Building a Competitive Jerusalem

Jerusalem Competitiveness Initiative – Growth Agenda Launch Event
Jerusalem, Israel
May 10, 2015
Jerusalem’s Economy in 2015

• A City with prosperity levels significantly below the national average, but with large differences in prosperity across the City’s main groups:
  – Orthodox Jews and Arabs in East Jerusalem have significantly lower labor mobilization and productivity, while the rest of the community outperforms national averages

• An economic trajectory that until recently has been eroding

  BUT

• Positive momentum, driven by progress in areas like tourism and knowledge-driven industries

• Business environment conditions viewed as generally solid. Major efforts in infrastructure and education are under way

• The business community has a broadly positive view of the city as a partner for economic development

• Jerusalem has economic opportunities. It needs a clear strategy to leverage them
Jerusalem is Gaining Momentum

• Major infrastructure projects are under way: Fast train from Tel Aviv; road upgrading to and from Jerusalem; ‘Entrance to the City’-project, and planned extension of the light train

• Hi-Tech dynamism improving: 100 start-ups in 2014, compared to 10 in 2012; $227m in VC investments in 2014, up from $58m in 2012

• Tourism is growing: 27% growth in Israeli tourists to the city between 2009 and 2014; share of individual visitors growing from 40% to 50% of total

• New international hotels are under development: the overall number of available beds in the city will increase by 20% between 2010 and 2016

• Major events are attracting visitors to the city: Light festival, Jerusalem Marathon, Formula 1, and many others

• TV and film production is growing: Jerusalem’s share of national productions has grown from 5% in 2008 to 25% in 2013

• Rising student enrollment in public school system, reversing a downward trend in previous years due to outmigration from the city
What is Competitiveness?

A nation or region is competitive to the extent that firms operating there are able to compete successfully in the national and global economy while maintaining or improving wages and living standards for the average citizen.

• Competitiveness depends on the long-run productivity of a location as a place to do business
  - The productivity of existing firms and workers
  - The ability to achieve high participation of citizens in the workforce

• Competitiveness is not:
  - Low wages
  - Availability of financial incentives
  - Jobs per se

• Successful economic development depends on improving competitiveness
What Determines Competitiveness?

Microeconomic Competitiveness
- Quality of the Business Environment
- State of Cluster Development
- Sophistication of Company Operations and Strategy

Macroeconomic Competitiveness
- Sound Monetary and Fiscal Policies
- Human Development and Effective Public Institutions

Endowments

- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition** revealed at the level of firms, clusters, and regions.
- 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 **land area**, create a foundation for prosperity, but true prosperity arises from **productivity in the use of endowments**.
Business Environment Quality

The Diamond Model

Context for Firm Strategy and Rivalry

Factor (Input) Conditions

Demand Conditions

- Local **rules** and **incentives** that encourage investment and productivity
  – e.g., incentives for capital investments, IP protection
- **Sound corporate governance**
- **Open and vigorous local competition**
  – Openness to competition
  – Strict competition laws

Related and Supporting Industries

- Availability and quality of **suppliers** and supporting industries

- **Sophisticated** and **demanding** local needs
  – e.g., Strict quality, safety, and environmental standards
  – Sophisticated demand in the private sector or government

**Many things matter** for competitiveness

- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing

- Improving access to high quality **business inputs**
  – Qualified human resources
  – Capital availability
  – Physical infrastructure
  – Scientific and technological infrastructure
  – Administrative and regulatory infrastructure

- Many things matter for competitiveness

- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing
The Composition of Regional Economies

- Serve almost exclusively the local market
- Little exposure to international or cross-regional competition for employment
- Large labor market impact
- Important for shared prosperity

**Local Clusters**

**Traded Clusters**

- Serve national and global markets
- Exposed to competition from other regions and nations
  - Critical engine of prosperity growth
  - Growth potential defined by the global market

Jerusalem’s Position in the Israeli Economy
Overall Performance

Jerusalem as % of Israel, 2012

- Population: 10.21%
- Workforce: 8.74%
- Income: 7.23%

Average per capita prosperity level in Jerusalem:
40% below the national level

Sources: Central Bureau of Statistics, Jerusalem Institute of Israel Studies
Jerusalem’s Prosperity: A Closer Look

Division of Population in Jerusalem by social-economic quintiles, 2012

- Arab (38.2%)
- Ultra Orthodox (23.4%)
- Non Ultra Orthodox Jews (38.3%)

Sources: Central Bureau of Statistics, Jerusalem Institute of Israel Studies
Decomposing Jerusalem’s Prosperity Performance

Per Capita Income
(-40% Gap)

Labor Productivity
(-17% Gap)

• Less traded cluster employment
• Lower levels of innovation

Labor Mobilization
(-20% Gap)

• Lower share of working age population; higher dependency rates
• Lower labor market participation rates, especially among Orthodox men and Arab women
• Higher unemployment rate
Jerusalem’s Geography
Map of the City with Administrative Boundaries

- The total municipal area of Jerusalem is 126 thousand dunams (31,500 acres) - the largest city in Israel
- Jerusalem is divided into 56 neighborhoods, and 7 quarters.

Sources: Central Bureau of Statistics, Jerusalem Institute of Israel Studies
Human Development and Public Institutions

Jerusalem

**Human Development**

- The socio-economic composition of the city creates a **challenging environment** in areas like education, health care, and other public services.
- The city has **taken action**, for example with regards to the quality of education, to address these challenges.

**Public Institutions**

- A survey of business leaders has revealed a **modestly positive assessment** of the dialogue with and the responsiveness of the city’s agencies.
The Number and Sophistication of Local Companies

Vitality of the Business Sector

Jerusalem as % of Israel, 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>10.20%</td>
</tr>
<tr>
<td>Public R&amp;D Grants</td>
<td>7.23%</td>
</tr>
<tr>
<td>Income</td>
<td>7.20%</td>
</tr>
<tr>
<td>Number of Businesses</td>
<td>7.08%</td>
</tr>
<tr>
<td>Business R&amp;D</td>
<td>6.72%</td>
</tr>
<tr>
<td>HQs of TLV 100 Companies</td>
<td>1.00%</td>
</tr>
</tbody>
</table>

Source: Central Bureau of Statistics, TLV 100.
Business Environment Quality
Key Observations on Jerusalem

Context for Firm Strategy and Rivalry

- Average to high cost of doing business, even with wages below peer regions
- Few large national or international firms
- Below-average orientation towards international markets

Factor (Input) Conditions

- Physical infrastructure satisfactory and improving
- Public administration efficiency considered broadly satisfactory
- Ample supply of advanced, academic skills
- Strong higher education and research system, but facing challenges
- Weak supply of mid-level skills and management; hard to attract talent from within Israel

Demand Conditions

- Sophisticated demand for culture, education from high-skilled local population and visitors
- Growing ultra-orthodox middle class with distinct demand patterns
- Large low income population with limited purchasing power

Related and Supporting Industries

- Number of mature and emerging clusters with linkages among them
- Growing internal linkages within clusters
- Emerging clusters lack related and supporting industries

Advantages/Disadvantages
Business Environment Quality
Transportation Infrastructure

Jerusalem has the highest rate of public transportation use in Israel with over 250k passengers daily; travel times are comparable to other cities across the country.

The proposed transportation plan has significant number of new routes. The plan will be carried out over the next 10 years.

Average Travel Time to Work

<table>
<thead>
<tr>
<th>% of population</th>
<th>Jerusalem</th>
<th>Tel Aviv</th>
<th>Haifa</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 14mn</td>
<td>50%</td>
<td>45%</td>
<td>40%</td>
</tr>
<tr>
<td>15-29 mn</td>
<td>40%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>30-44 mn</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>45 and more</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
</tr>
</tbody>
</table>

August 2011 - the first light rail started operating.

Source: Jerusalem Municipality, Transportation Master Plan Agency
Business Environment Quality
Survey on the Cost of Doing Business

Percentage of Respondents

Seen as an Advantage for Jerusalem

Seen as a Disadvantage for Jerusalem

Wage Levels: +19%
Supplier Prices: +4%
Real Estate/Rental Costs: -40%
Property Tax: -41%

Sources: Survey of Jerusalem Business Leaders, 2015
Business Environment Quality
Skills

Percentage of Respondents

Easy to find employees in this skill class
Hard to find employees in this skill class

Gap: +12%

Sources: Survey of Jerusalem Business Leaders, 2015
Jerusalem’s Innovative Capacity

Jerusalem as % of Israel, 2012

- Population: 10.21%
- Income: 7.23%
- Academic publications: 17.00%
- Graduate students: 15.00%
- Citizens with graduate degrees: 12.00%
- Patents: 7.60%
- R&D Grants: 7.20%

Sources; Jerusalem Institute of Israel Studies, Social Security
Innovative Capacity
Core Anchor Institutions

Hebrew University

- Founded 1925
- 27,000 students
- Highest ranking academic institution in Israel – #59 in the global Shanghai ranking

Hadassah Hospital

- Founded 1919
- 1,200 beds
- ~50% of all hospital-based research, and 31% of all hospital-led patents in Israel
Traded versus Local Clusters

Employment share of Traded Clusters

- Tel Aviv: 59.47%
- Haifa: 52.78%
- Israel: 52.67%
- Jerusalem: 45.03%

Source: Central Bureau of Statistics
Jerusalem’s Cluster Portfolio
Core Clusters and Their Linkages

Government-driven

Knowledge-driven

Culturally-driven

Creative skills-driven

Health Services

Biopharma

IT & Analytical Instruments

Performing Arts, Design

Hospitality & Tourism

NGOs, Foundations

Business Services

Education and Knowledge Creation

Public Administration

Sources: Team analysis
Key Traded Clusters in the Jerusalem Economy

Jerusalem’s share in Israeli employment, 2013

- Hospitality and Tourism: 18%
- Higher Education: 16%
- Biopharmaceuticals: 14%
- T & Logistics: 14%
- Business Services: 10%
- Financial Services: 8%
- Medical Devices: 4%
- IT & Analytical Instruments: 2%
- Performing Arts: 2%
- Marketing, Design, Publishing: 2%

Jerusalem’s Overall Share: 8.74%

Total Number of Employees in Jerusalem, in thousands

Source: Central Bureau of Statistics
Depth of Clusters in Jerusalem
Access to Suppliers, Capital, and Partners

Percentage of Respondents

<table>
<thead>
<tr>
<th>Cluster Type</th>
<th>Advantage (%)</th>
<th>Disadvantage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialized Suppliers</td>
<td>-29%</td>
<td></td>
</tr>
<tr>
<td>Specialized Finance</td>
<td></td>
<td>-18%</td>
</tr>
<tr>
<td>Complementary Firms</td>
<td></td>
<td>-6%</td>
</tr>
</tbody>
</table>

Sources: Survey of Jerusalem Business Leaders, 2015

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Jerusalem’s Competitive Position

• Business environment quality is overall **solid**, and many improvements have recently been initiated or are in the pipeline.

• Jerusalem’s economy remains overly focused on local markets, missing out on **global growth opportunities** promising higher returns.

• While the city’s performance has stabilized, overall prosperity remains **disappointing** and highly **heterogeneous** across social groups.

• The City needs to better leverage its business environment qualities into a clear **value proposition as a place to do business**.

• The City must aggressively develop its **portfolio of global facing clusters**.

• Jerusalem needs a **strategy**.
The Nature of an Economic Strategy

Policy Improvement

- Implementing **best practices** in each policy area
- There are a **huge number** of policy areas that matter
- No location can (or should try to) make **progress in all areas** simultaneously

Economic Strategy

- An overall agenda for creating a **more competitive** and **distinctive** position for a country, region, or city, based on its **particular** circumstances
Developing a City Economic Strategy

Value Proposition

• What is a **distinctive competitive position** for the city given its location, legacy, existing strengths, and potential strengths?
  – What unique advantages as a business location?
  – For what types of activities and clusters?
  – What roles in the surrounding region, countries, and the global economy?

Developing Unique Strengths

• What **elements of the business environment** can be unique strengths relative to peers/neighbors?
• What **existing and emerging clusters** can be built upon?

Achieving and Maintaining Parity with Peers

• What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

• What **priorities** and **sequencing** among actions are needed?
The Jerusalem Growth Agenda

Strategic Principles

• Build on Jerusalem’s considerable assets and its base of **existing and emerging clusters**

• Sharpen Jerusalem’s **value proposition** in each area, and prioritize actions accordingly

• Strengthen core **anchor institutions**, and mobilize partnerships and collaborations around them involving the city, businesses, and national/international partners

• Use these partnerships to **enable economic growth** and deliver actions addressing cross-cutting issues the city is facing

• Increase and enable **inclusion**, and the quality of the City as a place to live

• Jerusalem has much to gain from **consistently articulating** what it already offers as a place to do business
The Jerusalem Growth Agenda
A Cluster-Based Approach to Organize Action

Tourism Cluster

Knowledge Based Clusters
- Life Science
- Tech-Based Entrepreneurship
- Higher Education

Creative-Skills Based Clusters

Leverage historical assets with strong shared prosperity benefits
Create significant economic impact by leveraging existing knowledge assets
Enhance the attractiveness for the ‘Creative Class’
The Jerusalem Growth Agenda
Core Activities

Knowledge Based Clusters
- Higher Education
- Life Science
- Tech-Based Entrepreneurship

Tourism Cluster
- "Hill-Tech" technology park Givat-Ram
- Centers for Applied R&D
- Brains2Jobs – Higher education program
- Jerusalem IVF Center
- Centers of Excellence in Life Sciences
- BioJerusalem 2.0
- Start-Up City Community
- Scale Up Jerusalem
- Targeted Investment Attraction
- Innovation City Jerusalem
- Destination Jerusalem - Marketing
- Culture Jerusalem
- Conventions Jerusalem

Creative-Skills Based Clusters
- Performing Arts hub
- Media & Cinema hub
- Civil Society hub
A Value Proposition for Jerusalem Strengthening Jerusalem’s Uniqueness

What Jerusalem stands for

- **Ideas** with wide impact on society; ideas that are “serious” and address real needs
- **People** that are committed to where they are and what they do; have a long-term perspective; and are part of strong networks
- **Connections** that are deep and global

How its economy reflects these qualities

- **Education, research, public service, and arts** as expressions of a cultured society
- **Life Sciences** combining compassion with knowledge
- **Tourism** around history, religion, and culture
- **Tech-Driven Entrepreneurship** fueled by skills, research, and strong networks

- How can Jerusalem build on these unique characteristics, and turn them into assets for the economy?

- What type of economic activities can emerge and grow in the city?
# A Value Proposition for Jerusalem

## Defining the City’s Role in the National and Global Economy by Cluster

<table>
<thead>
<tr>
<th>Cluster</th>
<th>National</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>Conferences, Culture, and national Capital</td>
<td>Unique religious, historical experience</td>
</tr>
<tr>
<td>Life Sciences</td>
<td>Most advanced health care center</td>
<td>Focused health care services and research</td>
</tr>
<tr>
<td>Tech/IT-Based</td>
<td>A strong Start-up platform for Jerusalem skills base</td>
<td>Part of Start-Up Nation</td>
</tr>
<tr>
<td>Academia</td>
<td>Most advanced educational center</td>
<td>Hub for education and research in specific fields</td>
</tr>
<tr>
<td>Creative Skills-Based</td>
<td>Leading hub for arts, film, and social sciences</td>
<td>Access to the Jerusalem spirit</td>
</tr>
</tbody>
</table>
The Jerusalem Growth Agenda In Context
Relation to Other Main Policy Initiatives

City policies

Factor Conditions

Educational Reform

Transportation Master Plan

“City Entrance” Development

Private Sector Development

The Jerusalem Growth Agenda

Knowledge Based Clusters

Life-science

Tech-Based E’ship

Higher Education

Creative-Skills Based Clusters

Tourism Cluster

Actions addressing cluster-specific opportunities/challenges

Actions focusing on cross-cutting issues

(inclusion, quality of place)

Implementation structure (Governance, implementation)

Budget allocations

Performance targets and impact tracking

Pathways to Inclusive Prosperity

East Jerusalem Development

Ultra Orthodox Employment Center

National policies

Innovation and Education Policies

Health Care Sector Policies

Policies towards Ultra-Orthodox and Arabs
Making the Strategy a Reality

Ingredients for Success

• A common framework and language

• A shared understanding of the current situation

• A clear strategy and action agenda

• Engagement of the key stakeholders, including business

• Leadership