment bank that has skills and resources to assess the risk in new ventures to provide us with venture capital not conventional commercial bank we can depend on to provide the capital to fund a new high-risk venture.

#### 4. The New Paradigm of Competitiveness

Within the context of this theory, the countries level of income the ultimate economic goal in a country is determined by the efficiency by which the countries capital and labor are in use. efficiency is defined as the price of production created through a unit of labor or a unit of capital, it depends both on the value of products and services as well as the effectiveness with which they are produced, it determines wages and the return of capital, the two major factors are sources of income, increases productivity depend on the ability to create and improve competitive advantage.

The ability of nations to compete depends on their ability to improve productivity, the competitive advantage of industry is dynamic and depends on the ability of industry to improve its products, providing new features, and adopt superior production process and more responsive services; this is parallel with traditional concept of competitive, which is based on cost prices.

The main principles of the new competitiveness parallel may be summarized as follows:

- Not nations, but Corporations and firms are on the front line on the global completions.
- The productivity does not consider a function of what industries that the country has to compete with but the issue is on the way firms compete in the industries it has.
- Competitive advantage can be achieved and sustained through continues innovations and improving the productive capacities and financial and corporate strategies
- The innovation process and upgrading is inherently local, companies need environment that assist them in evolving and sustaining the capability to innovate quickly in knowledge and approaches and to do so in the appropriate direction
- Competitive advantage outcome from an efficient mixture of corporate strategies and nation environment that is supportive of corporate strategies. Nations remain important.
- Appropriate strategies of the companies measure competitive advantage against the best world wild competitor

The environment in the country fosters gain in competitive advantage when it supports rapid accumulation of highly specialized skills and assets, allow better information, insight of products and in process needs, and put the company under pressure to invest and innovate.

The new paradigm explains the performance of the industry by analysis the forces that affect the capability of the institutions within the business to compete internationally and maintain the industries strategies situations, these factors represent the contributions of country that independently and on the organization level compose the playing field that each nation provided for its industries, between them they are determinate that create general atmosphere on which firms are born and be trained how to compete, in which they can pursue consistent improvement, innovation and upgrading in particular field and develop more sophisticated competitive advantage, together they form an active scheme that is more important than its parts, by the time they tend to equally reinforcing or equally undermining.

The determinants of national competition advantage are dynamic circumstances, demand circumstances, connected and supporting industries and corporate strategies, construction, competition.

The postulate on international markets accordingly is at a large extent imperfectly competitive, therefore if countries trade, assuming both are similarly situated, they are now driven by economies of scale rather than competitiveness. This is what prompting other countries not really to identify their competitive advantage over other countries but by perfecting their system and process and come up and develop economies of scale. Therefore, the concentration is still productivity and not competitiveness.

#### 5. Porter's National Competitive Advantage

Competitive advantage of nations has been a subject of interest for many writers. Many studies were conducted and books published to address and discuss the reasons why some nations advance and prosper. While some academics believe that nations do not compete and it's hard to measure or understand competitiveness of nations, others such as Porter argued that "a nation is basically an aggregation of industries, its economic performance is dogged by the competitiveness of those industries and the suitable level of analysis should therefore be the industry. The industries of the country are then interpreted to be consisting of those firms" (Porter, 1990). However, theories pertaining to the competitive advantage of nations originally highly developed by Porter were reviewed and contrasted by many academics that see this subject matter from different perspectives.

During four years Michael Porter's has conducted a study handled the patterns of competitive success in ten leading trading nations in order to explore why nations gain competitive advantage in exacting industries and the implication for the strategy of a company and national economies. Porter also published a book "competitive advantage of nations". This was not the first book to talk about competitive advantage of nations but is still considered to be the broadest in scope (Grant, 1991). Porter created the diamond model to explain his conclusion that "Competitive

advantage of nations is formed and continued through a highly contained practice and that it's the result of four interlinked advanced factors:

- Firm tactic, formation and enmity: direct competition that induces firms to work for increases in productivity and innovation.
- Conditions of demand: in an economy, if the customers are more demanding, firms will face greater pressure to continuously develop their competitive advantage by producing pioneering products, through high quality, etc.)
- Supporting Industries that connected: nearness of upstream or downstream industries facilitates the exchange of information and promotes a continuous exchange of innovations and ideas.
- Factor setting (Contrary to conventional wisdom, Michael Porter discuss that the main factors of production don't inherited, but produced. Specialized factors of production are skilled labor, capital and infrastructure. "Non-key" factors or general use factors, such as unskilled labor and raw materials, can be obtained by any company and, hence, do not generate sustained competitive advantage. However, specialized factors involve heavy, sustained investment. They are more difficult to replacement. This leads to a competitive advantage, because if other firms cannot easily copy these factors, they are valuable)." (Porter, 1990)

Porter asserts on the role of government, as well as by affecting the corners of the diamond (Davies, H. and P.D. Ellis, 2000). Government has a role to support companies to raise their aspirations and move to higher levels of competitive performance. Governments can achieve this if it stimulate early demand for highly developed products, focus on particular factor creation, and motivate local rivalry by restrictive direct cooperation and enforcing anti-trust regulations (Porter, 1990).

As mentioned in Porter's In his book "competitive advantage of nations" Michael Porter mentioned that, countries generally go through a chain of stages in their industrial development, moving from the stage that factor-driven, to the stage driven by investment, to the stage driven by innovation, and finally to the stage-driven by wealth. In each of these stages, the industries, which are competing successfully with those of other nations, are those who adopt competitive strategies that are suitable for the step of development in a country's. In a stage that driven by production factors, booming companies compete on the low-cost base, derived from cheap labor or low cost of natural resources. Wages are relatively low and the nation is not prosperous. Competitive advantage derives from only one corner of the diamond, namely factor conditions. In the second stage heavy investments are made in factories and infrastructure and new industries come out.

The flourishing sectors, which are, still competing on cost base, but that is now achieved through economies of scale and state-of-the-art manufacturing practices applied to

mature products, instead of low wages. Competitive advantage is based on three corners of the diamond, firm strategy, factor conditions and demand conditions, structure and rivalry. The average of living is higher but still pretty low. If a nation is to achieve success it must reach the innovation-driven stage, companies compete in both, product and innovation process. In this phase the nation has power in the four corners of the diamond. richness is achieved and maintained if the nation proceeds to the stage of competitive advantage that driven by wealth, in which it fundamentally lives on its past and goes into decline. In the stage that is driven by wealth, the firms of the country are run by stewards, not by entrepreneurs. Trust in the value of competition is less concentrated and competition is condensed, as powerful firms seek protection through government policy. The incentive to innovate is decreased, employees become more interested in non-economic aspirations, and the goals of the national become more afraid with wealth distribution than wealth production (Davies, H. and P.D. Ellis 2000).

Porter, 1990 stated that "National prosperity is created, not inherited. It does not grow out of a country's natural endowments, its labor pool, its interest rates, or its currency's value, as classical economics insists". Porter also suggested that 'the only meaningful definition of competitiveness at the national level is national productivity'. Competitiveness depends on the productivity with which a nation uses its human, capital, and natural resources. The public and private sectors play different but interrelated roles in creating a productive economy.

Nonetheless, the reviews, which addressed competitive advantage of nations, contain of different point of views to large extent, ranging from the submissive to the choleric with no consent in sight (Carney, 1991). Furthermore, both critics and supporters found very different grounds on which to condemn or admire, reflecting both their own fields of interest and the remarkable richness of their subject.

The first effort to clarify why countries connect freely in international trade has its starting point in 1876 with Adam Smith's theory of absolute advantage (Krugman & Obstfeld 2003).

According to this theory, a country can develop its prosperity if it specializes in producing goods and services in which it has an inclusive cost advantage over other countries and imports those goods and services in which it has an unconditional cost disadvantage. This theory explains why countries, through imports, can increase their benefit by concurrently selling goods and services in international markets. Adam Smith thus viewed trade as a positive sum game. Krugman criticized Porter's theory of competitive advantage and other academics that support Porter about the international competitiveness of countries. According to Krugman (1991b, 1994a, 1994b, 1995a, 1995b, 1998), countries do not compete internationally. "They are not like firms, competing with rivals in the global market place". Kohler (2006: 140) also supports this belief that countries do not compete, because trade is a positive sum game and thus "a country's welfare is determined by its absolute level of



productivity and not by some international competitiveness rankings. In a trading world, productivity is overstated, in terms of its benefit prospective by international exchange.”

Daniels (1991: 56) calls it “the indefinable thought of national competitiveness”. According to him, there is no accord on how to determine, discuss and expect international competitiveness of countries, and “perhaps none is reasonable” Van Den Bosch (2002) and Van Prooijen (2002) have both discussed the role of the national environment in the competitive situation of industries and think that strong or weak uncertainty prevention performance should be considered as an important factor to determine the Competitive advantage in nations. They have also criticized Porter for not paying attention to the weight of national background on the competitiveness of nations in his diamond models.

The appraiser for Political Quarterly (Metcalfe, 1991) blamed Porter for miss evaluating the government’s role in building the competitive advantage of the nation, at the same time as Labor Party politicians in British in their reviewing for the London Review of Books (Brown and Mulgan, 1990) evaluated porter for advocating the involvement of the government in consolidating the competitive advantage of the country. In the Strategic Management Journal Grant (1991, p. 535), mentioned to theory of nations competitive advantage by Michael porter as a work that ‘bridges the gap between international economics and strategic management, whereas causative to a large extent to strategic management and international economics.

Pressman (1991) in the Journal of Management mentioned that an essential approaching to be that firms cannot do in a foreign country what they have not educated at home, but articulated discomfort that if pursued in more specify the point of view in Michael Porter’s diamond go round out to be indomitable by countries spirit and background. Upon A.J Smith (2010), even though Michael Porter’s Diamond Framework has been comprehensively handled in the management literature.

Its concrete involvement to the body of understanding in the economic and management writing has never been elaborated. Adam Smith also mentioned that “Porter’s Diamond Framework couldn’t be considered a new theory that discuss the competitive advantage of nations but somewhat a structure that motivate sympathetic of the international competitiveness of firms”. Gray (1991), in the International Trade Journal, inattentive on the failure of theory of Michael Porter’s to be aware of the substance of price rivalry and the exchange rate in shaping international trade, even in highly developed goods.

Reich (1990) renowned from the studies he conducted in United States that what determines the wealth of a nation’s people is the efficiency of those actions which take place within the countries restrictions, supported by the countries net assets income from overseas. “A part of every country’s gross domestic product gained from the actions of corporations located in other countries. As corporation’s actions become more global and less intense within their

home foundation countries, it becomes less suitable to recognize a country’s prosperity with the activities of those firms for whom it is considered the home foundation”.

From this point of view Reich blamed Michael Porter when he mentioned that the competitiveness/efficiency of a country’s people depends on the competitiveness of those institutions for which it is the home foundation. Nonetheless, Sagebien (1990, p. 95) set up that Porter’s ‘greatest contribution was in his description of competitiveness as national productivity’. Regarding measurement, Eilon (1990) pointed out that productivity is an appraise of the efficiency with which inputs are used, while competitiveness is usually identified as the talent to secure market share in opposition to competition. On the other hand, Peng (2009: 125) mentioned that Michael Porter’s theory about country’s competitiveness was most modern theory that explains the international competitiveness of nations:

“It is the first multilevel theory to join firms, industries and nations, on the ground, but prior theories only work on one or two scopes”.

Aswell, in the Journal of Development Economics, Adam Smith (1993) mentioned to Michael Porter’s theory as “very important for the growth field’ concentrating on the differences between essential factors and ‘advanced’ factors, the effort to build a more non-equilibrium analysis, and the exclusion of clusters, interpreted as Marshall an industrial districts, as the most important characteristic ” Most debate of the competitive success of nations look at total, economy-wide measures like the balance of payment. Michael Porter selects a different starting point, beginning with individual industries and competitors and structuring to the economy as a total. Counties do not compete in the marketplace business institutions do, the act of individual firms in specific industries where competitive advantage is either won or lost. The Home Counties affect the capacity of its institutions to be successful in particular industries, with the failure or success or of hundreds of struggles in many industries shaping the state of a country’s economy and its capacity to cut steps forward.

## 6. The Diamond Theory

To determine factors of national advantage, the Diamond Model may be used. Factor conditions include factors like human resources, material resources, knowledge resources, capital resources and infrastructure. Although these factors may change, they can be considered as sources of competitive advantage factors.

Products and services produced in a country should be maintained and should be competitive and this is referred to as home demand condition.

Related and supporting industries pertain to existence or non-existence of internationally competitive supplying industries and supporting industries. The experience of Italy on being successful on the products as well as the related industries is an example. The shoes and leather was successful at the same time leather working machineries and

design is also successful.

Firm strategy, structure and rivalry are the conditions in a country that determine how companies are established, are organized and are managed, and that determine the characteristics of domestic competition.

To use this in analyzing the competitive advantage of nations, the government has a strong role on keeping these factors. It shall make sure that its policies and programs are for the best interest of the country. In the case of Palestine, the policy and program on the Palestine Investment Fund can be considered as a source of competitive advantage factors.

Porter's main idea in using the Diamond Theory in identifying the competitiveness of one country is not limited to its domestic economic capability but to extend it across different countries. The framework provides a link between firm and country sources of competitive advantage which has nothing to do with international competitive advantage of countries.

The confusion with regard to the relevance of the Diamond Framework arises partly from the way in which it is treated in the international business curriculum and partly because of the title, Competitive Advantage of Nations (Smith). This does not necessarily mean that a country has a competitive advantage or an absolute advantage over other countries as they are not rivals like business firms.

Palestine on the other hand can still use this tool for analyzing country sources of competitive advantage in order to enhance the ability of managers to make informed decisions on how to configure the value chain, and where to do what in the world (Smith). The Diamond Framework though, works better in business than applying it in the context of the competitive advantage of nations.

## 7. The Porter's Competitive Advantage as Applied in Germany

Michael Porter developed the concept of Diamond in 1990. Competitive advantage is created and sustained through a highly localized process (Sterns, 2010). Competitiveness is affected by a country's economic structures, values, cultures and institutions. The assumption that growth and relative productivity will determine an industry's long-term sustainability is to be observed. The Porter Model proposes a process that makes a cluster move from one stage to another than assuming a starting point or an end to be achieved.

Porter's Diamond suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. To determine how nations become economically successful, if they have more rivals. Open the borders to foreign competition enforce antitrust laws and do not favor mergers. The lack of competition will stagnate the industry. Improving factor productivity allows firms to compete in sophisticated industrial segments and new industries, while maintaining full employment. A failure to upgrade results in slower productivity growth, declining competitiveness and

eventually unemployment.

According to Kuhn, to be accepted as a paradigm, a theory must seem better than its competitors. In the use of other theories, more scholars agree that Porter's Model is the most accepted specially in studying the clusters in the developing world.

Pillars of the Porter as used in understanding different country economies.

Porter points out the commitment to an industry as important and argues that mobility of resources in the economist's sense may naturally be detrimental since too rapid a movement of human resources could imply a lack of trained workers.

Factor conditions refer to the infrastructure and the availability of skilled labor; a good supply of physical resources is not essential to economic growth.

South Korea and Japan have less physical resources. Canada and Australia have too many and this has prevented them from becoming internationally competitive in industrial products.

Demand conditions refer to the home country's demand for products and services within an industry.

It is the quality of the demand not the quantity that matters. The domestic preferences in market should be transmitted to foreign markets.

Sweden and West Germany are not internationally competitive in consumer industries because they do not know how to market because they restrict advertising. The United States on the other hand, developed a competitive advantage in medical products because there is still a market for medical services. The government-sponsored health programs tend to be more cost conscious than results oriented.

Firm structure and strategy includes the nature of the rivalry and how it affects the competitive advantage of industries and nations;

Related and supporting industries, its presence and absence are necessary for being competitive in the global market.

Domestic rivalry may be considered as healthy for country economy. This is the presumption that is why mergers are discouraged because it does not promote the idea of pressure, challenge and adversity.

### 7.1. Germany's Internal Environment

In the global corporation ranked in Fortune 500, 44 of which are German firms (151 are American firms and 149 are Japanese firms). This presupposes that Germany make up only a small portion compared to its counterparts.

The Social Factors that presents internal strengths are: a home market that demands quality; a highly educated, skilled and motivated work force; a population that takes great prides in its work; and public education and apprenticeship systems.

The political and economic forces contributing to Germany's strength include: strong antitrust legislation; low entry barriers to business and development of common standards which promote exports.

## 7.2. Germany's Internal Weaknesses

Germany's is low in the following areas: low productivity growth; slow growth in per capita income; decreasing world shares of most industries. The following are considered as low for Germany's economy: shipbuilding; steel; hard coal.

Lack of skill and lack of expertise in the new sciences is another weakness of Germany.

In Eastern Europe, opportunities for market and industrial expansion are apparent. Threats are the tariff-free trade will demand European Union to compete solely on merit, based on product quality and price.

The analysis of Porter in the nation's competitive advantage in Germany, the SWOT analysis was applied. The cross analysis between the strengths and weaknesses and opportunities and threats was used. In the literature, the use of the analysis was only for firms or any business entity however in this particular topic, it was used for nations.

The SWOT Analysis was used to understand the Porter Model in German economy. The following analyses were used as tools.

Strength-Opportunities Analysis is understood when a nation's strengths are used to take advantage of opportunities in the global market

Strength-Threats Analysis is the use of strength to cope with threats or to avoid threats.

Weaknesses-Opportunities Analysis is a developmental strategy to overcome weaknesses in order to take advantage of opportunities.

Weaknesses-Threats Analysis is when a country invites foreign investments and makes it attractive to those firms or industries.

There are four particular intrinsic strengths for the country which includes a home market that demands quality; a highly educated, skilled and motivated work force; population that takes great pride in its work; and public education and apprenticeship systems.

Consumers' demand for high quality products presupposes an atmosphere of expectation for high quality exports to the rest of the world. In this particular factor, the competitive advantage of the country is quantified in terms of the quality expectations of client-countries. A basic precept of customer satisfaction is, if the suppliers continue to satisfy the needs of the market, then the client will continue patronage. This can also happen in nations. If in Palestine, assuming agenda that the country will adopt this factor and continue to develop its products so as to satisfy client-countries and an emergence of patronage happens, then we can say that we have developed a competitive advantage.

The work force in any kind of business or industry is the main resource that we need. If we put it in the context of countries, then it would be a more macroeconomic analysis. If it were a business, having an excellent workforce means lower cost even minimal for that matter. If we scale this up for countries, if a country will regulate the kind of workforce for industries maintaining a certain standard, it would entail a very significant amount of cost-savings on the part of

industries. Now, if we apply this in Palestinian economy, we invest in work force activities which will be applied in the different industries to increase productivity and decrease cost.

Public education and apprenticeship is another factor advanced by Germany. The education sector has included skill training and technical education. This will train its future workforce of the work needed. The program leads to qualifications of needed workers considered as blue-collar. The German government prepares its future workforce for better productivity. If we apply this to Palestine, questions on public education find as well as training the future workforce will be taken into consideration. The Palestine government if it wants to adopt this and make it a competitive advantage factor, then it should invest and put a significant amount of budget in public education.

Germany also invested in political and economic factors. These include strong antitrust legislation; low entry barriers to business and development of common standards which promote exports.

In terms of antitrust legislation and low barriers to entry, German government has them which led to productive competition in its industries. This also resulted to increase in productivity. They also have imposed certain standards to follow which is observed not only in Germany but also all over the world. An example here is the ISO 9000, 9001 or 9002. If Palestine would like to follow this it has to comply with certain standards. And with regards to these standards, processes employed in industries should follow these.

Commitment to capital investment has also enabled the country to maintain its competitiveness. In the case of Palestine, if through the Palestine Investment Fund the programs included will have significant continuity then it may be considered as its competitive advantage compared to other countries within the economic bloc to where Palestine is located.

Technological factors of Germany are anchored on research and development. This is an offshoot of the brilliant education system. In Germany the ticket in having this as a competitive factor is that they invested much fund in research and development and in education. These two factors, if we may put it, have a domino effect on labor and productivity. Because of research, they have identified certain challenges to be addressed and opportunities to be explored. Through this they have advance their chemical industry into the world.

The industrial strengths of Germany in engineering, chemical production, machinery, banking and automotive industries was used with the right combination of human and capital resources to advance this competitive advantage. This was further explained by Porters five competitive forces for profitability. Germany, through the demand determinant promotes clustering among industries, made it different from other countries doing this strategy. The concept of industries in Germany is made up of small and medium sized companies. They operated by small business units but they dominate the machinery sector in the country. Products range from polymers, plastics, agricultural chemicals, photographic materials. However, there are also large firms who have a

part in German economy which are involved in the industries of electronic and electromechanical fields.

The banking industry is supported by the German government through allowing its involvement in businesses. This resulted in low risk for investment and stable stock market. Banking legislation in this country allowed banks to engage in all types of commercial, investment and merchant banking unlike in other countries like the United States. German banks have a significant control over the German economy.

In the automotive industry, Germany has struggled with other worldwide competitors. Though Mercedes-Benz has been performing well, some of its divisions were challenged.

Labor-management relation in Germany is unique as well. They have an employee council which talks to management to advance employee benefits and salaries. Because of this, the relations between labor and management is smooth sailing and not necessarily adversarial in nature.

The strengths of Germany have been considered to advance their competitive advantage however their internal weaknesses should also be considered. The two main weaknesses include the complacency of industries and high labor cost. In terms of complacency, German products cannot cope up with the changes of time. The slow response is where other nations attack the advantage of the country on demand. The second is on labor and social costs. There is a lot of payment to labor which hurt the costing of companies. If additional cost is added to companies then it decreases real income which can hurt the earnings of companies.

Certain industries in Germany experienced these weaknesses which continue to hurt German economy. The shipbuilding industry may end by reason of subsidy reductions, tough competition in shipbuilding. The steel industry has been troubled by reason of the two weaknesses mentioned awhile back. By reason of poor infrastructure as well, unification has done little to help this industry, the steel industry is also in state of collapse.

Hard coal industry is not good as well. There is no longer gain and benefit of subsidies. The other weakness is lack of skills and lack of expertise in the new sciences like semiconductors, fiber optics, telecommunications, software and biotechnology. There is no longer provides serious competition to the more aggressive Asian consumer electronics firms.

To sum up the experience of Germany, it has become necessary for individual nations to use their competitive advantage to compete with other countries. Their strengths should be used to address weaknesses. The opportunities should also be used to decrease and diffuse the effects of weaknesses and threats. The success of Germany is built in part on its strengths and on overcoming its weaknesses. (Weihrich). The important thing about this German experience is that identifying the strengths first then analyzes it with weaknesses. The opportunities should be crossed with threats.

## 8. Conclusion

### Trade between Palestine and Israel

In an article dated December 2, 2013, it was pointed out that the economic ties between Israel and Palestine have decreased.

Palestine import from Israel. This accounted to 73% of the overall Palestinian imports in 2010. However, a significant decrease of 65% in 2011. Israeli market benefits from the trade with Palestine. Palestine is a captive consumer market. For them Israel is the only choice. Palestinian government official actions and the activity of Palestinian organizations called for boycott of Israeli products that can be substituted by Palestinian products.

In the article, even if the imports coming from Israel has tremendously decreased, Palestine still imports from other countries. The leading country in imports is Turkey. The ties between Turkey and Palestine have increased from 2005 up to the present. In 2005, \$10 million worth of imports come from Turkey. Thus, 5 years thereafter, Palestine is already buying \$2.85 billion worth of imports. This leads to the tightening trade relations between the two countries.

On the other side, Israel may be selling less to Palestine but it is also buying less from it. This is due to the economic slowdown of its construction sector. The raw materials used are from West Bank quarries.

In 2012, Israel withheld tax payments to the Palestinian Authority. This is an implication that there is deterioration in the economic relations between Palestinian Authority and Israel following the recognition of Palestine as a non-member observer state. The economic ties between the two countries has not only concentrated on the economy but also affected by political factors.

### Free Trade Agreement and Customs Unions

Trade relations are generally good for the parties involved looking at it on a macroeconomic level. However in an article by Douglas Irwin, some shareholders and employees of industries who lose money and jobs because they lose sales to imported goods. Some groups that are hurt by foreign competition wield enough political power to obtain protection against imports. Barriers to trade continue to exist despite their sizable economic costs. The three basic approaches to trade reform are unilateral, multilateral and bilateral.

### The Implication of Economic Borders between Israel and Palestine

In the article of Arie Arnon, borders are considered as obstacles. The broader issue of borders in economics remains to a large extent an open issue. In the context of globalization, more caution in eliminating economic borders.

In the Oslo process, issue on borders was postponed including economic borders. There was a presupposition, motivated by political considerations and maybe also by a vision of permanent economic integration, dictated many of the committee's conclusions and led to the signing of the protocol on Economic Relations between the government of the State of Israel and the Palestinian people. This is the Paris

Protocol.

The Paris protocol, Israel has dictated unilaterally in the occupied territories since 1967. The economic borders were abolished since the integration of territories with Israel was done in 1967-68.

In terms of economic borders, in 1967-1993, the Paris Protocol was imposed. There is a partial integration of territories with Israel. But in 1994-2001, economic integration was agreed upon through economic borders.

In the 1970s and 1980s there were only minor economic barriers between Israel and Palestine. But this situation has changed in the 1990s. After the 1991 gulf war, a permit was need by Palestinians to work in Israel. Two years thereafter, a closure policy was established. This was after a series of terror attacks. Closures were declared for different lengths of time and were imposed on various categories of workers according to sex, age and marital status.

Because of this imports to the Palestinian territories were cut by 25 %. The impact was affected local employment since this depended on imports of raw materials from Israel and abroad, while most exports were sold in Israel. This is a unilaterally imposed separation and economic border.

The protocol's vision was not attained. The protocol was regarded as a corrective measure. Some Palestinians and some Israelis rejected the concept of reconciliation of a political agreement that will lead to a final agreement. The security situation also deteriorated and Israel reacted by introducing closures, arguing that these constituted a defensive measure.

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