

CANADA EXPORT



Focus on Israel

Israel: Land of Promise

The business environment in Israel is one of the most open and dynamic in the Middle East. The rapid economic growth rate sustained since the beginning of the 1990s is a dividend of Israel's 1985 economic stabilization program, the subsequent economic reforms, the successful absorption of mass immigration, particularly from the former Soviet Union, and Israel's reduced international isolation as a result of its peace agreements signed to-date.

With a thriving private sector, well educated workforce, modern banking industry, and excellent communications system, Israel has one of the fastest-growing economies in the Middle East. In 1995, the economy grew at a rate of 7.1 per cent, the highest growth rate among Western countries. Unemployment declined from a peak of more than 11 per cent in 1992 to about 6 per cent in 1995, and inflation reached its lowest level in 26 years, stabilizing at about 8.1 per cent, a major drop from 1994's level of 14.5 per cent. As 1996 draws to a close, economic growth has slowed to about 4 per cent; forecasts are for between 3 and 4 per cent in 1997.

Israel's newly elected government (May 1996) has reiterated its election promises to deregulate, privatize and demonopolize Israel's economy. The government's far-reaching economic program is being geared to lower taxes, lower government spending, cut red tape, and sell government land to lower the cost of housing. Current government policies are having an effect on Israel's economy. High interest rates have reduced the profitability of manufacturing, and the current political climate is affecting business confidence. Yet, as high interest rates continue to attract short-term capital which, in turn, strengthens the New Israeli Shekel and places a strain on Israeli exporters, they have made imports more attractive. Israeli compa-

nies have also been very successful in raising capital abroad. In fact, Israel ranks second to Canada in the number of companies traded on Wall Street.

Liberalizing Trade

In the last 10 years, Israel has implemented several important economic and trade liberalization measures directed at encouraging foreign investment (including more incentives to foreign investors) and new business ties. The country has had a free trade agreement with the European Union since 1975, with the United States since 1985, and with the Eastern European countries since 1993. It has trade agreements with



neighbouring countries such as Egypt, Jordan and Turkey (to be ratified) and is pursuing others with such countries as Qatar, Oman, Tunisia, Morocco, Hungary and Poland. It also has *Avoidance of Double Taxation Agreements* with Canada, the U.S.A., Thailand, Japan, a number of European countries, and most recently has signed one with Korea.

On July 31, 1996, Canada and Israel signed a *Free Trade Agreement*, giving Canadian and Israeli companies duty-free access to each other's markets for virtually all industrial goods. Once this agreement comes into force on January

1, 1997, it will allow Canadians to compete on a level playing field with their European and U.S. competitors.

Seeking Middle East Peace

Complementing Israel's economic reforms are its growing political relations. At the end of 1995, Israel had re-established relations with more than 40 countries that had broken ties in the 1960s and 1970s. The new government, while pursuing more hardline positions on issues affecting Israel's security, has pledged to continue the Middle East Peace Process.

Continuation of the Peace Process is the best way to ensure the security and, by extension, the economic prosperity of all people in the region.

It is an opportune time for Canada to enhance its presence and secure better access to this strategic nation.

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