

INTEGRATION OF THE ISRAELI ECONOMY INTO THE GLOBAL ECONOMY

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ABSTRACT

Since the establishment of the State of Israel, there have been changes in the economic structure of Israel. In the first years of existence, the Israeli economy was small and centralized, following the need to absorb immigration. The Israeli economy was based primarily on agriculture, and there was some traditional industry (textile, food). Over the years, there was a change in the economic basis, and the economy became large and complex, including a modern hi-tech industry and diverse services of quality.

Keywords: *Israel, economy, globalization, neo-liberalism, studies of Israel, Israeli economy*

INTRODUCTION

Two main processes led to the development of globalization: the new technological developments in the field of media and the transfer of information, like, for example, the development of the Internet in the 1990s. These processes enable the transfer of information, capital, and services at a considerable speed to every place in the world. The reduction of the limitations of the import of merchandise from other countries and the opening of the borders to merchandise from all around the world opened the markets of these countries and enabled the free transfer of merchandise from country to country. In this way, international competition was created, since products competed in their quality and cost against similar products from different places around the world. Another outcome was that similar products and similar services were consumed in all countries¹.

The globalization creates economic dependence among countries, and a financial crisis in one region of the world may become a global crisis. Conversely, the global economy can moderate and halt an economic crisis in one of the regions in the world through the intervention of supra-organizations².

¹Albrow, Martin and King, Elizabeth (eds.) (1990). *Globalization, Knowledge and Society* London: Sage.

²Frank, Andre Gunder. (1998). *ReOrient: Global Economy in the Asian Age*. Berkeley: University of California Press.

Since the establishment of the State of Israel, there have been changes in its economic structure:

1. In the first years after the State was founded, the Israeli economy was simple and small and primarily based on agriculture, with some traditional industry (textile, food). Over the years, there was a change in the economic basis, and the economy became large and complex, including a modern hi-tech industry and diverse services of quality.
2. The public involvement in the economy lessened (on the part of the government and other public institutions), and the market forces strengthened (private entrepreneurs).
3. The Israeli economy integrated into the process of globalization – openness to and connection with the global economy³.

THE INTEGRATION OF THE ISRAELI ECONOMY INTO THE GLOBAL ECONOMY

In the past, to protect Israeli products, the import of inexpensive products from the countries of Asia, South America, and Eastern Europe was restricted, and a high tax was imposed on imported goods from Europe and the United States. This caused the imported products to be more expensive than the local goods, and the Israeli population primarily purchased local products.

In the 1990s there was a change in the economic approach, when the country saw the advantage of the integration into the process of globalization and decided to open the Israeli economy.

To integrate into the global economy, the State of Israel implemented a number of economic reforms:

1. Israel removed taxes and restrictions on import. Israel signed 'Free Trade Agreements' with many countries.
2. Israel removed restrictions of foreign currency. Today any person can purchase a foreign currency without restriction and invest the money in what he wants and where he wants.
3. Israel privatized economic organizations. The privatization, which began prior to 1990, accelerated in the 1990s under the influence of international organizations. Thus, organizations and institutions owned by the government and the Histadrut were sold to private owners. The intention is to continue the process of privatization⁴.

³Plessner, Yakir, *The Political Economy of Israel: From Ideology to Stagnation*, Google Books. Retrieved on September 8, 2011.

⁴Fischer, Stanley (1987). The Israeli Stabilization Program, 1985-86. *The American Economic Review*. American Economic Association.

These reforms contributed to the integration of the Israeli economy in the global economy and in addition had the following contributions:

1. The technological abilities and human capital found in the State, which drew the interest of the world.
2. The peace process, which commenced in 1993 and contributed to the increase of trust in Israel and in its economy and to the partial end of the 'Arab boycott'.

The economic reforms attracted foreign investors to Israel. They attracted multi-national companies that purchased Israeli companies, led to the establishment of factories and development centers of foreign countries in Israel, and helped the growth of Israeli companies that merged with or acquired foreign companies, some of which even became multi-national companies. Consequently, Israel enjoyed rapid economic growth during the 1990s⁵.

THE ISRAELI INDUSTRY CHANGES DIRECTION: FROM SOCIAL DEMOCRACY TO NEO-LIBERALISM

The process of globalization caused manifest changes in Israeli industry, as follows:

1. Change in the structure of industry. The scale of the traditional industry steadily lessened, while advanced technology and hi-tech steadily strengthened. The traditional industry was exposed to difficult competition with cheap imported products, such as toys, household wares, textiles, and clothing, most of which came from the Far East. Consequently, many factories closed, and tens of thousands of workers were laid off. To surmount the crisis, the 'Osem' Company, which suffered from financial difficulties because of cheap imported goods, closed factories that worked according to outdated technology, merged with 'Nestle', a multi-national company operating in 89 countries, and became a part of it. 'Osem' now had new markets and the benefits of international marketing and advertisement.
2. Growth in industrial export. The main contribution to the industrial export was that of the hi-tech industry.
3. Creation of international economic relationships. Multi-national companies, such as Intel, Motorola, and Microsoft, established subsidiaries in Israel, and other companies created partnerships or merged with Israeli companies. In parallel, Israeli companies succeeding in becoming multi-national companies that have branches around the world⁶.

⁵De Boer, Paul & Missaglia, Marco (September 2007). Economic Consequences of Intifada: A Sequel, *Econometric Institute Report*. Erasmus University Rotterdam. Retrieved 15 October 2012.

Bruno, Michael (1985). Generating a Sharp Disinflation: Israel, National Bureau of Economic Research.

⁶Bank of Israel (2012). Israel's International Investment Position (IIP), June 2012. September 19, 2012. Retrieved October 15, 2012.

4. The hi-tech revolution. The rapid growth of the hi-tech industry changed Israel's economic status in the world and today it is an important center for the development of products in the fields of remote communications, information security, electronic circuit printings, biotechnology, medical equipment, and so on. Most of the hi-tech companies are situated in the metropolitan areas where there are large concentrations of population and institutions of higher education, where the necessary human capital is created⁷.
5. Some of the start-up companies were sold at high prices to large companies in Israel and around the world at the end of the development stage. Start-up companies need capital. They recruit money from different investors and establish funds for financing the stages of the idea and the development. They obtain capital from the venture capital companies in return for the participation in the ownership of the hi-tech company out of the hope for profits in the future. The government of Israel and different investors from the world invest venture capital in Israel. Thanks to the processes of globalization, more than one hundred venture capital companies recruit capital in the financial exchanges in different countries in the world⁸.

CONDITIONS ENCOURAGING THE DEVELOPMENT OF THE HI-TECH INDUSTRY IN ISRAEL

1. Human capital and development scientific infrastructure. Israel has human capital and a developed scientific infrastructure and is rich in skilled and educated personnel, institutions of higher education, and research institutions. The immigration from Russia contributed a significant addition of engineers and academically educated personnel⁹.
2. Large investments in research and development (R&D). The State of Israel supports research and development in different means: it gives research and development grants, it establishes technological greenhouses that provide aid in financing, management, and marketing to factors in the beginning of their path, funds projects for research and development in cooperation with the universities and with companies in industry, and it signs agreements for international cooperation on the topic of negotiations with many countries around the world. In terms of the investment in research and development as a percentage of the gross national product, Israel is found in the first place in the world¹⁰.

⁷State of Israel, Ministry of Industry, Trade, and Labor. (2007). The Intellectual Capital of the State of Israel. November. Retrieved March 18, 2013.

⁸Plessner, Yakir, *The Political Economy of Israel: From Ideology to Stagnation*, Google Books. Retrieved on September 8, 2011.

⁹State of Israel, Ministry of Industry, Trade, and Labor. (2007). The Intellectual Capital of the State of Israel. November. Retrieved March 18, 2013.

¹⁰STEM Israel. (2012). Funding the Future: Advancing STEM in Israeli Education. December 4, 2012. Retrieved March 18, 2013.

3. The security industry and the military frameworks served as a 'greenhouse' for civilian hi-tech factories. The technological ability that developed in Israel began with the need to develop sophisticated weaponry for the IDF. Over time, the products of these industries became a profitable export industry. The crisis in this industry in the 1980s led to the establishment of civilian industries that were based on the knowledge and experience acquired in the security and military frameworks. This is industry in the field of communication, electronics, optics, information security, and so on¹¹.
4. The signing of the merchandise agreements with two large economic blocks in the world. Israel signed trade agreements with the European Union and with the North American Free Trade Association (NAFTA). These agreements give priority to the Israeli hi-tech industry in many markets around the world¹².

THE HI-TECH INDUSTRY IN CRISIS

The international connections of the hi-tech companies encourage their development but also create considerable dependence among the companies in the world and between the companies and the large exchanges in the world. Therefore, the economic crisis in the countries that lead the process of globalization, primarily in the United States, became a global crisis and its impact was apparent also on the Israeli hi-tech industry. The crisis led to many layoffs in the hi-tech industry¹³.

THE EXPOSURE OF THE TRADE INDUSTRY TO INTERNATIONAL COMPETITION

Following the globalization, the Israeli economy was opened to commerce and import of products from many countries around the world. The removal of the restrictions on the import was gradual. The exposure to the competition influenced the commercial activity of Israel in a number of areas:

1. The international marketing companies penetrated the local market, and today it is possible to see all international brands filling the store shelves. The prices of the imported and domestic products dropped because of the competition. These products are primarily textile goods, clothing, and shoes, housewares, and home electronic equipment, and so on.
2. A new trade culture developed, including new marketing methods, a rise in the quality of products, and primarily an increase in the level of the service to the clients. Large

¹¹Stockholm International Peace Research Institute. The SPIRI Top 100 Arms-Producing and Military Services Companies, 2010. Retrieved March 6, 2012.

¹²TAMAS. Israel's Free Trade Area Agreements, IL. Retrieved September 8, 2011.

¹³STEM Israel. (2012). Funding the Future: Advancing STEM in Israeli Education. December 4, 2012. Retrieved March 18, 2013.

commercial centers, sprawling over extensive areas and meeting the requirements of international marketing chains, are steadily growing. They include large structures and expansive parking lots.

3. Foreign trade. The 1990s were years of increased activity even in the field of foreign trade of Israel. The export grew since many markets opened for Israeli merchandise, and the import grew since international commercial companies entered Israel. The gap between the import and export lessened – the deficit in the balance of payments declined¹⁴.

Export, Percentage

51% industry

24% other services

15% diamonds

2% agriculture

8% tourism¹⁵

Export, Percentages

51% raw materials

21% investment products (machines, trucks, ships, planes)

12% fuel

16% consumption goods (food, drink, garb, shoes)

GROWTH OF THE SERVICES INDUSTRY

The number of people employed in industry and agriculture declined, but in the services sector the number of people employed rose. The process of globalization had a considerable impact on the manufacturing services and primarily on the financial services: banking, investment companies, credit companies, and so on.

- The rise of the importance of the manufacturing services. The financial services became a part of the global economy. The reports on what happens in the global exchanges causes an increase in the number of people employed in this sector.
- The integration of Israeli business companies in multi-national companies. A relationship was created between Israeli companies and multi-national companies, primarily in areas such as accounting, advertising, insurance, and business consulting¹⁶.
- The manufacturing services join together and become large business centers. They collect at the center of the metropolitan cities and create large business centers. In Israel, a large part of the manufacturing services in the Tel Aviv and Ramat Gan metropolitan area. The representatives of the investment companies, venture capital funds, and other foreign

¹⁴Ram, Uri (2008). *The Globalization of Israel: McWorld in Tel Aviv, Jihad in Jerusalem*. New York: Routledge.

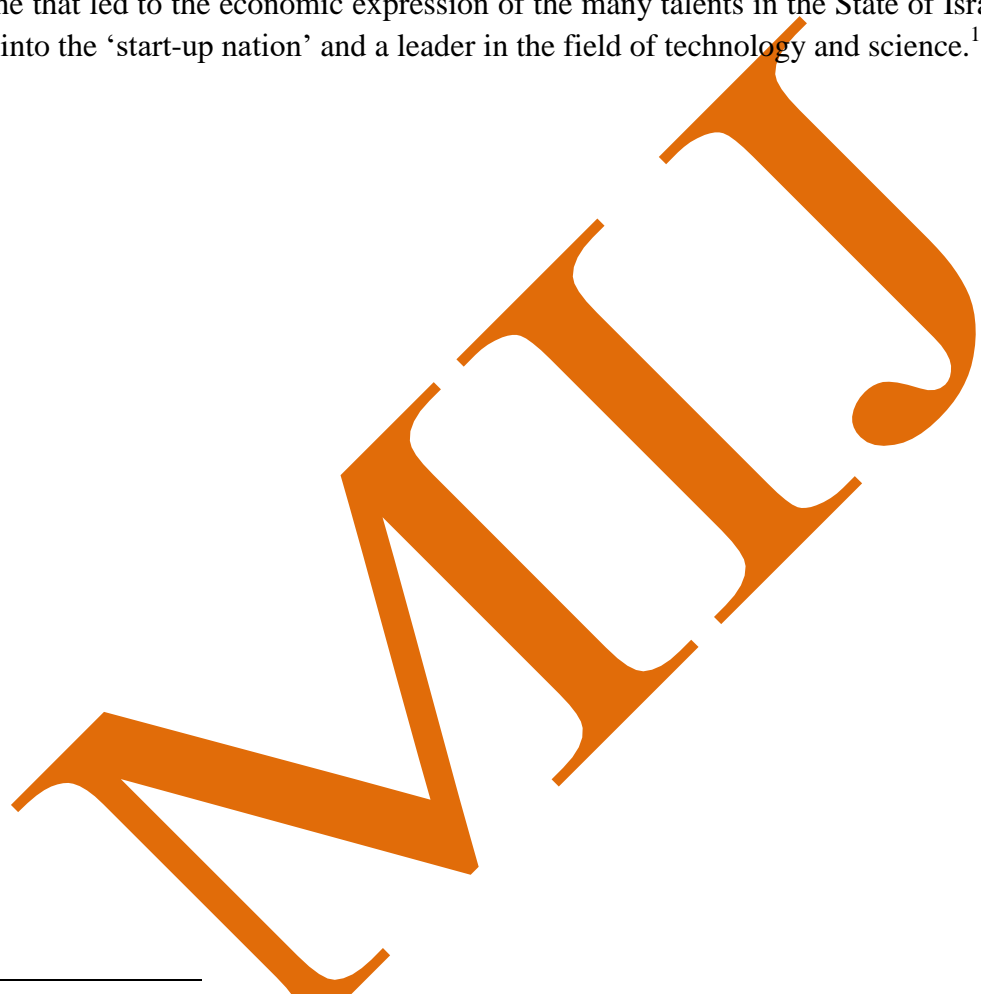
¹⁵OECD – Organisation for Economic Co-operation and Development, Israel's Accession to the OECD, Retrieved October 15, 2012.

¹⁶State of Israel, Ministry of Industry, Trade, and Labor. (2007). *The Intellectual Capital of the State of Israel*. November. Retrieved March 18, 2013.

investors who come to Israel situate themselves in the Tel Aviv metropolitan area. Thus Tel Aviv became the economic center of the country and a global focus that concentrates the relationships between the Israeli economy and the global economy¹⁷.

CONCLUSION

Since the political change in the State of Israel, which commenced in the year 1977 (when the right assumed the government of Israel), there has been a change in the Israeli economic thinking. In the framework of this change, the social-democratic economy was levelled, and from its ashes the neo-liberal economy of Israel was constructed. The new economic arrangement was the main engine that led to the economic expression of the many talents in the State of Israel, thus making Israel into the 'start-up nation' and a leader in the field of technology and science.¹⁸



¹⁷Stockholm International Peace Research Institute. The SIPRI Top 100 Arms-Producing and Military Services Companies, 2010. Retrieved March 6, 2012.

Bank of Israel (2012). Israel's International Investment Position (IIP), June 2012. September 19, 2012. Retrieved October 15, 2012.

¹⁸Senor, Dan, & Singer, Saul. (2011). Start-up Nation - The Story of the Israel Economic Miracle, Grand Central Publishing, New York, New York, USA.