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Why the Divest Movement Would Hurt More Than Israel

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The self-styled Boycott, Divestment and Sanctions (BDS) movement has been seeking to discredit and reverse Israeli policies with respect to the Palestinian Territories since 2005. BDS promotes an international boycott of Israeli products, divestment from Israeli companies, and exclusion of artists and academics from the Jewish state, among other things. Though the political aims of BDS are contrary to nearly 40 years of U.S. policy, the movement has gained traction in the United States, primarily in academic circles, and among religious and labor organizations. Divesting from Israel, however, would not only likely have negative economic repercussions for Americans and Israelis, but for Palestinians as well. Indeed, the entire divest movement has the potential to devastate the very people it purports to defend.

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The Financial Cost of Divestment and Boycott. Punitive economic campaigns have reemerged as the weapon of choice for activists seeking to change the behavior of a given public corporation or the policies of a certain government. For instance, socially responsible investing (SRI) — the practice of choosing stocks, bonds or mutual funds based on political, religious or social values — remains a popular approach for political activists pushing divestment.

State pension funds are a popular target for SRI and divestment activists. Despite their fiduciary duty to maximize the return for investors, some funds have made decisions based on political motivations or outside pressure. Investors in those funds have suffered the consequences. For example:

- In 2000, the California Public Employees Retirement System and the California State Teacher Retirement System sold all $800 million of their tobacco shares; but since then, the fund has missed out on $3 billion in investment gains and is now considering reinvesting in tobacco company stocks.[1]
- SRI funds routinely underperform traditional stocks; from 2004 to 2009, the worst performing regular fund tracking the S&P 500 Index fared better than three out of the four leading SRI funds.[2]

Basing financial decisions on *en vogue* social issues creates uncertain investment strategies. The same approach can harm those that divestment claims to help. For instance, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* contains a conflict minerals provision that requires publicly-owned U.S. businesses to inspect their supply chains and disclose whether they use minerals sourced from the Democratic Republic of the Congo (DRC) — namely, tungsten, tin, tantalum and gold.

American officials were told in 2007 that decades of civil war continued in the DRC because rebels funded their operations through the sale of minerals found in everything from electronics to clothing. The subsequent regulation engineered a *de facto* boycott on an already impoverished nation when companies fled to avoid compliance costs or the stigma of conflict minerals.

This exodus drove thousands of Congolese artisan miners outside rebel control deeper into poverty. And the conflict continues.[3]

U.S.-Israel Economic Relations. The first U.S. free trade agreement was with Israel, in 1985. Today, Israel is America's second leading trading partner in the Middle East.[4]

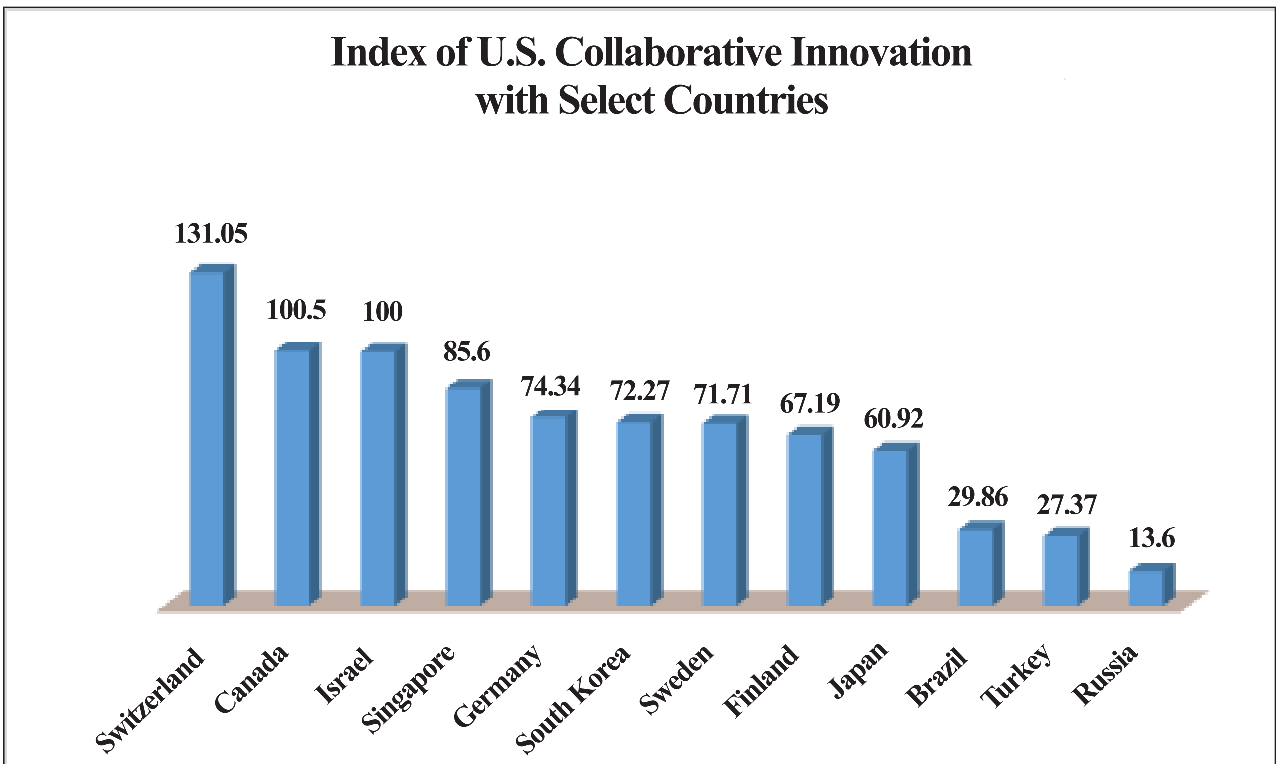
- In 2015, the United States exported $13.5 billion dollars' worth of goods to Israel and imported $24 billion dollars' worth from Israel.[5]
- Trade in services totaled $9.8 billion in 2013, up from $2 billion in 1992.[6]
- Israel also receives the second-most American Foreign Direct Investment (FDI) of all Middle Eastern countries and is solely responsible for nearly all FDI from the region to the United States.[7]

But collaboration is the defining aspect of U.S.-Israel economic cooperation. The U.S.-Israel Innovation Index — which uses a variety of metrics to compare U.S. scientific and technological collaboration with Israel to relationships with other advanced economies — ranks the strength of Israel's partnership with America equal to Canada's and behind only Switzerland's. [See the figure.]

The same index ranks U.S.-Israel collaboration as first in government-to-government exchange, second in private sector and industry cooperation, and third in research and development (R&D).[8]

The Success of Shared R&D. Israeli R&D spending skyrocketed in the 1990s, and as a share of government spending remains the second highest among members of the Organization for Economic Cooperation and Development (OECD) — developed countries that support market economies and world trade.[9] The OECD uses the mobility of scientists into and out of a given country and affiliated institution as a quantitative measure of a nation's impact on the diffusion and circulation of scientific knowledge. And here, Israel has the 7th highest scientific impact of the 37 members, and one of the largest number of scientific publications per capita of all the OECD countries.[10] As a result, Israel has emerged as one of the most sophisticated R&D environments in the world.[11]

Manageable operating costs and a collaborative atmosphere in Israel enable U.S. companies to reduce expenses while boosting innovation.[12] Many U.S. companies have established R&D centers in Israel to take advantage of favorable labor costs, paying just one-half to two-thirds the cost of labor in the United States.[13] For instance, Intel Corporation has four R&D



Source: "The U.S.-Israel Innovation Index: Comparing international linkages in innovation," U.S.-Israel Science and Technology Foundation, 2013.

centers in Israel with 5,000 employees; HP has four, with 3,500 employees; and IBM has five, with 2,000 employees.

Impact on the American Economy. U.S.-Israeli collaboration has created permanent channels of shared innovation between the brightest minds in both countries.[14] For example:

- A project funded by the United States-Israel Binational Science Foundation (BSF) resulted in a new online advertising algorithm which increased Yahoo's revenue $50 million in one year.[15]
- Funding from the Binational Industry Research and Development Foundation (BIRD) proved critical in the creation of digital signal processing chips now used in printers, televisions and digital cameras, among other products.[16]
- The Binational Agricultural Research and Development Fund (BARD) has invested $400 million in approximately 1,100 different projects, ranging from food safety to genomic database creation. Ten particular projects supplied $1.7 billion in economic benefit to the United States.

Investments by these American-Israeli foundations have contributed to the creation of 18,000 to 200,000 U.S. jobs.[17]

Case Study: Impact of Israelis on Massachusetts. Nevertheless, the BDS movement has gained traction across the United States, especially in Massachusetts.[18] But local divest advocates might consider a case study by Stax Inc., which found Israeli entrepreneurship is a critical element in Massachusetts' economy. The study found 200 companies in Massachusetts had Israeli founders or used Israeli-licensed technologies. In 2012, these companies generated $12 billion in state economic benefits, employed over 6,500 people and indirectly supported over 23,000 other jobs.

And, since the divest movement targets investment in Israel, it is also worth noting that these Israeli-founded companies returned nearly $2 billion to Massachusetts investors from 2010 to 2012.[19]

Economic Cooperation Benefits Palestinians. The greatest cost of the divest movement could be the harm it would cause the people it claims to help. Pressuring Americans to divest from companies involved with Israel has the potential to undermine the Palestinian economy.

In 2013, for example, Israelis and other Western sources designated $100 million in venture capital for investment in Arab-Israeli and Palestinian start-ups. As a result, the number of Palestinian technological firms jumped from 23 to 300 between 2000 and 2013 — an increase of more than 1,000 percent. These Palestinian tech firms employ approximately 4,500 citizens.[20] Not only that, at least 32 percent of Palestinian tech firms collaborate directly with Israeli companies to take advantage of the neighboring tech industry. A Portland Trust study concludes the technology sector is one of the fastest growing and strongest contributors to the Palestinian economy.[21]

Over the past 15 years, American tech conglomerates have, in turn, pushed their Israeli subsidiaries to outsource and collaborate with Palestinian start-ups. Israeli subsidiaries of Cisco Systems, for example, invested $15 million in the Palestinian tech sector between 2008 and 2012.[22]

Palestinians benefit from a healthy Israeli economy in other ways. In 2012, over 80 percent of Palestinian exports were destined for Israel. Israeli exports made up 66 percent of total imports to the Palestinian territories and approximately 27 percent of Palestinian gross domestic product. Carrie Sheffield of the Competitive Enterprise Institute argues that "such trade flow asymmetry" shows Palestine needs Israel's economy.[23] Indeed, analyst Bassam Eid, of the Washington Institute for Near Eastern Policy, concludes that Palestinians would rather integrate into the Israeli economy than divest from it.[24] This reality explains, in part, why over half of Jerusalem's Palestinians would rather be citizens of Israel than Palestine, according to a survey by the Palestinian Center for Public Opinion.[25]

Economic growth and improved stability also has the potential to save U.S. taxpayer dollars. Since the 1990s, the United States has given more than $5 billion in direct economic, security and humanitarian aid to the Palestinian people.[26] Separately, the U.S. government provides Israel with approximately $3 billion in annual military assistance.[27] Thriving economies could reduce the need for such aid.

Economic Benefits to the Greater Middle East. The prospects of regional stability that come with economic engagement extend beyond the Israel-Palestine issue. A prime example involves the Qualified Industrial Zones (QIZs), which allow Jordan and Egypt to piggyback on the American-Israeli Free Trade Agreement. Since 1996, goods produced in QIZs in Jordan and Egypt have entered the United States duty-free, if the products contain 7 percent to 8 percent Israeli input, among other standards.[28] Goods from these QIZs accounted for over half of Jordan's exports to the United States in 2009 and 43 percent of Egypt's in 2010.[29]

This agreement strengthened ties between Israel, Jordan and Egypt and bolstered local and national economies, created jobs, attracted foreign investment and added millions of dollars in annual economic activity.[30]

Conclusion. A strong Israeli economy provides Palestinians the potential for greater self-sufficiency through gains in financial independence and economic solvency. And continued U.S.-Israel collaboration will not only benefit U.S. consumers, American employers and the U.S. economy, but also promote regional stability through economic interdependence. The divest movement fails to recognize or acknowledge that its strategy will not only hurt innovation and progress, but will likely worsen conditions for those it claims to support.

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Notes

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