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Understanding the EU-Israel bilateral relations: The Israeli oligarchy - a central actor but not a factor?

Israel's bilateral relations with the EU have been a significant and principle factor in the evolution of its political economy. The complex of the bilateral relations is consisted of common history, strategic interests, cultural and political similarity, along the distinct position of Israel in the Mediterranean ('privileged status'), as a part of the EU regional policy. While in the first decades of the EU-Israel bilateral relations the main engines (as well as the main points of controversy) were the heritage of the holocaust on the one hand, and the Arab-Israeli conflict on the other, in the past two decades there is a third and no less compelling factor – the economic cooperation. The massive economic - trade relations are a result both of the EU's regional - multilateral view, aiming at obtaining a status of a significant global actor, and of the bilateral interaction, namely the pure self-interests of both sides, backed by comfortable cultural and organisational climate. Israel's competitive advantage, in innovation, R&D and technology, has been a key factor.

The EU-Israel bilateral relations and the EU's influence on Israel have so far been addressed for multiple perspectives. The literature can be broadly divided to three sets: One is the literature on Europe - EU involvement in the Israeli-Palestinian/Arab conflict (see for example Tovias, 2003, Hollis, 1997, 2004, Steinberg, 2004, Spencer, 2009, Heller, 2004, 2009, Musu, 2007, Schmidt, 2007), with which the paper will not engage. The conflict is mostly assessed as the central interest of the EU in the region (Pardo and Peters, 2009, Hanlet, 2010). The derivatives of such involvement, i.e. the incorporation between the EU economic policy and this political aspect, are expressed in the form of conditionality, crucial to the bilateral relations.

The second set of literature focuses on the institutional aspect of the bilateral relations, as a part of the EU regional framework, and its various aspects. These multilateral processes under EU leadership, mostly those which followed the 1992 Maastricht Treaty (entered into force in November 1993) include the EMP (Euro-Mediterranean Partnership), the ENP-AP (European Neighbourhood Policy - Action Plan) and the UfM (Union for the Mediterranean). Along the effects of EU internal processes, such as the monetary union or the enlargements, on the relations with the various Mediterranean states (see for example Sadeh 1999, 2004, Herman, 2006, Harpaz, 2006, Sadeh and Hirsch, 1998), de-

iving the problems of EU's 'single voice', the main issues which come out of this set include the problematic conditionality and Israel's distinguished model of partnership.

The third set of literature is covering the historical – socio-cultural background of the relations, along the position of the EU in the Israeli arena. This set examines the impacts of the legacy of the holocaust (Greilsammer and Weiler, 1988), the variables of the dynamic process of reconciliation (Gardner Feldman, 1999), and the way the EU is Israel's economic, cultural and also political hinterland (Dror and Pardo, 2006, Pardo and Peters, 2010). It further analyses the public perception regarding the EU position and power, as perceived in the Israeli eyes (Pardo and Peters, 2009, Harpaz, 2007, Harpaz and Shamis, 2008). What essentially comes out of this set is the EU paradoxical presence. As a central trade partner to Israel, it might be expected that the EU would play a prominent role in the political arena; still the prevailing viewpoint among politicians, political scientists, the public and the media is that it does not, whereas its economic influence is mostly manifested within a narrow business circle. The EU has little real political influence, notwithstanding its economic strength and active involvement in national and regional processes.

The intersection between the particular nature of the Israeli political economy and the bilateral relations is crucial in order to understand their evolution and their particularities. All the same, this linkage is not generally assessed. The political economy of Israel in itself is a wide and complex set of ideas, literature and analyses, whereas arguably, there is no one coherent approach to characterise it. This paper, instead, tries to examine the overlap between the two by focusing on a particular aspect in the Israeli political economy- its oligarchy, mostly marked by a handful of business groups, typically owned by wealthy families, with immense power over society as a whole. For this reason it integrates two general accounts - the evolution of the bilateral relations, and the oligarchy rule in the Israeli political economy, accounting for its place in the bilateral relations. The paper, therefore, aims to contribute to existing debate on the bilateral relations by examining them from a rather new perspective - their linkage to the Israeli oligarchy.

The first part reviews the evolution of the Israeli political economy and the bilateral relations. The logic that informs the periodisation is a derivative of the different phases of the evolution of the Israeli political economy, rather than the EU's. Each phase, ex-

amined through the particular structure and inter-relations of the Israeli continuous power axis state-business, is analysed in parallel to the evolution of the bilateral relations. This linkage is derived by the rational of the EU contribution in shaping the Israeli political economy, the change in the relations as a result of the changes in the Israeli political economy, and the way Israel internalises the EU power and presence.

The second part offers a refined examination of the most recent and critical phase of the relations, from 1995 and on, incorporating the consolidation of the EU Multilateral institutionalised relations following the Maastricht Treaty, in parallel to the era of the 'oligarchisation' process in the Israeli political economy. It illustrates how the oligarchy in Israel is a powerful actor, even an institution, accounting for its close ties with the political, decision-making elite.

The third part accounts for the structure of the formal bilateral relations, manifested through the Action Plan, and the way it is implemented in Israel. Through examination of its various sections and implications, it then demonstrates the EU slight (if any) interaction with the oligarchy.

Finally, the last part focuses on the way Israel internalises the EU power and presence. This include analysis of the public view of the EU and its power, and the implications of various aspects in the Israeli political economy in shaping the bilateral relations. Demonstrating how the oligarchy is a key power structure in the domestic political economy, the paper thereby tries to challenge the prevailing perception regarding the EU presence and power; this by confronting it with the problematic oligarchic nature of the political economy, not allowing the EU's genuine influence to be advanced.

Part 1: Evolution - the Israeli political economy and the bilateral relations

The focal events and crises, political economic and social, enabled most authors to determine a rather agreed periodization regarding the evolution of the Israeli political economy. This periodization, traditionally divided to three phases, describes the state's centrality since the first phase as the most basic assumption; this is a result of the religious-national and historical heritage, the security-political situation and the centralised, rather small, market structure. The character of the market economy in Israel and the particular national-political situation never enable a separation between the political and the economic; furthermore, the close ties inside the networked society and within the decision-making circles are integral to the nature of the political economy. The state-business power axis, thus, is the prism through which the evolution of the political economy is examined. This is not to reduce the impacts of the 1985 transformation, but to illustrate how continuity, no less than changes, has been characterising the evolution.

The bilateral relations are incorporated in this analysis, although traditionally these are organised according to the development of the EU or the European Community (EC, the prior stage of the EU, from 1957 till 1993) and its foreign policy, what specifies three distinct phases (IEPN 2009): the first phase is the EC establishment, 1957 – 1969, in which the relations were dominated by multinational collaborations with no bilateral agreements; the second phase, from the 1970s till 1994, marks formation of EU political-economic power, including the first bilateral agreement and waves of trade liberalisation and enhanced economic cooperation (f.e. the Free Trade Agreement, FTA, of 1975); the third phase, initiated with the 1995 EMP - Barcelona Process, has been characterised by bilateral and multilateral deeper cooperation, parallel to grand waves of EU enlargements

The first phase - a developing, state-centred era, started with the state establishment in 1948 and lasted till the 1967 war. The first years of the new state were fundamentally motivated by a common objective to build a social-democratic political economy. The birth of Zionism to begin with was deeply rooted in European political thought (Ben-Israel 2003:31), while a grand part of the population building the state were immigrants from Europe, importing European culture, organisational logic and social

codes. This phase, lasting till the 60's, saw a 'sectorial' market economy (Maman, 2004, Ram, 2004), of government and Histadrut¹ sectors, along a relatively marginal private business sector. It integrated stages of land, capital and labour, which were formed, generally analysed, into the traditional triangular power relations of state-capital –labour, the prism through which the evolution is traditionally examined.

The rationale of Jewish state in Israel positioned the latter as a central actor in the economic arena (Maman 2004:118), with a powerful all-embracing governmental sector. The state's role was carried out through the institutional alignment of the Labour party and the Histadrut; the Labour party (formerly Mapai - The Party of Israeli Workers, till 1969) was widely characterised as the mirror of the Israeli political economy (Aharoni, 1991, Shalev, 1992) in the state's first decades, rather than a dominant political party solely, in terms of ideology, culture, leaders, and interaction with the global arena, representing 'social-democratic corporatism' (Shalev, 1992). The Histadrut's activities, scope and governance were entangled with it. Waving two flags - social and security, the governmental encompassing involvement was explained by security-military needs, immigration, the Arab-Israeli conflict, and development of economic basis which would free Israel from exterior assistance (Shalev 2004: 87). While granting a social net and employment, the state also stood at the centre of financial activity, exercising protectionist policy in matters of development, consumption and public investment, trade, budget, exchange rate and tax composition; it also operated directly in the market, as the owner of different business, while having monopoly on post services, telecommunication, ports and airports (Aharoni, 1991).

The business side of the nexus state-business was mostly represented by industry owners and managers, who took part in shaping the dominant socialist-Zionist paradigm even before the state was established (Frenkel, Shenhav and Herzog: 65). The hegemony of the state has eventually led to class compromise, the crisis of full employment², and the structural power of capital (Shalev: 1992:6-10), symbolising the failure of the state-centred old model (along a conflict between the state and the Histadrut, regarding

¹ The historic role of the Histadrut was settlement, building economic, political and territorial infrastructure for Jewish national home, since the 1920s. Its role was of a corporate form of labour organization as well as trade union, including industrial relations and member enterprises.

² The crisis of full employment broke out due to the rise of labour force in the market, the challenge to corporatism and the decline of the role of the Histadrut; it was also the result of politics of full employment and the emergence of new parties, posing real political threats on Mapai

industrialisation). This accelerated the market openness, but also changed public perception, acknowledging the limits of state's capacities.

During this stage, the historical heritage of the holocaust played a crucial role in Israel's relations with Europe, primarily with Germany. The key driver of these relations was Israeli needs of state consolidation, the reason for signing the 1952 Luxembourg Reparations Agreement with Germany. A similar logic guided the relations with France and Britain, although other factors were also at play³. The diplomatic relations between Israel and the established EC were formulated in February 1959, whereas Israel was among the first states (after the US and Greece) to conduct such relations; it later joined the General Agreement on Tariffs and Trade (GATT) in 1962, and conducted the first economic agreement of 1964, initiating, in fact, the institutionalisation of the bilateral trade relations. European responsibility for the future of the Jewish state, the cultural-social proximity, and European presence in Israel, the cornerstones shaping the relations in the first phase, remained substantial.

The second phase - economic cooperation and security crises, initiated following the six days war in 1967 and the crisis of full employment, and lasted till mid-1980s; it was ample with security challenges - the continuous Israeli-Palestinian conflict, the War of Attrition, the 1973 Kippur War, and the 1970's oil crisis and embargo, as well as with economic crises, namely the domestic hyper-inflation crises of the 1970s and the 1980s, accompanied by supply shocks, of both foreign investments and internal wages boost. During the 1970's the structure of the Israeli market became increasingly dualistic - coexistence between growing 'big business' and a multitude of small- medium enterprises (SMEs) and self-employed proprietors. In the centre of the former stood few conglomerates, initially developed and controlled by the state, which included the big banks and central industrial corporations (such as KOOR and the arms industry⁴). Their further strengthening and gradual take-over smaller firms was supported by the state, sustained by political factors such as the centralisation of the banking sector, the thrive of the security industry and the 1970-80s hyper-inflation (Shalev 2004: 122-4).

³ Primarily it was the growing gulf between these countries and Nasser's Egypt, as illustrated in the Suez crises and the 1956 war

⁴The prominence of the industrial-militaristic complex led to an extensive governmental involvement, while fiscal policy and budget allocation indicated the preference to security derivatives (Aharoni 1991:175-7), a sort of "Military Keynesianism" (Nitzan and Bichler: 210-1). It was a result of the central place of the army in the political economy, linking thus economic decisions to security considerations, thereby enabling accumulation through crisis (ibid).

Continued from the first phase, the state-business relations were mainly manifested through the relations between the governing elite of the labour party, which exercised power over a wide range of domestic and foreign policies, and the business elite, mainly consisted of the 'big business', sharing similar interests and vision, in common also with the cultural elite. The state began empowering the private-business sector, in line with the Weberian perception of generating economic boost more easily by a small advantageous group, thus strengthen the state and its institutions and decrease its responsibilities. This was legitimising, essentially, capital accumulation and private initiatives, while extending trade relations with the global arena outside state framework.

The state commenced in the mid 1970's a gradual transition into liberalisation, globalisation, and de-regulation, experienced also by most economies of free-market scale. The developing and highly invested weapon industry, whereas arms exports made a transition from aid to sales (Nitzan and Bichler: 216),⁵ had a leading role in Israel's entrance to the global markets. This was further marked by several other factors, such as the highly developed agriculture industry, the American support, and the construction of the settlements (Savirsky 2004:70). The new developing globalisation model offered a new approach integrating militaristic power, technological supremacy, and managerial corporatist perceptions, re- defining the national interest (ibid: 70-73), and inspiring institutional convergence (Hall and Soskice: 1). This determined to a great extent the new paths of the Israeli political economy, accelerated also as a result of the Israeli aspiration to maximize normalization (Ben-Porat, 2004). Israel's competitive advantage was most prominently manifested through technology, innovation and R&D.⁶

During the 1970s, paradoxically for a decade loaded with security crises, wars and political minutes, the relations with Europe were in grand part economic. This was a result of several reasons: first, the establishment of the European Economic Community (EEC), along waves of trade liberalisation have enhanced the economic relations, while the EEC political impact then was rather marginal (Aoun, 2003). Second, more importantly – there was an actual struggle for security interests by both parties, with no

⁵ For example "Rafael", the national authority for developing arms, which largest share of income is from exports.

⁶ Such branding of competitive advantage is not unique to Israel; a well-known key strategy for attaining competitive advantage in the global markets is one of permanent innovation, substantially technological (Audretsch 1989:16, Tyson and Zysman 1983, Kapferer, 2005), empowering the participation in world politics (Nye, 2002:ch.2).

upside in form of peace process. Furthermore, the debate on the Palestinian issue was rather new and did not have a substantial impact. Already in the 1970s Israel, which actually tried to integrate economically in Europe since the 1960s, was granted a complete tariff reduction from the EEC on its manufactured exports and on many of its agricultural products. Agreement on steps of trade liberalisation was settled, reaching a breakthrough with the 1975 Free Trade Agreement (FTA). This, along the initial trade agreement in 1970 and the first global Mediterranean policy of the EC in 1972, illustrated a positive structural progress in the relations, in parallel to the political and security challenges, and despite France and UK embargo on Israel (1967 and 1973 respectively), which inserted fundamental mis-trust into the relations.

It was since 1979 Egypt- Israel peace treaty (signed by the first Israeli right-wing Prime Minister, Menachem Begin) that the political aspect of the relations was notably given an extensive value. European policy guidelines since then, as avowed in the 1980 Venice Declaration, have in fact been constant: the centrality of the Palestinian question, the need to achieve a two-state solution, the importance attached to UN resolutions and principles of international law, and international peace conferences, where regional actors could meet in a multilateral framework (Musu 2007:30). More specifically, the Israeli-Palestinian conflict was elevated into a form of conditionality in the bilateral relations, between economic progress and advancement in the conflict resolution. The Venice Declaration, a ‘defining moment’ in the Israeli discourse about Europe (Pardo and Peters 2010:9), flagged the Israeli disappointment from the EEC, which, on its part, was aiming towards a global role rather than narrowed and unconditional alliance with Israel. Illustrating the gap between Israeli expectations and the political reality of the relations (Hill, 1993), it was a trauma from which the relations never recovered (Dror and Pardo, 2006). The re-invention and intensification of the bilateral relations was, ironically, if considering the Israeli reluctance from its regional inclusion, a result of the EU’s multilateral direction, firstly in the shape of the 1995 EMP.

This decade of crises in Israel, lasting between 1973 to 1985 (the “lost decade” of 1975 – 1985⁷), raised for the first time the tension between the older socio-political doctrine and the new economic demands (Aharoni 1991: 243). It reached its peak with

⁷ Previous governor of the Bank of Israel, Michael Bruno (brought by Nitzan and Bichler: 84)

the 1980's Banks stocks crisis⁸, following which the Bank of Israel, together with the government, conducted in 1985 the Emergency Economic Stabilisation Plan (EESP).

The third phase – 1985 – today: Basically, all authors mark the 1985 EESP as a turn point, ('the beginning of the modern history of the Israeli economy' according to Frenkel⁹), emphasising its main indicators – privatisation of state assets, liberalisation of the market economy and accelerated exposure to the international arena. The EESP basically endorsed a more limited role of the state aside openness to foreign markets,¹⁰ followed by the changing balance from public to private interests, and transition from workers organizations to private employers. The market transformation into a privatised, globally-opened and de-regularised era, nevertheless, eventually evolved into the consolidation of the oligarchy since late 1990s. This phase can be divided, thus, to two parts: crisis and rehabilitation, including the vast derivatives of globalisation, privatisation and de-regulation, and an accelerated process of 'oligarchisation', parallel to the era marking the bilateral relations as a part of the EU multilateral framework, from 1995 and on.

First part - rehabilitation and liberalisation: The main driving forces behind the structural transformation from the socialist - oriented, state-led market economy, through the 'corporatist-dual' phase, into liberal market economy were few: the crises - pointing at the limited capacities of the state, the no-longer-valid logic of state -building, followed by the change in the cultural-ideological perception, whereas market culture has been shadowing the prior perception of Jewish nationalism (Shalev 2004), while the position of businessmen in society was invigorating (backed by the media).

The business elite, mainly consisted of industrialists, bankers and owners and managers in the technology field, was the one promoting the liberalisation and globalisation in the Israeli economic sphere, to open new business opportunities; this was greatly motivated by its growing confidence that it could compete in the open market, domestically and internationally, and that it no longer needed to be protected by the state. Its involvement has changed public priorities and accelerated political adaptations and even compromises (f.e. with regards to the peace process). The pressure for change was

⁸The most severe crisis of the Israeli economy, a the result of banks' regulation and manipulation of their stocks

⁹ The governor of the Bank of Israel in the years 1991 -2000 (bought by Savirsky 2004:72)

¹⁰ It led to the most interventionist instrument in terms of the state's retreat – the fixed interest on non-tradable public bonds issued to pension funds, and the relaxation of the rules governing the borrowing of foreign capital (Shafir and Peled: 8)

also exercised by external factors, such as programs advanced by the IMF or the discourse of the Washington consensus.¹¹ Israel's transformation into a neo-liberal economic partner delivered strategic and economic benefits for foreign actors, shaping first and foremost the trade relations with the U.S and with Europe, re-defining thereby the character of the domestic market. The interaction with the global arena, mainly the US and Europe, then, had a major part in the transformation process.

The transformation was followed by the decline in the power of some central actors, such as the Labour party, the Histadrut, and some 'big business' of the second phase, allowing for other actors to take-over various essential state machineries. Essentially – these changes amount for power moving from the state (and the Histadrut) in favour of the business sector, most prominently the business elite, subsequently shaped into an oligarchy.

The state, nevertheless, kept its central role; this was partly a result of the continuing institutional logic of Jewish-Zionist culture, security problem, the Arab-Israeli conflict, and the small market size, but also a derivative of the role that the state and its institutions still held in the market, including in the liberalisation and privatisation processes, as well as in its retreat. The state was central in opening the market and generating global growth, while stimulating external engines, such as competition, technology and immigration (Shalev, 2006, 1992). Although the private sector suffered massive subsidies and budget cuts, the state encouraged it through investments, supply of cheap labour and reduced taxes, and created possibilities of capital flows and stronger, investments-based rather than aid based interaction with the global arena (Shalev, 2004: 111). The state's role in interacting with international corporations, marketing weapons technology and subsidising start-ups has become bigger (ibid: 111). The growing economic opportunities offered the ground for a new structure of mutual-profit coalitions (ibid: 112-3) between the state and the private sector, most prominently the business elite, further supported by the free trade agreements and the on-going peace process.

Already in the 1980s Israel tried to revise its institutional relations with the EC as they were indicated in the free trade agreement of 1975 (Tovias, 1998:1). The EU

¹¹The Washington Consensus can be summarized as a set of points that reflect the pro-market orientation: fiscal discipline, elimination of government subsidies, tax reform, maintenance of low inflation, uniform exchange rates, guarantee of property rights, de-regulation, trade and financial liberalization; privatization, and elimination of barriers for direct foreign investments.

enlargements of 1973, 1981, 1986 (followed by the massive one of 2004 and later in 2007) were deepening the bilateral economic connections between Israel and formerly EC, later EU, (Tovias, 2003), and expanding the political commitment. On the other hand, they later accentuated the absence of an EU 'single voice' in its foreign policy (Musu, 2007, Casarini and Musu, 2007, Wang, 2005, Schmid, 2007). The Oslo Peace Process at the beginning of the 1990s brought new hopes of prosperity and accelerated bilateral and regional cooperation; yet, it helped to justify the upside of the conditionality.

During the 1990s, two substantial progresses were made in the bilateral relations: the European Council Essen Summit of 1994, awarding Israel a special, 'privileged status', emphasising its political-economic exceptional position in the region, and the 1995 Association agreement (AA). Preceded by the Global Mediterranean Policy of 1986, the 1989 Customs duties elimination along wider free trade agreements, the 1995 AA, ratified in 2000, has become the main legal instrument governing the economic relations till the launch of the Action Plan. The AA, although was framed to promote economic and trade interests, was also coupled with political as well as social agenda. It calls for cooperation in all fields of mutual interest, and significantly assesses the provisions aimed at intensifying scientific and technological cooperation. Aside trade liberalisation in agricultural products, it eliminated customs duties, and facilitated trade procedures and regulations. It also called for liberalisation of trade in services, and deliberated cooperation in other areas such as transport and communication, (later formalised in the framework of the ENP).

The era of EU power consolidation following the 1992 Maastricht Treaty was marked by the institutionalised bilateral and multilateral frameworks. The inclusion of Israel in the Mediterranean in the various processes gave a major boost to the economic relations, but generated various political conflicts, as will be elaborated. This was fairly parallel to the beginning of the 'oligarchisation' process in Israel, which is understood here as the non-proportional accumulation of capital and power by a narrow group of people, mostly wealthy families, through the strong infamous connection between capital and political control, inspired by, but further determining the market's centralised structure. These two processes, focal to the relations, seem, nevertheless, disconnected.

Part 2: Multilateralism and 'Oligarchisation' - 1995 and on

Institutionalised multilateral framework:

The beginning of the era of institutionalised multilateral relations was formalised with the 1995 Euro-Mediterranean Partnership- Barcelona Process (EMP-BP), the first formal multilateral framework of the EU in the Mediterranean since the Maastricht Treaty. It differs from previous policies by being based on a concept of partnership rather than assistance, but most importantly for Israel – it brought by large the message of institutionalised conditionality between the political and the economic. This conditionality is one of the central cornerstones in the bilateral relations, characterising to a great extent the EU foreign policy instruments towards Israel, positive or negative. This one-side policy, even if more declarative than practical (as it is not always exercised de-facto), still defines the political-oriented character of the economic cooperation. EMP goals were to strengthen political dialogue, establishing a common area of peace and stability, with respect for human rights and democracy; creating shared zone of prosperity through establishment of free trade area and EU financial support; and accelerated exchanges at the level of civil society. The process was motivated both by aspirations to reach a conflict resolution, and by the assumption, less relevant to Israel - that the instability in the region is a result of economic underdevelopment and social inequality.

The decision to include Israel in the EMP had in fact two complementary meaning: the shift from the traditional, peculiar bilateral relations to a more general inclusion, but also Israel's distinction in the region, allowing extraction of its advantages in relation to its neighbours. The EMP testified, in fact, the end of the history-based (and emotionally-driven) relations and the respective economic cooperation, and the transition into a more pragmatic approach that forces institutionalised cooperation, correspondent with the relations that the EU conducts with other Mediterranean states. It thereby opened a new set of debate regarding the disadvantages and the benefits of this inclusion, calling also the Israeli dilemma between Europeanization and Mediterraneanization. The latter points at a two-folded clash: external, between the unique nature of the relations and the problematic inclusion of Israel in the Mediterranean in the EU economic and foreign policy; and an internal clash – the Israeli conflict between its essence as European or Mediterranean state, culturally, economically and politically. While Israel's "socio-ecology" is connected

historically and culturally to Europe (Heller 2009: 228-9), demographic transformations in Israel make it, culturally, equally similar to the region as it is to Europe. The Israeli inclination towards Europe rather than towards the region is not only a cultural issue or a result of security considerations; it is in the same time fear, intellectual patronising, ego, and mis-trust of the stability and the real interests of the Arab- Mediterranean states. For the EU, on the other hand, 'Europeanization', eventually, in the Israeli case, implies approximation of legislation to match EU standards, in terms of the “organisational logic of national politics and policy making” (Tovias 2011 B: 21) rather than transformation of identity, or furthermore – a political inclusion. This way, Europeanization and Mediterraneanization are, essentially, despite those clashes, processes which can live and evolve simultaneously.

Despite the fact that the EMP is perceived by large as a failure, some (such as Aliboni et al., 2009) argued that it proved to be a relatively relevant experience economically, in terms of regional cooperation, while indicating important institutional contributions such as academic and civil networks. For Israel it symbolised a diplomatic advancement in the relations, enabling to mark it as a unique and advantageous actor in the region. The intensification of the bilateral relations, mostly economically, was, paradoxically enough, a result of this EU's regional focus.

The step forward in the EU regional vision, as expressed through the EMP, generated the European Neighbourhood Policy - Action Plan (ENP – AP), conceived in 2002 and established during 2003-4, as a result of the UK push towards a ‘wider Europe’ strategy (‘proximity policy’). The bilateral relations are perceived by large as expressed by or simply being the ENP, while the 2005 Action Plan remains the reference document of the relations, thus will be analysed separately next in this paper. This framework policy was a result of the EU interest to be surrounded by stable and prosperous neighbours, through various means promoting ‘joint ownership’ (Smith 2005:763). In short, it integrated a developed regional institutionalised framework,¹² aside accentuated bilateral dimension. The structure of all Action Plans seems similar, and they allegedly look alike; nonetheless, the content is not quite the same. It is negotiated with each country, which dictates individual lines requiring different levels of commitment. The states are to identi-

¹²Annual foreign, industrial and trade ministers' conferences, Euro-Mediterranean committees, Working groups and other cooperation measures related to regional integration

fy the sectors of the EU market to which they want to access, and then implement the necessary reforms, so they can gradually participate in EU-wide networks (EU Focus, 2007). The ENP was, thus, an important policy shift, in a way an attempt to correct the failures of the EMP (Del Sarto and Schumacher, 2005, Pardo and Peters, 2010). It is overall a foreign policy as well as economic policy tool, both to provide neighbours 'a stake in the internal market', but also a path to further establish the EU footprint as a global actor.

The Israeli continuous ambivalence regarding its participation in these regional, political flavoured processes still stood; nevertheless, the ENP was warmly welcomed in Israel, as an expression of a “wiser Europe” (Pardo and Peters: 59). Its tailor-made perception was to potentially grant Israel the merits of a privileged Mediterranean partner, realising its special status, while to some extent not conditioned with the peace process. In addition, although the AA delineated various fields and sectors of cooperation, the bilateral relations revolved mainly around trade in goods and manufactured products, as well as R&D (Herman, 2006). Therefore, the AP was to take this process further, by setting out a comprehensive set of jointly developed priorities, in a three-year programme, to which both sides are committed.

Following the ENP, the 2008 UfM was established as a development of the EMP (Aliboni and Ammor, 2009, Stetter in IEPN 2008, Aliboni et al 2008), and complementary to EU bilateral relations with Mediterranean countries, continuing under existing policy frameworks. It was aimed to upgrade the political level of the EU's relationship with its Mediterranean partners into further co-ownership and multilateral relations, suggesting that economic effectiveness would reinforce political significance and thus strengthen Euro-Mediterranean relations. For the Israeli part (Nathanson and Blidstein, 2008, Munin 2008, Stetter, 2008), the objectives to liberalise economies were not valid to begin with. Nonetheless, this process was of strategic importance, allowing for a greater balance as well as flexibility between bilateralism and multilateralism, through smaller-micro projects, private sector-oriented, and aspirations for actual contributions, such as in the fields of energy and environment; finally, it could enhance Israel's cooperation with its neighbours. All in all, the UfM is considered as a failure, and was not realised de-

facto; this is due to internal political struggle and no consent inside the EU, along no actual regional response and a series of political events.

To conclude, the central assumptions coming out of the examination of the bilateral relations in their contemporary form, whereas no seen progress in the conflict resolution is envisioned, mainly concern the importance of the civil, non-political aspect of the relations, the EU primacy as an economic actor, and the EU aim to influence on the Israeli policy towards the conflict, while disinclined to try and change the political economy itself. Agreements and common views in the issues of Israel's national identity, security and trade have been shaping efforts and investments; these bilateral relations, in general, were inspired by the historical heritage, focused on the conflict, and motivated by the economic engine, particularly in fields in which Israel has a competitive advantage. The EU interest in Israel, apart from historical common heritage and the conflict resolution, is also a result of economic, technological, security matters, and establishment of its soft power.

'Oligarchisation' in Israel:

In summer 2011 a wave of social protests has engulfed the Israeli streets. The calls for 'social justice' symbolised the beginning of an active civil resistance, attempting to replace the continuous, rather passive frustration from the increasing centralisation and inequality in society, backed mainly by media coverage (most prominently by TheMarker journal). The term 'oligarchy', even if not widely used, symbolised in essence the 'raison d'être' of this process. This oligarchy is, to a great extent, an emergent form of the state-business power axis characterising the political economy of Israel since its establishment, evolving from the axis state-'big business' and the interaction between the political and economic elites. This oligarchy, yet, a central institution in the Israeli political economy, is not, as will be shown next, a part of the EU-Israel bilateral relations.

After analysing oligarchy and its origins, as well as the conditions and processes enabling its emergence, previous research¹³ resulted a model of '3:3': the different sets of literature analyse oligarchy as the consolidation of monopolies through the transition and merger between industrial and financial holdings, coupled with the concentration and

¹³ 'The ascent of oligarchies', mine, under revision

centralisation of the market economy and wealth, (as analysed by the Marxist school); the dominant role of the big corporations (mainly in the US); or as a form of regime de facto (as illustrated in some developing countries). All aggregate for non-proportional wealth and influence in the hands of a few, exercising power over society as a whole. The processes which enable the emergence of oligarchy are global processes, such as globalisation and privatisation; set of policies coordinated by dominant actors, first and foremost the state; and poor institutional structure, enabling oligarchy to rise and obtain further power.

The Israeli super-centralized structure of ownership and control by a small segment of the private sector was inherited from the long period of governmental patronage (Shalev 2004:111); developing since the 1960's (Maman 2004, Nitzan and Bichler, 2001), it was strengthened following the EESP. This was a result of tight business connections across the business groups, holding common corporations (Maman 2004: 119), thereby merging the financial with the industrial, a process sustained by a series of state policies. Essentially, it was the state to have established the ground to the institutional development of business elite, mainly the dominant business groups, later shaped as an oligarchy. It started by directing the external money from Germany and the US in favour of the big conglomerates which dominated the market economy; by well-intended policies and regulation it furthermore enabled them to expand at the expense of other business (mostly SMEs), through mutual-profit coalitions. During the third phase, preferential policies, mostly concerning privatisation of state assets and state retreat from regulation and supervision, marked officially the 'oligarchisation' process.

At the post-liberalisation era wealthy families in Israel re-gathered into new business groups; those adopted the business model of the old groups – foundation of new enterprises and acquisition of existing corporations in various branches, creating partnerships with other groups, to promise control and exclusivity (Maman, 2002). Following the continuing waves of privatisation (the largest one in the beginning of the new millennium) and de-regulation, providing preferential provision to a handful of businessmen with strong connections to the government, and in parallel to more extensive state retreat, the Israeli oligarchy started to consolidate in the 90's. The centralisation as well as the centrality of the business groups augmented, in terms of their

market shares, but also with regard to their role in the political economy in general. The former corporate governance was transformed into a comprehensive market strategy, namely these business groups' almost exclusive control over sectors and industries.

The Israeli oligarchy, according to the above-mentioned model, is to some extent a natural evolution of the opportunities created as a result of the global changing environment, leading the transformation of the market economy, and enabling take-over state assets and merger between financial and industrial holdings; more significantly, though, it is a direct result of state policies, taking furthest the traditional axis state-business, through a series of preferential provisions, special policies, and lack of regulation and supervision, marked by the strong personal ties between the political and the business elites, and within the latter itself. At the same time, it was not so much a product of weak institutional structure, as the process was coordinated by the state, and furthermore, has been a state's strategy to begin with, further sustained by it.

The nature of the oligarchic structure in Israel unites two cohesive power structures: pyramidal business groups and oligarchic family control. Their particularities are three-folded: centralised control over consumerism and national resources, strong connection with the political circles, and pyramidal structure of the business groups, ruling over while 'cross holding' substantial market shares and fields. Being a small state with crucial role to personal ties, the oligarchy's influence on the political machineries of the state is inevitable.

The ascent of oligarchy, therefore, is a result of a set of inter-linked conditions; it first implies taking advantage of existing opportunities, namely the globalisation and privatisation of the market economy, fostered by a set of preferential policies generated by the state. What further distinguishes oligarchy from other wealthy actors is essentially its influential engagement in the political economy, through direct influence or even participation in policy-making and decision-taking regarding the market's directions. As a derivative of its wealth and power, oligarchy is perceived in the public eyes as a crucial institution, which implications, social, political and economic, are sometimes overwhelmingly undesirable. This is elucidated by means of ownership of national resources and society's consumerism sector, and is maintained by its inter-dependence with the political leadership. Oligarchs, therefore, differ from tycoons which have

obtained their wealth on a more 'meritocratic' ground, such as technology and science. The former are perceived to have obtained their wealth, and subsequently their power, directly through their relations with the state's machineries.

The oligarchy's rule, accordingly, is not correspondent with what is perceived as Israel's competitive advantage - innovation, R&D and technology, and also in fields such as phyto-sanitary products or food processing (Tovias and Magen, 2005:421), standing in the core of the bilateral relations with the EU. In addition, its inter-relations with the government mainly concern the domestic political economy, and do not revolve around the Arab-Israeli conflict and its derivatives. This way, a key power structure in the Israeli political economy is arguably outsider to the bilateral relations.

Part 3: The ENP in Israel: Analysis of the Israeli Action Plan (and progress reports)

The Israeli AP is consisted of eight sections. The first one is BACKGROUND AND OVERALL ASSESSMENT. This section emphasises the EU's rather pragmatic view regarding the relations and the conditionality. The Palestinian Authority (PA) and the Peace process do not appear, though, as the main subject, although indicated in most sections of the AP. Notwithstanding, it is clear that it is one of the main engines driving the ENP process as a whole, and the AP with Israel in particular.

The second section - POLITICAL DIALOGUE AND COOPERATION is also devoted in large parts to the conflict. A rather good cooperation is conducted in the field of Combating anti-Semitism - Fight against racism and xenophobia, including Islamophobia. Similarly, there is a good cooperation also in the field of Non-proliferation of weapons of mass destruction and their means of delivery (not organically an ENP matter). The sub-section concerning *International organisations* is also pointing at the institutionalisation, as well as importance of the ENP in every aspect of the bilateral and multilateral relations. The EU-Israel political dialogue is, again, state-oriented.

The third section deals with ECONOMIC AND SOCIAL COOPERATION. This part provides a macro-economic review¹⁴ of Israel, as well as of the social situation.

The fourth section analyses TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM, stressing the EU as Israel's first trading partner. In the trade-related field a particular emphasis has been placed on actions focusing on policy and regulatory matters, aimed at increasing trade relations and sustainable socio-economic growth. In fields of Agriculture, Customs, and Consumer protection, a crucial step of approximation of legislation, illustrating Israel's competitive advantage was the adoption of the Agreement of Conformity Assessment and Acceptance of Industrial Products (ACAA), a trade-related protocol. Examining the *Business Climate*, the private-public partnership is not given enough focus, nor is it fully approached, as the main factor shaping these trade relations. However, the desegregation between these is inherent in the assessment to business climate and its derivatives. In fields of *Company law, accounting and auditing*, approximation of legislation is the key to enable fluent cooperation. With regards to *Finan-*

¹⁴ This review is indicating Israel's gross domestic product (GDP), The consumer price index (CPI), The unemployment rate, growth, inflation rates, interest rate, Public debt, the surplus in the current account, monetary policies, exchange rate and fiscal policies; functioning of the market economy; government deficit; outputs; fiscal discipline, the decline in total exports of goods and services; investment goods (producer durables); and the balance of trade.

cial services- liberalisation of trade in services is a key factor, already manifested in the AA, but up till today was not yet fulfilled¹⁵ (Herman, 2006). Further reviews and clashes in legislation and standardisation are indicated in fields of *Competition policy, Intellectual Property Rights, public procurement* ,and *enterprise policy*.

The fifth section analyses COOPERATION ON JUSTICE, FREEDOM AND SECURITY .This field and its derivatives continues prior agreements, which were institutionalised under ENP.

The sixth section concerns TRANSPORT, ENERGY, THE ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT, SCIENCE AND TECHNOLOGY. This area is one of the easiest to collaborate in, realising optimally the interest of both parties, and extracting Israel's competitive advantage. The most significant arena of cooperation is the Community R&D Framework Programmes (FP), which remains probably the strongest and most stable area of cooperation. The cooperation in these fields generally points at a mutual economic interest, facilitating progress.

The Seventh section deals with the 'civil' aspect of the relations, PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH.

Finally, the last section addresses FINANCIAL COOPERATION. The budgetary allocations for Israel reflect its status as a developed economy, awarding Israel (ironically enough) less funding comparing with other partners.

AP analysis:

While the Eastern-European side wants to access the EU, and the Southern partnership aims for money and assistance, Israel is representing a third type of partnership. Israel's degree of development and the big cultural and social similarity to EU member states lead the most ambitious agreement of the EU in the Mediterranean. In the same way, the ENP tools used for other Mediterranean states include macro financial assistance, support of balance of payments, economic surveillance etc., whereas Israel's economic outlook (like low inflation and stable growth) is similar to that of median EU member. Therefore, the EU has not much to offer to Israel in terms of the domestic macro-economy, democracy, cultural and economic similarity. Israel, on its part, is aiming towards participation

¹⁵Liberalisation of trade in services is a key factor in deepening and further establishing the bilateral trade relations, which was not realised mainly due to the centralised structure of the Israeli market, not promoting SME's, rather than because of the bureaucratic obstacles of the bilateral interaction, although conditionality had its impacts. The efforts of both sides do not seem productive enough

in agencies, programs, forums and advisory bodies, thus applying its competitive advantage. For Israel, the ENP is a more reciprocal framework, providing a stronger position of bargain; however, as it is still banned to the regional framework, thus flexibility and adaptation to Israeli needs and preferences are limited.

The AP clearly reflects an EU self-interests (Smith 2005:765), but at the same time, it also reflects an Israeli one, as Israeli access to the EU market is crucial for Israel, in various fields, differently from other Mediterranean states (Tovias, 2011). The AP emphasises to a great extent the natural affinity and common heritage, with strong economic cooperation, based on similar level of development and comfortable business climate.

In fields where the EU has interests, while there are no conflicts between the parties and agreements are evident, the EU invests efforts and resources to promote and deepen the cooperation, for example in the field of trade or R&D. This clearly points at the importance of the EU self-interests in the general framework.

In areas of conflict between the nature of the Israeli political economy and the EU legislation, which are, even so, less significant for the EU in terms of cooperation, its approach is to settle for 'involvement without engagement' - more reportive participation than operational by nature. This is a result of the understanding that the individual character of the Israeli political economy is in fact stronger than the willingness to approach the EU in terms of regulation, as in the case of competition policy or state aid. The EU indicates necessary efforts of approximation of legislation and standardisation, but makes no particular efforts to enforce action.

The AP also includes institutionalisation of already existing cooperation, mostly concerning fields in which there are no substantial disagreements between the parties, namely most areas outside the Arab-Israeli conflict context. Examples of institutionalisation of such explicit cooperation are cooperation on justice, freedom and security, fight against terrorism, NPT and international justice.

Trade is evidently the core of the progress, interests and compatibility of the bilateral relations. This is due to several reasons, which include mutual interests, accessibility to approximation of legislation and standardisation as a result of similar level of economic development and sectors of interests, the integration of the private sector, sincere mutual respect of each party's capacities, knowledge and contribution, and the relatively minor

role of the PA in this cooperation. Both sides are investing efforts to deepen and promote the cooperation, despite conflicts of interests and different agenda.

Deepening the cooperation, even trade – wise, requires engagement in the political level and adherence to EU demands. For this purpose, besides the traditional conditionality, the EU constantly manifests approximation of legislation or standardisation of norms in almost every field of the relations, standing at the basis of any advance and change in them. This is essentially the title of the cooperation and the relations as a whole. Such approximation, based on Israel adopting constitutional platforms and regulations of the EU inside Israel, working with official EU bodies, and operating along EU formal lines, conditions most progress in the various fields defined in the AP. Both sides, in essence, characterise approximation of Legislation as the leading strategy to tighten and strengthen the bilateral relations within the ENP-AP framework, whereas the Israeli will to come closer to EU's standardisation and regulation is mainly destined to obtain closer trade relations. A large part of the Israeli system of laws (as Israel has no formal constitution) is European- oriented already, serving common objectives, however, further approximation is required in order to deepen the cooperation. At the moment, the EU has very slight influence on legislation in the Israeli domestic arena, what points at the Israeli leading role in implementing such approximation.

The commission has two broad approaches to apply the ENP and prevent dividing lines: financial and technical assistance - to encourage and financially support the inclusion of neighbours in a variety of EU networks (education, transport, energy, research, environment, culture), and to foster cross-borders cooperation (CBC), projects linking the parties (Smith 2005:766), taking advantage of the trade access offered to the EU's internal market (EU Focus, 2007). The Twinning, TAIEX and FP (Framework Program) are some central instruments used to share expertise and information with the aim of eventually bringing the Israeli laws and regulations, jointly identified, in line with those of the EU. Those central means are additional to other traditional and particular means of bilateral cooperation; Association Council, Association Committees and other committees and subcommittees¹⁶, forums, conventions, informal working groups, and informal policy

¹⁶ Implementing the AP, Ten sub-committees have been established, as the principal vehicle for implementation, allowing regular officials meetings and exchanges.: Industry, trade and services; Internal market; Research, innovation, information society, education and culture; Transport, energy, and environment; Political dialogue and co-operation; Justice and legal matters; Economic and financial matters; Customs co-operation and taxation; Social and migration affairs; Agriculture and fisheries

planning discussions at different levels (ministerial, senior officials, experts) are constantly held. Working groups have been established in most fields, including industrial and legal coordination.

The particular form the ENP takes in Israel has to do with three circles - the political, the social-cultural, and in fields of competitive advantage. The most significant influence of the EU on Israel is dual: economic - concerning the Israeli dependence on trade, with reciprocal interests and profits; and internal- political – the EU creates and shapes political expectations from politicians, in a way which benefits with Israel, since it does more than others to reduce radicalism, mainly in the context of adjusting social tissues to the EU norms. The EU presence in itself, spread along various fields and issues, is quite crucial to a pluralist society like Israel. Even if isolating the conflict-oriented aspect of the relations, the EU created various circles of exchange and even dependence.

Still, despite this list of achievements and positive developments, the prevailing perception among officials is that the AP did not produce the anticipated shift in the bilateral relations (Sadeh, 2007). The adoption and realisation of the AP puts Israel in an internal conflict, beyond the conditionality and criticism. While Israel is keen to cooperate within the economic-social more A-political lines dictated in the AP, any massive move must also be a derivative of a more subjective goal of the state. Such goal is not to become an EU member, what puts the adoption of the EU 'key communautaire' in a question. Israel criticism towards the ENP, besides its regional inclusion and the conditionality, is also expressed in the trade-related context (for example the rules of origin). Further criticism relates to the somewhat vague and not enough comprehensive structure of the AP sections; the exact time frame is also not clear, but rather vast (Smith 2005:764-5). Israel also expresses impatience regarding the pace of the processes, pointing at EU's institutional and bureaucratic difficulties. In addition, in contrary to the 'tailor made' perception and despite the centrality of the bilateral aspect, the ENP is perceived to be primarily multilateral-regional. Israel claims for lack of EU interest to work with Mediterranean states bilaterally, and lack of actual will to distinguish Israel from other partners. Israeli officials continue to feel held back when trying to address common objectives. Frustration from the EU pragmatism and negative responding to Israeli requests and offers, even where Israel is interested in approximation of laws, is also manifested (for example, in

the case of liberalisation of services or rules of origin). Critiques further argue that even the greatest successes of EU-Israeli cooperation, such as Israeli participation in the FP (also drawing criticism regarding funding allocation to the academy rather than the industry) and the 2004 Galileo development of a European Global Positioning System (Munin, 2006), reflect EU interests rather than ENP results, and would probably take place anyway (Sadeh, 2007). From the Israeli perspective, the EU wants Israel in the niches where it lacks knowledge, mainly the high-tech and R&D areas.

On the EU part, these are pure platforms of productive cooperation; out of the FP's other industrial projects evolved, and it is both a matter of need and a way for the EU to create grounds of opportunity for its own industries. Both sides follow their specific agendas and pursue their specific self-interests, preferences, ambitions, and expectations when implementing the AP (ibid). As indicated before, the EU has no intentions to renounce its global vision as an influential actor, and to separate the political from the economic. Nevertheless, the AP does cover a wide areas responding Israeli needs and requests, and allows for a cooperation as flexible and wide as may be, in line with the political demands and the regional framework, which, for the EU, are not in contradiction.

To conclude, even a cooperation in a form similar to the AP would be carried out anyway, the AP still provides at least a good framework of cooperation, which certainly boosted the relations and their prospects way further. Despite all criticism, there is no actual will in Israel to replace the agreement, fearing such process will be too long and complicated; instead, Israeli officials prefer tangible results within the framework of existing agreements. Furthermore, another critical question to be answered when examining the AP is whether it enables Israel to receive a privileged status from the EU; while it is true that the latter remained a mere declaration, there is no doubt that the AP does highlights Israel distinct position in the region. Finally, speculations that Israel never really wanted to realise the 'privileged status', due to its complicated internal politics, as well as its relations with the US, need to be accounted for as well, reflecting a grander agenda when contemplating the AP in particular and the bilateral relations in general. There is a fear of letting the EU too wide of space for intervention, in case it is interested. The image of Israeli enthusiasm to cooperate while the EU is busy with political calculations is in no way a genuine reflection of such complicated relations.

Part 4: Contemplating the EU power and presence in the Israeli political economy

The EU is expressing itself in Israel firstly as an economic superpower. Trade is a part of the EU path in becoming a leading global actor, realising a model of peace through democracy and democratisation through trade, thereby extending its global influence (Nicolaidis and Howse, 2002, Aoun, 2003, Lavenex, 2004). Israel's deep economic integration into the EU (Tovias, 2003, Harpaz G. 2004, 2006, Sadeh 2004, 2006) identified a positive and substantial economic partnership. Being Israel's largest trade partner (with trade scope of over 40 billion dollars a year, centred mainly on goods rather than services¹⁷), the EU has close business connections, joint ventures, and strengthening economic ties with Israeli economic actors. The inter-personal aspect is particularly important; the strong European business orientation among Israeli business community and the ties between the political leaders, along with the role of individuals, the academy, the media and NGO's, and of course the fields in which Israel has a competitive advantage, have been reshaping and redefining the relations, also within the regional framework.

As a matter of fact, the trade relations have vastly improved since the launch of the ENP . 2004 Galileo, 2008 agreement on Agriculture and Fishery, 2008 aviation agreement, Tempus, Erasmus Mundus, Copernicus, and the 2008 protocol of Israel's participation in EU internal program are some central results, joined with prior achievements, such as the 1997 bilateral agreements on government procurement and the 1999 Good Laboratory Practices (GLP) agreement. Israel participation since 1996 in the Research and Development Framework Program (FP), in which it is the only non-EU state, is particularly important. The FP has fostered people-to-people contacts in the fields of education, youth and sports, culture and audio-visual, civil society and public health.

At the same time, the EU constant linkage between economy and politics, conditioning any development in the economic cooperation with a step forward in the conflict resolution, hampers, mainly in Israeli view, full realisation of the exchange potential, as well as the projection of such significant achievements to the public view. Moreover, differences in procedures, expectations or organizational logic, whereas Israelis tend to express dissatisfaction from the pace of progress in the economic

¹⁷ Data from the Israeli Central Bureau of Statistics

relations, are attributed to conditionality; this, in fact, benefits with the EU aims. Conditionality, thus, has a framework effect rather than policy guidelines per se. Diplomatic efforts, therefore, are arguably often focused on overcoming the obstacles of conditionality (f.e. the ACAA implementation), rather than on furthering the relations. In this context, conditionality is furthermore perceived by some authors (f.e. Tovias, 2005) as standing in the way of a necessary upgrade the bilateral relations, up to a model similar to that of the European Economic Area (EEA), Switzerland or Norway .

The Israeli prevailing discourse regarding the EU (Dror and Pardo, 2006, Sadeh, 2007, Pardo, 2009, Harpaz and Shamis, 2007, 2010, Tovias, 2011) has shifted from being primarily concerned with the historical Jewish –European heritage, in the first phase of the evolution, into focusing on the aspects regarding the EU’s involvement in the conflict, mostly perceived as biased (Harpaz, 2007). The knowledge or perceptions regarding the EU among the public are rather limited, but tend mostly towards scepticism (Tovias, 1998, 2003, Sadeh 2002, Steinberg, 2004, Ginsberg, 2001, Harpaz, 2007, Pardo and Peters, 2010). This scepticism concerns Israel's Mediterranean inclusion and the EU role in general; it is mostly stimulated by the regional asymmetry of Arab majority, the EU failure to be positioned as a ‘Honest Broker’ in Israel (Tovias, 2006, Dror and Pardo, 2006, Schmid et al, 2005, Del Sarto and Tovias, 2001), and reservations regarding EU double standards and immorality (Harpaz, 2007:101), due to what is perceived a pro-Palestinian tendency and stronger interests in the Arab world, leading to its anti-Israeli approach. The first Israeli focus regarding the EU presence, than, is its position in the conflict.

The public perception does not convey the massive and advantageous trade relations. Despite the EU centrality as trade partner, Harpaz and Shamis (2007, 2010) argued that the economic narrative is the least widespread of the three interlinked aspects of the partnership (as determined in the EMP) – economic, political and cultural - historic, ”being manifested mostly within the business community and socio -political elite” (2007:24). The scientific, cultural, and economic cooperation are secondary in the Israeli view, mostly assessed within the business circles, and not widely accounted for by the public. Harpaz and Shamis further pointed at the EU’s own failure to recognise its primary role as economic actor, due to the discrepancy between its self-representation

and the actual Israeli perception; this dissonance generates its legitimacy deficit in Israel. At the same time, even policy makers, aware of the EU importance for Israel, still share the public widespread view that good political relations with the EU are not important to Israel (Pardo and Peters, 2010).

As for Israeli media coverage of the EU, despite expectations, Pardo and Peters (2010) showed that the widespread view of the EU was not of economic power or as a weak political actor; instead it was described as a “powerful political system” (ibid: 87), internally and externally. Paradoxically enough, it is described in the papers as a marginal economic actor, mainly comparing to the US. Del Sarto (2011), by the same token, argued that the EU's internal policies and members’ domestic affairs were reviewed in a rather neutral or even positive fashion. On the other hand, she pointed at how the media constantly covers mutual accusations, mainly concerning the conflict, while choosing to ignore advancement in the bilateral cooperation, principally economic, scientific and cultural, despite satisfying results and symmetrical interests.

The bilateral relations, therefore, are largely characterised by a mutually ambivalent approach: Israel wants to strengthen its relations with the EU and promote membership in various forms, but is suspicious (Pardo and Peters, 2010) regarding the EU power and interests, and tends to try to diminish its political influence, doubts which are mainly grounded in the different approaches towards the conflict. This, in fact, is a paradox – while Israel is trying to isolate the economic factor, in terms of eliminating conditionality when deepening economic cooperation, the public as well as the political perception is mostly based on the EU role in the conflict resolution. Israel, in fact, perpetuates that paradox, not awarding the right place to the centrality of the EU 'civil power' (Hettne and Soderbaum, 2005, Lavenex, 2004, Whitman, 2007, Costalli, 2009, Moravcsik, 2002); the latter stresses the exercise of soft power using cultural, economic and normative means, mainly in terms of thriving economic connections, encompassing various fields in the Israeli economic, social and cultural arena. Although the EU's increasing tendency towards a more open and extensive dialogue with civil society has been highly welcomed in Israel, it does not rule the public view. This actual power of the EU as mostly an economic actor (Lucarelli, 2007), is, nevertheless, no less significant to the Israeli political economy than its involvement in the conflict.

The EU, in return, gave Israel a declared special, ‘privileged status’ (Essen 1994, Luxemburg 2008, following the “reflection group” of 2007), but does not manifest the latter and its content explicitly (Pardo and Peters 2010:114). It does not refer to Israel in any way as an inherent factor in the EU, despite the Israeli self-inclusion tendencies (Newman 2000, Del Sarto and Schumacher, 2005, Tovias, 2003) and the strong connection, further fortified following the EU enlargement waves. That, eventually, has directed Israel towards an explicit preference of cultivating better bilateral relations with individual European states (Tovias, IEPN 2009, Heller, 2004, Schafer and Henry, 2009); although sensitive to regional impacts, such relations are considered more unconditional. All in all, the EU has no intention or interests in separating the political from the economic, and the reciprocal influence in this arena is inevitable.

In summation, the Israeli public view is a result of several explicit and some more implicit factors; the first clear one is the conditionality, clouding any substantial EU contribution with frustration, emotive bias against the EU and disappointment. The common history adds oil to this flame, even though in many occasions it is completely unjustified. The will to preserve the exclusive position of the US as the leading Israeli ally is another. This affects directly the Israeli perception regarding the regional processes. The clash between Europeanization and Mediterraneanisation and fears to lose Israel's competitive advantage have strengthened Israel's reluctant approach, in addition to further difficulties resulting by the fact that Israel is not an EU member state. The common perception in Israel is that, whether necessary or not, what prevents the AP from expanding and deepening its scope is mostly the political conditionality, rather than constraints of the policy framework.

Nevertheless, despite the wrong myth of Israeli aiming towards business while the EU is directed towards politics, the EU presence is most importantly a derivative of common interests. A part of the EU activity in Israel is political, and this one is widely reviewed, but these are the economic relations that are focal for both sides. With this regard, some of the predominant problems in the bilateral relations are a reflection of internal processes in the Israeli political economy. These, however, are scarcely reviewed.

Takes two to tango: the implications of the Israeli political economy

Both the EU and Israel are described to lack, in fact, a strategic vision in the bilateral relations (Dror and Pardo, 2009, Dror, 1998). Nevertheless, the EU regional framework is widely perceived by the EU as adequate, with no aspirations to reform it, whereas the fact that Israel still did not develop a strategic consolidated and accepted vision regarding its relations with the EU is much less reassuring.

Besides the Israeli weakness in developing long-term grand strategies, the Israeli side also suffers some major problems affecting the progress of the ENP in particular, and the bilateral relations in general; these include internal politics within the governmental ministries and bureaucratic hurdles, and pragmatism regarding the work in front of the EU, which make it difficult to take full advantage of what is provided by the EU policy. Israeli government ministries also tend to be selective in participation in various programs as these entail costs for the government and the local private sector (Sadeh, 2007); additionally, sometimes the industry wants no governmental involvement. This has to do also with public and business reluctance to risk the Israeli-American trade. In addition, there is no significant lobby promoting the bilateral relations, such as the one activated in the case of the OECD membership. This is illustrated for example by the fact that unlike the OECD case, no professional unit has been conducted in order to promote these bilateral relations. This despite the satisfaction expressed by officials regarding the benefits of the AP and its contribution to better bilateral relations, as well as relatively satisfying coordination with various ministries with the EU (particularly with Commission departments – DG's, Sadeh, 2007).

The EU trade relations with Israel are ordinarily escalating (excluding 2012, whereas a significant decrease in trade relations was marked, as a result of the global financial crisis). Still, the EU contribution to private enterprises is not stepping-up; with the exception of the FP, there is no actual leverage, and not good enough integration of the private sector in trade-related issues. Also with regards to civil society issues, these still lack coordination between the government and private groups, mostly on political grounds. A political leverage of the private sector, in sense of the EU investing, promoting and leading to growth of Israeli firms, mainly SME's, may be the added value the EU needs; nevertheless, it is not clear how aware the EU is, and to what extent it

really has an interest to exercise its influence through the private sector. At the same time, a deepening of the economic relations would not necessarily if at all lead to a political shift, although it certainly is a channel worth exploring. This, if assuming both sides are interested in deeper collaboration; the EU is not necessarily interested in deepening the collaboration with the private sector, as it is not keen to expand its relations with different elites in other partner states; the business sector in Israel, on its part, can reach Europe if needed, with no necessity of state intermediation or assistance. Investments can often be recruited globally under better rates and conditions than those of the EU. Still, if there is a need to use the tools provided through the AP to advance the business sector in Israel, it is an Israeli responsibility to make sure it is realised. This is mainly relevant in contemporary waves of social protests, stressing the need of strengthening SME's and sectors which are not monopolised by the oligarchy.

Private-public partnership? who in Israel is responsible for carrying out the AP

In the bilateral level it is difficult to identify who is responsible to carry out the AP in Israel - whether it is the state solely, the private sector actors or a partnership between them. Furthermore, it is not clear how progress should be judged. The AP itself does not assign the people in charge in Israel, although the attribution within the EU is clear. Essentially, the responsibility of application lies on the governmental bodies in Israel - the different ministries and authorities, as elaborated in the different sections of the AP. Within the private sector there is a fluent discourse with trade organisations and with the Manufacturers Association of Israel, but the dominance of the interaction with the EU is certainly of the ministries; however, the desegregation between public and private partnership is inherent in the AP, as exemplified in the assessment to business climate and its derivatives.

Public-private partnership (PPP) exists, but it has been increasingly applicable in the last decade to the power axis state-oligarchy. As for the bilateral relations, such partnership is rather marginal. The state, therefore, has two empty pockets regarding such partnership and its influence on the bilateral relations; on the one hand, its close alliance with the oligarchy, beyond the risks to the domestic political economy, has no relevance to the bilateral relations. On the other hand, it currently has no structured, long-term thinking about

influence through the private sector, while the state investments in it have significantly decreased as a result of the emergence of the oligarchy.

This way, while Israeli ministries do keep examining further paths of cooperation, despite criticism, the political economy does not provide an optimal climate to advance these relations; the oligarchy and the hyper-centralised structure trigger, in essence, a spill-over to the bilateral relations, influence and shape them.

The EU interaction with the private sector in Israel is mainly conducted outside the closed circle state-oligarchy. Indeed, EU involvement in the Israeli political economy stands, in fact, as a competitor to such Israeli market forces. The oligarchy does not want to give up its control position in Israel, what creates an internal conflict between actors who are interested in tighter relations with the EU and those who wish to block such competition. This, in essence, affects the common viewpoint in Israel regarding the EU, as its more tangible effects on the domestic political economy are discounted, due to the prominent role of the oligarchy. The AP accordingly, does not reflect the core of the business of Israel, therefore its influence on the Israeli public opinion about the EU is rather limited. The EU, on its part, does not anchor the lack of competition in Israel to any substantial progress or cooperation; nor does it address the problem of the oligarchy in other ways. Instead, it only indicates the existing problems, mainly related to poor exercise of competition policy. On the other hand, it has no trade relations with the oligarchy, as the fields of common interests and those in which Israel has a competitive advantage are not generally related to the oligarchy, the latter's power being mostly domestic.

Other actors, in the fields of academy, culture and various NGO's are also focal in the relations, but their contribution to the EU position in Israel stands in relation to their position in the domestic field, therefore far less influential than the business side.

While most authors determine that the EU should, as a result of its controversial position and policies in Israel, search for effective instruments to improve its credibility and legitimacy in the Israeli eyes, the EU has no actual ambition to do so. The EU has no interest to address the individual political economy of Israel outside the regional framework; this is evidenced for example in the progress reports, which assess domestic status or required progress in relevant fields, without indicating any EU commitment, moreover conditions. Unlike in the case of other Mediterranean states, there is no EU attempt to

transform the institutional, political or legal system in Israel, but rather to lead it to a path which would sustain the EU ambitions as global power and as a geo-political strategic leader, namely progress in the conflict resolution. It is not of the EU's interest to take action to deal with the domestic problems such as the centralised structure in Israel, as long as the general macro-economic picture and level of openness of the market are satisfying. Furthermore, there is no EU interest in changing the perception in Israel when it does not contradict EU's political agenda or its legislation.

The EU itself has internal conflicts regarding the ENP path and application (Del Sarto and Schumacher, 2005); its intentions to initiate domestic reforms and strengthen foundations of bilateral cooperation stand in a conflict to its declared will to avoid simple intervention in domestic political economies. However, the EU, naturally, cannot coordinate with the political-economic power centres solely; morally, strategically and politically it is too challenging.

Israel does not require reforms as do other partners, i.e. democratization, freedom and equality; nevertheless, there are hardly any EU demands for change which do not concern the conflict, or alternatively, refer to approximation of legislation or norms, in favour of trade amelioration. The ENP reforms doctrine with regard to Israel was never translated to political-economic terms, but remained a mere allegation. Considering the Israeli structure of capitalism, though, some reforms or approximation steps could be particularly relevant to Israeli public interests, first and foremost regarding competition policy. Also challenges like promoting sustainable growth, bringing down fiscal debt, population ageing, advantages to SMEs, transport and communication regulation, and common work in the field of social policy etc. can certainly be the subject of a more enhanced economic cooperation.

This suggests that the way the EU is internalised in Israel is far more decisive than the policy per se, in shaping the bilateral relations and stating the EU power in Israel, in line with its influence in actual political-economic terms, not as an idea. The progress of the relations depends to a great extent on the way Israel internalises the EU presence, rather than the foreign policy instruments the EU chooses to use. The impacts these instruments, first and foremost the ENP -AP, on the Israeli political economy, besides heightening the debate on conditionality, Europeanization and Mediterraneanisation and

emphasising Israel's competitive advantage, point, in fact, at the Israeli role in shaping the EU presence and power. This leaves to Israel, in fact, the main responsibility for the way the EU is internalised, using the instruments available by the defined foreign policy. It is the state's responsibility to lead the relevant actors to be engaged more strongly with the EU, thereby granting EU's empowerment.

The strengthening of the dialogue between the EU and Israel, confronting shared interests and considering some forms of positive conditionality, must rely on the powerful actors in Israel, in terms of political leadership, central economic actors and public opinion shapers. Israel should use positively the existing centralised market structure in order to leverage its interests, or alternatively, to try and isolate this from the genuine advantages it has in its relations with the EU, strengthening, thus, alternative power structures. This is not to reduce EU responsibility, bureaucracy, insistence on conditionality, but to refine the debate towards the actual actors who can take the bilateral process further. The importance and vitality of the EU role in Israel, which can no longer be dismissed as a pale interventionist body, forces such grand strategy in this front.

In general, to make the AP, and thereby the bilateral relations as a whole, better and more productive, and to translate the EU trade dominance to political expression, besides a sharp disengagement as can be from conditionality, three processes should happen: the first is efficiency in applying processes, promoted by both parties internally and externally; it is about an extensive approximation of regulation, which requires a fast response on the part of the EU to Israeli efforts, but obviously, and primarily vice versa. The second process is further integration of the private sector, by opening new channels of cooperation, mutual funds, initiatives for common entrepreneurship and generally – more EU accession to Israeli economic actors, and favoured integration of Israeli actors in the EU. The third process is an Israeli reflection of how its competitive advantage in its relations with the EU should be further promoted and manifested; Israel should distinguish its problematic hyper-centralised market structure from its relations with the EU, or alternatively, wisely find creative ways to use its centralised market structure in favour of advancing the bilateral alignment.

Conclusions:

Throughout the evolution of the Israeli political economy, the EU has been a significant actor, not only culturally and socially, governing the core paradigms shaping the political economy; it has been a central trade partner and an important actor Israel is committed to, in terms of its foreign policy.

The paper points at two inter-linked problems in the framework of the EU-Israel bilateral relations: mainly manifested as a problem by the Israeli party, the first is the co-existence between the bilateral and the multilateral in the EU foreign policy towards Israel. While allowing for the particular nature of the bilateral relations a fairly central place, the EU is yet committed to a rather consistent regional framework, entwined with the inseparable 'conditionality' between deepening of the economic cooperation and a progress in the Israeli-Palestinian conflict resolution. The EU contends that if states want to conduct mutual cooperation with it - they need adjust to its norms and requirements; the EU can be flexible, but it certainly does not intend to adapt itself to the particular political-economic alignment of other states. Accordingly, it cannot engage with the particular structure of the Israeli political economy, its key powerful institutions, and their social and economic impacts. It uses the available instruments to create a space of influence, but Israel (which is not the EU's most attractive objective) should wisely manipulate such power.

The second problem, consequently, is rooted in the structure of the Israeli political economy. The competitive advantage of Israel embodies to a great extent the cooperation with the EU, under the ENP -AP; still, the paper argues that the main economic interest of the EU in Israel does not include the business derivatives of the oligarchy, being a fundamental, even if hazardous institution in the domestic political economy. AP tools, accordingly, do not reflect the Israeli business core. Likewise, the implications of the emerged oligarchy in Israel are hardly addressed by the EU. The fact that the oligarchy has no overlap with the conflict resolution process further distances it from the EU.

As a result, since Israel is a networked society with strong ties between the oligarchy and the political decision-making circles, the public impact the EU policies have is constrained, and the prevailing perception regarding the EU presence, as a rather 'pale' external actor, is perpetuated, despite the advantageous economic-civil cooperation. The public view reflects greatly the Israeli paradox - while aspiring to disconnect the political,

conflict-oriented aspect of the relations from the economic collaboration, the perception is most prominently designed by EU's involvement in the conflict. On the other hand, its substantial presence is discounted, due to the centralised political-economic structure. As the oligarchy in Israel has a direct and indirect influence on all social, political and economic strings, it has an important role in defining the framework of the relations. Since the EU does not interact with it, the footprint it can obtain in Israel is arguably limited.

For time being, from various reasons, which include the centralised structure of the Israeli political economy, but also the EU internal problems and conditionality, the AP is not realised to its maximum potential. Aside voices calling for further development and opening of the relations, other argue that there is no need for new resources, but a full use of the existing ones; the ENP offers a flexible AP, as ambitious as partners want. Assuming that the EU would not engage further with the AP, Israel needs to re-invent it.

Despite a rather wide consensus asserting that the EU presence and role in the Israeli political economy would increase if the economic aspect of the relations would be isolated as much as possible from the political one, conditionality is not the central obstacle preventing these relations from further progress. The relations rely on several other important grounds, such as effective trade relations and stable cooperation in matters of economics, culture, technology and society, in which the EU influence is becoming more and more substantial. Hitherto, the additional dimension of the EU self-interest and the individual power of the economic connection, along with the emotive and cultural-social affinity between the two parties are no less important. Furthermore, along the progress reports there is a sense of EU retreat from its grand ambitions, in favour of more focused and productive economic-civil cooperation. This, in addition to the critical effects of the global financial crisis, may indicate a unique opportunity to change the patterns of the cooperation, integrating wisely private and public interests, and placing the role of the oligarchy in a way which would either benefit with the bilateral relations, or at least would not damage them. More routes of cooperation, for example, can be Israel's full position rather than observer in R&D, further approximation of legislation, EU acknowledgement of Israeli standardisation, and gradual, stronger integration of the private sector. The responsibility to take maximum advantage of the ENP-AP, and to try and leverage the relations, as well as the EU presence and power in Israel, lies primarily with the Israeli side.