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MUTUAL TRADE RELATIONS BETWEEN ISRAEL AND THE EUROPEAN UNION WITHIN THE YEARS 2009-2013

Summary: In today's world of globalization and overwhelming economic interdependencies it is important for any economist to be able to analyze and identify the casual nexus of the configuration of global trade. The topic of foreign economic policy of Israel and its economic relations with the European Union is unique in its nature as both of the considered economic entities do not constitute regular economic organisms. From the practical point of view, it is important to recognize and understand the factors enhancing the development of mutual economic relations, its institutional and legal framework as well as explore the mutual trade and its structure.

Keywords: foreign economic policy, Israel, European Union, economic relations.

Introduction

Since the complexity of the network that seems to be shaping the global economy of today's world is unquestionable, every economist and/or researcher interested in this topic should be able to identify, understand and analyze the impact of casual nexus of the configuration of global trade. Foreign economic policy of Israel and its trade relations with European Union often seem to be neglected in the research despite its unique nature. Both economies/powers were established in the aftermath of the Second World War. Both have roots in the intend to combat post war displacement, economic instability, loss of human lives, property, infrastructure. They have been created with the intention of providing citizens with a safe environment to live and work in; that is to improve the eco-

conomic situation, enable growth, creativity, entrepreneurship, individualism and prosperity as well as to deal with war damages, loss of property, intellectual power and disenfranchised populations in multiple countries. The historical background, geographic heritage, diverse demographics and relatively new presence on the international arena, contributed to the topic of mutual economic relations: factors that determine it, legal and institutional framework as well as detailed analysis of balance of trade being even more important and intriguing to researchers and economists. Therefore, the main objective of this paper is to provide a solid insight into bilateral trade connections of both economic powers, its foundations and the most recent configuration i.e. within the years 2009-2013.

1. Factors determining the process of mutual economic relations formation

While identifying the factors determining crucial role in the process of formation of mutual economic relations of Israel and European Union, it would be beneficial to begin with a brief overview of basic facts about these two political and economic entities. The statistics used for this section of the article will be provided in US dollars (while comparing quantitative indicators), as it has been globally recognized and used for trading, buying and selling purposes due to its historically strong and reliable position.

To describe Israel, it is essential to begin with its geographic location, size and population. Israel is located in the Middle East, between Egypt and Lebanon, it is bordering the Mediterranean Sea. Even though it is a small country (give the area size here) it has a growing and diverse population. Its nation includes native Israelis and Arabs as well as western and Middle eastern emigrants. Its controversial inception created volatile situation throughout history in the region and left the small nation exposed daily threats to its safety, infrastructure, market and economy from neighboring States. Israel remains extraordinary successful in its technological research, innovation, development, it is competitive militarily, economically, politically. It has created environment conducive to the growing and cutting edge innovation in its multiple industries, sustainability and compatibility with the most developed and prosperous nations in the developed world. It outproduces its neighbors which are considered autocracies and theocracies in terms of political regime [Hellander, Humphreys and Tilbury 2000, p.15]. Although Israel is perceived as relatively young democracy, considering it became a State on 14th of May of 1948, its guaranteed civil and political liberties, the rich and diverse culture, domestic and foreign policy,

brings Israel closer in its political and economic systems to Western democratic states. There is a little doubt that largely due to liberal and democratic way of thinking of the Jewish politicians, Israel has been able to achieve great results over the years in its economic development despite the challenging and persistent military threats from the surrounding nations. [Patek, 2003, p. 161].

Israel's outstanding economic performance and recalling data on its economy, its GDP, purchasing power for the year 2014, amounted to 268.3 billion US dollars. This number ranked the Jewish state as the 56th country in the world. Moreover, Gross Domestic Product considered per capita was equal to 33,400 USD. At the same time, the real growth rate of the country's GDP was 2.5%. The inflation (in consumer prices) amounted to 0.5% [www2]. Table 1 describes further indicators by which Israel's economy is measured.

European Union – a regional, international organization. It has been established post WWII. It soon became the biggest economy in the world with multiple nations becoming a part of the conglomerate. The origins of the EU goes back to the post WWII era when prominent European leaders of that time decided to hold a cooperative meeting to analyze what had caused the tragic wars. Consequently they agreed that the only path to maintain lasting peace and prevent further destruction among European countries was to reconcile two nations: France and Germany. It was supposed to be done economically and politically, and it developed from a regional economic agreement which was concluded in 1951, by six neighboring states [Pankowicz, 1991].

Currently, European Union is the world's third largest economic and political organization in terms of total population, followed only by China and India, inhabited by 511,434,812 EU citizens. On the other hand, characterizing economic performance of the European Union during the year 2014, EU's GDP was second in comparison to the world scores, following China, with the total value of 17.61 trillion USD. GDP per capita reached 38,300 US dollar with a real growth rate of 1.4%. The overall inflation rate measured in consumer prices was 1.5% [www1]. Table 1 describes further details on European Union's economic performance, in comparison to values by which Israeli economy was measured.

Following the topic of Israeli outstanding economic performance and recalling data on Israeli economy for the year 2014, its GDP, the purchasing power parity amounted to 268.3 billion US dollars. This number ranked the Jewish state as the 56th country of the world while comparing economies by this measure. Moreover, Gross Domestic Product considered per capita was equal to 33,400 USD. At the same time, the real growth rate of state's GDP was 2.5%. The inflation (in consumer prices) amounted to 0.5% [www 2]. Table 1. describes further indicators by which Israeli economy is measured.

Table 1. The comparison of economic potential of Israel and European Union as of 2014

Measurement	Israel	European Union
<i>GDP growth rate</i>	2.5%	1.4%
<i>Inflation rate (consumer prices)</i>	0.5%	1.5%
<i>GDP by sector of origin</i>	x	x
agriculture	2.4%	1.8%
industry	25.7%	25.3%
services	71.9%	72.9%
<i>GDP by end use</i>	x	x
household consumption	57%	56.9%
government consumption	22.6%	21.6%
investment in fixed capital	18.9%	17.9%
investment in inventories	0.5%	0.1%
exports of goods and services	31.8%	44.9%
<i>Population</i>	7,821,850	511,434,812
<i>Labor force</i>	3.784 million	230.1 million
<i>Labor force by occupation</i>	x	x
agriculture	1.6%	5.2%
industry	18.1%	22.7%
services	80.3%	72.2%
<i>Unemployment rate</i>	6.6%	10%

Source: Own compilation [www 1], [www 2] and [www 6].

Analyzing Table 1, and comparing economies of Israel and European Union, it is worth noticing that the Gross Domestic Product of Israel is growing faster than GDP of the EU by about 1.1 percentage points, while at the same time, the inflation rate of the EU is higher. In general, characterizing GDP generated by particular sector of economy it may be concluded that these two are fairly comparable for both economic entities. The only exception is the case of exports of goods and services. In this case, the European Union is outperforming Israel with ten-percent difference in the share of inflow and outflow of goods and services in GDP.

As the European Union's population is incomparable to the population of Israel, it is worth highlighting the difference in shares of labor force working in various sectors of economy (see looking at Table 1.). In Israel, the larger number of citizens participating in the workforce are employed in the services sector whereas in EU, the share is lower. As a result, the bigger section of European society is working within industry and services sector of the economy. Moreover, percentage wise, there are more individuals unemployed in the EU than in Israel.

2. Legal and institutional framework of political and economic relations between Israel and European Union

While discussing the topic of mutual economic relations between Israel and European Union it is important to specify legal and institutional framework for

cooperative work. To begin with, it has to be emphasized that both economic entities share a long common history which has been developed steadily through growing interdependences and mutual cooperation. The latter is the outcome of similar respect for rule of law, freedom and democratic values. Furthermore, the Jewish state and the European Union are internationally strongly dedicated to the sustainment of an open, equal in opportunities global economic system.

The legal structure within which mutual relations are taking place is being provided mainly by the document entitled „Association Agreement” of Israel and European Union. It was signed in Brussels, on 20th November 1995. After the sequential legal ratification by national parliaments of each and every European Member State (at that time these included fifteen countries), the European Parliament and by the Knesset (Israeli Parliament), „Association Agreement” entered into force on 1st of June 2000. This legal act has replaced the former Cooperation Agreement concluded in 1975 [www 3].

The main topics covered by the „Association Agreement” include:

- provisions on the proper political dialogue,
- rules concerning the free movement of capital,
- arrangements on freedom of liberalization and establishment of services,
- competition rules,
- arrangements set to strengthen economic cooperation,
- and establishments on cooperation in social matters [don Harpaz, 2008, p. 397].

It is also important to note that the agreement launched a body named the „Association Council” which it is to be supported in its performance by an Association Committee. The „Association Agreement” supports also the settlements on free trade between Israel and the European Union in industrial products that have been legally binding since the late 1970s. Other areas of cooperation that may be under negotiations in the future are also mentioned [www 3].

The „Association Agreement” is not the only legal act on mutual relations between European Union and Israel. Others incorporate **the agreement on agriculture** that entered into force on 1st of January 2010. This legal act concerned reciprocal liberalization measures applied to agricultural and processed agricultural products as well as fish and fishery products. **Agreement on scientific and technical cooperation** become valid on 17th of July 2007. As a result of it to it, Israel’s universities, companies and researchers are granted full access to the European Seventh Framework Program (FP7) which is European Union’s Research and Development Funding for 2007-2010. **The Agreement on Good Laboratory Practice** was signed on 26th July 1999 and came into force on 1st of May 2000. **Agreements on Procurement by Telecommunications Opera-**

tors and on Government Procurement came into force on 1st August 1997. **Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA)**, that become valid on 19th of January 2013 contains a special annex that lists good manufacturing practices for pharmaceutical products. Due to its legal act, EU-certified pharmaceuticals are to sold without additional certification on internal Israeli market and inversely [www 3].

Following the political framework, Israel is considered among the closest neighbors of EU that are a part of the European Neighborhood Policy (ENP). The main role of ENP is the perspective of transforming cooperation into integration. Following the, „European Neighboring Policy Action Plan” was implemented for Israel. It complements the EU-Israel „Association Agreement” with an array of priorities set mutually and a program of specific activities to which both signing parties are committed [www 5].

Describing institutional framework of the economic cooperation of Israel and the European Union, „Association Agreement” stipulates the establishment of two main bodies for the purpose of mutual dialogue that meet at annual sessions: **The EU-Israel Association Council** and **The EU-Israel Association Committee** that are functioning at the level of senior officials. These bodies analyze the state of bilateral relationship and discuss any points that are of common interest [www 3].

The ENP Action Plan added to the institutional framework additional ten sub-committees on:

1. Industry trade and services.
2. Internal market.
3. Research, innovation, information society, education and culture.
4. Transport, energy and environment.
5. Political dialogue and co-operation.
6. Justice and legal matters.
7. Economic and financial matters.
8. Customs cooperation and taxation.
9. Social and migration affairs.
10. Agriculture and fisheries.

The European and the Israeli Parliament are also inevitable in terms of institutional framework of EU – Israeli cooperation [don Harpaz, 2008, p. 395-396].

3. The analysis of mutual balance of trade in the years 2009-2013

Mutual interdependencies between Israel and European Union in terms of trade are more than significant. Regardless of differences that occur between both economic entities, the EU is definitely the largest market in terms of import and export for Israel. Furthermore, the exchange between the Jewish state and the European Union amounts to nearly a third of total trade of Israel. According to the data presented in table 2 below, total trade between EU and Israel equaled to 29,451 Mio € with 16,977 and 12,472 Mio € for exports and imports respectively. This data ranks Israel as 28th partner of the European Union in terms of imports, contributing to 0.7% of total European value of imports [www 4].

Again, the annual export data places Israel as the 24th European trading partner of all economic entities that sell their goods abroad, with 1% of total value of exports. Despite the fact that the comparison of the annual growth rate of imports and exports of 2013 to the ones from the year 2012 was negative, the general average annual growth rate of imports and exports between Israel and EU was positive with 8.8 % and 10.2% respectively. Based on that it may be assumed that despite the severely negative economic impact of the last financial crisis for individual economies, it does not slow down the exchange of goods between European Union and Israel [www 4].

Table 2. European Union, Trade with Israel – key figures

Indicator	Unit	Period	Imports	Exports	Total trade	Balance
Last year	Mio €	2013	12,474	16,977	29,451	4,504
Rank as EU partner		2013	28	24	28	n/a
Share in EU Trade	%	2013	0.7	1.0	0.9	n/a
Annual growth rate	%	2012-2013	-1.8	-0.5	n/a	n/a
Annual average growth rate	%	2009-2013	8.8	10.2	n/a	n/a

Source: [www 4].

Furthermore, table 3 below presents data collected on the total amount of goods exported from and imported to Israel. It also enumerates Israel's five top partners in terms of export and import for 2013, while European Union is identified as the first trading partner. Not only did the EU contribute to 33.9% of the total amount of goods imported to Israel but it also transferred 27.9% of all goods from Israel to European market. Finally, 30.9% of Israel's total trade was conducted with the EU.

Table 3. Israeli top trading partners as of 2013

	Imports			Exports			Total Trade		
	Partner	Value (Mio €)	Share in the world (%)	Partner	Value (Mio €)	Share in the world (%)	Partner	Value (Mio €)	Share in the world (%)
	<i>World</i>	55,133	100.0	<i>World</i>	51,057	100.0	<i>World</i>	106,189	100.0
1	European Union	18,713	33.9	European Union	14,087	27.6	European Union	32,799	30.9
2	USA	6,252	11.3	USA	13,524	26.5	USA	19,775	18.6
3	China	4,302	7.8	Hong Kong	4,122	8.1	China	6,498	6.1
4	Switzerland	3,372	6.1	China	2,196	4.3	Hong Kong	5,401	5.1
5	Turkey	1,805	3.3	Turkey	1,919	3.8	Switzerland	4,432	4.2

Source: [www 4].

In relation to Table 3, Table 4 below presents Israel's five top European trading partners as of 2013 and specifies Israel's position in within this relation. Generally speaking, the top European trading partner in terms of total amount of the goods exchanged are the United States of America with 14.2% of the absolute value. Russia is the third biggest trading partner of the EU, and in comparison to the Table 3, contributes only to 1.5% of total Israel's trade, being the ninth partner for the Jewish exporters. In terms of partnership in exports, Israel is EU's twenty eight partner and twenty-fourth as of total value of exports.

Table 4. EU top trading partners as of 2013

	Imports			Exports			Total Trade		
	Partner	Value (Mio €)	Share in the world (%)	Partner	Value (Mio €)	Share in the world (%)	Partner	Value (Mio €)	Share in the world (%)
	<i>World</i>	1,682,592	100.0	<i>World</i>	1,737,961	100.0	<i>World</i>	3,420,553	100.0
1	China	280,095	16.6	USA	288,263	16.6	USA	484,361	14.2
2	Russia	206,146	12.3	Switzerland	169,566	9.8	China	428,392	12.5
3	USA	196,098	11.7	China	148,297	8.5	Russia	325,926	9.5
4	Switzerland	94,305	5.6	Russia	119,780	6.9	Switzerland	263,871	7.7
5	Norway	90,064	5.4	Turkey	77,755	4.5	Norway	140,289	4.1
28	Israel	12,474	0.7	24 Israel	16,977	1.0	28 Israel	29,451	0.9

Source: [www 4].

Describing the mutual trade of Israel and the European Union it would be important to mention the products exchanged in the biggest volume. This is presented in Figures 1 and 2 below.

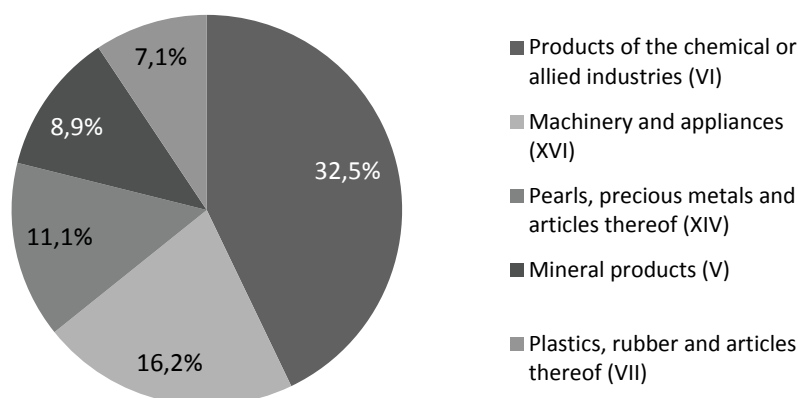


Fig. 1. European Union, Trade with Israel, top five imports according to HS sections – 2013

Source: [www 4].

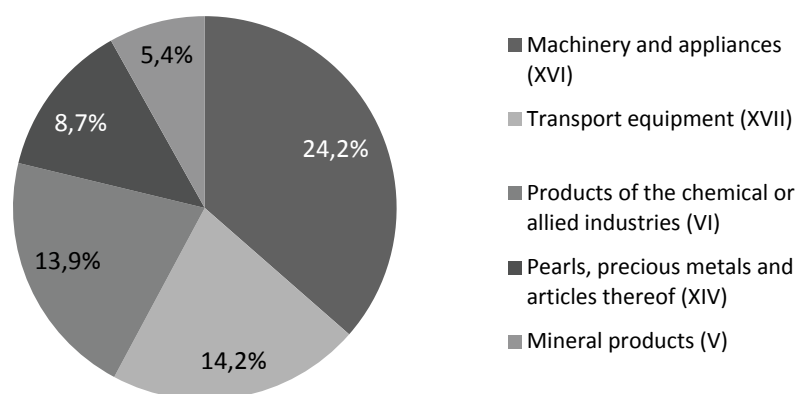


Fig. 2. European Union, Trade with Israel, top five exports according to HS sections – 2013

Source: [www 4].

The most significant group of products (analyzed in HS nomenclature) imported from Israel to European Union in 2013 include in the first place products of the chemical or allied industries, followed by the machinery and appliances. The third most significant group of imported products include pearls, precious metals and similar products. The top three products exported in 2013 from the EU market to Israel were: machinery and appliances; transport equipment and products of the chemical or allied industries.

Conclusion

The main goal of this paper specified at the beginning of this scientific research has been delivered by providing a comprehensive insight into the trade relations of Israel and European Union. It has been noted that due to factors mentioned in the first section of this paper, from the very beginning, Israel has been maintaining and growing economic and political relations with European Union with regular consideration for improvement of their agreements in the different sectors of economy. As a result, Israel is one of few countries with the most advanced status among the non-member States in regards to its contractual ties with the European Union. It has been also proven that European Union remains Israel's main trading partner when it comes to imports and exports notwithstanding obvious disproportions that both economies encounter. With such theoretical basis, it would be worth considering in following academic research the future possible directions of development (or regression?) of mutual economic and trade relations.

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**ANALIZA WZAJEMNYCH RELACJI GOSPODARCZYCH
POMIĘDZY IZRAELEM I UNIĄ EUROPEJSKĄ
W LATACH 2009-2013**

Streszczenie: W dzisiejszym świecie globalizacji i wszechogarniającej sieci ekonomicznych współzależności kluczowe dla każdego ekonomisty jest, aby był on w stanie zidentyfikować ciąg przyczynowo-skutkowy odnoszący się do genezy aktualnej konfiguracji handlu światowego. Temat zagranicznej polityki ekonomicznej Izraela i jego ekonomicznych relacji z Unią Europejską jest wyjątkowy w swej naturze ze względu na fakt, że oba podmioty gospodarcze nie stanowią zwyczajnych organizmów ekonomicznych. W celu zrozumienia istoty wzajemnych relacji handlowych Izraela i Unii Europejskiej niezbędne jest rozpoznanie i zrozumienie czynników wpływających na rozwój tych stosunków, ich ramy prawne i instytucjonalne oraz zbadanie struktury wzajemnego handlu.

Słowa kluczowe: zagraniczna polityka ekonomiczna, Izrael, Unia Europejska, stosunki gospodarcze.