How Will Israeli Tech Emerge from the Gaza Conflict?

Emily Harding
Director, Intelligence, National Security, and Technology Program,
and Deputy Director, International Security Program

with Aosheng Pusztaszeri
War is by its nature disruptive—to life, business, and society. The longer the war, the greater the economic hit. Israel’s tech sector must once again prove resilient enough to recover and reengage with the global economy.

The tragic toll of Hamas’s October 7 attacks can be counted in lives lost and homes destroyed, but a second-order effect lurks on the horizon: a damaged Israeli economy and a potentially massive disruption to Israel’s tech sector. That tech sector has served as an economic engine for Israel and an innovation engine for the globe. While Israeli tech has weathered recent conflicts well, the extent of this mobilization and a weaker economic context are likely to significantly delay, if not disrupt, Israeli tech.

Workforce disruptions are the main driver of potential economic impact. In response to the October 7 attack, the Israel Defense Forces mobilized 360,000 reservists, approximately 4 percent of Israel’s total population. This marks one of the largest mobilizations in Israel’s history, eclipsed only by the 400,000 reservists called up during the 1973 Yom Kippur War. In contrast, Israel’s most significant recent mobilizations were the 2014 Gaza War, with 75,000 reservists, and the 2006 Second Lebanon War, with 89,000 reservists.

The dent in the workforce is far greater than the call-up of reserves: at the height of the disruption, this conflict removed an estimated 764,000 Israelis, or 18 percent of the total workforce, between reserve mobilization, evacuations near the Gazan and Lebanese borders, and school closures requiring parental care at home. Recent estimates suggest that as of December, an estimated 500,000 Israelis, or 12 percent of the workforce, are still not working.

The mobilization has likely hit tech start-ups harder than average, given staff at start-ups skew young and much of Israel’s tech sector sprang out of skills gained in service with the IDF. According to a survey conducted by Start-Up Nation Policy Institute (SNPI), an estimated 15–20 percent of tech sector employees were mobilized, and 25 percent of company respondents reported experiencing a shortage of personnel. According to Avi Eyal of Entrée Capital, 10–30 percent of start-up employees mobilized, representing a substantial reduction in staff and a prolonged break in innovation, project development,
venture capital investments steadily increased from $2.9 billion in 2014 to $5.6 billion in 2016. But just as the conflict in 2014 was different from that in 2023, the world economy has also changed. Bloomberg predicted an escalation in the conflict—like recent Houthi attacks on ships in the Red Sea—could send global oil prices soaring. Global growth could drop to 1.7 percent, an estimated $1 trillion off global output.¹⁷ The global economy is still feeling the effects of a war in Ukraine, monetary policy is tighter, and there is continuing uncertainty surrounding the multitude of elections in 2024. Conditions will be more challenging for a quick bounce back this time around.

Israel is wisely acting fast to bolster the tech sector. As of early January, the Israel Innovation Authority (IIA) had begun to deploy $100 million in emergency aid for start-ups.¹⁸ The New York Times reported that chip giant Intel announced it would proceed with a planned $25 billion investment to expand a factory in southern Israel, having received a $3.2 billion grant from the government.¹⁹

For the economy more broadly, Israel has slowly tried to fill the labor gap by increasing the number of foreign workers in the country, with more than 12,000 foreign workers arriving as of December.²⁰ War is by its nature disruptive—to life, business, and society. The longer the war, the greater the economic hit. Israel’s tech sector must once again prove resilient enough to recover and reengage with the global economy. It is telling the world it is ready to do just that. Early in the conflict, the IIA started a new campaign with this tag line: “Israeli tech delivers. NO MATTER WHAT.”²¹

To see endnotes and all contributions in the 2024 Global Forecast, please click here.