

THE AMER

Robert E. Rubin, U.S. Secretary of the

In your view, what have been the Israeli economy's toughest challenges during its 50 years?

In the mid-eighties, Israel faced very high rates of inflation, driven by a budget deficit which reached more than 25% of GDP. Through concerted deficit cutting and vigilant monetary policy, Israel did break out of the high-inflation trap, and is very close to getting inflation down into the single-digit range. Further reducing the role of the public sector in the Israeli economy will play a key role in consolidating the progress made against inflation.

After high inflation, Israel dealt with another big challenge in the 1990s - immigration. Although there have been some difficulties, Israel absorbed an immense number of immigrants, relative to its size, without an increase in the unemployment rate. This is a feat which few countries would be able to perform today.

What have been its major accomplishments? What have been its major failures?

Broadly speaking, I would say that the Israeli economy has achieved the most important goal - providing a high standard of living to a large number of its citizens. And, Israel should continue to do so because it is well positioned to compete in the post-industrial information age.

Looking at recent history, I would commend Israel for its success in lowering the budget deficit and on its record on privatization. The challenge is to consolidate these gains and create the conditions necessary to support sustained, non-inflationary growth in Israel. To do that, I would urge further progress on structural reforms, such as deregulation and privatization.

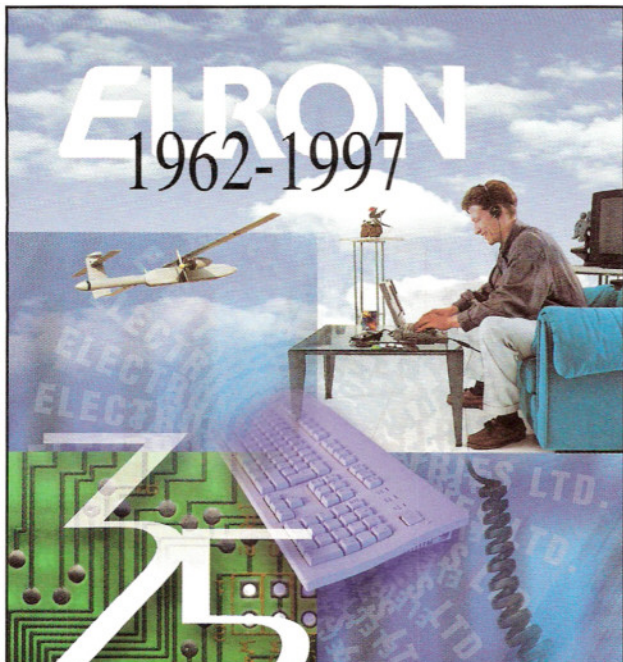
What can other emerging economies learn from Israel's experience?

Three things come to mind.

First, I think it is worth emulating Israel's commitment to education. Education is one of the key preconditions for economic growth, and there is no doubt that Israel's investment in human capital has enormously benefited the economy.

Second, many emerging markets lack the basic legal infrastructure that supports business activity, and could learn from the Israeli legal system, which is relatively well-developed.

Third, emerging economies can learn from Israel's ongoing efforts to open its economy and streamline the role of the government through fiscal discipline, privatization and economic liberalization.



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ICAN PERSPECTIVE

Treasury, discusses Israel's economy with Hillel Kuttler in Washington, D.C.

Against the backdrop of a world dominated by NAFTA, EU, and burgeoning Asian trading blocs, where should Israel specifically and the Middle East in general be positioned in the next century?

Israel has been moving in the right direction by making reforms to open its economy. A good example of this is the government's recent decision to allow full convertibility of the shekel.

Economies that are relatively open to trade tend to enjoy superior economic performance. I think all countries should make it a priority to actively participate in the multi-lateral free-trade process sponsored by the WTO. But, with that said, it could certainly be to Israel's advantage to take part in a regional free trade agreement. Regional agreements can facilitate movement towards a free-trading world, as long as they cover substantially all trade among participants and do not raise barriers against third-party countries in the process. For example, since the free trade agreement between Israel and the United States took effect more than ten years ago, trade between our two countries has more than tripled.

Knowing the financial markets as you do, what reforms would you recommend for the Tel-Aviv Stock Exchange?

There are several qualities which a successful stock market requires.

First, a strong, independent securities regulator, with sufficient enforcement authority; second, a modern legal framework and effective market infrastructure; third, effective prudential regulations and supervisory oversight, transparent trading; fourth, high-quality, internationally acceptable accounting standards and financial disclosure requirements.

My understanding is that Israel's Ministry of Finance is now engaged in an effort to strengthen Israel's capital markets. In particular, the Ministry of Finance released a report recommending that Israel harmonize taxation of various types of assets, encourage pension and insurance fund participa-

tion in the stock market, and stimulate long-term savings. I believe these types of reforms are significant and farsighted.

Should a pan-Middle East market be formed, as there are pan-European, pan-Asian, and pan-American markets?

I believe Israel, along with other Middle Eastern and North African countries, could benefit significantly by expanding trade and investment ties with one another, especially since these countries currently purchase only a small fraction of each other's exports. Emerging markets in the region have great economic potential, and by increasing their demand for Israel's exports, could help support growth in Israel. In addition, a regional trade arrangement could enhance the competitiveness of these economies, as regional trading blocs help build economies of scale and prepare economies to compete globally.

Can individual markets in the Middle East be integrated, or at least be cooperating in the absence of formal Middle East peace arrangements?

I think it is possible and important to move forward on the economic front at this point because economic integration can promote and sustain political stability in the region.

Can Israeli trade with the Palestinian territories, and through them with the larger Arab world, be expanded even with security-related delays?

It seems to me that the more relevant question is, How can we expand trade between the Palestinians and the outside world? Currently, the Palestinians themselves have very little access to the Arab world and trade almost exclusively with Israel. There are a number of things that can be done to help the Palestinians benefit from external trade, including improving transportation infrastructure and easing trade restrictions.

Once this is accomplished, then, yes, I think that Israel and the Palestinians can together hope to do a great amount of business with the Arab world. ■



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