Maritime Opportunities: Israel
2014

James V. Koch
Board of Visitors Professor of Economics
Old Dominion University

Sponsored by the Virginia Economic Development Partnership’s (VEDP) Going Global Defense Initiative

This study was prepared under contract with the Commonwealth of Virginia, with financial support from the Office of Economic Adjustment, Department of Defense. The content reflects the views of the Commonwealth of Virginia and does not necessarily reflect the views of the Office of Economic Adjustment.
# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>OVERVIEW</td>
<td>2</td>
</tr>
<tr>
<td>DOING BUSINESS IN ISRAEL</td>
<td>3</td>
</tr>
<tr>
<td>GENERAL CONSIDERATIONS</td>
<td>3</td>
</tr>
<tr>
<td>TECHNOLOGY AND INNOVATION</td>
<td>4</td>
</tr>
<tr>
<td>SECURITY CONCERNS AND CORRUPTION</td>
<td>4</td>
</tr>
<tr>
<td>PROCUREMENT STRUCTURE</td>
<td>5</td>
</tr>
<tr>
<td>CONTACT INFORMATION</td>
<td>5</td>
</tr>
<tr>
<td>RESOURCES</td>
<td>5</td>
</tr>
</tbody>
</table>
OVERVIEW

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (millions)</th>
<th>GDP (US$ billions)</th>
<th>GDP per capita (US$)</th>
<th>GDP (PPP) as share of world total</th>
<th>Military expenditure as share (%) of GDP</th>
<th>Military expenditures, country comparison to the world</th>
<th>Human Development Index 2012 (UN) Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>7.8</td>
<td>$240.9</td>
<td>$31,296</td>
<td>.30%</td>
<td>7.4%</td>
<td>7</td>
<td>0.900</td>
<td>16/187</td>
</tr>
</tbody>
</table>

Israel is a small but densely populated country on the eastern shore of the Mediterranean Sea. Its total area (excluding the Gaza Strip, West Bank and Golan Heights) is just over 8,000 square miles – approximately the size of New Jersey. Israel was established as a Jewish homeland in 1948, in conjunction with the United Nations’ partition of the former British mandate of Palestine. Since then, Israel has been locked in conflict with many of its Arab neighbors, who have regarded Israel’s founding as illegitimate. This hostility erupted into full-scale regional wars in 1948, 1967 and 1973, and has been the source of numerous smaller-scale conflicts, most recently involving Lebanon (2006) and Gaza (2012).

Security concerns inform Israel’s high level of military expenditure, approximately 7.4 percent of GDP. Israel has one of the world’s most demanding requirements for compulsory military service – typically three years for men, and two years for women. Security concerns have likewise defined Israel’s gradual evolution from a mostly agrarian economy 60 years ago, to a global leader of high technology today. A recent editorial in Forbes magazine identifies Israel as “a flourishing high-tech hub in an increasingly inhospitable region… Israel’s investments in defense technology and commercial products spun off from defense technology have encouraged – even required – ongoing innovation.”1

Israel is the only country in the world with a majority Jewish population (76.4 percent); the remainder of the population is mostly Arab. The people of Israel are, however, much more diverse than this statistic might suggest. Israel is a nation of immigrants. Only two-thirds of Israeli Jews were themselves born in Israel. The other third emigrated from elsewhere in the world; influential countries of origin include Russia and other former member states of the Soviet Union, Morocco and Ethiopia. Hebrew and Arabic are the country’s two official languages, although English is widely used as well, particularly in business settings. Because of the post-Cold War surge in emigration from residents of the former Soviet Union, the Russian language is now commonplace throughout Israel. Fully 15 percent of the Israeli population today are native Russian speakers.2

The United States has been a steadfast ally of Israel since its founding. The U.S. currently provides Israel with $3.1 billion in security assistance per year, and the U.S. is Israel’s largest trading partner. The Country Commercial Guide for Israel notes that Israel-U.S. trade has grown eight-fold since the countries signed a free trade agreement in 1985. Since the agreement’s full implementation in 1995, nearly all trade tariffs between the two countries have been eliminated (agricultural trade restrictions are a significant exception). Israel has additional free trade agreements with Bulgaria, Canada, the Czech Republic, Hungary, Mexico, Poland, Romania, the Slovak Republic, Slovenia, Turkey, the European Union (EU) and the European Free Trade Association (EFTA).

Benjamin Netanyahu, leader of the right-wing Likud party, has served as Israel’s prime minister since 2009 (and previously, 1996-99). A disappointing return for Netanyahu in the January 2013 election has led to a fragile governing coalition, “made up of five factions with somewhat contradictory positions on critical questions, including the Palestinian conflict.”

The U.S. continues to advocate for a two-state solution to the Israeli-Palestinian conflict. This year U.S. Secretary of State John Kerry played an active role in reinitiating long-stalled Israeli-Palestinian peace talks, most recently engaging in shuttle diplomacy between Netanyahu and Palestinian Authority President Mahmoud Abbas in early November. Despite Kerry’s engagement, few observers expect significant progress to be made on this issue in the foreseeable future, given ongoing tensions surrounding Jewish settlements in the West Bank and numerous other volatile issues.

DOING BUSINESS IN ISRAEL

GENERAL CONSIDERATIONS

<table>
<thead>
<tr>
<th>Measure</th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Competitiveness Index (WEF)</td>
<td>54.9</td>
<td>27/148</td>
</tr>
<tr>
<td>Doing Business 2014 (World Bank)</td>
<td>DTF: 88.22</td>
<td>10/189</td>
</tr>
<tr>
<td>Economic Freedom (Heritage Foundation)</td>
<td>Score: 66.9</td>
<td>Rank: 51/177</td>
</tr>
<tr>
<td>Trade Freedom (Heritage Foundation)</td>
<td>Score: 83</td>
<td>Rank: 49/177</td>
</tr>
</tbody>
</table>

Israel scores well in all of the competitiveness measures formulated by the World Economic Forum, World Bank, and Heritage Foundation. The standout weakness of the Israeli economy is the level of its debt. The Heritage Foundation notes that “government spending is equal to 45 percent of GDP,” and that the Israeli government has been running a significant budget deficit, “with public debt corresponding to over 70 percent of GDP.” This debt level places Israel 123rd among the 148 economies assessed by the World Economic Forum’s Global Competitiveness Index.

The World Bank’s Doing Business 2014 ranks Israel 10th among all countries in ease of trading across borders, noting that the average per container cost of importing to Israel is $565, well under the OECD average of $1,090. The Country Commercial Guide does, however, emphasize that “Israel has strict marking and labeling requirements that frequently differ from those of other countries,” which U.S. exporters must take care to learn and heed. In order to qualify for preferential access to the Israeli market, “a special certificate of origin must accompany all shipments from the United States to Israel.” Once again, those interested in selling in Israel should consult Chapter 3 of the Country Commercial Guide for additional details.

Overall, the Israeli style of doing business will seem familiar to most Americans, though the U.S. Country Commercial Guide advises that “dress may seem more informal and personal relationships sometimes play a greater role” than what Americans may be used to. Negotiations are typically conducted in a direct and straightforward manner, and the use of English is widespread.

Needless to say, U.S. firms should be aware of all Jewish holidays, and know that the typical Israeli workweek is Sunday to Thursday.

TECHNOLOGY AND INNOVATION

Technological Readiness (GCI – WEF)  Score: 5.6  Rank: 23/148
Innovation (GCI – WEF)  Score: 5.6  Rank: 3/148

Israel’s high-tech sector is among the most sophisticated in the world. The World Economic Forum’s Global Competitiveness Report 2013-2014 observes that “the country’s main strengths remain its world-class capacity for innovation (3rd), which rests on highly innovative businesses that benefit from the presence of some of the world’s best research institutions geared toward the needs of the business sector.” Israel’s large number of patents, and its ease of access to venture capital, further contributes to the country’s status as “an innovation powerhouse.”

The Country Commercial Guide notes that the high-tech arena provides numerous opportunities for U.S.-Israel commercial partnerships, “specifically in ICT technologies, safety and security equipment and services, natural gas and renewable energy technologies, defense equipment, medical technologies and biotechnology products.” These partnerships often involve U.S. firms supplying electronic inputs for Israeli final products (or vice versa). The value of Israel’s electronic components imports totaled $930 million in 2010; nearly 30 percent came from the United States.

The Guide further remarks that Israel is a particularly well-developed market for homeland security equipment and services. “Israel’s security awareness and high level of preparedness are the driving forces for the development of the country’s cutting-edge security industry. The homeland security industry’s annual sales are estimated at $5.5 billion, with exports accounting for approximately $2 billion. Imports are an estimated $550 million, with 60% U.S. market share.”

SECURITY CONCERNS AND CORRUPTION

Institutions (CGI – WEF)  Score: 4.6  Rank: 40/148
Corruption Perceptions Index 2012 (TI)  Score: 60  Rank: 39/176
Freedom from Corruption  Score: 58  Rank: 36/185

Israel’s thriving security industry is, of course, driven by demand. Israel is a stable parliamentary democracy with a well-established rule of law, but its tense relationship with Arab neighbors, and its proximity to ongoing hostilities in Syria, means that the threat of politically inspired violence is a real concern. The Global Competitiveness Index ranks Israel 136th out of 148 countries with respect to the business costs of terrorism.

A current Department of State travel warning states that “personal safety conditions in major metropolitan areas, including Tel Aviv and Haifa and their surrounding regions, are comparable to or better than those in other major global cities.” U.S. citizens are, however, advised to exercise caution when traveling to other parts of Israel. The Department of State notes that southern Israeli communities were targeted “by a record volume of rocket fire from Gaza in 2012,” with some longer-range rockets aiming at population centers as far away as Tel Aviv and Jerusalem.

Anti-bribery is a lesser concern. Israel’s rankings in the corruption indexes maintained by Transparency International and the Heritage Foundation fall in the middle range of all the countries considered in this report. Israel became a signatory to the OECD Bribery Convention in November 2008.

4 http://travel.state.gov/travel/cis_pa_tw/tw/tw_6010.html
PROCUREMENT STRUCTURE
Defense procurement is centralized in Israel. Within the Ministry of Defense, the Procurement and Production Directorate (PPD) is responsible for all defense-related government procurement, including overseas procurement.

The Israel Ministry of Defense Mission to the USA is responsible for all defense-related procurement in the United States, including relations with vendors.

CONTACT INFORMATION

Deputy Head
Defense Mission to the USA
850 Third Avenue
New York, NY 10022
Telephone: (212) 755-3448
Fax: (212) 940-9434

Ministry of Defense
Deputy Head for Economic Affairs Directorate of Procurement and Production Hakiriya, Tel Aviv, Israel
Telephone: (972) 3 205585

U.S. Embassy Tel Aviv
Commercial Counselor
71 Haryarkon Street
Tel Aviv, Israel
APO New York 09672
Telephone: (972) 3 658033
Fax: (972) 3 660508

Defense Assistance Officer
APO New York 09672
Telephone: (972) 3 657127
Fax: (972) 3 663449

RESOURCES

» Israeli Governmental Advertising website (used for procurement) http://pirsum.gov.il/LAPAMEng
» Ministry of Defense, Mission to the USA, Vendor Questionnaire https://questionnaire.goimod.com