

Exports

The Growth Engine of the Israeli Economy



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For many years exports have been the main growth engine of Israel's economy. There is a direct link between the increase in exports and economic growth.

In the year 2004, for instance, exports contributed 60% of the growth in the GNP. This trend is continuing this year, 2005, in spite of the increase in private consumption. The contribution of exports to the GNP is still on the increase and reached an all time high of 45%. We expect an additional increase in 2006.

Nevertheless, we must take notice of some problems on the horizon: In 2005 the growth rate of exports slowed down and did not reach the peak of 2004. This slowdown is a result of the slowdown on the global scene, especially in the U.S. and the EU that account for 60% of total Israeli exports. In addition, the steep rise in fuel costs might slow down the output in some areas of industrial exports.

In the year 2005, exports of goods and industrial exports (excluding diamonds) grew by 11% in comparison to 2004, but this is only around half of the total increase in 2004, which was around 20%- 22%.

During the last decade industrial exports doubled. The main reason for this remarkable increase is the growth of the hi-tech industries that became the main growth agent of the Israeli economy.

A decade ago, hi-tech products accounted for 27% of Israel's industrial exports, but in 2004 they accounted for 45% - an increase of 18 percentage points. This development revolutionized our exporting potential and enabled an unprecedented penetration of Israeli products into international markets.

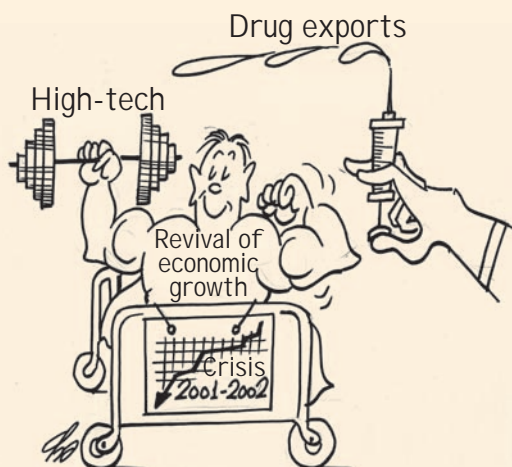
The hi-tech industries lifted our economy from the deep recession of the years 2001-2002 and brought about the renewal of economic growth. In 2004 the hi-tech industries registered the highest increase in output and exports, as well as the largest recruitment of new workers in comparison to any other industries.

This remarkable increase did not radically change the internal composition of our industrial exports. Hi-tech accounts for about half of the industrial exports. Within the hi-tech group a remarkable increase was registered in exports of pharmaceuticals, medical devices and supplies.

The highest increase in 2005 belongs to the medium-high technology industries. In the group of medium-low technology

industries major increases are in non-metallic mineral products and non-ferrous & precious metals, mainly because of price increase in the international markets. In the group of low-technology industries, the main increase is in food exports, especially kosher, health and ethnic foods.

There has been no significant change of our export destinations this year. The division of exports according to continents, countries and economic zones did not change between 2004 and 2005. The EU is still the main destination of Israeli exports - 35%. In the EU, the main destinations for Israeli exports (excluding diamonds) were Germany, the UK and Holland. About 27% of Israeli industrial exports go to the US. Israel exports to the continent of Asia remained around 15%, in spite of the doubling of exports to Asia in the last decade from \$3.8 billion in 1996 to \$7.5 billion in 2005.



Industrial Exports in % According to Technological Strength 2005

Hi-Tech Industries 45%	Medium-High Technology 28%
Low Technology (Traditional) 8%	Medium-Low Technology 19%

Source: Israel Bureau of Statistics, adapted by Israel Export Institute

My estimation is that in 2006 exports will grow at a similar pace to that of 2005. The Israel Export & International

Cooperation Institute will continue to play a major role in the promotion of Israel's industrial exports. We are planning to concentrate our efforts on exploring new business opportunities and penetrating new markets and niches, where Israeli products are not yet marketed.

We also intend to give high priority to encourage potential exporters to begin exporting and help small and medium size exporters to increase their market share and export volume.

There is no doubt in my mind that in five years we can almost double our industrial exports and reach an annual total of \$40 billion. This will strengthen the international status of Israel as a stable economy.