

# **The Balance of Israel's National Security**

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## **High Tech as Chief Driver of Israeli Economic Growth**

### **Executive Summary**

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This document includes the findings and conclusions of the taskforce. It is a draft for discussion purposes and reflects the opinions of the taskforce members only.

# **High Tech as Chief Driver of Israeli Economic Growth**

## **Executive Summary**

In our position paper, we illustrate that the Israeli High Technology industry has represented the chief engine of growth for the Israeli economy, and is now the leading source of Israeli exports (around 50% of the total). In addition, the high technology industry incontestably has the easiest access to global financial markets and the only sector in Israel which has been a serious draw for foreign equity financing, as opposed to the government, the banks and the electric utility, which have primarily been sources of foreign debt financing.

Israel also has one of the most developed infrastructures in the world in terms of critical parameters for attracting and fostering high technology ventures. This includes the highest per capita number of engineers, the highest level of research and development relative to GDP, the largest number of start up ventures per capita, etc.

We analysed the causes of the current crisis in Global technology markets and conclude that the potential for growth is far from having been realized, that we are merely in a natural hiatus following a period of over investment and the need to digest dramatic changes in infrastructure. This hiatus has been exacerbated by a sharp decline in corporate profitability, which characterizes the current macroeconomic crisis. However, the development of the networked world is still far from over and growth will return.

We also analysed the nature of Israeli technology and its position in global markets and conclude that even if this crisis is extended, Israeli technology companies, mature and developing, are well positioned to benefit from ongoing opportunities for the following reasons:

1. The markets in which Israeli technology companies operate are vast, and the penetration of Israeli companies is minuscule amounting only to around 2% of the relevant markets. This means that continued penetration of existing markets could lead to growth even if the overall market remains static.
2. Technology markets are characterized both by concentration at the top among a few global leaders and by fragmentation at the bottom among a large number of small players, often with less than 1% of the total market. This leaves plenty of room for manoeuvring for savvy players as well as creating opportunities for cooperation with market leaders.
3. The Israeli market is characterized by a large number of small companies focusing on next generation technologies, an important factor in easing transitions between technology generations and in positioning Israel to participate in future waves of technology growth.

We also looked at the availability of financing required to fuel the growth of the high technology sector and we propose changes to the taxation regime, which in our view today constitutes the source of several obstacles to this process.

From the perspective of the ability of the high technology sector to achieve this target, we also evaluated the “production” of the appropriate workforce by the educational system. According to our rough estimates, if we succeed in expanding the number of high school science graduates with appropriate grade levels by around 2,000 per annum from today’s level of around 6,000 it would take around 7 years to create a total suitable workforce to help eliminate the trade account deficit.

We firmly believe that achieving these targets would materially improve the overall economic health of the State of Israel. Not only would there be a primary impact in terms of exports, capital flows and primary and secondary employment levels, but the spill-over effect of a healthier balance of payments and trade for the State of Israel would benefit broader economic circles of development and employment.

We believe that the continued promotion of the high technology sector by whatever means possible is perhaps the most achievable and most desirable means of creating a healthier economic environment for the State of Israel as a whole. We therefore suggest that the Government of Israel place the elimination of the trade account deficit by means of expanding high technology exports as a national target.