#### Israel Competitiveness Snapshot

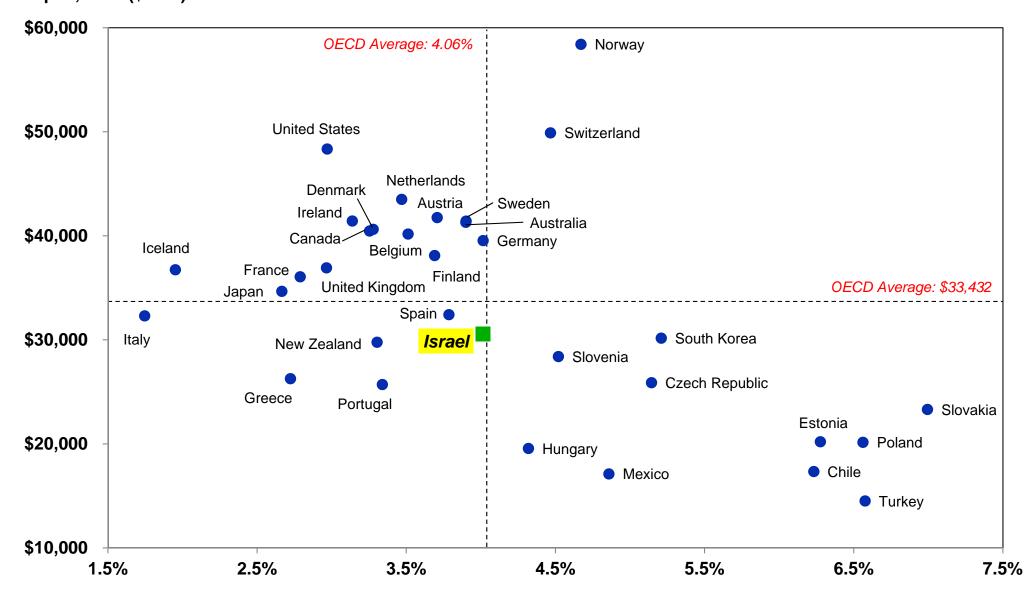
Professor Michael E. Porter Harvard Business School

December 6, 2012

This presentation draws on ideas from Professor Porter's articles and books, in particular, <u>The Competitive Advantage of Nations</u> (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in <u>The Global Competitiveness Report</u> (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in <u>On Competition</u> (Harvard Business School Press, 2008), and ongoing research on clusters and competitiveness. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter. Further information on Professor Porter's work and the Institute for Strategy and Competitiveness is available at <a href="https://www.isc.hbs.edu">www.isc.hbs.edu</a>

#### Prosperity Performance OECD Countries

PPP-Adjusted GDP per Capita, 2011 (\$USD)



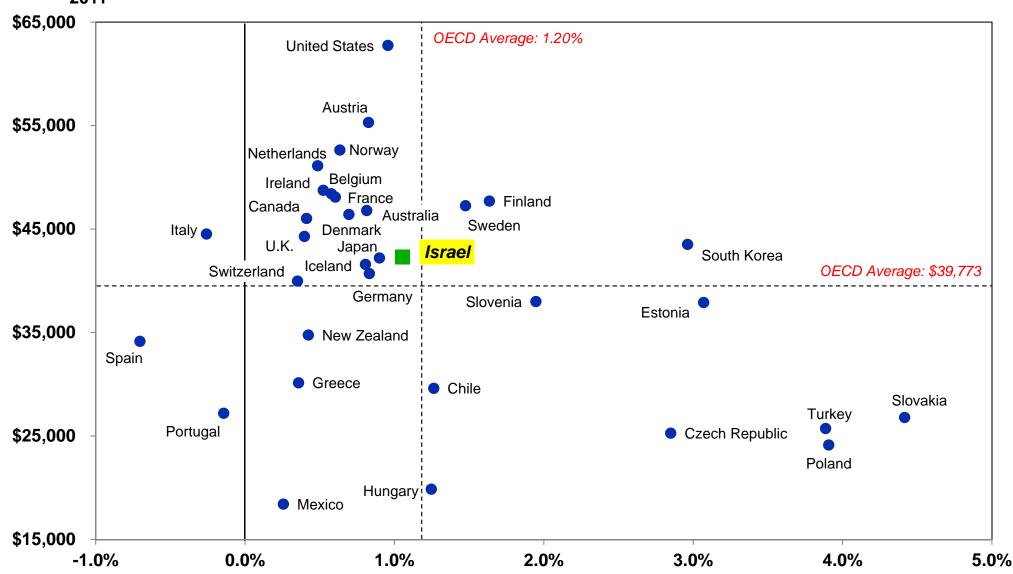
Growth in Real GDP per Capita (PPP-adjusted), CAGR, 2001-2011

Note: Luxembourg Excluded Source: EIU (2012), authors calculations

20121206—Israel Competitiveness Snapshot—FINAL

### Labor Productivity Level and Growth OECD Countries





Growth in Real GDP per Employee, CAGR, 2001-2011

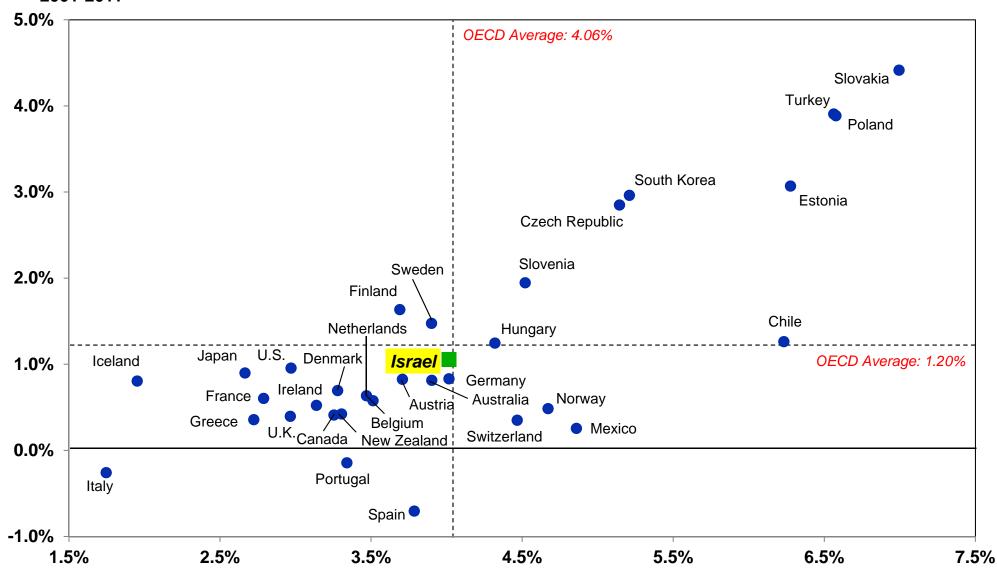
Note: Luxembourg omitted.

Source: Groningen Growth and Development Centre, Total Economy Database (January 2012). GDP calculated using Geary Khamis calculation methodology.

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#### **Labor Productivity Growth vs. GDP Growth OECD Countries**

**Growth in Real GDP** per Employee, CAGR, 2001-2011

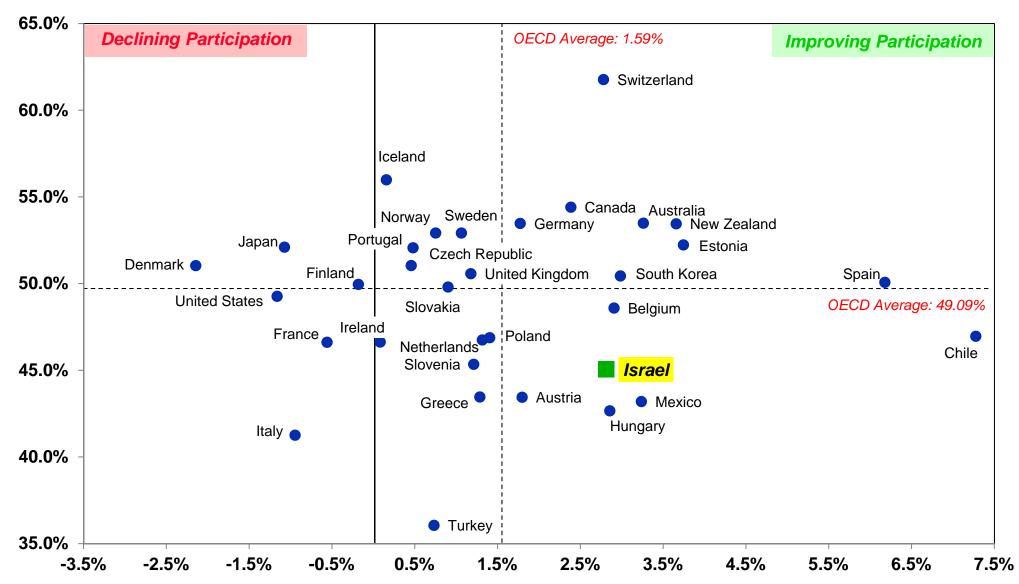


Growth in Real GDP per Capita (PPP-adjusted), CAGR, 2001-2011

Note: Luxembourg omitted.

### Workforce Participation OECD Countries

Labor Force Participation (2011)



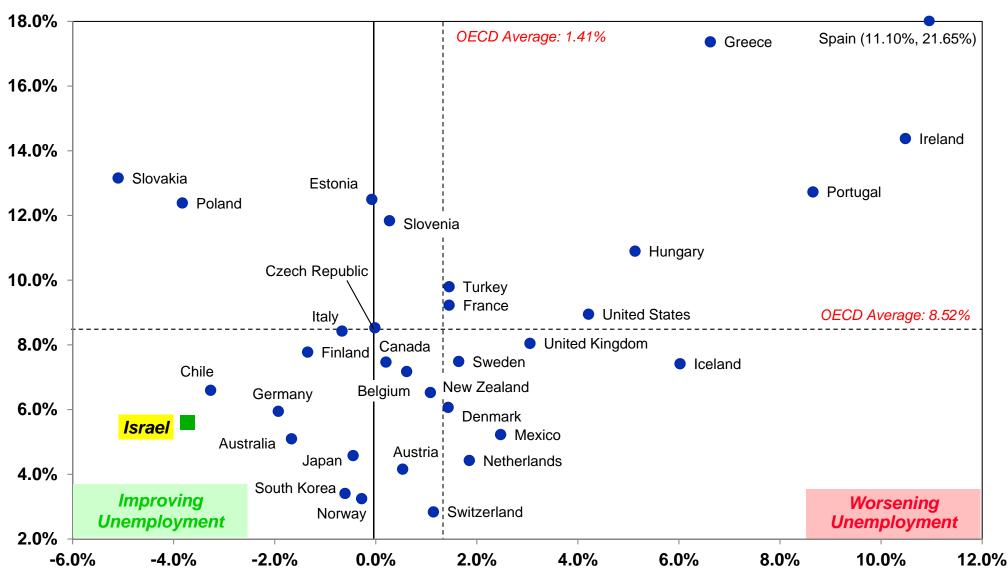
Change in Labor Force Participation Rate, 2001-2011

Note: Luxembourg omitted.

Source: EIU (2012), authors calculations 20121206—Israel Competitiveness Snapshot—FINAL

#### Unemployment Performance OECD Countries

Unemployment Rate, 2011 (%)



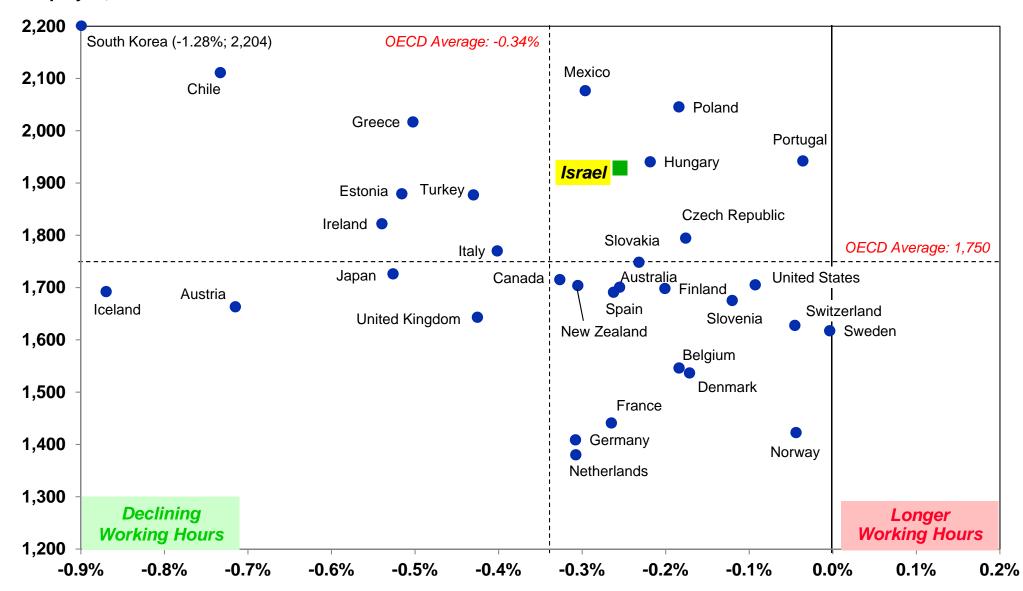
Change in Unemployment Rate in Percentage Points, 2001-2011

Note: Luxembourg omitted.

Source: EIU (2012), authors calculations 20121206—Israel Competitiveness Snapshot—FINAL

#### Working Hours OECD Countries

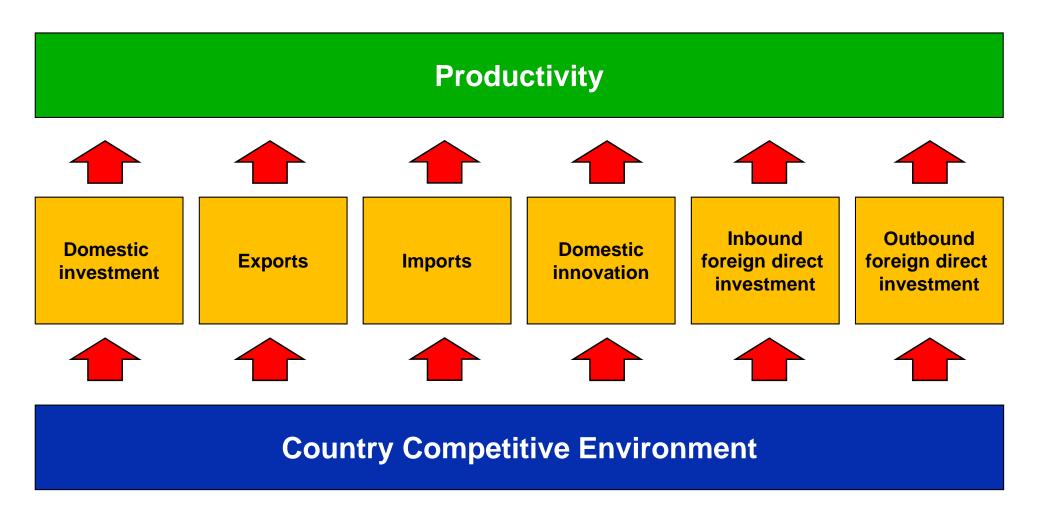




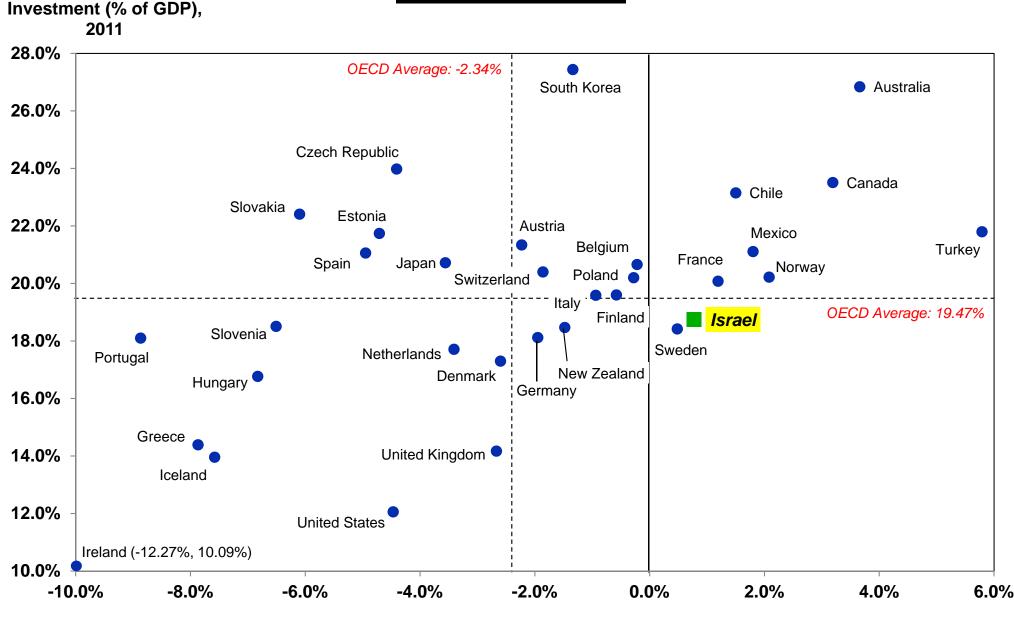
Change in Hours Worked per Employee, CAGR, 2001-2011

Note: Luxembourg omitted.

# Intermediate Indicators and Enablers of Productivity



#### Domestic Investment Performance OECD Countries



Change in Gross Fixed Investment (% of GDP), 2001-2011

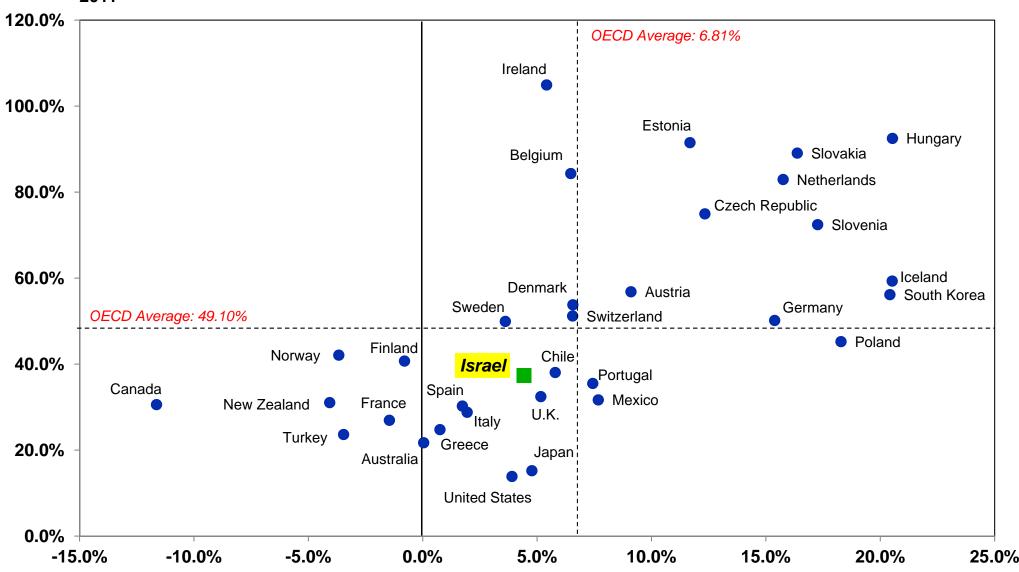
Note: Includes inbound FDI; excludes Luxembourg.

Source: EIU, 2012

**Gross Fixed** 

### **Export Performance OECD Countries**

Exports of Goods and Services (% of GDP), 2011



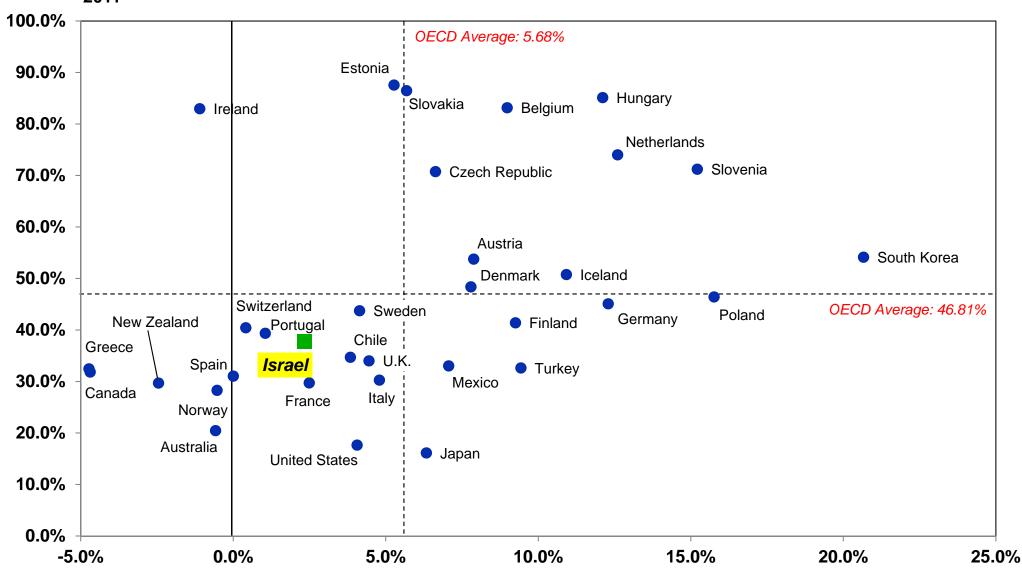
Change in Exports of Goods and Services (% of GDP), 2001-2011

Note: Luxembourg omitted

Source: EIU (2012), authors calculations 20121206—Israel Competitiveness Snapshot—FINAL

### Import Performance OECD Countries

Imports of Goods and Services (% of GDP), 2011



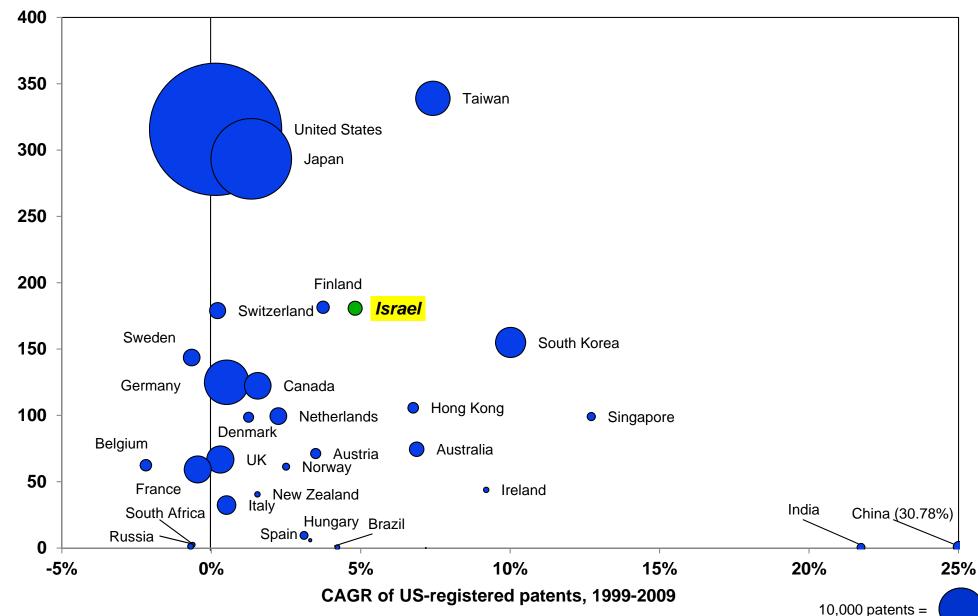
Change in Imports of Goods and Services (% of GDP), 2001-2011

Note: Luxembourg omitted

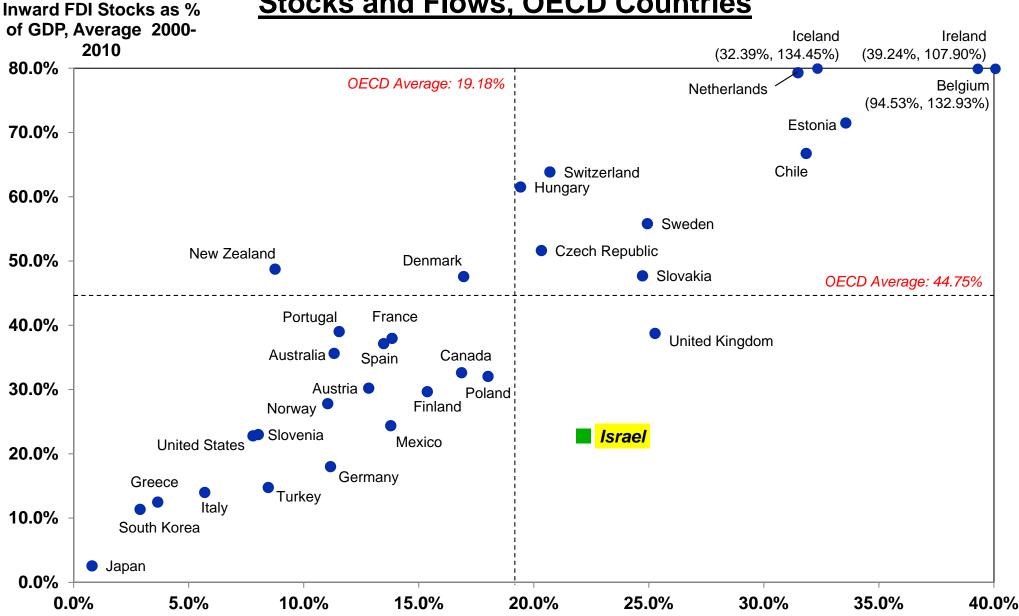
Source: EIU (2012), authors calculations 20121206—Israel Competitiveness Snapshot—FINAL

### Innovative Output Selected Countries

Average U.S. patents per 1 million population, 2007-2009



#### Inbound Foreign Investment Performance Stocks and Flows, OECD Countries



FDI Inflows as % of Gross Fixed Capital Formation, Average 2000-2010

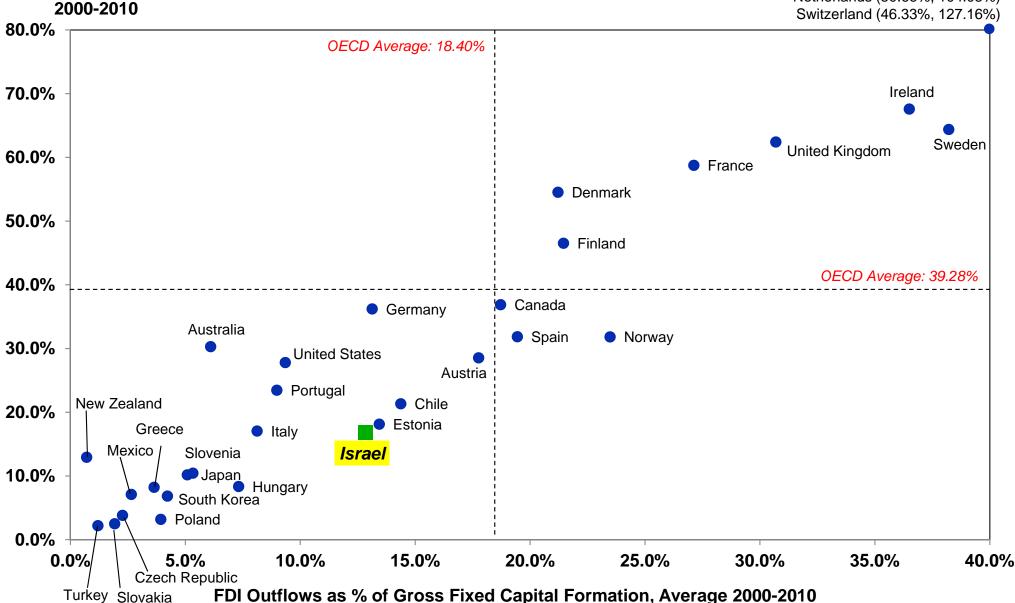
Note: Luxembourg omitted

Source: UNCTAD, World Investment Report (2012)

#### **Outbound Foreign Investment Performance Stocks and Flows, OECD Countries**



Belgium (87.81%, 127.83%) Iceland (43.13%, 186.83%) Netherlands (50.66%, 104.05%)

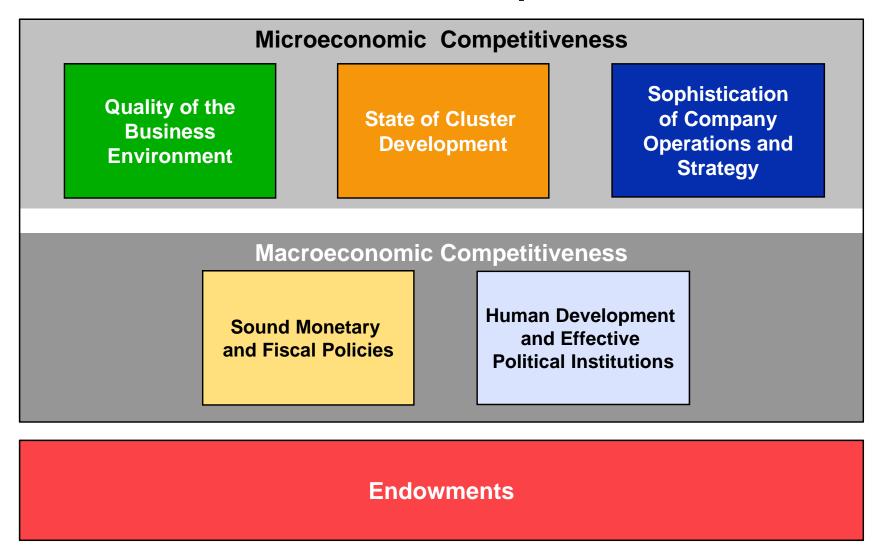


Note: Luxembourg omitted.

Source: UNCTAD, World Investment Report (2012)

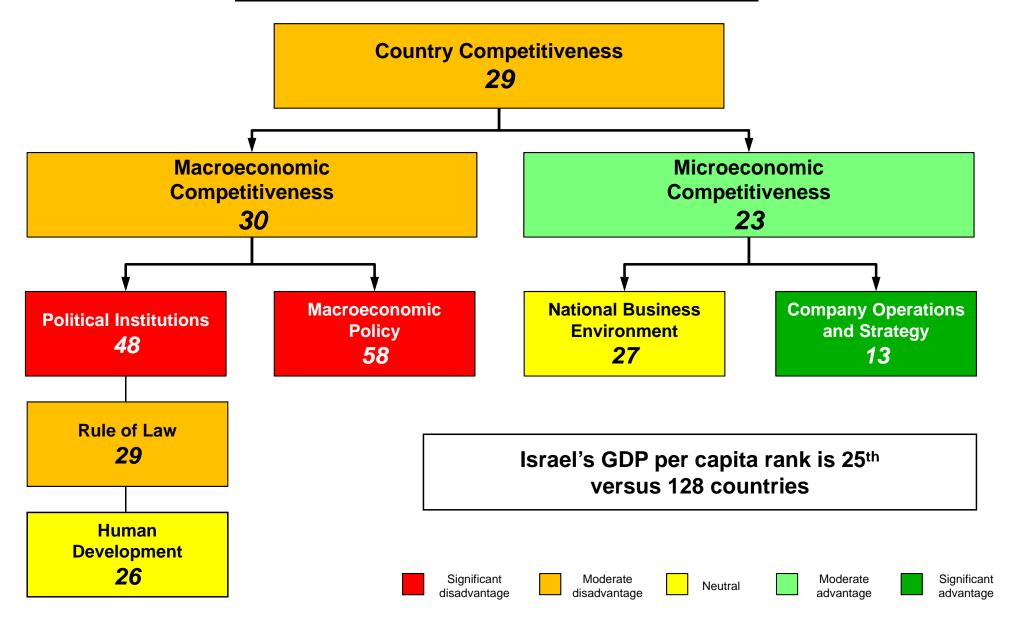
Turkey Slovakia

#### **What Determines Competitiveness?**



- Productivity ultimately depends on improving the microeconomic capability of the economy and the sophistication of local competition revealed at the level of regions and clusters
- Macroeconomic competitiveness sets the economy-wide context for productivity to emerge, but is not sufficient to ensure productivity
- Endowments, including natural resources, geographical location, population, and country size, create
  a foundation for prosperity, but true prosperity arises from productivity in the use of endowments

### ISC Competitiveness Model Israel's Competitiveness Profile, 2012



Note: Rank versus 128 countries; \*Color coding based on comparison relative to income;

Source: Institute for Strategy and Competitiveness, Harvard University (2012), based in part on survey data from the World Economic Forum; analysis prepared based on research findings by Scott Stern, Mercedes

Delgado, and Christian Ketels.

#### ISC Competitiveness Model Israel's Competitiveness Profile, 2012

Macroeconomic Competitiveness	30
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Political Institutions  Effectiveness of law-making bodies Public trust of politicians (Low) Wastefulness of government spending (Low) Favoritism in decisions of government officials (Low) Favoritism in decisions of government officials Government effectiveness in reducing poverty and inequality Transparency of government policymaking Freedom of the press 16 Voice and Accountability (WB)  29 Safety Judicial independence Efficiency of legal framew ork Property rights (Low occurrence of) Diversion of public funds (Low) Business costs of corruption Ethical behavior of firms 29 Control of Corruption (WB) Rule of Law (WB)  Human Development Quality of primary education Quality of healthcare services Health expenditure Life expectancy (Low) Malaria incidence (Low) Interculosis incidence (Low) Primary enrollment Secondary enrollment 1 (Low) Gender inequality	muoro occinio occinipo marcono occi	
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	(Low) Gender inequality	22

Macroeconomic Policy	58
Government surplus/deficit	61
Government debt	108
Inflation	44

Microeconomic Competitiveness	23
National Business Environment	27
Factor (input) conditions	28
- Logistical infrastructure	56
- Communications infrastructure	27
- Administrative infrastructure	61
- Capital market infrastructure	24
- Innovation infrastructure	20
Demand conditions	22
Supporting and related industries and clusters	28
Context for strategy and rivalry	34

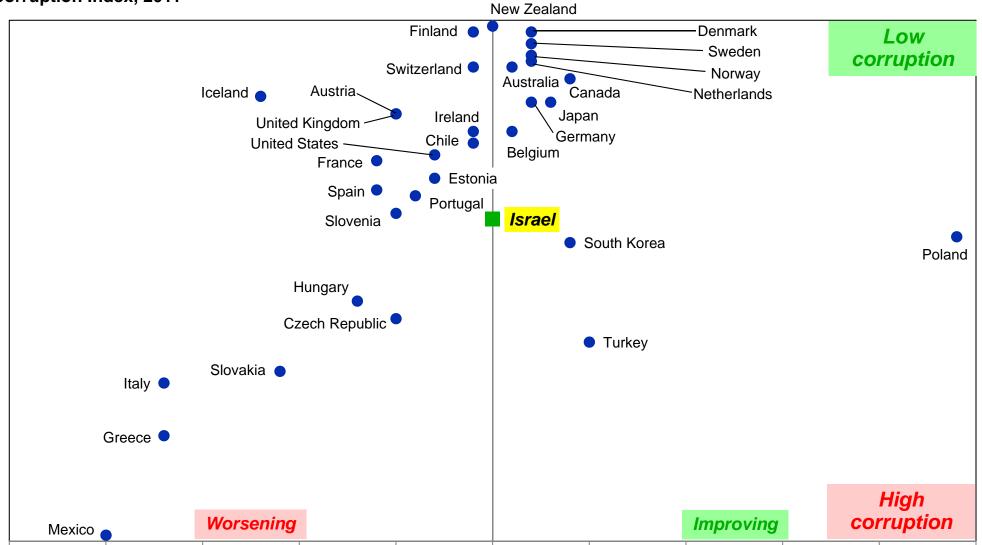
Company Operations and Strategy	13
Strategy and operational effectiveness	10
Organizational practices	29
Internationalization of firms	10

Note: Rank versus 128 countries; \*Color coding based on comparison relative to income;

Source: Institute for Strategy and Competitiveness, Harvard University (2012), based in part on survey data from the World Economic Forum; analysis prepared based on research findings by Scott Stern, Mercedes Delgado, and Christian Ketels.

### Corruption Perception Index OECD Countries

Rank in Global Corruption Index, 2011

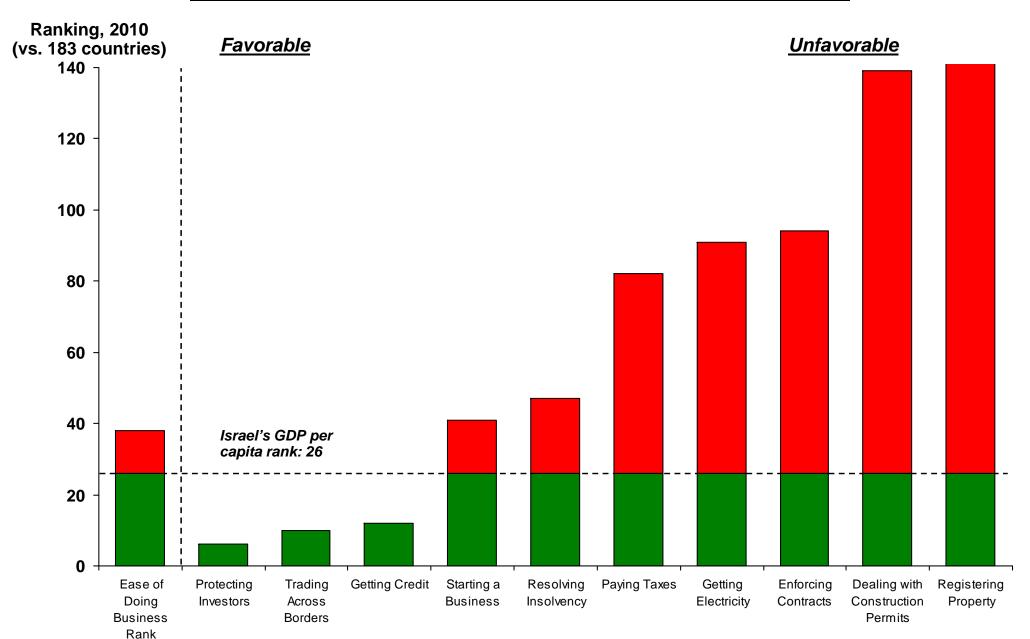


Change in Rank, Global Corruption Report, 2011 versus 2006

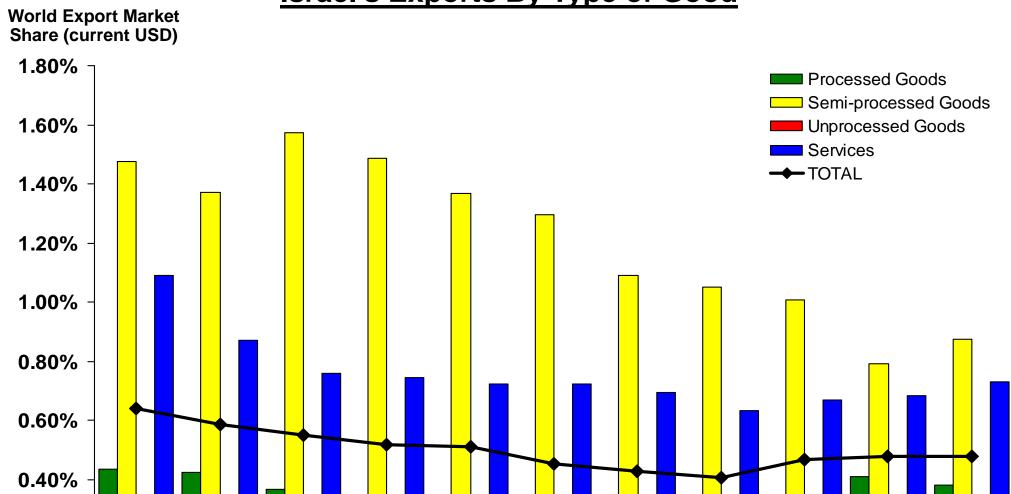
Note: Methodology for comparison is based on adjusted rankings only for countries available in both years (161 countries total)

Source: Global Corruption Report, 2011

## Microeconomic Competitiveness Indicators <a href="Ease of Doing Business Rankings">Ease of Doing Business Rankings</a> (Israel, 2013)



### Composition of Exports <a href="Israel's Exports By Type of Good">Israel's Exports By Type of Good</a>

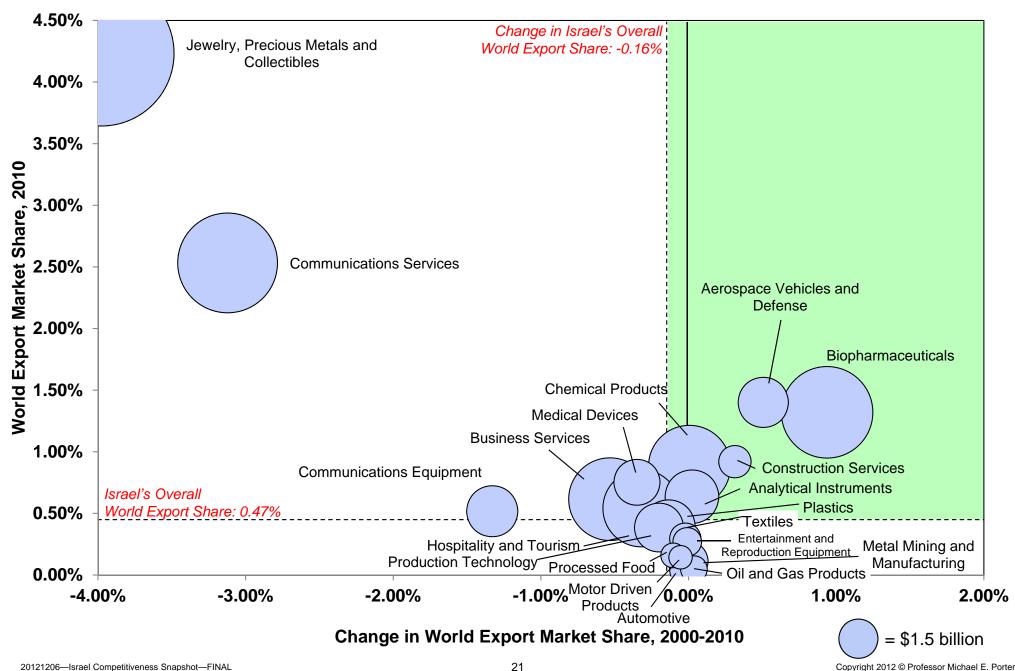


Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

0.20%

0.00%

#### Israel's National Cluster Export Portfolio 2000-2010



**Cluster Linkages and Economic Diversification Israel**, 2010 World Market Share 0.25% - 0.46% Fishing & Fishing 0.47% - 1.00% **Products Textiles** Prefabricated Hospitality > 1.00% **Enclosures** Agricultural & Tourism **Products** Processed Transportation **Furniture** Enter-Food Building & Logistics **Aerospace** tainment Fixtures, **Vehicles &** Construction **Equipment & Defense** Materials Information Services Distribution **Jewelry &** Tech. Services Heavy **Precious** Lightning & Construction Metals **Electrical** Analytical **Business Services** Equipment Education & Instruments Services Power Knowledge Forest Medical` Generation **Products** Creation Communi-**Devices** cations **Publishing** Services and & Printing Financial Biopharma-**Equipment** Heavy Services ceuticals Machinery Production Motor Driven Chemical **Technology Products Products** Tobacco Oil & Apparel Gas Mining & Metal **Automotive** Manufacturing **Plastics** Aerospace **Engines** Leather & Footwear Related **Sporting Products** & Recreation Goods