

ROUND TABLE

FACING THE ONGOING GLOBAL ECONOMIC CRISIS – THEORY, PRACTICALITY, AND THE LESSONS TO BE LEARNED BY ISRAEL

How Can Israel Leverage Current Global Trends and Tomorrow's Economic Challenges?

****The summary was written by the office of the National Economic Council in the Prime Minister's Office, Israel****

Moderator: Prof. Eugene Kandel, National Economic Council in the Prime Minister's Office, Israel.

Participants: Mr. Raymond J. Baer (Honorary Chairman, Julius Baer Group Ltd.), Ms. Weili Dai (Co-Founder, Marvell), Ms. Maxine Fassberg (Gen. Manager, Intel Israel), Mr. Nick O'Donohoe (CEO, Big Society Capital), Ms. Ofra Strauss (Chairperson of Board of Directors, Strauss-Elite Group), Prof. Larry Summers (Charles W. Eliot University Professor, Harvard University), Mr. Imad Telhami (Founder and CEO, Babcom Centers)¹.

Outline of discussion:

Since the 2008 global economic crisis, rates of growth in developed economies, Israel's main trade partners, have remained low. Such lack of growth may have significant consequences small export-based economies as in Israel. While Israeli exports to developing markets have increased, they remain only a small segment of the overall Israeli export market, which remains dependent on growth in developed markets and is concentrated around information and communication technologies. In an era when global challenges present unique opportunities for innovation, Israel has traditionally maintained a competitive advantage in its creation of unique knowledge and technologies in emerging industries that serve its local needs and environment; ICT and defense are the most obvious examples.

Taking a strategic look at the next five to 15 years, the participants endeavored to outline the greatest challenges and opportunities facing the Israeli economy:

1. Innovation

New global challenges present a unique opportunity for innovation. The Israeli economy's comparative advantage lies in its people, and in generating new ideas. Israel has the ability to exert its influence in the following areas:

- **Sustainability:** The potential shortage of vital resources in the long-term demands revolutionizing large areas of global economic activity, improving water efficiency usage, food production and distribution, land profitability and energy sources.
- **Cyber Security:** Large amounts of sensitive information on the internet have resulted in vulnerability vis-à-vis governmental organizations and financial institutions and cyber-attacks and espionage, demanding constant protection and re-evaluation.
- **Changing demographics:** Increasing life-expectancy alongside the decline in fertility in the Western world is causing demographics to change rapidly, affecting all aspects of life.

These trends will facilitate an emergence of new industry and development sectors. Israel must shape its R&D activity toward relevant emerging markets and design mechanisms that allow qualitative and diversified R&D, as well as "complex" market penetration.

2. Connecting populations

Israel's population is made up of three distinct demographic groups: 20% Arabs, 10% ultra-orthodox and 70% that is neither Arab or ultra-orthodox. These three sectors manifest very different patterns of labor force participation, with under-participation resulting in high poverty rates and social imbalances. These factors threaten the local economy, but also constitute a great opportunity. Creating a single integrated economy is a significant challenge with which Israel must inevitably deal, in order to maintain its competitive advantages.

3. Education

Quality, basic education that provides people with choices is a key factor in integrating disadvantaged population groups. One of the biggest challenges is to equip young people with skills that will facilitate their integration into the work force of an ever-evolving world. The phenomenon of “over-academization” is prevalent in Israel as in other Western countries. Most Western countries have a natural bias toward academic education and are insufficiently represented in vocational spheres. Israel needs to revise its vocational training programs to integrate a greater number population segments into the economy.

4. Regulation

A capital-friendly environment is an environment that is rewarded in today's global economy. Indeed excessive bureaucracies are penalized by fast capital movements. These lesson should inform both regulatory and rhetorical policies.

5. Social sector

Countries' social sectors share common elements such as limited resources and proportional strength vis-à-vis the magnitude of their social problems. Nevertheless, this sector is critical to solving and addressing some crucial social issues. Part of the solution points to developing concepts of social investment; individuals and institutions invest funds that results in both a positive social impact and financial return. In order to encourage social sector growth and narrowing of social gaps, Israel must locate double bottom-line investments (social and financial).

In conclusion, the participants agreed that these five elements will affect the economic future of the State of Israel, and the challenges and opportunities they present should be addressed in the coming decade.

1 For further information please see **List of Speakers**