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The Economy of Israel

Is it sound? Should you invest in it?

If you follow economic news, you may have concluded that Israel's economy is in dire straits. And you may have heard of rampant inflation and other disquieting information. But when you visit Israel, and feel the vigor and "vibes" of the economy, you get a different impression.

What are the facts?

■ Israel is still paying for all the wars forced upon it since its birth. Out of an annual budget of about \$20 billion, more than one-third, about \$7 billion, is for repaying and servicing of that debt and \$5 billion goes for defense. That leaves just \$8 billion to run all other services of the country. In making peace with Egypt and returning the Sinai, Israel gave up the oil fields it had developed, which yielded an annual income of over \$2 billion and which made Israel independent of oil imports. Israel also gave up the enormous investment in some of the world's most advanced and sophisticated military bases, and the cities of Yamit and Ofira.

■ All of these sacrifices did indeed create a major economic crisis, which resulted in inflation, unemployment and stagnation. But for the last three years, Israel has put into effect wide-ranging recovery plans, leading to economic stability and renewed growth. The results of these plans have exceeded expectations: Inflation was beaten without causing recession, unemployment declined, the budget deficit was reduced to 4% of GNP, and the Bank of Israel's foreign reserves almost doubled.

■ The energy and resourcefulness that has enabled Israel to absorb over 2 million immigrants and to convert a desolate land into one of green fields and modern cities are also reflected in Israel's economic development. Israel is a modern industrial state, whose output encompasses some of the most advanced technology and sophisticated production in the world. Industry is concentrated in high-technology and high-added-value products. It is based primarily on domestic scientific and technological creativity and innovation.

■ Israel is a leader in the fields of medical electronics, military electronics, civilian and military aviation, agri-technology, telecom-

munications, computerized graphics, fine chemicals, solar energy, water desalinization, and computer hardware and software.

Traditional industries include food processing, textiles and fabrics, furniture, fertilizers, rubber, plastic, and metal products. The highest growth rates are in those branches that require heavy R & D investment and sophisticated production techniques.

■ Israel is the acknowledged world leader in the diamond industry. It produces over 80% of the world's output of small polished stones. Israel is also the developer and the world leader in the drip irrigation technology of agriculture. Israeli equipment and this technology are now being used with great success in the arid regions of the United States and in many developing countries (some of which don't acknowledge the "existence" of Israel).

■ Domestic tranquility, a western legal system, the superb university network (centered on Hebrew University in Jerusalem and the Technion in Haifa), the full infrastructure in transport, communications, and utilities, but primarily its educated and motivated population make Israel attractive to foreign industry. They are also aware that the highest level of R&D work is performed in Israel and that it costs around 40% less than in the U.S. Such companies as IBM, Digital Equipment, Intel, National Semiconductor, Motorola and many others have established plants and design centers in the new industrial parks mushrooming around the country's academic institutions. Israel has a Free Trade Area agreement with both the E.E.C. and with the United States, the only country in the world whose goods have preferential tariff reductions and duty-free access to the two most important markets in the world.

Israel's economy is healthy, is vibrant and growing, and offers countless investment opportunities in industry, agriculture, real estate, tourism, commerce, mineral exploration and much more. This is a country that started totally from scratch, less than 40 years ago. It is almost totally devoid of raw materials, has poor soil, and scant water resources. Yet it has fought five major wars, has absorbed and settled over 2 million immigrants, and has created a formidable industrial/agricultural society. The emerging nations and "third world" countries should take the economy of Israel as their example.

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