Jerusalem Tourism Cluster
Microeconomics of Competitiveness
2013

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1.0 Executive Summary

Jerusalem is an ancient city with historical, religious and cultural significance like no other. It is a place of immense religious importance to 3.5 billion people and the home to three great religions - Judaism, Christianity and Islam. It is therefore surprising to learn that as a tourist destination, Jerusalem draws in only about 2.5 million visitors annually, falling far short of other world class cities. Despite good natural endowments and stable macroeconomic conditions in Israel, the overall business environment still faces major challenges such as low participation in the workforce and limited vocational training, small local markets and limited competition in key sectors, ineffective bureaucracy and high burden of regulation. The volatile political environment, particularly with regard to Israel’s relationships with countries in its region, affects not only potential tourists, but also investors who are reluctant to take on such risk. Furthermore, a tense connection with the Palestinian tourism cluster in Jerusalem underutilizes the huge potential of the combined clusters.

Facing these challenges the current mayor of the city, Nir Barkat, have adopted a cluster approach for the tourism industry in 2009. With cooperation of the national government the sum of investments grew, marketing efforts more then doubled, and a leading institute for cooperation (IFC) was appointed to operate as the cluster hub. A central part of the development strategy was focused in the creation of a unique cultural experience that will expand the visit more then pilgrimage and holy places, thus combing festivals, arts and culinary to an overall experience that can compete with other urban touristic destinations.

Cluster development takes a long time for real changes to be seen, in our value proposition and recommendations we focus on the need to improve the tourist experience with connection to major complimentary actors especially retail and attractions that address tourist clientele. The
unfulfilled potential that exist in the greater combination with the health services cluster in the
city, and the potential in better connection with the Palestinian tourism cluster that can supply a
cheaper access to hospitality and other services and also increase the offering of local authentic
retail for tourists.

2.0 Israel’s Competitive Position

2.1 Country Overview

Israel, located in the tumultuous Middle East region, gained independence in 1948 after the British mandate ended. In May 1967 a number of Arab states began to mobilize their forces and in June 1967, Israel launched a pre-emptive strike against Egypt, Jordan, Syria and Iraq and captured the West Bank, the Gaza Strip, Sinai Peninsula and Golan Heights. Jerusalem’s boundaries were subsequently enlarged, incorporating East Jerusalem. The unresolved Israeli – Palestinian conflict continues to be a major concern for Israel and has dominated and shaped the geopolitics of the Middle East and also globally.

Israel borders the Mediterranean Sea, between Egypt, Lebanon, and Jordan. It has an area of 20,770 sq km (8,019 sq mi) and benefits from a 273 km coastline. Israel operates under a parliamentary system as a democratic republic with universal suffrage. The most recent elections took place on Jan 23, 2013, where 12 parties were elected, with 120 parliamentary members in the Knesset. The current Prime Minister is Benjamin Netanyahu from the right wing Likud party.

In September 2010, Israel was invited to join the Organization for Economic Cooperation
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and Development (OECD), a signal thought to boost Israel's economic standing and help attract investment. Israel has also signed free trade agreements with the European Union, the United States, the European Free Trade Association, Turkey, Mexico, Canada, Jordan, and Egypt. In 2007, Israel the first non-Latin-American country to sign a free trade agreement with the Mercosur trade bloc.

75.4% of the 8 million inhabitants in Israel are Jewish, 20.6% are Arabs and the remaining 4% are from other backgrounds (CBS 2012). Hebrew and Arabic are the official languages but many others are spoken and English is widely used. The population density in Israel was 352 people/sq. km in 2010 (World Bank 2012). Jerusalem (population : 800,000) is the political capital of the country and also the administrative and educational center. Tel-Aviv (population : 400,000) is the financial and industrial capital (CBS 2012).

2.2 Israel’s economic performance

Israel’s GDP per capita has increased from $17,000 in 1999 to $31,296 in 2012 and is ranked 31st out of 181 countries surveyed by the World Bank (World Bank 2012)(OECD 2012). The total size of its GDP in 2011 exceeds $242 billion, making Israel the world’s 38th largest economy (World Bank 2012). Israel’s real growth rate of GDP (% change vs previous year) consistently outperforms OECD countries(OECD 2012).

Two developments have helped to transform Israel's economy since the beginning of the 1990s. The first is waves of Jewish immigration, predominantly from the countries of the former
USSR, that has brought over one million new citizens to Israel. These new immigrants, many of them highly educated, now constitute some 16% of Israel's 8 million population (CBS). The second development benefiting the Israeli economy is the peace process begun at the Madrid conference of October 1991, which led to the signing of accords and later to a peace treaty between Israel and Jordan in 1994.

The Israeli economy withstood the 2009 recession, registering positive GDP growth and ending the decade with an unemployment rate lower than that of many Western countries. Several reasons account for this economic resilience. For example, the country is a net lender rather than a borrower nation and the government and the Bank of Israel generally follow conservative macroeconomic policies.

**Composition of GDP**

The services sector makes up 64.7% of the GDP. The economy is a technologically advanced market economy including rapidly developing high-tech, agricultural, financial and service sectors. The major industrial sectors include high-technology products, metal products, electronic and biomedical equipment, agricultural products, processed foods, chemicals, and transport equipment.

Israel is also a world leader in software, telecommunication and semiconductors development. The high concentration of high-tech industries in Israel, which are backed by a strong venture capital industry, gave it the nickname "Silicon Wadi", which is considered second in importance only to its Californian counterpart (Senor 2011). Israel is also a tourist destination, with 3.5 million foreign tourists visiting in 2012. The strength of its technological sectors is also related to the high amount of spending on defense. Israel also spends a significantly high amount of its annual budget on defense, 7.3% in 2011, compared to 4.7% USA and the OECD average of 1.8% (CBS 2012).
Work force participation and productivity

Unemployment has been consistently low for the past decade, and currently is at 5% (CBS 2012). However, labor participation is relatively low due to low participation from Ultra Orthodox men and Arab Israeli women. Labor productivity is also low at $33.80 compared to OECD average of $44.10. Part of the low productivity is due to small number of holding firms that dominant key sectors in the economy, and due to low investment in manufacturing infrastructure and transportation (Bank of Israel 2013).

Intermediate Indicators and Enablers of Productivity

Israel was ranked 10th out of the 34 OECD countries in terms of inbound FDIs and 8th in terms of outbound FDIs. This strong performance is tempered by the fact that most inbound FDI goes only towards the high technology sector. Because of these strengths, Israeli investment in R&D as a % of gross domestic expenditure is the highest in the world, and it has high innovative output of 300 patents per million people. Israel’s major exports are services, processed ad semi processed goods and its largest export partner is the US.
2.2 Competitiveness of Israel and Jerusalem

Following the framework of Microeconomics of Competitiveness, a country’s competitiveness is determined by its endowments, macroeconomic, and microeconomics factors.

2.2.1 Location and Endowments

Israel’s location is both a strength and weakness. It has a particularly favorable climate for tourism and high level of biodiversity. On the other hand, Israel has hostile relationships with its neighboring countries and unresolved Israeli-Palestinian conflict continues to give rise to security concerns. As a result, intra-region trade is fairly low, and Israel is geographically distant from its major export partners (US, Belgium, UK) (Israel Export and International Cooperation Institute 2012). Israel also has limited natural resources, and historically had to fulfill its oil and gas demand through imports. However, significant reserves of natural gas were recently discovered at Tamar, Leviathan and Tanin (Kershner 2013).

The long history and legacy of cultural and religious events hold unparalleled religious importance to a diverse population, including Jews, Muslims, and Christians. Nevertheless, this diversity also poses social integration challenges due to strife between each of these groups.

2.2.2 Macroeconomic conditions

Human development and political institutions

Israel is ranked fairly high in the Global Competitiveness Index with regards to human development (#26) and rule of law (#29) in comparison to 128 countries. The major positive indicators are a high life expectancy of 81.5 years, 97.8% literacy rate, high secondary school enrollment rate, and a world class healthcare system. Health measures thus are close to OECD averages, although primary education is slightly behind comparable nations (OECD 2012). Social
inequality is moderately high with a GINI coefficient of 38.6 and Israel is ranked number 59 of the 99 countries surveyed by the World Bank (World Bank 2012).

Israel also has strong rule of law with low corruption, strong judicial independence and good protection of property rights (Institute for Strategy and Competitiveness 2012). In terms of political institutions, Israel also has a vibrant political civic society and strong political engagement. However, Israel stills ranks lower for political institutions (#48) due to low government effectiveness in reducing poverty and inequality, cumbersome bureaucracy, and low public trust in politicians.

Monetary and fiscal policies

Israel has relatively stable monetary and fiscal policies. Its public debt has been decreasing since 2005, today at 77% of GDP, far below the US or the EU. Public deficit is 4.2% of GDP, also below that of developed countries. The inflation rate has been relatively stable over the past five years, at around 1.6% in 2012 (Bank of Israel 2012).

These figures can be attributed to the conservative policies of the government and the Bank of Israel. For instance, Israel was not hit as deeply in the global recession of 2009 because of regulations to decouple banks’ depository and investment banking activities, and the refusal of the government to appropriate large sums of public money to aid banks.
Since the financial crisis, Israel’s policies have also been influenced by a moderation of inflation in Israel amid continued increases in home prices and regional geopolitical developments that impact government defense expenditure and Israel’s sovereign credit risk. New policies increased expenditures, particularly in social services and in preserving the defense budgets, through increased taxes and a larger deficit targets to counteract the recession. However, the budget deficit is large considering the low level of unemployment, which may reflect a large structural deficit that has persisted for several years (Bank of Israel 2012).

2.2.3 Microeconomic Competitiveness and National Diamond Analysis

**Factor conditions:** Israel ranked #28 in factor conditions in 2011. The nation has developed capital markets and high availability that is most notable in the high tech and IT industry. Israel also has developed transportation infrastructure, however, this area experiences low investment in comparison to OECD standards, thus leading to a growing gap between the need of the rapidly
increasing vehicle inventory and mileage driven and the road area that was developed. The level of tertiary education is high with two universities out of the seven that operate in Israel are ranked in the top 100 in the world, but vocational training is low, limiting skilled labor in technical professions that support many clusters such as tourism.

In comparison to Israel’s GDP/Capita ranking, “Ease of Doing Business” scores poorly. The main reason for that are burdensome bureaucratic obstacles in areas like property registration and issuing of permits, an overburdened judicial system leads to long process in the courts as well.

Context for firm strategy and rivalry: Israel ranked #34 in 2011. The country experiences low barriers to trade and capital flows. Even though it has transparent institutions they are flawed by low efficiency specifically in government and judicial sectors. There is high regulatory demands in labor laws, environmental and energy issues and safety regulation which leads to firms with higher standards, but also increases cost of production especially in services like tourism.

There is a highly developed entrepreneurial environment although a less developed high level management culture thus leading to a flora of start-ups that usually mature and leave the country. The competitive environment is dominated by a small number of large firms which hinders competition. The Israeli business environment is consolidated around 10 conglomerates.
that control 30% of market value of public companies. These companies are predominant in key business sectors such as: banking, telecom, transport, F&B and energy. In 2012, the Knesset granted the Anti-Trust Commissioner the power to declare business groups as having excessive economic power and take steps to prevent anti-competitive practices.

**Demand Conditions:** Israel ranked #22 in 2011. The government invests heavily in advanced technology products and services and that is visible through very developed technology sector and booming IT cluster. Market sophistication of demand is high mainly in the Tel-Aviv area, but that varies dramatically in other regions of the country, where lower wages and less prevalence of advanced technology sectors contribute to less demand sophistication.

**Related and supporting industries:** Israel ranks #28 in 2011. Israel has a very developed R&D institutions and high innovation culture. It faces challenges with maturing start-ups in the economy and turning them into large scale corporations. The connection between various clusters is good and coordination exists via a developed IFCs environment. Nevertheless, as seen in Figure 10, several major clusters of its diversified economy are losing share in the global economy. The largest cluster due to diamond processing is “Jewelry, Precious Metals and Collectibles” cluster but it is losing its world export share. The two big emerging clusters are ”Aerospace Vehicles and Defense” due to strong high tech/defense based cluster and “Biopharmaceuticals”. “Hospitality and Tourism” cluster ranks 6th largest cluster in Israel and is worth 4.77 billion.
3.0 Jerusalem Competitive Position

3.1 City Overview

Jerusalem is the administrative capital of Israel. It has a population over 800,000, growing at about 2% a year, and a metropolitan area of about 1.5 million. Approximately 60% of residents are Jewish. Jerusalem differs from Israel in that its population is relatively young. The median age in 2010 was 24 years, whereas the median age in Tel Aviv is 35 (Statistical Yearbook of Jerusalem 2012).

In 2010, the number of employed persons in Jerusalem measured 267,800, constituting...
approximately 9% of the total number of employed in Israel. In 2010, the number of employed persons in Jerusalem constituted 34% of the city’s residents (267,800 employed and 788,100 residents).

3.2 Jerusalem Competitiveness
For the most part, Jerusalem’s business environment is very similar to and faces the same challenges as the nation. We point out some of the key differences in the following section.

Endowments: In terms of endowments, it has an even higher concentration of sites of religious importance and over 3,000 years of religious and cultural history. The diversity and proximity of those of many different religions and cultures is an asset for tourism in providing a variety of cultural and culinary experiences.

Macroeconomic Competitiveness
Although Israel has a relatively high per capita income, Jerusalem has one of the highest poverty rates in Israel with over 34% of families in poverty. In addition, the city has one of the lowest labor participation rates at 48% (Jerusalem Institute for Israel Studies (JIIS) and the Municipality of Jerusalem 2012). Similar to the nation, there is much lower participation in the labor force by Ultraorthodox men and Arab women, but this problem is further exacerbated in Jerusalem by higher concentrations of these populations. The city’s budget is balanced, but heavily depends upon transfers from the national government, which makes it challenging to develop the resources for large-scale projects such as infrastructure development.

Microeconomic Competitiveness: Microeconomic conditions in Jerusalem are also slightly weaker than the nation over all. The average monthly expenditure for consumption per household

![Figure 11: Labor Participation in 2010](image)
in Jerusalem is 12,400 NIS, lower than the average Israeli expenditure (13,500 NIS), or in Tel Aviv (15,300 NIS). This implies a less sophisticated local market in the city. There are also fewer businesses in the city, constituting only 7% of all active businesses in Israel. Furthermore, during the same period the rate of growth of businesses in Israel (7%) and Tel Aviv (6%) were higher than in Jerusalem (4%). This slow growth is due to administrative burdens for instance in the number of days to get a permit. Furthermore, the labor supply is more highly concentrated in the medium and low-skilled labor than in Israel, which does not support more advanced businesses in the city.

Entrepreneurial culture is thus also somewhat lacking in the city, despite strong initiatives and commitment from the government to improve innovation and entrepreneurship especially in the biomed cluster. Following the change in leadership in 2008 to Mayor Barkat, a new emphasis has been placed on cluster development in the city as a means of economic development, and this approach has begun to generate some results in the city. Jerusalem has a strong tertiary education system with the leading university in the country, and the largest concentration of Art colleges in the country.

4.0 Jerusalem Tourism Industry
4.1 Global Tourism Trends

The global tourism industry has been steadily growing at an average 3.5% rate since 2005, attaining 983 million visitors in 2011 (UNWTO 2012). This growth shows a strong recovery since the steep drop in travel in 2009, and is driven by strong demand by tourists from Asia Pacific and South America. Tourists are increasingly demanding individualized and authentic travel experiences. Social media and technology are becoming essential tools to help plan travel.
4.2 Jerusalem Tourism Cluster Profile

Jerusalem has long been a destination for visitors because of the rich legacy of its religious sites. It benefits from its worldwide recognition as a city of incomparable historical and religious significance. Attracting millions of pilgrims, Jerusalem is a holy city for the world’s three major religions: Christianity, Judaism, and Islam. In 2012, 77% of all visitors to Israel go to Jerusalem (about 2.5 million visitors out of 3.3 million to the country), illustrating the city’s continuing importance in the context of the country (CBS 2012). Despite the relatively small size of the country and thus relative ease in visiting multiple cities, Jerusalem stands alone in the uniqueness and value of its historic and cultural sites. Furthermore, Jerusalem is a point of entry for many visitors to Israel, and is one of the most widely-known cities in the world, particularly compared to others in Israel. Jerusalem has also benefitted from increased investment in recent years by a tourism cluster initiative led by the mayor, which further distinguishes the city’s value as a tourism destination from others in Israel.

The most visited locations in the country are within the Old City of Jerusalem, including the Wailing Wall, the Jewish Quarter, the Church of the Holy Sepulchre, and Via Dolorosa (Ministry of Tourism 2012). Israel also has the highest number of museums per capita in the world. Jerusalem’s 60 museums received over 1.4 million visitors in 2010 (CBS 2012).

The majority of visitors to Israel come for personal reasons, whether for leisure (37%), pilgrimage (28%), or visiting relatives (17%) (CBS 2012). The high number of pilgrimage visitors translates into a high percentage of visitors as part of an organized tour or package deal, which is contrary to the global trend of more individualized travel.

International visitors to Israel are largely from the US and European markets. The top five countries, USA, Russia, France, UK, and Germany account for 65% of total visitors. Following the elimination of the need for a visa to travel between Israel and Russia in 2008, the number of
Russian tourists has increased exponentially. The number of Russian visitors is now only second to American visitors (CBS 2012).

Jerusalem has also been focusing on increasing the amount of business travel, particularly through conventions. In 2010, there were only three conventions. In 2012, there were 10 conventions in the city which brought in 14,000 participants and 13.5 million NIS in revenue (CBS 2012).

4.3 Cluster Performance

Despite the strong attractions in Jerusalem, tourism performance in the past two decades has revealed major weaknesses of the tourism industry. Jerusalem underperforms compared to the nation in terms of overnight stays in tourist hotels. The total number of nights stayed increased by 27% in Israel between 1995 and 2010, but only 17% in Jerusalem. The increase in overnight stays in the nation largely stems from domestic demand growth, but domestic demand in Jerusalem remained relatively flat over this 15-year period. In 2012, the number of domestic overnight stays has increased slightly to 762,000 overnight domestic stays in Jerusalem.

Figure 12: Overnight Stays in Israel and Jerusalem

![Overnight Stays in Israel and Jerusalem](image)

Source: CBS 2012

Israel has one of the lowest numbers of tourists when compared to competitor nations in the Mediterranean region, who have tens of millions of visitors annually (Figure 13). Furthermore, its market share has remained extremely low facing global increases in the number of tourists.
Jerusalem also has much lower tourists than similar cities of religious significance. For example, the Vatican Museums received 5 million visitors in 2011, and the city of Rome had over 10 million visitors compared to Jerusalem’s 1.4 million museum visitors and 2.5 million tourists to the city (Wooden 2012).

Tourist arrivals in Israel are also extremely volatile and connected to security operations that affect the perception of the average tourist. Figure 14 shows how many of the drops in tourist arrivals over the past 30 years have correlated with major military operations in the region. In 2001, the

Figure 13: Visitors to Countries in the Mediterranean Region

Source: UNWTO 2012
Second Intifada led to one of the lowest levels of foreign tourists in Israel, dropping from 2.4 million visitors in 2000 to 0.9 million visitors in 2002. Nevertheless, tourism has steadily grown since and reached 2000 levels by 2008.

Tourism contributes only about 2.5% to the national GDP (21.7 billion NIS), a figure much lower than its competitor nations. 3% of all employment in Israel is in the tourism industry. In Jerusalem, the number of tourism-related jobs is about 15,000 (5.5% of the employees in the city) (Jerusalem Institute for Israel Studies (JIIS) 2013) an 18% growth since 2008. For comparison, the city of Eilat still has nearly twice as many tourism jobs as Jerusalem.

4.4 Cluster History and Evolution

A new era in the development of tourism in Jerusalem started after 1967 when the city was unified under Israeli rule and open access was granted to all holy sites. Tourism was a relatively low priority for the city for many years, facing geopolitical tensions. The Jerusalem Development Authority, created in 1988, now is the lead agency for tourism development in the city. The mid-1990s saw a spike in investment in preparation of the 50th anniversary of Israel in 1998 and the millennium year visit of the Pope. Unfortunately, the benefit of these investments was largely in vain due to the second uprising and terror wave in 2001 that have lowered tourism dramatically and with it investments.

Figure 15: Government Investments and Grants in Tourism
A new growth of investment started in 2008 under a new government and a new tourism minister (CBS 2012). With the new interest in national investment came into power a new mayor in the city, Nir Barkat declared tourism as a major area for the city development, and coordinated with outside consultants to develop the cluster model.

Figure 16: Jerusalem Tourism Cluster Timeline
5.0 Jerusalem Tourism Cluster Analysis

5.1 Cluster Map

The cluster map shows the relationship between major actors in the cluster. An important distinction is visible in the grouping of major actors. In the left side the actors are directly providing inputs to the cluster whereas on the right side, the actors provide content that is essential to the cluster but has wider spillovers. The content actors are especially important for tourism clusters as they create the unique experience of allocation that separates one location from others.

In general, the inputs actors form the foundation for the tourism industry and the content actors are higher in the value chain, and thus more complex to develop. Tourism is also supported by the food cluster, retail cluster, and health services for medical tourism.

Figure 16: Cluster Map
5.2 Jerusalem Tourism Cluster Diamond Analysis

<table>
<thead>
<tr>
<th>Factor (Input) Conditions</th>
<th>Context for firm strategy and rivalry</th>
<th>Demand conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>High level of ICT infrastructure</td>
<td>Population speaks a large variety of languages</td>
<td>Local demand is generally less sophisticated but is getting more demanding</td>
</tr>
<tr>
<td>Good infrastructure but congestion reduces transportation efficiency</td>
<td>Lower level of entrepreneurial culture compared to the nation</td>
<td>Narrow focus on religious tourism segment, but growing appeal for cultural segment</td>
</tr>
<tr>
<td>Good quality of higher education, medium level elementary education</td>
<td>High volatility in tourism market hinders investment in major tourist infrastructure, eg constrains supply of hotel rooms</td>
<td>Small local business market</td>
</tr>
<tr>
<td>Low number of vocational training graduates</td>
<td>Ineffective tourism regulation including protectionist flight policies</td>
<td>Attractive growth markets are untapped</td>
</tr>
<tr>
<td>Lower participation in the work force compared to national average</td>
<td>A variety of IFCs and increasing collaboration between national and local levels</td>
<td></td>
</tr>
<tr>
<td>Low maintenance of tourist sites</td>
<td>Tourism cluster policy is developing but strategy needs strengthening</td>
<td></td>
</tr>
<tr>
<td>Bureaucratic administration hinders ease of “doing business”</td>
<td>Increasing connections to health and biotech clusters support conventions segment and medical tourism</td>
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<td></td>
<td>Retail, art and design clusters are less well-developed</td>
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<td></td>
<td>Poor coordination with the Palestinian tourism cluster</td>
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<td></td>
<td>Marketing efforts extremely limited</td>
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</tbody>
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Source: Team analysis, Global Competitiveness Index (Institute for Strategy and Competitiveness)

Factor conditions:

Like the national level, the high level of ICT infrastructure is a strength for facilitating information and economic flows, but the low effectiveness of the local bureaucracy especially in permits procedures hinders construction and business. Physical infrastructure is well developed in Jerusalem, although there is a low level of maintenance and cleanliness particularly around major touristic sites. Transportation remains a challenge as an overcrowded city center and limited excess to main touristic sites have caused long time travel. The light rail train installed in 2011 improves access to the Old City and other tourist attractions, but it is only 14km long (Jerusalem Transportation 2013). Parking limitation in the city center were claimed by businesses as a
constraint on development. An ambitious plan to expand the train and road system was approved in 2012.

Low labor force participation and a lower quality of basic education raise concerns about human capital availability in the city. Vocational education is an area of particular concern. Only 32% of Israeli high school students attend vocational education, compared with 60% and more in western European countries (Knesset Research Center. 2013). In the tourism field, several types of institutions exist such as 8 culinary schools; 9 tour guides programs; 5 colleges and universities with tourism skills programs; 7 tour operators programs; 4 hotel management programs; 2 general tourism schools. The Ministry of Tourism also provides funding supporting research certification for licensed tour guides in Israel. However, with few graduates from these programs, there is a lack of trained labor appropriate for tourism. Furthermore, it is difficult to retain highly-skilled labor in the industry, as turnover is also impacted by the volatility of tourism. One major hotel manager and consultant claimed “there can be no long-term planning in the hotel industry. People will stay for four years, then leave and never return.”

**Context for firm strategy and rivalry**

The economic make-up of the city, with heavy concentration of activities related to government and administration, has created a smaller business environment that is less competitive and has prevented the entrepreneurial culture in Jerusalem from reaching the same levels as the nation.

Furthermore the volatility of the market and high level of regulations have constrained the supply of hotel rooms in the city. Regulations that require additional employees such as kosher inspectors as well as security guards, deter investors, particularly from abroad, and also raise costs.

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1 Interview with Shlomo Preisach
As a result, the growth of hotels in Jerusalem was largely stagnant for over a decade. There are few major international hotel chains in Israel, and zero in Jerusalem. In addition, there is a high concentration of luxury rooms in high range hotels (Class A and B). Regulation limiting flights into and out of Israel has also contributed to significantly higher flight costs into the nation, which further stymies the growth and competitiveness of the tourism industry.

**Demand conditions**

The local consumer sophistication is challenged by the high percentage of residents who earn low wages, which results in even lower disposable income for tourism-related products such as recreation, culture and hospitality.

In order to deal with the limited local demand, and part of the cluster development strategy started in 2008 a focus on culture and festivals was made, particularly to attract those from the region and the nation. Scaling the amount of events under the guideline, "what is local should turn national, what is national should turn international" (Nir Barkat Interview). Even in the short-term, the city has seen a substantial increase in domestic tourism (11% increase of domestic tourists nights spent in the city in 2012). There has also been greater exposure in
international markets. For instance, the Jerusalem Marathon that in 2012 attracted 1,700 international runners from fifty countries. Weekends of culture in the city program have attracted 94,000 visitors to local culture venues over the four weekend event. A new summer "culture season" attracted more than 100,000 visitors, composed mostly of domestic visitors (Jerusalem Municipality 2013).

**Related and supporting Industries**

In RSI, one of the major positive elements is the new focus on and support for cluster development under Mayor Barkat. This focus has brought better long-term strategy and cooperation between local and national players. An important part of the development of a cluster approach was the concentration of responsibility and resources for cluster development in the hands of the JDA (Jerusalem Development Authority) that served as the hub for the cluster.

Several other IFCs (Institutes for Cooperation) operate in the tourism cluster and support

<table>
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<tr>
<th>Key Actors</th>
<th>Mission</th>
<th>Action</th>
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| Jerusalem Development Authority (JDA) Muni + Gov | • Promote economic development  
  • Attract business through government collaboration | • Focus on tourism and biotech clusters  
  • Invest in industrial parks and in development of the city center |
| Jerusalem Hotel Association Private | • Promote the hotels in Jerusalem  
  • (part of the national Hotel association) | • Represent hotels in the city in government discussions  
  • Coordinate marketing activities |
| National Tour Operators Association and National Tour Guides Association Private | • Coordinate policy,  
  • Support training  
  • Promote the trade | • Professional conventions, national and international network development, training, lobbying |
| The Jerusalem Transportation Planning Agency Muni + Gov | • Develop the city wide transportation system | • Design and overlook development projects, develop information infrastructure, collect usage data |
| East Jerusalem restaurants and tour operator associations Private | • Improving business conditions and marketing | |
coordination and improvement in the use of resources.

A weak spot in the cluster development up to now is the limited cooperation with the Palestinian tourism cluster in East Jerusalem and in neighboring towns like Bet-Lehem. The Palestinian tourism cluster is newly emerging, and could play an important role in the development of the Jerusalem tourism cluster. Currently 33% of tourists to Israel visit East Jerusalem, only 20% of hotel rooms in the city belong to the Palestinian cluster, and number of over nights stayed in the east is shorter (2.7 nights per tourist versus 3.5 in the west). The East Jerusalem tourism cluster can offer the city cluster some relative advantages especially in a greater variety of products at lower price points and "authentic retail" and other attractions in East Jerusalem.

5.3 Strategic vision, challenges, and recommendations

Based on our analysis, we feel given Jerusalem’s natural advantage as a place of unmatched religious importance, culture and heritage to more than half the world’s population, presently it is undersold and has not attained its full potential. We acknowledge that security concerns are one of the main reasons why tourists are currently shying away from visiting Jerusalem and we seek to address this issue in our recommendations.

There should be a strategic branding initiative that is driven both at the country and city level to address how to fully exploit Jerusalem’s natural advantage of being an epicenter of culture, history and religion. The use of social media, technology and links to global tourism marketing platforms are lacking, especially when targeting the new growth markets of Latin America and Asia Pacific. Frequent media events should be organized where all the important media players (both traditional and new) are invited to Jerusalem to experience the best of Jerusalem so that what it has to offer can be shared rapidly and widely.
Additionally, there must be an aggressive marketing and public relations effort to dispel that Israel and Jerusalem are very dangerous places. While we can’t deny the regions volatility that effects the perception of foreigners regarding security, but most of the negative media it receives are unfounded. One potential model follows how Colombia used traditional and new media to transform the negative perception of its country as a dangerous place through a series of clever advertising campaign called ‘The only risk is that you will never want to leave’ (UNWTO 2009).

Additionally, we feel that there are innovative niches that can be created to further develop tourism in Jerusalem. Israel and in particular, Jerusalem is well known for high quality medical care, expertise and facilities, and as such medical tourism can be easily developed by leveraging off of this and also maybe forging strategic linkages with the advanced biopharmaceuticals cluster that can help make medical tourism competitive and cost effective (over the last 3 years the Biomed cluster has seen 50% growth in number of companies) (JDA Biomed report 2012).

From our assessment we also feel that Jerusalem needs to develop a ‘must see’ unique experience that is unique and targeted to the international segment. High-end premium tourists tend to combine leisure tourism with shopping experience. Presently there is no structured and dedicated initiative to promote what we terms as ‘Made in Jerusalem’ products especially in the premium and mid price category (for art, handicrafts, spa and wellness products, etc.). Tourists’ buyer behavior are driven very much by emotions and attachment to the place of interest, where Jerusalem has a natural advantage in history, culture and religion. All three aspects can be leveraged to develop arts and specialized collectors handicrafts.

Other big areas that Jerusalem has a big natural advantage is in the culture and spirituality segment. Efforts should be directed to increase development of cultural products and experiences for the international audience that are similar to the current Light Festival in the Old City or the
Israel Museum. Products associated with spirituality immersion e.g. mini half day camps, spa and wellness packages that focus on spiritual enlightenment can also be developed.

The following are other specific challenges and recommendations based on the categories of cluster analysis.

Factor Conditions

Challenge no 1: Physical infrastructure in Jerusalem is underdeveloped and needs additional maintenance

Recommendations: (Responsible party: National / Local Priority: 1)

The national and state government must continue to invest in the development and management of public transportation systems. There is also an immediate need to raise the quality of the taxi services within Jerusalem. There must also be investments to improve the signage in the tourist areas especially in English / multilingual (if possible). This can make it easier to tourists to move around the city independently, which is what most of the large segments of tourists want.

Challenge no 2: Tourist areas are not well maintained

Recommendations: (Responsible party: Local Priority: 1)

The state government should immediately invest in improving the general maintenance of popular tourist locations. There must be clear accountabilities and again necessary investments to ensure cleanliness is maintained at acceptable levels at all times. Launch awareness campaigns and impose steep fines to deter people from dirtying the tourist sites.

Challenge no 3: Low efficiency of local bureaucracy

Overall the local government is inefficient and riddled with unnecessary processes and procedures.

Recommendations: (Responsible party: Local Priority: 2)
To drastically improve by simplifying policies, procedures and processes that can cut the existing red tape especially in the approvals of building permits and business permits that directly affect the tourism cluster. Use electronic platforms where ever possible.

**Challenge no 4: Need for qualified human capital in order to attract premium class tourists**

**Recommendations:** (Responsible party: National / Local  
Priority: 2)

Develop state sponsored and targeted vocational training programs in various sectors. And support job placement and integration into the work force. Local vocational schools / skills training center should develop practical, effective and cost effective training programs that can develop specialized skills that is needed throughout the tourism value chain.

**Demand conditions**

**Challenge no 5 : Volatility in the region**

The unresolved Israeli – Palestinian conflict and the geopolitical instability in the Middle East region creates perception of great volatility in the region and in Israel

**Recommendations:** (Responsible party: National / Local  
Priority: 2)

Providing a recommendation on the issue of the Palestinian Israeli conflict is beyond the scope of this report. We do believe that increased economic cooperation will have important effects on improving political conditions in the region.

There must be a strategic and concerted effort to use both traditional and social media platforms to communicate the ‘real’ security / volatility situation in Jerusalem, Israel and the region. Presently there isn’t much positive publicity especially in the social media platforms. Engagement with the popular travel and tour web sites e.g. Tripadvisor, Expedia, Travelocity, BBC Travel and such must be leveraged further to carry positive news and to reflect the ‘reality’ of the situation in a clearer and more transparent manner.
Challenge no 6 : Small local market

**Recommendations:** (Responsible party: Local  Priority: 2)
Invest in development of night activities that will increase night stays and spending in local business. Also invest in formation of BID (Business Improvement Districts) that will improve the attraction of the retail and culinary clusters.

**Context for firm strategy and rivalry**

Challenge no 7 : Capital investment in tourism related infrastructure is very low

Capital investments in tourism related infrastructure is considered very high risk due to security concerns and prohibits entrepreneurs to invest and develop much needed infrastructure.

**Recommendations:** (Responsible party: National  Priority: 2)
Work with insurance companies through a private public partnership to provide some kind of safety net insurance that can spur private and public capital investment in tourism.

Challenge no 8 : Limited supply of hotel rooms across different price segments

**Recommendations:** (Responsible party: National / Local / Business  Priority: 1)
There must be a concerted effort to increase the number of hotel rooms across all price ranges. This can be done through public private capital investments mechanism and coupled with reducing bureaucracy and relooking at processes and policies that over regulate and are burdensome. Another way of dealing with the problem is through better cooperation with the Palestinian tourism cluster that can produce cheaper hotel rooms.

Challenge no 9 : Low level of local competition in air transportation

The national carrier ‘Al El’ has a natural monopoly and this has led to prices for flights to and from Israel to be less competitive and relatively expensive.

**Recommendations:** (Responsible party: National  Priority: 1)
Israel should advance the “open sky” agreement with the EU so that flight and package prices to Israel and be competitively priced. On the 21st of April, the Israeli government approved the "open sky" agreement, but implementation will determine the effect on the price levels.

**Related and supporting industries**

**Challenge no 10 : Supply of high quality complementary products are lacking**

There is a lack of supply of high quality complementary products ie. shopping (especially local arts and crafts), culinary, and other recreation.

**Recommendations:** (Responsible party: Local / Business Priority: 1)

Work with local businesses to develop the retail and culinary and art & design clusters. This is also an opportunity to establish relationship with the Palestinian tourism cluster which has a low cost arts and crafts expertise.

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