



Palestine Economic Policy Research Institute

**Footwear Industry in Palestine :  
Ability to Adjust with Local, Regional  
and International Challenges**

By  
**Basim Makhool**

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- ✧ Identifying developmental challenges and priorities and enhancing applied research.
- ✧ Promoting participation of civil society institutions in socio-economic policy formulation and decision-making.
- ✧ Providing technical support to PNA bodies to enable them to function more effectively.
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Palestine Economic Policy Research Institute (MAS)  
Jerusalem and Ramallah  
May, 2000

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5. The second draft is then submitted for evaluation in accordance with the terms of reference to two or three external academic experts specializing in the subject. Provided that there is a positive evaluation by at least two experts, the researcher is asked to review the study taking into consideration the objective recommendations of these experts.
6. The study is presented for discussion at a public workshop attended by academics, researchers, and representatives from public and private sector institutions related to the subject of the research.
7. Comments and feedback from the workshop are incorporated into the study and the final draft is reviewed by the scientific committee to ensure that the necessary amendments have been made. The study is then edited.
8. Research papers written in English are translated into Arabic and published in both languages. An executive summary in English is attached to research papers written in Arabic.

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## **Executive Summary**

This study aims to examine current conditions and challenges facing the Palestinian footwear industry and to evaluate its performance. The study also assesses existing public policies with regard to the industry and makes recommendations for appropriate strategies to enhance the future viability and strong contribution of the industry to the Palestinian economy.

The footwear industry is an important player in manufacturing compared to other industries in terms of production and employment. However, it has recently come under pressure from serious challenges that threaten its ability to expand and to remain economically viable. These challenges result from the contraction of sub-contracting activities with Israeli companies and from the flood of cheap, imported footwear from East Asian countries, mainly China. The problems now facing the industry reflect its structural weaknesses, including inherent low productivity, reliance on old technology, focus on standardized production, weak backward and forward linkages with other sectors, and dependence on sub-contracting activities with Israel.

The situation is exacerbated by the absence of a developmental vision by the Palestinian National Authority (PNA), particularly the Ministry of Industry, towards the Palestinian industrial sector as a whole, including the footwear industry. If current conditions continue as they are, there will be a drastic decline in footwear production within a short period of time. Rapid action is required to restructure the industry and to deal with domestic, regional and international changes.

The competitive pressures facing the Palestinian footwear industry from low-cost producing countries are not a new phenomenon. Many industrialized countries have been faced with the same experience. The response of these countries can be classified into four strategies; to move into the production of higher quality footwear (product differentiation); to lower the costs of production by focusing on standardized products; to implement trade protection and strategic alliances with low-cost countries; and to establish connections with international marketing networks. An appropriate strategy for the Palestinian industry, at least from a theoretical point of view, is to switch from standardized footwear production to high

quality footwear for export markets. Success in this strategy requires the ability to produce high quality footwear and to market it internationally (mark expertise). Yet, current indicators show a serious lack of design and marketing skills. The Palestinian footwear industry therefore needs to establish strategic alliances with international firms in the field of marketing and distribution.

Regardless of the problems that exist, the Palestinian footwear industry must be given the opportunity to restructure. The future of the industry depends to a large extent on the ability of producers to cooperate with the PNA and work to solve problems through the formulation and implementation of relevant policies. The successful restructuring of the industry depends on the cooperation of three related parties – producers, public institutions and supportive institutions. This requires the implementation of several policies and measures.

Producers should focus primarily on working to develop effective management systems and flexible working teams. This strategy will enable them to achieve greater flexibility in production and thus, respond more rapidly to market changes. Producers also need to focus on the design aspects of production. Improved coordination with PNA ministries, mainly those of Trade and Economics, Finance, and Industry, and supportive institutions are necessary to allow for consultations, the exchange of ideas and the assigning of responsibilities and duties to each party. Producers must try to build alliances with international producers to obtain the relevant expertise, technology and designs.

The primary role of public institutions should be to focus on providing temporary and gradually diminishing trade protection to the footwear industry through the regulation of footwear imports, limiting imports by licensing measures, and ensuring that imported footwear meets Palestinian standards. Public institutions could also contribute to assisting the industry by improving the quality of training in vocational institutes in the area of design and cutting. In addition, they could establish a marketing research institute, encourage investment in complementary industries, establish marketing centers to seek marketing outlets and follow changes in international markets, and help producers to benefit from free trade agreements, mainly with the US and European Union.

Supportive institutions (mainly the Association of Leather Industries) should focus on business incubators that provide common production and marketing facilities for a large number of producers, thereby avoiding duplication in investment. The Association of Leather Industries also needs to coordinate with public institutions to create a positive atmosphere conducive to solving the problems faced by the footwear industry.

Training institutions need to concentrate on developing their courses to provide producers with the relevant skills needed to enhance competitiveness.