Consequently, the government must act to create appropriate budgeting for institutions of technical education, to expand and deepen their study programs, and to raise their level of prestige in the eyes of the public. Moreover, the government should institute changes in educational programs, in order to make them more relevant to the needs of industry. For this purpose it is advisable to refer to proposals made by a public committee (chaired by Prof. Kenny Price) that was set up to examine trends and technical subjects.
There is no doubt that appropriate training can solve manpower problems in plants, while at the same time providing solutions to the unemployed, who lack the training that would enable them to enter the workforce.

Developing a Transport Infrastructure

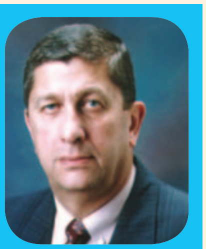
It is of the utmost importance to develop a transport infrastructure that would bring the periphery nearer to the center. This would enable people living on the periphery to work in the center of the country, while owners of businesses in the center could develop business activities in the periphery and create additional job opportunities in these areas.

Conclusion

The social gaps in Israel may be considered as a ticking bomb. In order to neutralize this bomb, it is necessary for the government to take immediate steps to narrow these gaps. In this article I have proposed a number of ways in which the government could deal with this issue.

The business sector also has an important part to play. However, the employer cannot be expected to contribute if this would mean a loss to his business. The government should thus assist employers to develop their business activities in the periphery, and in this way to reduce the level of unemployment in these areas.

Israeli Industry in the 21st Century



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From Growth to Recession

As Israeli industry entered the 21st century, the future looked promising. There were first signs of an accelerated exit from the recession that had prevailed in the economy at the end of the 90s, supported by extremely rapid growth in world economies and world trade, which led to a leap forward in the extent of industrial exports. Simultaneously, there was progress on the political front, accompanied by geopolitical stability, all of which significantly contributed to a flourishing of tourism in the year 2000, at the time of the Pope's visit to Israel.
Parallel to this, the flowering of Israel's hi-tech industries was particularly prominent, including the sale of start-up companies to the value of billions of dollars. All this resulted in the growth of Israeli exports, the GDP and work opportunities, and contributed indirectly to economic activity in ancillary branches as well as increased openness of the economy. It seemed as though a window of opportunity had opened for the Israeli economy.

However, the forces that had led to economic growth and which had contributed so much to the development of Israeli industry, in fact caused great damage to the economy. This rapidly became apparent in 2001, when Israel entered a recession, the likes of which had not been known for a very long time. The sharp downswing in the security and geopolitical situation, which followed the outbreak of the intifida in October 2000, the slowdown in world economies headed by the USA, and the collapse of hi-tech companies and their shares that were traded on NASDAQ, resulted in a marked slowdown in Israel's economic activity and severely harmed industry.

Thus, between the years 2001-2003 there was a reduction in industrial output at a cumulative rate of 7%, while the number of employees in industry dropped by 9% (layoffs of around 40,000 workers). These drops effectively erased a significant part of the impressive growth (10%) that had been registered in 2000. At the same time, the continuing worldwide crisis in the hi-tech industries resulted in a sharp decrease in industrial exports. Between 2001-2003 industrial exports dropped in real terms at a cumulative rate of approximately 7%, with most of the drop resulting from the drastic decline in exports of the hi-tech branches (-18%).

The difficult market conditions forced this industry, which was one of the economy's most negotiable branches, to adapt itself to the recession and to take steps to introduce significantly greater efficiency: between 2001-2003 real wages dropped by 2%, working hours were reduced by 10.5%, and productivity rose by 4%. Companies were forced to reduce budgets for welfare, marketing, management and general expenses. In addition they cut down on a long line of growth-generating expenses.

Return to a Path of Growth

During the last quarter of 2003, a turnaround began in the industrial situation, and industry went from a constant trend of retreat to one of growth, which continued throughout 2004. The end of that year saw the beginning of a real rise of 7% in output compared to 2003.

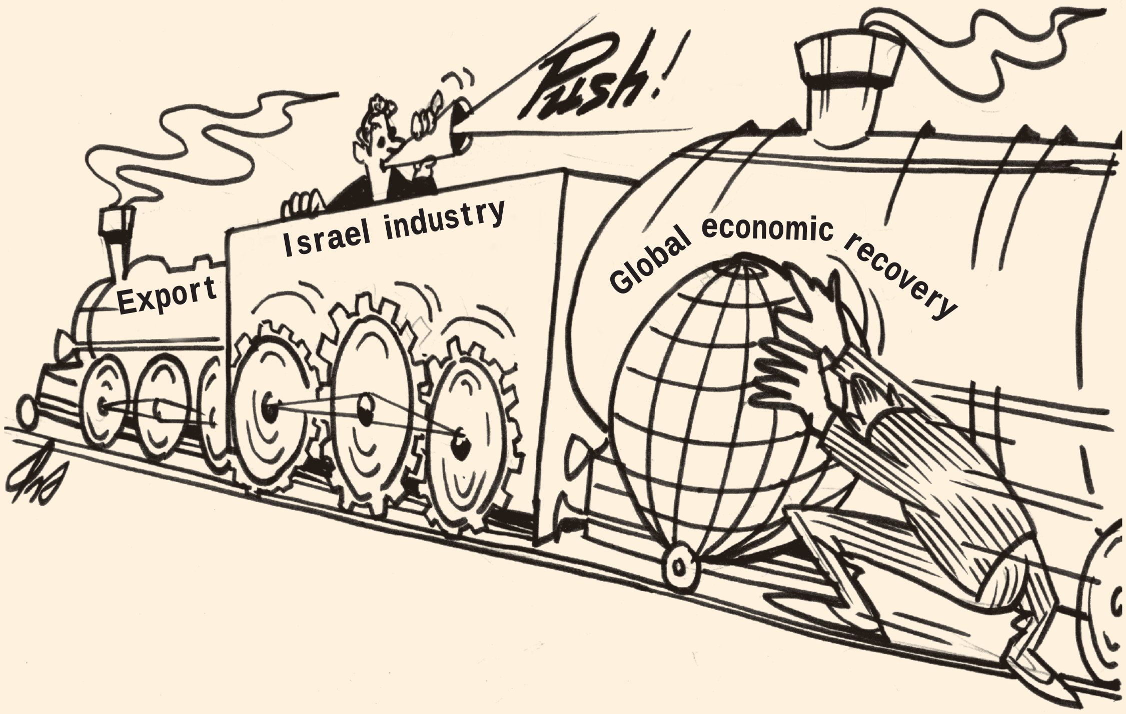
Industrial growth, as part of expanded economic activity in the economy as a whole, came about chiefly as a result of outside factors. An improvement in the geopolitical atmosphere, side by side with guarantees from the United States, contributed to a drop in Israel's risk index, a calming of the foreign currency market and stabilization of inflation forecasts, a lessening of pressure on local financial markets and a reduction in local interest rates – this accompanied by a rise in foreign investments and recovery in the tourist branch.

Additional moves – among them a reduction in size of the public sector, structural reforms and privatization processes, which were intended to raise the level of competitiveness in the economy and to introduce greater efficiency in government companies – also contributed to Israel's financial stability, and showed the international community that Israel's economic leadership was serious in its intention to take notable steps towards economic recovery.

The painful process of introducing greater efficiency in industry ultimately resulted in a marked improvement in its level of competitiveness, both in respect of competing imports in the local market as well as in overseas markets. Utilization of excess production capability, together with reduced production costs after a number of years of recession, gave Israeli industry competitive advantages that enabled it to respond strongly to the rise in the rate of world trade (10.5%), which occurred as a result of renewed growth in world economies, including the rapid growth of China.

Indeed, industrial exports – which expanded by 17.6% - led industrial growth in 2004 and reached a figure of $23.7 billion. The weight of exports in output grew appreciably during the past decade, reaching 40% last year, compared to 29% in 1995, when in most industrial branches the market share of Israeli industry rose in overall world trade. The expansion of industrial exports in 2004 was due to increased exports to both developed countries (USA and the EU), as well as to developing countries (mainly China, India and Turkey).

Industrial growth in 2004 derived to a large extent from the hi-tech branches, which demonstrated extremely sharp rises (15%), and accounted for about 80% of the growth in industrial output. The hi-tech groups were also at the forefront of export growth (the branch's exports rose by 23%, and totaled around $11 billion), contributing approximately 60% of the growth of industrial exports. At the same time it should be noted that



exports expanded last year in all industrial branches, including the traditional branches, at very impressive rates (exports of traditional branches grew by 9%).

The improved industrial situation was accompanied by a rise in real wages (2.2%), in the greater majority of industrial branches. At the same time, industrial growth was supported by a sharp increase in productivity (6%). This contributed to a noteworthy improvement in companies' profitability. Despite this, the increase in the number of employees was extremely moderate (1.1%), although the very fact that workers were absorbed indeed indicates a turning point in the previous trend of layoffs, that had lasted for three years. The number of employees in industry in 2004 stood at around 342,000, with the majority being absorbed in hi-tech branches that expanded their workforce by 4.5%.

The accelerated activity and improved profitability also resulted in a change in the investment climate. In 2004 investments in industry reached a figure of approximately NIS 15 billion – an increase of 8% compared to 2003 (as against a cumulative drop of 27% in 2001-2003).

Furthermore, in order to maximize companies' profitability as part of the move towards globalization, the trend towards change in the geographic spread of industry increased, while utilizing competitive advantages. Whereas in the past R&D, production and marketing were concentrated in one place, today R&D centers are situated in areas where the best brainpower is found, and production centers are moving to places that are most profitable as regards cost and quality. This holds true also for other components in the product's value chain, and already today technological innovation can be found in all components of the value chain – not only in development, but also in production, marketing and in logistics.

2005 – A Year of Slowdown?

Initial data for the beginning of 2005 indicate a slowdown in economic activity. It may be assumed that the slowdown in the scope of world trade, the escalation in oil prices, the move of production centers overseas and uncertainty with regard to execution of the plan to disengage from Gaza, all moderated the rate of GDP growth and in particular that of the business product.

The slowdown at the start of 2005 was noticeable also in Israeli industry. Initial estimates for the first half of 2005 point to a real significant slowdown in growth of industrial exports as compared to the monthly average level in 2004 (3.5% in the first half of 2005, against 17.6% in 2004). At the same time, during the months January – May 2005, industrial growth slowed down in comparison to 2004, so that a growth of around 3.5% was registered for this period (as against around 7% in 2004).

An Optimistic Outlook

Despite the signs of a slowdown in the rate of industrial growth at the beginning of 2005, Israeli industry in 2005 is strong and progressive; a global industry that is held in high regard in overseas markets, and attracts foreign investors.

Consequently, looking to the future, I see many opportunities for accelerated industrial activity. There is no doubt that geopolitical stability, side by side with the disengagement from Gaza, will support government policy that encourages growth – a policy that is focused on carrying out reforms and reducing the tax burden, accompanied by a wide-ranging monetary policy. However, it is not sufficient to create conditions that support internal economic growth. For a global industry, recovery of the world economy is a vital condition for accelerated activity powered by the economy's primary engine – the engine of exports. A combination of these factors from within and without has the power to propel Israeli industry forward to the path of accelerated growth in the second half of the decade – a path that will lead it to new heights.