Inclusive growth in an advanced, innovative economy

*The Case Study of Israel*

Mr. Amit Lang
Director General of the Ministry of Economy
Israel

“Technology is the key to the economy. Capital isn’t created in banks which print the money, capital is created in labs in which new products are created.”

Shimon Peres, the 9th President of Israel (2007-2014)
We believe that the Israeli case study shows some of the major economic challenges facing governments today and that the “Knowledge and Innovation for Inclusive Growth Project” of the OECD can help to address them.
Israel’s most important natural resources

A creative & inventive culture...

Ranked #1 globally for innovative capacity
By IMD Global competitive year book 2014

Ranked #3 globally for innovation
By WEF Global competitive yearbook 2013-2014

Thriving entrepreneurial spirit

...with an entrepreneurial DNA

Ranked #1 for density of startup ventures per capita
(2nd only to Silicon valley in total # of startups)

Tel-Aviv, Israel’s business center, is ranked the 2nd best innovation ecosystem globally
By The startup Ecosystem Report 2012

High tolerance for failure

Source: WEF year book 2013-2014 ; IMD 2013
ISRAEL: 1,000 new innovative startups per year

Israeli innovation powers the lives of billions worldwide…

- 50% of global low-pressure irrigation systems are Israeli
- Over 1B computer processors developed and manufactured in Israel
- Millions of hearts are powered by Israeli cardio-vascular stents
- The first capsule endoscopy
- The world’s top digital and 3D printing tech.
- A leading road safety tech.
- The Flash Drive
- WAZE Navigation
- KINECT Gesture recognition

…while 250 leading corporations have opened R&D centers in Israel...
What’s next on the innovation frontier?

Government and industry continue to partner in order to boost sectors with high potential for innovation and growth.
The Israeli economy’s major challenge

- **Israel is a highly innovative, resilient economy**
  - Israel’s highly innovative high-tech sectors are a major growth driver
  - The country also enjoys a stable economy: relatively low unemployment levels, GDP growth, stable financial sector

- **But it’s also a dual economy - most of the Israeli workforce is not part of this success**
  - The high tech sector represents only ~10% of our workforce; other sectors are characterized by low productivity
  - Major social & economic challenges: productivity, education, participation in the labor market, and middle-class social unrest due to high cost of living

Source: Globes
High inequality...

• 30% of households below the poverty line consist of at least one resident who is employed

• Specific segments of the population represent a substantial amount of households below the poverty line

-ISrael’s productivity level is 33% below the OECD average

Source: Central Bureau of Statistics, Israel; Bank of Israel

Productivity per hour of labor (US$)

<table>
<thead>
<tr>
<th>Country</th>
<th>Productivity</th>
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<tbody>
<tr>
<td>Chile</td>
<td>33.8</td>
</tr>
<tr>
<td>Israel</td>
<td>44.1</td>
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<tr>
<td>OECD average</td>
<td></td>
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<td>UK</td>
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<td>USA</td>
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<td>Ireland</td>
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Source: OECD, 2011
A dual economy

Industrial exports by Technological Intensity Index (base 1995 = 100; current prices US$)

Source: Central Bureau of Statistics, Israel
**Government policies to foster inclusive growth in Israel**

| Increase local competition as a means of increasing productivity of local industries |
| Focus on partnerships with new and growing markets, i.e. India |
| Encourage access to finance, especially for SMEs |
| Promote innovation in the governmental sector, i.e. Digital Israel |

| Tailored education & training programs to increase participation of targeted social groups in the labor market |
| Promote inclusive innovation in the private sector, i.e. Chief Scientist programs for traditional industries, require companies receiving governmental funds to increase innovation, NewTech |
| Adapt tax policy and regulations to promote inclusive growth |
Our Objective

Remaining on the innovation peak

while pulling up the rest of the economy