

The Israeli economy and the challenges of coping with the deglobalization of supply chains and value.

Roundtable discussion at the Samuel Neaman Institute on 10.7.24.

Introduction:

According to publications by the OECD and the World Economic Forum, global geopolitical changes, climate change and the Covid pandemic have undermined the hyperglobalization that developed after the dissolution of the USSR. The world is experiencing a slowbalization of globalization, and some also point to a process of deglobalization.

Hyperglobalization was manifested in the removal of most economic barriers, freedom of capital flows and migration, so that the world's industries developed on the basis of competitive comparative advantages. Optimization and decentralization of development and production at the global level was created. Although the process was led mainly by global companies, economic stability was maintained in most countries around the world, which made it possible to stop global inflation. At the same time, the middle class in many countries has been harmed by the loss of jobs and the reduction of imports compared to local production.

The beginning of the trade war between the US and China, which was reflected in the imposition of tariffs on imports of goods from China, led to a process of slowing globalization in the world of business and industry. This process intensifies with the attempt of Western countries to re-shoring production in order to ensure employment in an era when digitization of production systems and innovative technologies enable higher productivity, and when artificial intelligence reduces some employment in favor of computer systems. Since 2016, we have experienced an increasing attempt by the US to bring production home and this process is expanding to Western Europe. Global cooperation between the world's major powers is declining, and blocs of countries that cooperate politically, economically and industrially have begun to re-emerge.

The implications of the change in the business world intensified with Russia's invasion of Ukraine (February 2022). Israel's ability to cooperate with an open global world has been impaired, even in the wake of Hamas' murderous attack and the war that has been raging since October 2023. Israel's geopolitical standing has been severely damaged. The world of transporting goods suffered another blow with Houthi attacks and the need to change shipping routes from east to west, the need to encircle the Cape of Good Hope (increase in price on the one

hand, and quantitative damage on the other). This event is all the more significant in light of the fact that Israel is an island country, 99% of whose trade is conducted by sea.

The implications for industry in Israel are reflected in damage to all supply chains, from raw materials to development systems, the ability to cooperate globally in development and production, and concern that some multinational companies will reduce their activity in Israel. The ongoing political crisis in Israel is also exacerbating the situation, causing Israeli companies to move development and production systems abroad.

Nonetheless, it can be assessed that the process of globalization and interdependence cannot be stopped, and we are probably facing a reshaping of globalization.

The State of Israel's special situation presents it with complex challenges that require a rigorous assessment of its capabilities and needs from a multi-year perspective, in shaping an industrial-economic policy that is recommended to be based on the following principles:

- Increasing GDP and GDP per Capita does not stand on its own but serves as a tool aimed at serving the well-being of the entire population (standard of living, health, education, environment and sustainability, democracy, equal opportunities and reducing social gaps).
- International cooperation is essential as an existential necessity, both with the wider world and with regional circles.
- Identification of the critical areas that require local production. Identification of areas in which Israel has the ability to be independent. All with a long-term strategic vision that relates to sustainability. (such as food, energy, and munitions)
- The importance of logistical connectivity of the State of Israel (at sea and in the air).
- The role and capabilities of the National Emergency Authority (Rachel) in handling emergency inventory, etc.
- All components of the market, society and the economy are intertwined. Emphasis and nurturing (resources and human capital) "traditional" industry and small businesses, alongside the high-tech locomotive. Correct definition of the concept of innovation.
- Strengthening the contribution of the education and education systems to the needs of the economy and society.
- Appropriate definitions of regulation that does not suppress growth, that does not cause a cost of living, that supports while participating in investor

risks. Sharing the government system with the business sector and civil society as force multipliers.

The Neaman Institute, together with the roundtable participants, has the ability to lead a significant process in shaping a proposal for industrial-economic policy, while relying on academia, civil society organizations (such as the Manufacturers Association), various professionals, local government bodies, and while developing a constructive dialogue with government ministries.

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