Reply to *OEF93*

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The preliminary excitement surrounding Israel's natural gas discoveries – most notably the Leviathan Field – has translated into broad speculation as policy experts surmise potential paths for Israeli natural gas development and exportation. In issue 93 of the *Forum*, Paritzky and Farren-Price, Elston and Stewart, and Bryza assess Israel's potential export options, considering the political realities and geographical limitations which make a sound and feasible path to exportation particularly tricky.

While analysis of the tentative logistics of Israel's future natural gas exportation is essential, it is equally important to discuss the perils of the resource curse theory for Israel, as it develops its natural gas. The above-mentioned authors discuss the challenges Israel faces in its journey to natural gas exportation, yet never explicitly mention the vulnerabilities now facing the country as a result of its natural resources. As Israel confronts the logistical challenges of exportation, it must remain mindful of the potentially disastrous unintended consequences of resource discoveries.

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In its export considerations, Israel should be wary of the Dutch Disease. The mere indication of a future Israeli natural gas bonanza has facilitated the new Israeli shekel to appreciate by 3 per cent in 2013 alone. As exports in 2012 comprised over 26 per cent of the Israeli economy, Israel must implement measures to maintain the competitiveness of its non-resource exports in the global marketplace. To this end, Israel has passed legislation to establish a sovereign wealth fund where its resource windfalls will be managed. Through the fund Israel will undertake various investments – such as currency diversification schemes – which should help curb rapid appreciation of the new Israeli shekel. The Israeli government, however, would be wise to study the accounts of resource-rich nations as a means of understanding and ultimately avoiding the Dutch Disease.

In the coming decades, Israel's resource profits are estimated to be hundreds of billions of dollars. Despite its strong democratic institutions, Israel must be mindful of rent seeking, given its projected windfall gains and culture of collusion among businessmen and politicians. According to some accounts Israel is one of the most corrupt OECD countries. The nation should therefore create a system of checks and balances which crafts a healthy distance between politicians and natural gas dividends, and seek guidance from countries which have already succeeded in doing so, such as Norway. When the Bank of Norway was awarded increased autonomy and political independence by law, the management of Norway's resource profits was transferred from the Ministry of Finance to the central bank. Israel should institute similar measures to ensure that corruption does not subvert the nation's natural resource sector.

Investing wisely at home is another pivotal aspect of sound natural resource management. The Israeli cabinet has announced that much of the money generated from the Leviathan Field will go toward civic projects such as education, security, infrastructure, and healthcare. In addition to boosting human capital, social service ventures will demonstrate to average Israeli citizens that a share of the resource rents is intended for their direct benefit.

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A portion of the nation's resource rents should also be invested in technology, capital goods, and human capital associated with its own energy industry. Such investments would foster an understanding of the technical operations occurring within its own borders, allowing Israel to develop and maintain greater control of its resource management. If successful in fostering these valuable knowledge externalities, Israel could conceivably develop a cluster related to its natural gas sector and revolutionize its business environment. Israel should study the role of cluster initiatives in stimulating economic growth and examine the experience of, for example, Brazil, Norway, and the United Kingdom.

It is critical for Israel to take a holistic view of resource management. As the authors of August's *Forum* correctly argue, Israel has a number of logistical options to consider in determining trade partners and methods of resource development. Yet it is equally important that all anticipated and unforeseen externalities of its resource boom are properly managed. Deals will be reached, logistics will be settled, and Israel will export its natural gas. Multinational energy corporations and regional trade partners are sure to profit from Israel's bounties. If the tiny Mediterranean nation seeks to maximize what is perhaps its greatest gift fully, it must adopt a comprehensive perspective and earnestly consider the potential consequences of the resource curse. ■