

TRADE IN VALUE ADDED: ISRAEL

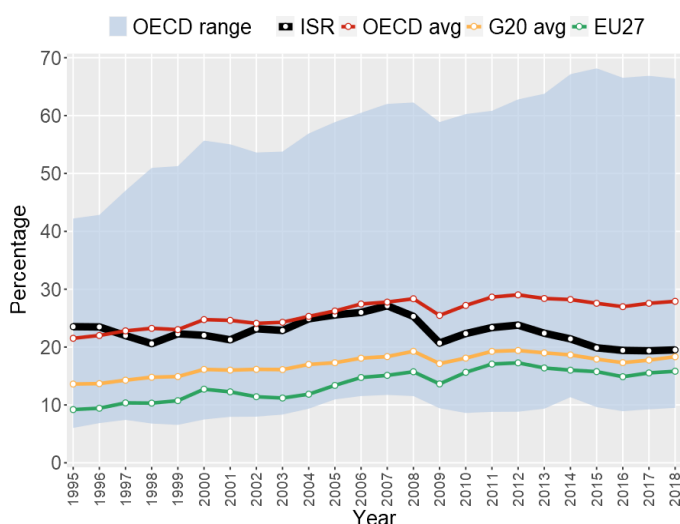
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Trade in Value Added (TiVA) indicators offer new insights into the commercial relations among economies and provide a broad view of where value is created along each stage of global value chains (GVCs). Painting a more complete picture than gross trade measures alone, the TiVA approach better reflects the significantly higher contribution made by services in GVCs, the role of imports in export performance, and the true nature of economic interdependencies. The 2021 version of the TiVA database covers 66 economies and 45 industrial sectors, for the years 1995 to 2018, and brings together indicators based on the value-added origins (both country and industry) of exports, imports and final demand. This note highlights the trade patterns in value-added terms for Israel, with a view to informing policy making for a range of areas including trade, innovation and investment.

Key findings

- ▶ The foreign content of Israel's exports peaked in 2007 at 27.1%, close to the OECD average (27.9%), and is currently at its lowest in the last three decades, converging towards the G20 average of 18.3% (Figure 1). Industries with relatively high foreign content in their exports included *Coke and refined petroleum products* (64.6%) and *Basic metals* (44.3%) (Figure 3a).
- ▶ In 2018, Israel's domestic share of value added meeting foreign final demand was highest in the sectors of *Manufacturing nec.* (97.9%), which includes jewellery (in Israeli case especially diamonds), sports and medical equipment; and *Chemicals and pharmaceuticals* (67.1%). Overall, the Israeli manufacturing share decreased to 47.5% from 53.8% a decade earlier (Figure 2).
- ▶ In terms of trade partners, in 2018, over a quarter of Israel's value added met United States' final demand. The second and third largest final destinations of Israeli value added were the European Union (21.4%) and China (7.1%). Conversely, over a quarter of Israel's imports, both in value-added and gross terms, came from the European Union. The second and third import partners in value-added terms were the United States (14.7%) and the Russian Federation (9.4%) (Figure 5).
- ▶ The services content of Israel's gross exports stood at 65.5% in 2018, significantly above 2008 levels (55.9%) and the OECD average of 55.7%. For manufactures, this share remained roughly unchanged since 2008 around 31% (Figure 7).

Figure 1. Foreign value-added content of gross exports
As a percent of total gross exports, 1995 to 2018



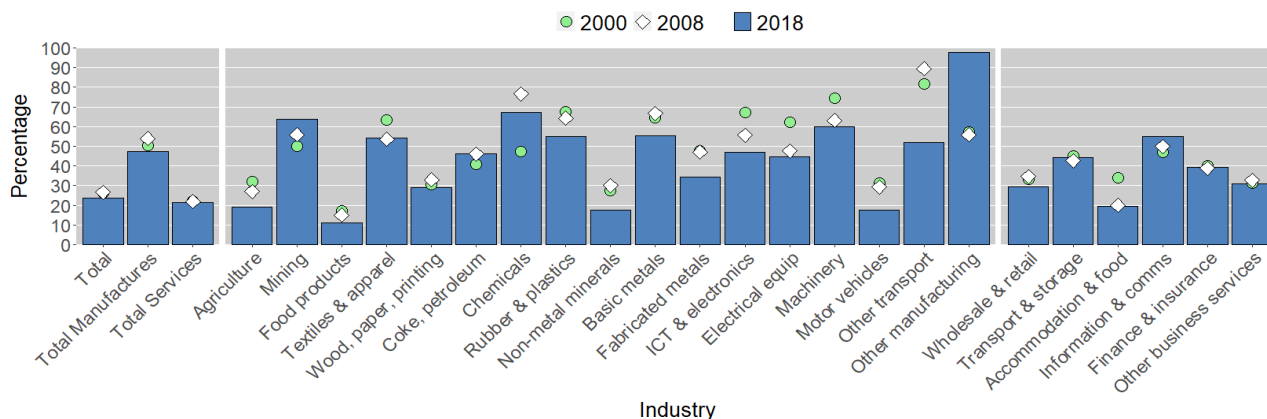
At the global level, the new TiVA indicators confirm that there has been a slowdown in GVC integration since the Financial Crisis in 2008-2009 (Figure 1). However, in general, foreign value added in trade increased between 2016 and 2018.

Between 2008 and 2018, the foreign content of Israel's exports is estimated to have decreased from 25.3% to 19.5% - below the OECD average of 27.9%. Compared to 2008, the foreign content of exports in 2018 was 5.8 percentage points lower.

The role of foreign final demand in domestic production

Overall, in 2018, 23.6% of Israel's domestic value added was driven by foreign final demand, down from 26.7% in 2008. By industry, the shares ranged from *Manufacturing nec* (97.9%) and *Chemicals and pharmaceuticals* (67.1%) at the higher end to *Food and beverages* (11.1%) at the lower end.

Figure 2. Israel - domestic value added in foreign final demand
As a percent of value added, by industry, 2000, 2008 and 2018



The importance of imports for exports

The industries with the most foreign value-added contents in their exports (Figure 3a) were *Coke and refined petroleum products* (64.6%), *Basic metals* (44.3%) and *Manufacturing nec* (40.2%). *Information and communication* generated the greatest source of domestic value-added content of exports in 2018, accounting for 17.8% of gross exports (Figure 3b), followed by *Wholesale and retail trade* (8.3%) and *Chemicals and pharmaceuticals* (7.7%). The most foreign content in total exports came from *Manufacturing nec* (3.2%).

Figure 3a. Israel - foreign value-added content of gross exports
As a percent of gross exports, by industry, 2000, 2008 and 2018

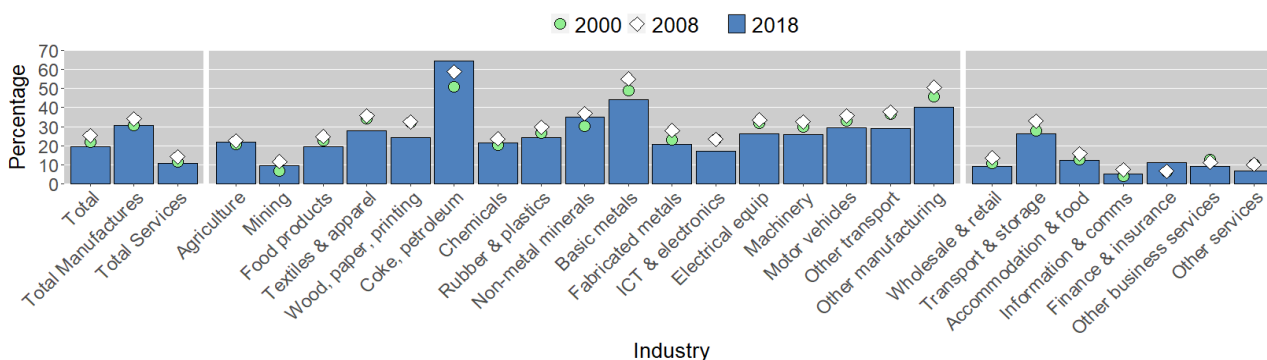
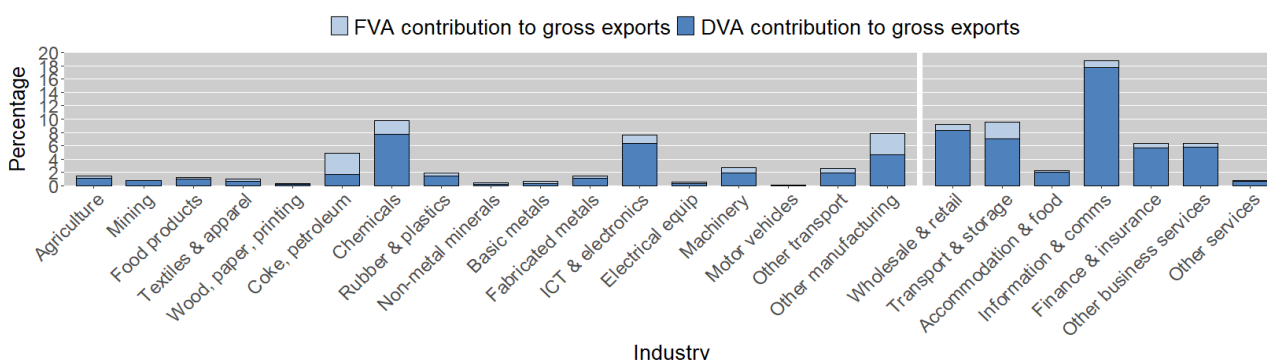
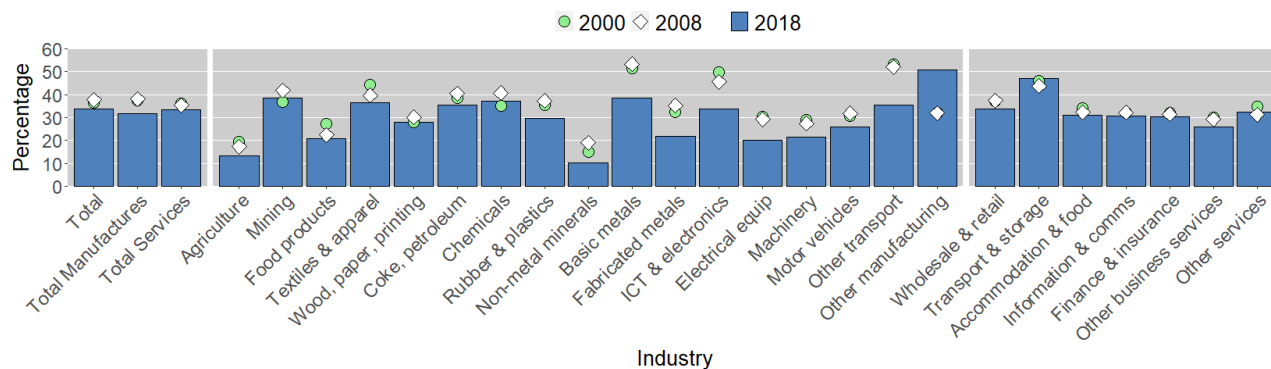


Figure 3b. Israel - industry share of domestic and foreign value-added content of gross exports
As a percent of total gross exports, 2018



Of the total value of Israel's imports of intermediate goods and services in 2018, 33.8% was subsequently embodied in exports, significantly below the OECD average of 47.9%, and below the share in 2008 (37.8%). The originating industries with the highest shares of intermediate imports used in Israel's exports were *Manufacturing nec* (50.9%), *Transport and storage* (46.9%) and *Mining and quarrying* (38.7%).

Figure 4. Israel - imported intermediate inputs used for exports, by industry-origin of imports
As a percent of intermediate imports, 2000, 2008 and 2018



Israel: international flows of goods and services, main players

In gross terms, the United States (27.4%), the European Union (21.4%) and China (7.1%) were the three most important Israeli export market destinations in 2018. The top three final destinations for Israel's value added were the United States (28.4%), the European Union (20.1%) and China (7.9%).

For imports in gross terms, Israel's top three partners in 2018 were the European Union (26.9%), the United States (13.2%) and the Russian Federation (10.6%), while in value-added terms, the top three were the European Union (26.1%), the United States (14.7%) and the Russian Federation (9.4%).

Figure 5 Israel - exports and imports: main partners
As a percent of total gross and value-added exports and imports, 2018

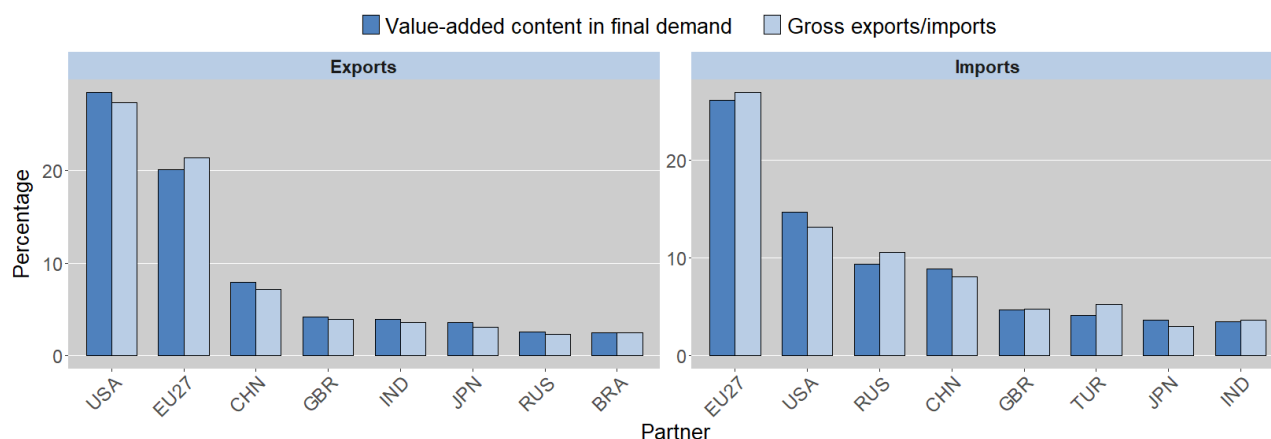
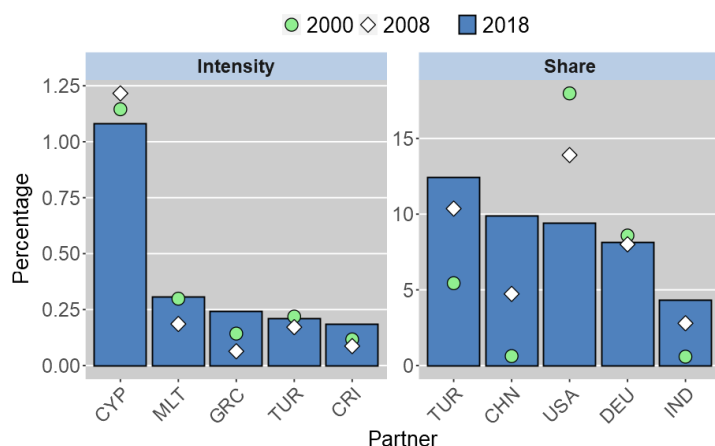


Figure 6. Israel's domestic value-added content of manufactured imports, top 5 partners

As a share of total Israel's value added embodied in Israel's imports (right) and as a percent of total imports by partner (left)



In 2018, the highest shares of Israel's domestic value added embodied in Israel's manufactured imports (Figure 6, right) came from Turkey (12.4%), China (9.9%) and the United States (9.4%).

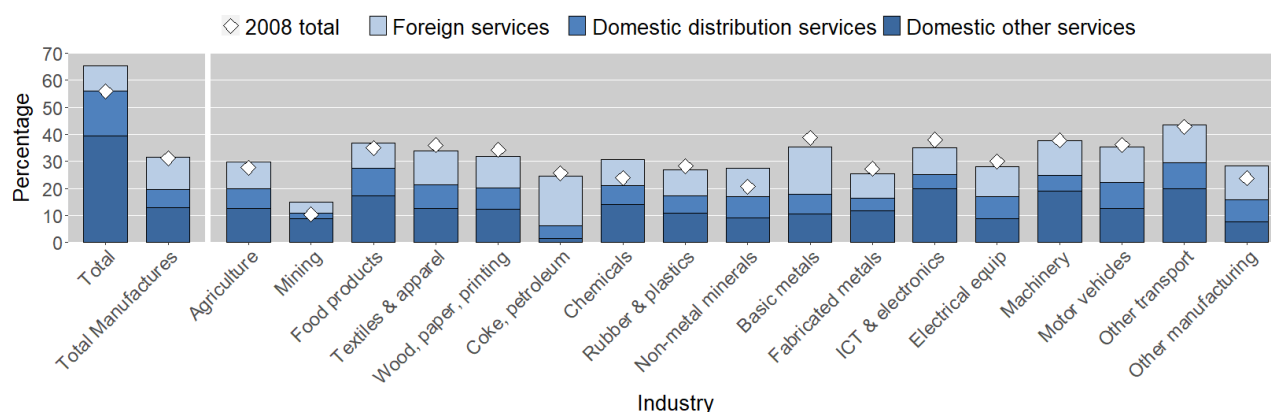
The trading partners with the highest shares of Israel's value added in their exports of manufactures to Israel (Figure 6, left) in 2018 were Cyprus (1.1%), Malta (0.3%) and Greece (0.2%).

The importance of services in international trade

Services are a major contributor to Israel's economy, accounting for 65.5% of Israel's gross exports in 2018 (Figure 7) - above the OECD average of 55.7%. Foreign services contributed 9.3% to the value of total gross exports. For manufactures, services value-added content was 31.5% of gross exports, with the highest shares in *Other transport equipment* (43.5%), *Machinery and equipment, nec* (37.7%) and *Food and beverages* (36.9%).

Figure 7. Israel - services content of gross exports

As a percent of gross exports by industry, 2018



Further information is available to supplement this country note:

- ▶ Access the data at: <http://oe.cd/tiva>
- ▶ Guide to TiVA 2021 Country Notes: www.oecd.org/sti/ind/tiva-2021-guide-to-country-notes.pdf
- ▶ TiVA indicators are based on the 2021 version of ICIO tables: <http://oe.cd/icio>
- ▶ Related indicators of Trade in Employment <http://oe.cd/io-emp> and Trade in Embodied CO2 <http://oe.cd/io-co2>
- ▶ Trade policy implications of global value chains: <http://www.oecd.org/trade/topics/global-value-chains-and-trade/documents/trade-in-value-added-2021.pdf>

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