
The Role of (PIF) Palestinian Investment Fund in Building Competitive Advantage of Palestinian Economy

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Abstract

The purpose of this research is to apply Porter's Diamond Model to building the competitive advantage of nations on Palestinian Economy to investigate at what phase our Economy is. As a result, we can discover that Palestine will remain a factor-driven economy, which reflects an early stage of economic development, paving its way toward investment and innovation, according to Porter's stages of an economy building its competitive advantage. Regarding to Porter Diamond government has the pivotal role enhancing nation's competitive advantage of, we emphasize the role of the Palestinian Investment Fund as a governmental body in consolidating the competitiveness of the Palestinian economy during its investments projects. As Palestine is currently in a historical and critical phase in the way of establishing the requirements for building a Palestinian state, crucial decisions are to be made, one of which being fixing macroeconomic policy framework, where the main question to be answered in this issue will be about the shape of the relationship between the Israeli and Palestinian economies, and whether it will be a custom union in which the Palestinian and Israeli economies will be in one custom region, with unified value added taxes or with a free trade area. The results of this research on the macro and micro levels will serve as a necessary, if not adequate, base to economic and political decision makers, making the decisions that influence our economic relationship with Israel. Here we can see that having one custom region with Israel adopting the same value added tax will grant Palestinians the ability to innovate and upgrade an industry, build their competitive advantage, build cooperation between Palestine and Israel in creating industrial zones on the green line between Israeli and Palestinian borders. This will help not just with fulfilling the requirements for having a competitive advantage within the Palestinian economy on the macro and sectorial levels, but will also solve the problem of work in Israel by offering a large number of job opportunities for workers in Israel in the industrial zones being established on the border between Palestine and Israel. The major value of this dissertation is that it will act as guidance for the decision makers.

Keywords: Palestinian Investment Fund–Competitive Advantage–Palestinian Economy.

Introduction

With the establishment of Palestinian economy following to Paris Protocol, many complications exists as a result of the situation on the ground, no borders, no independence just situation toward state , we can say it was territories, as despite all efforts to decrease trade with Israel, it still constitutes 90 percent of total Palestinian trade. The result is an economy with limited self-reliance and high donor dependency. And even though it is stable at present, it is still below its 1967 and 1999 levels. Palestine have a long way to go before it reaches the goal of an independent and sustainable economy. But this requires continuing the programs of reform and GDP growth. At present, it is not sustainable because it does not derive much from the private sector or from a restructured Palestinian production. Rather it is dependent on government expenditure and foreign aid. It should focus on domestic production and import substitution to provide the hard cash needed for local investment instead of export economy. The economy should spend on sectors that could contribute to a sustainable economic stimulus, make products more competitive, and attract investment capital. The Palestinian Investment Fund (PIF) has in fact taken on this role. Even though it cannot cover everything, it is working in a number of sectors, including communications, energy, and housing—all sectors that can spur growth. Any observer of Palestinian economy knows that it remains unstable. Expenditures go primarily to salaries not investments which can only deepen dependency on external donors.

Palestinian Investment Fund is semi-governmental, Its Sovereign Fund that keep money for new generations, it supposed to invest in securities with low risk even its low return, this happened when Yaser Arafat is the president, but when Abu Mazen and in the absence of Palestinian Legislative Counsel, Mohammed Mustafa the head of pif liquidate the securities using money in Real Sector that surrounded with huge risk and threaten the funds supposed to be saved for our new generations.

Research Methodology

This research used qualitative and quantitative research methods. Information has been sourced from different scholarly accounts. For this research, the author held interviews with the CEO of the PIF, Dr. Mohammad Mustafa, the manager of investment department in the PIF and other employees in the Bureau of Statistics. The researcher also employed mixed methodology as a research design because of the intention to apply a practical theory that reliable data cannot be obtain from one source only. The methods of data collection included interviews, desk research and technical analysis. Technical analysis was used in collecting information. Michael Porter's theory had been applied on the economy of Palestine. Analytical tool used in the research is the ordinary size income statement and ordinary size balance of the PIF. Specifically, the vertical common size analysis. Based on this method, the researcher obtained the basic balance sheet figures, and calculated each figure as a percentage of the total assets. For the income statement, the researcher calculated each figure as a fraction of the overall sales. The financial data as represented in percentages in the common size statements of the B/S and the I/S was represented in graphs to trace the major changes in the main accounts of the balance sheet and income statement and analyze them to identify and collect information about the accomplishments of the PIF which helped Palestinian economy improve in the investment stage and move towards the innovation stage since establishment.

The main purpose of using common size financial statement is that to have reliable information on how the PIF helped the Palestinian economy develop throughout the investment stage which is the Palestinian economy passing in the current time as indicated by Porter in his study about Palestinian economy. By performing an analysis of the PIF investments, projects under completion, cash, equity, liabilities, there would be an understanding of the investment policy, lending and borrowing policies adopted by PIF throughout the years from establishment up to the present. The financial statements is the source of information on which we can depend to analyze the investments and projects and policies of the PIF in order to understand whether these projects and investments were aiming at improving the Palestinian economy in terms of decreasing unemployment rates, increasing GDP, creating revenue sources for the country, expanding projects where competitive advantage can be accomplished in various sectors in which Palestinian has potential for having the natural resources needed. The use of common size financial statements helps making comparison of data over the years and the representation of such data financial data easier. As a result, using common size statements was the most convenient tool to use where the main concern is to observe and analyze PIF's investments and projects between each year and the previous year to reach into a conclusion of whether PIF was successful and applied its investment, lending borrowing, cash, and other policies consistently throughout the years in order to improve the Palestinian economy. Corroborative data were sourced from interviews. The author held some interviews. Interviews offer authentication of the obligations and wiles of the former researchers and experts in the field of the study. Desk research was also used to gather secondary data. The secondary sources of information were taken from available articles in business and human resource journals, articles, magazines, present actions, and books contain information about PIF.

Research Question

What is the role of the PIF in building competitive advantage of Palestinian economy?

Research Findings and Discussion

The Palestinian economy is described as to its economic indicators in public spending which has not resulted in a significant downturn adjustment in consumption and investment patterns so far in 2019. Based on available forecast, the Gross Domestic Product is expected to increase by 5% for 2020. Among the sectors of the economy, the following forecasts were made Agriculture by 17.4%; Industry by 6.2%; Construction by 16.7%; and Services by 5.6%. The PIF is a \$2.6 billion fund focused on productivity and development by restructuring PIF into four major investment portfolios. These four portfolios include: (1) Real Estate and Tourism in Jerusalem; (2) Agriculture and Education; (3) Energy and Infrastructure; and (4) Mature and Scalable Palestinian Companies (Healthcare, Industrial Production, Telecommunication, Banking). The PIF aims to maximize impact through investing in strategic projects in developing and vital sectors while achieving sustainable returns. Investment indicators include job opportunities, investment size in Jerusalem, contribution to GDP, reducing trade deficit, and support small and medium enterprises.

Competitive advantages include structural aspects of a business that enable the company to defend its profits from competitors. The PIF's main objective is to promote sustainable economic growth and private sector development in Palestine, through originating and investing in economically feasible, socially responsible and developmentally sound strategic projects in vital and viable economic sectors in the West Bank and Gaza, in partnership with the Palestinian private sector and international investors. The PIF now serves as stimuli in providing an environment conducive for investments for the private sector. The PIF plays a leading role in motivating and supporting the Palestinian private sector to enable it to assume a greater role in economic development and to provide new employment opportunities to absorb Palestine's fast-growing labor force. PIF also strives to attract direct regional and international investments, due to their fundamental role in bringing in much needed capital, knowledge and expertise. Its investments in Palestine exchange through Khazana Assets Management Company, a fully owned subsidiary, has increased the confidence of local and foreign investors in Palestine exchange. Similarly, its involvement in the energy, telecommunication and cement sectors has created healthy competition in these sectors, which in turn was reflected on quality of services provided. One important feature of the PIF is that it has studied certain sectors of the Palestinian economy and identified which among these are promising and are in need of investments which can be rolled out to increase economic performance through GDP accounts. As provided in the portfolio, the PIF managed to create greater investor confidence in Palestine and built an important network from which the Palestinian business community can benefit tremendously. With the much-needed help from the private sector, the economy of Palestine can be developed within and there would be release from too much dependency on foreign aid and donations.

PIF's accomplishments in the light of Porter's theory "Competitive advantage of nations"

Porter in his Diamond, Porter mentioned the journey toward building the competitive advantage of the Economy, the first stage is factor-driven by availability of production factors, second stage is investment driven, third stage is innovation driven, and the last is innovation driven. 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 the Palestinian economy toward the second stage of building its competitive advantage according to Porter 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. Based on the accomplishments of the PIF, it has been investing in significant sectors which helped increase growth of the Palestinian economy, decrease unemployment rates, and improve GDP. At the same time, PIF still needs to move forward in the investment stage before moving into the innovation stage. Although PIF has a lot of plans to exceed its investments, there are still various sectors that PIF should give

attention to and invest in. For example, in the manufacturing sector which Palestine has started with in its earlier stages due to the availability of the resources, need to be developed by creating new technologies and machines, designs, improving quality of the product and of the workers because this is what investment should be made in (Porter, 1990). In order to do so cluster (related) industries should exist to support each other. Investment in IT Projects would support other industries to increase efficiency and sometimes quality of the product and as a result the product would be more desirable. On the other hand, Porter stated that each nation should cover certain factors of the Diamond model, which basically determined the competitiveness of the firms constituting the nations, and as a result the nation itself. For Palestine which can be considered strongly in the investment stage for the major investments made by the PIF since the year 2003, the diamond model apply as follows:

Demand:

The PIF by its SMEs program which helps in the marketing and improving technologies of the small to medium enterprises, can increase people demand for a product produced by the companies because of better quality introduced and better knowledge about the product.

Related and supported industries:

The PIF by implementing its current projects such as real estate projects which are Al Reehan, Al Jenin for residence, and Al Ersal commercial center, it will support and increase demand on other industries in the market, For example construction, design, medical services. On the other hand projects such as Juice factory in Gaza, takes the materials for juice production from the farmer's crops and here the agricultural industry will be supported by the industrial sector.

Firm strategy, structure, and rivalry:

The PIF had major role in creating competition in the market and in a very significant industry, which is telecommunications. By supporting and being a major partner in Al Wataniya Company for mobile services, it has ended up the monopoly existing in the industry causing lower prices in such services.

Factor conditions:

In this regard, PIF's SMEs projects, mainly the fund established to increase their capital needed for further improvements in technologies, employees, and internal processes. Nevertheless, PIF

Should increase its investment percentages in the industrial sector since it's the sector by which we can use our natural resources.

In 2014 to 2018, an increase in the income is recorded at almost \$40 million every year with taxes estimated at \$3.5 million to \$4 million year-to-year.

- 1 . PIF's contribution in job creation where PIF and its subsidiaries have contributed to the creation of about 10,000 direct and indirect job opportunities between 2008 - 2011 in various sectors including real estate, telecommunications, and small and medium

enterprises, representing 1.4% of total employment in Palestine, and about 2% of private sector employment. These new jobs have contributed to the reduction of unemployment, while the related wages and salaries have stimulated the economy through the spending multiplier, which reaches 4 in Palestine. It is expected that at least 75,000 jobs are created by the different programs under PIF since 2006. With investments in human capital, contributions to their productivity can be seen in the long run. This will also lessen imports since certain inputs to capital can be done by the labor market in Palestine.

2. PIF's contribution to the Palestinian Authority's budget in the form of dividends, which reached over \$653 million for the years 2003 to 2011, at an average of \$72 million annually, and accounts for 14% of the average domestic revenues for the same period. This contribution has been critical to the sustainability of the Palestinian Authority's finances, especially in periods of donor aid disruptions.

PIF assets have been recorded at more than \$700 million from 2013 to present. All in all, PIF's contribution to the Palestinian economy is multidimensional and involves supporting the private sector through various initiatives that bring in additional capital, knowledge, expertise, infrastructure and other sources of value to the Palestinian economy including job creation, tax and dividend distributions to the Palestinian Authority.

Conclusion

PIF's investment program is expected to directly and indirectly benefit the Palestinian economy. In addition to stimulating key sectors, the program is projected to create over 100,000 new jobs. Thereby reducing poverty, unemployment and enhancing the quality of life of Palestinians. Moreover, the program is set to have a positive transformational impact on the economy by both increasing the supply of particular goods and services, as well as increasing both direct and indirect demand. For example, according to a study conducted by PIF; the projected housing sector deficit will reach 470,000 housing units in the next decade. Consequently, PIF established the national affordable housing program in order to address the deficit and supply affordable housing units, constructed and designed using the latest engineering know and principles of sustainability.

The overall investment program will promote competition within the sector, leading to the provision of higher quality services. The introduction of Wataniya mobile has heralded the liberalization of the local telecommunications market, introduced competition and has benefitted consumers; in terms of reduced tariffs and better quality of service. The investment program will also support private sector companies in general, and SMEs in particular, which constitute over 95% of all private sector companies locally.

The competitiveness and productivity of SMEs will be enhanced by programs such as the LGF and PGCF, which offer flexible financing, operational and technical know-how as well as management expertise, new capabilities to build platforms and open markets, simultaneously increasing productivity, spurring innovation and creating new job opportunities. Moreover, the program will stimulate economic activity in interconnected

sectors. For example, the launching of Wataniya Mobile has stimulated economic activity in a diverse array of sectors including media and advertising; and PIF real estate projects increase the demand for goods and services provided by engineering companies, contractors and financial service providers. If programs also encourage reforms to the Palestinian legal framework, which allows for better functioning frameworks in a diverse number of sectors; from the real estate and mortgage market to the telecommunications field. PIF cooperates closely with the relevant national institutions to form legal and regulatory frameworks that enhance sector efficiency and encourage investment. A major objective of PIF's investment program is to diversify the income streams available to the PA by enabling it to generate revenue through taxes, royalties and license fees, such as the Wataniya Mobile license fee and tax revenues, as well as generate and unlock new income.

The PIF is the window for the Palestine to have what it dreams to have, an inclusive-driven economic development through competitive sectors in infrastructure, real estate, capital market investments, MSMEs and even through the Palestine Development Fund.

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