

## **Israel's modern hi-tech economy**

- **The first Zionist pioneers encountered an underdeveloped society, and developed a centralised economy.**
- **The 1984 economic stabilisation plan set the economy on a new course.**
- **Today science and technology is among Israel's most highly developed sectors.**

### **The first Zionist pioneers encountered an underdeveloped society.**

In a late nineteenth-century world where the majority in most societies were peasants or industrial workers, the ambition of many of Israel's Zionist pioneers was to shift the labour structure of the Jewish people towards this paradigm and away from the often marginal occupations in which they found themselves in the Diaspora.

However, the Palestine to which they came was more backward economically than many of the regions from which they had emigrated. Agricultural settlements (often on land previously regarded as unsuitable) and industries had to be built, painfully and slowly, over the decades.

### **Israel faced enormous challenges post-independence**

After Israel's establishment in 1948, the relatively primitive economy had to cope not only with the demands of defence, but also with the absorption of large numbers of refugees, both from Europe and from the Arab and Muslim Middle East. These burdens resulted in a decade of austerity following independence. Foreign currency was scarce and opportunities for travel limited.

The pressures were to some extent mitigated by a number of factors. These included about 3 billion marks paid by West Germany in reparations to Holocaust survivors, and a campaign of bond sales among Diaspora Jews.

### **There was a strong commitment to establishing industries, especially in areas prioritised for development.**

One consequence was the development of a textile industry. Kibbutzim too, which had been overwhelmingly agricultural, gradually diversified and developed industrial capabilities.

Living standards rose over the years, with growth rates of more than 10% per annum in Israel's first two decades. It has been estimated by one source that the average Israeli wage-earner's expenditure rose 97% in real terms between 1950 and 1963.

### **As elsewhere in the world, the 1970s were a 'lost decade' for growth.**

The economic dislocation caused by the 1973 Arab oil embargo administered a shock to the whole global economy. The 1973 Yom Kippur War took an especially heavy financial toll on Israel, from which it found it difficult to recover. A spiralling government deficit led to near catastrophic inflation, reaching a peak in the early 1980s.

### **The 1985 economic stabilisation plan set the economy on a new course.**

Steps to stabilise the currency were accompanied by moves to liberalise the economy. State industries were sold off, government spending was cut, and agreement was reached with the Histadrut (trade union federation) to enact wage controls. Structural reform was undertaken to reinvigorate the economy.

### **Israel always had advantages such as strong higher educational institutions.**

One of the earliest pre-state institutions developed by the Yishuv was a high-quality education system. The Haifa Technion (now the Israel Institute of Technology), founded in 1912, was the only institution of higher learning to be established in Ottoman Palestine. The Hebrew University, established on Mount Scopus, opened in 1924, and the Weizmann Institute (so named from 1949) was established in 1934.

Since statehood, the numbers of institutions of higher learning has increased, including Tel Aviv University, Bar-Ilan University, the Ben Gurion University of the Negev and the Open University. Today it is common for at least four Israeli universities to appear in international rankings of the world's top 200.

Israeli universities are ranked among the top 50 academic institutions in the world in the following scientific disciplines: in chemistry (the Technion); in computer science (Weizmann Institute of Science; the Technion, Hebrew University and Tel Aviv University in mathematics; in natural sciences (Hebrew University, the Technion); and in engineering (the Technion).

This emphasis on education has given Israel a comparative advantage against many other recent industrialising economies. It has ensured that as older industries were replaced by the 'knowledge industries' of the technological age, Israel was in a prime position to take advantage of them.

Another comparative advantage, paradoxically, turned out to be Israel's precarious security situation. Forced to rely on its own resources for defence against much more numerous opponents, the Israeli military and its domestic suppliers became a hotbed of innovation in engineering, software and other disciplines. Many of these skills proved transferable as those working on these projects re-entered civilian life following their military service.

Yet another advantage was the influx of immigrants from the former Soviet Union from the 1990s onward. They were typically highly educated, often with experience in precisely those areas that were to become critical in Israel's recent development.

### **Today science and technology is among Israel's most highly developed sectors.**

In 2009, a book by Dan Senor and Saul Singer, two respected American economic commentators, caused a stir. The book was called *Start-Up Nation: The Story of Israel's Economic Miracle*. It asked: "How is it that Israel – a country of 7.1 million, only 60 years old, surrounded by enemies, in a constant state of war since its founding, with no natural resources—produces more start-up companies than large, peaceful, and stable nations like Japan, China, India, Korea, Canada, and the UK? How is it that Israel has, per person, attracted over twice as much venture capital investment as the US and thirty times more than Europe?"

Israel is one of the major world destinations for high-tech multinationals seeking to establish leading-edge R&D operations. Companies with a major presence in Israel include Intel, Microsoft, Hewlett Packard (HP), Google and Facebook.

It is also one of the world's leading seed-beds of indigenous start-ups, many of which have grown to become world-class players in their own right. As many as 100 Israeli companies are listed on Wall Street.

The strength of Israeli exports has made a nonsense of attempts to boycott Israeli goods. While campaigners grandstand in supermarkets, attempting to prevent shoppers buying Israeli dates, Israeli exports to the UK have grown massively in recent years, amounting to over £1 billion in just the first half of 2013.

### **Trade with Israel has also benefited the UK.**

UK Trade and Industry (UKTI), a UK government agency, recently stated that: "Israel, a Middle Eastern country with a Western European outlook, is a remarkable success story for British exporters. Although the country is about the size of Wales, with a population of 7.8million people, UK exports to this lively market have grown steadily. Bilateral trade is a real success story, reaching a record high of £3.83 billion in 2012 and should reach well over £4 billion by 2015."

***Would you like to know more about Israel and to get more involved in supporting Israel? This email is one of a series of educational emails from We Believe in Israel, the grassroots initiative of BICOM. We Believe in Israel is a UK grassroots network of people united in believing in the right of the State of Israel to live in peace and security. We aim to support and facilitate activists who seek through local engagement and campaigning to create a more complete understanding of Israel and its situation in the UK. You can join We Believe in Israel's mailing list [here](#). Our website is [www.webelieveinIsrael.org.uk](http://www.webelieveinIsrael.org.uk). BICOM's website, with all the latest news and analysis about Israel is [www.bicom.org.uk](http://www.bicom.org.uk)***

