

# Israel Competitiveness Snapshot

**Professor Michael E. Porter**  
Harvard Business School

*December 6, 2012*

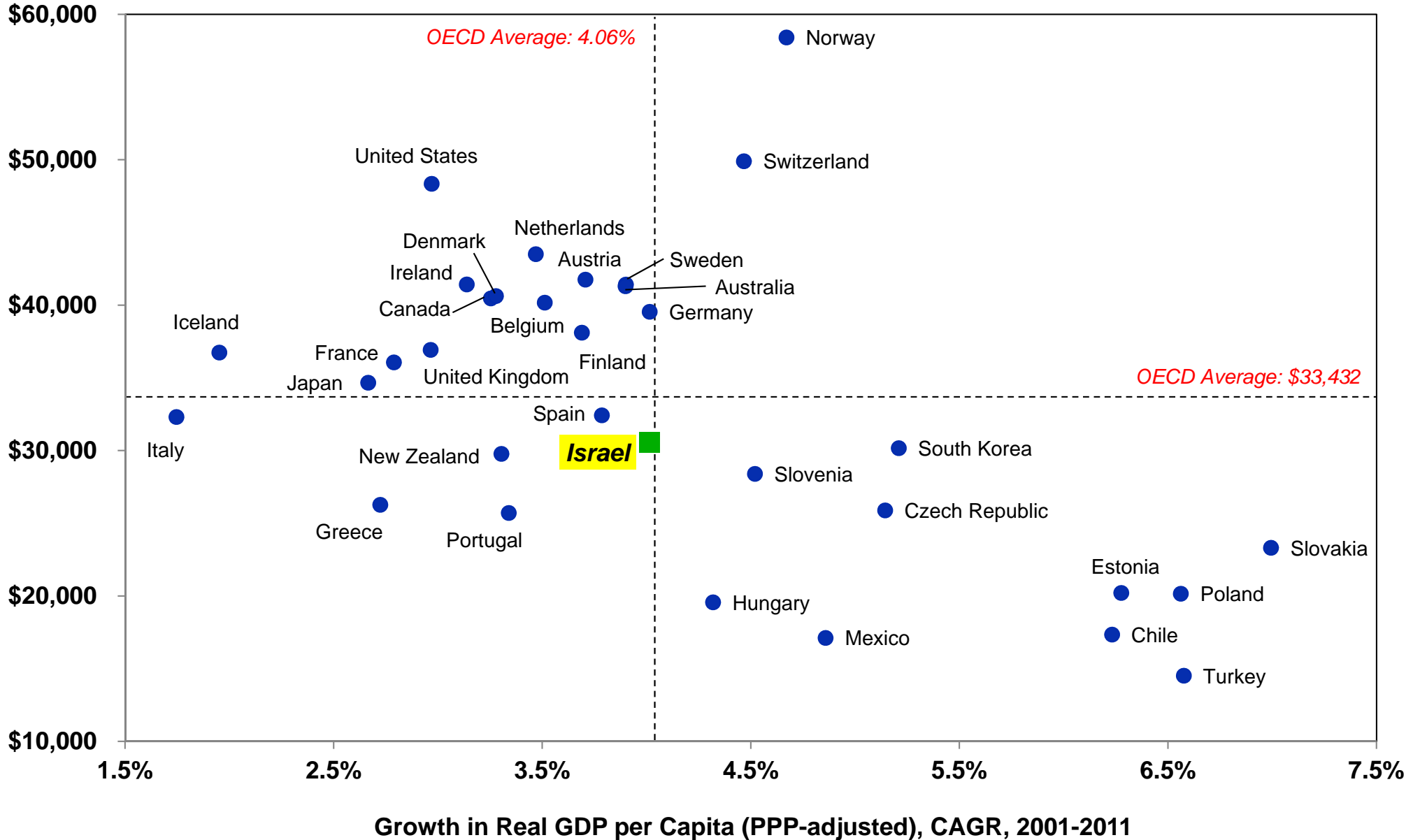
---

This presentation draws on ideas from Professor Porter's articles and books, in particular, The Competitive Advantage of Nations (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in The Global Competitiveness Report (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in On Competition (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 [www.isc.hbs.edu](http://www.isc.hbs.edu)

---

# Prosperity Performance OECD Countries

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

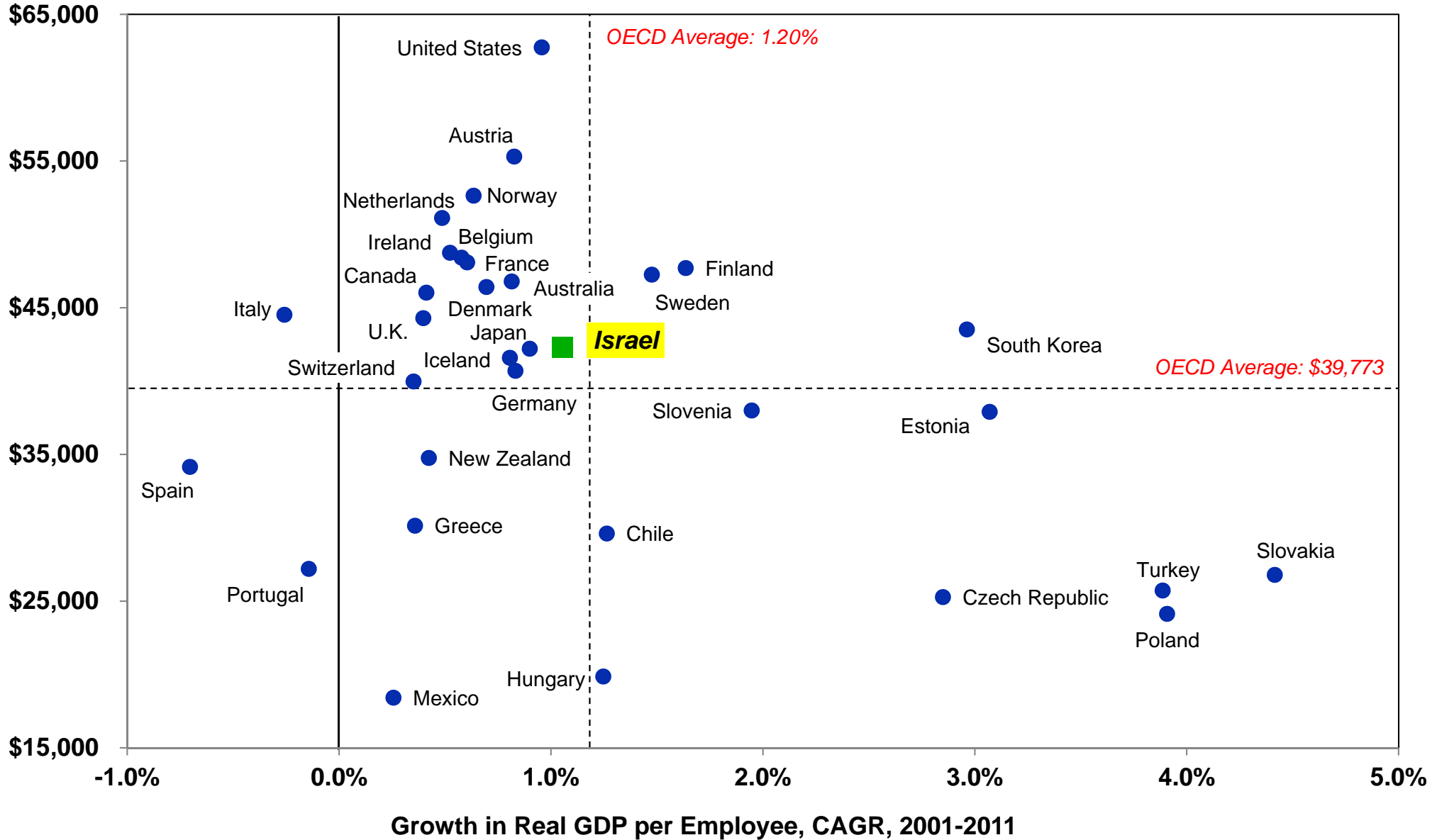


Note: Luxembourg Excluded  
Source: EIU (2012), authors calculations  
20121206—Israel Competitiveness Snapshot—FINAL

# Labor Productivity Level and Growth

## OECD Countries

Real GDP per Employee (1990 GK\$), 2011



Note: Luxembourg omitted.

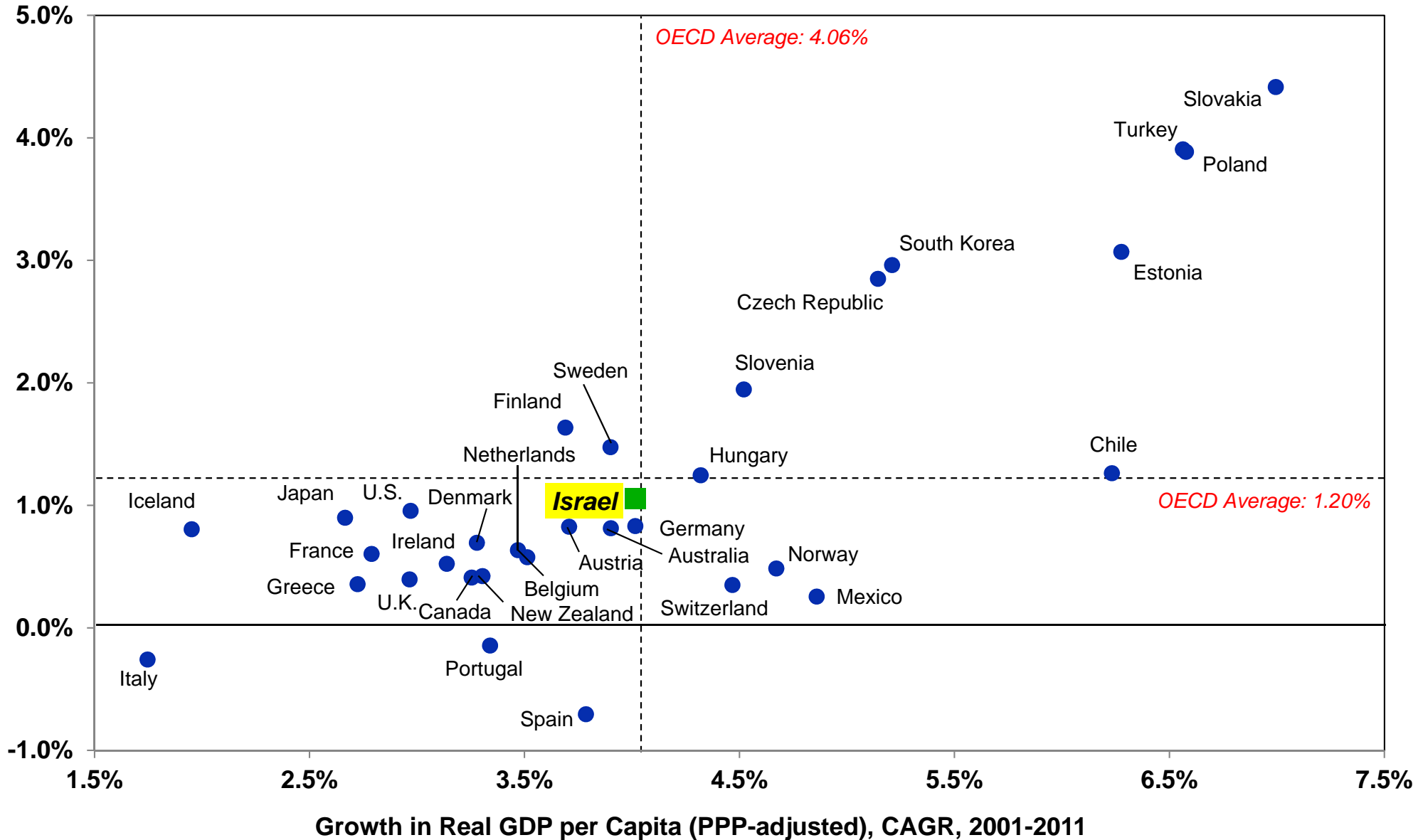
Source: Groningen Growth and Development Centre, Total Economy Database (January 2012). GDP calculated using Geary Khamis calculation methodology.

20121206—Israel Competitiveness Snapshot—FINAL

# Labor Productivity Growth vs. GDP Growth

## OECD Countries

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



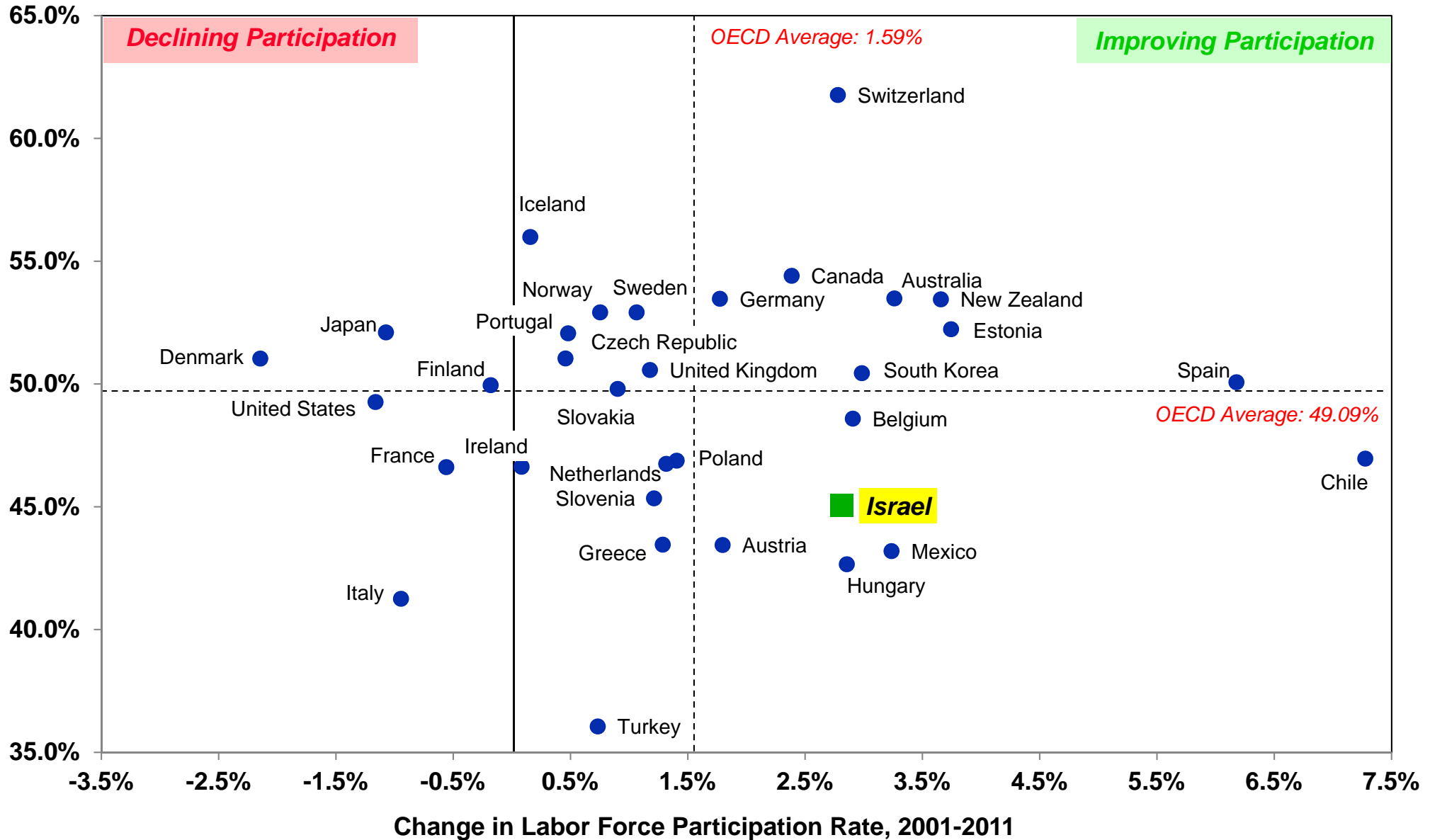
Note: Luxembourg omitted.

Source: Groningen Growth and Development Centre, Total Economy Database (January 2012); EIU Data (2012).

20121206—Israel Competitiveness Snapshot—FINAL

# Workforce Participation OECD Countries

Labor Force  
Participation (2011)



Note: Luxembourg omitted.

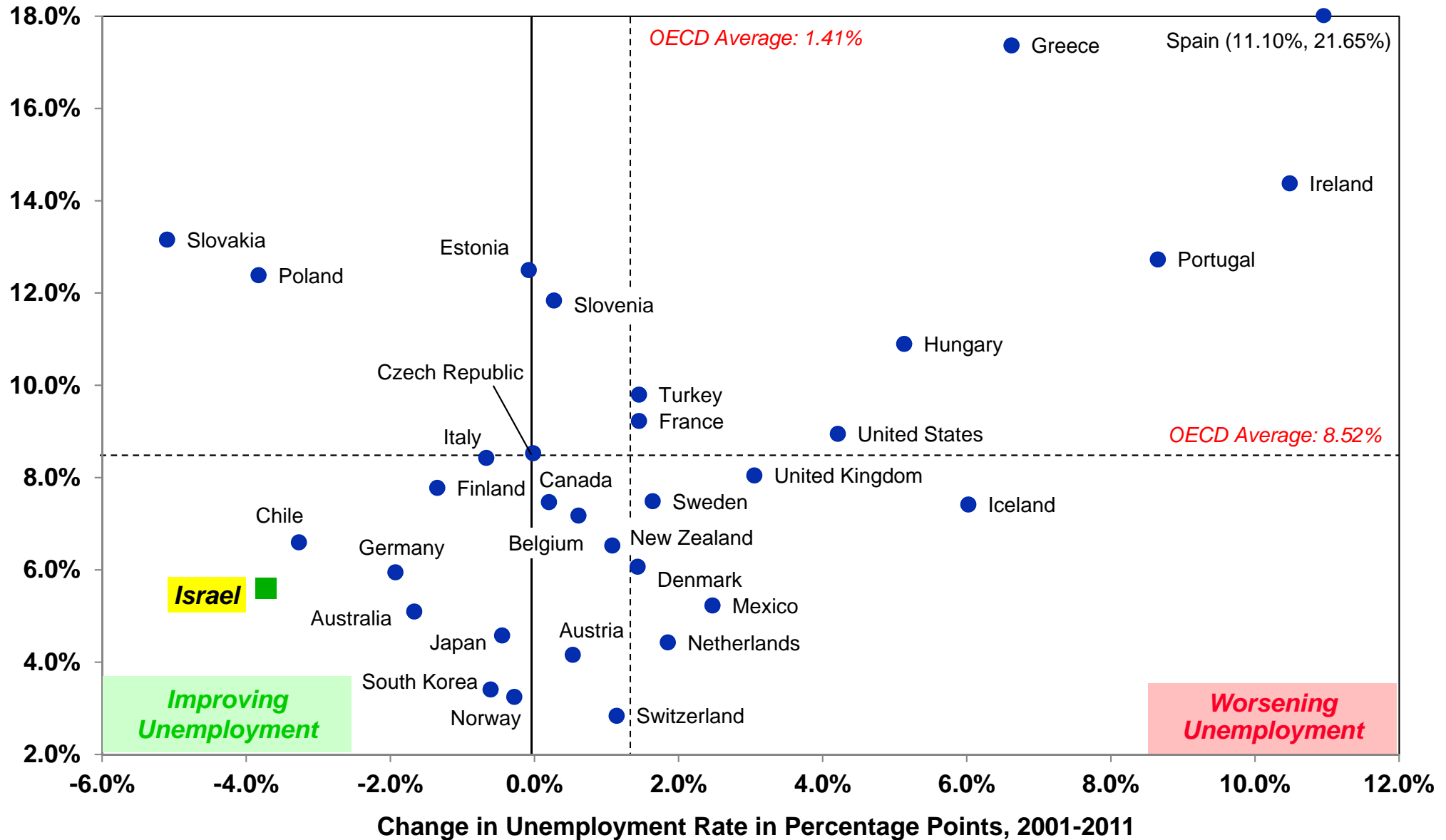
Source: EIU (2012), authors calculations

20121206—Israel Competitiveness Snapshot—FINAL

# Unemployment Performance

## OECD Countries

Unemployment Rate,  
2011 (%)



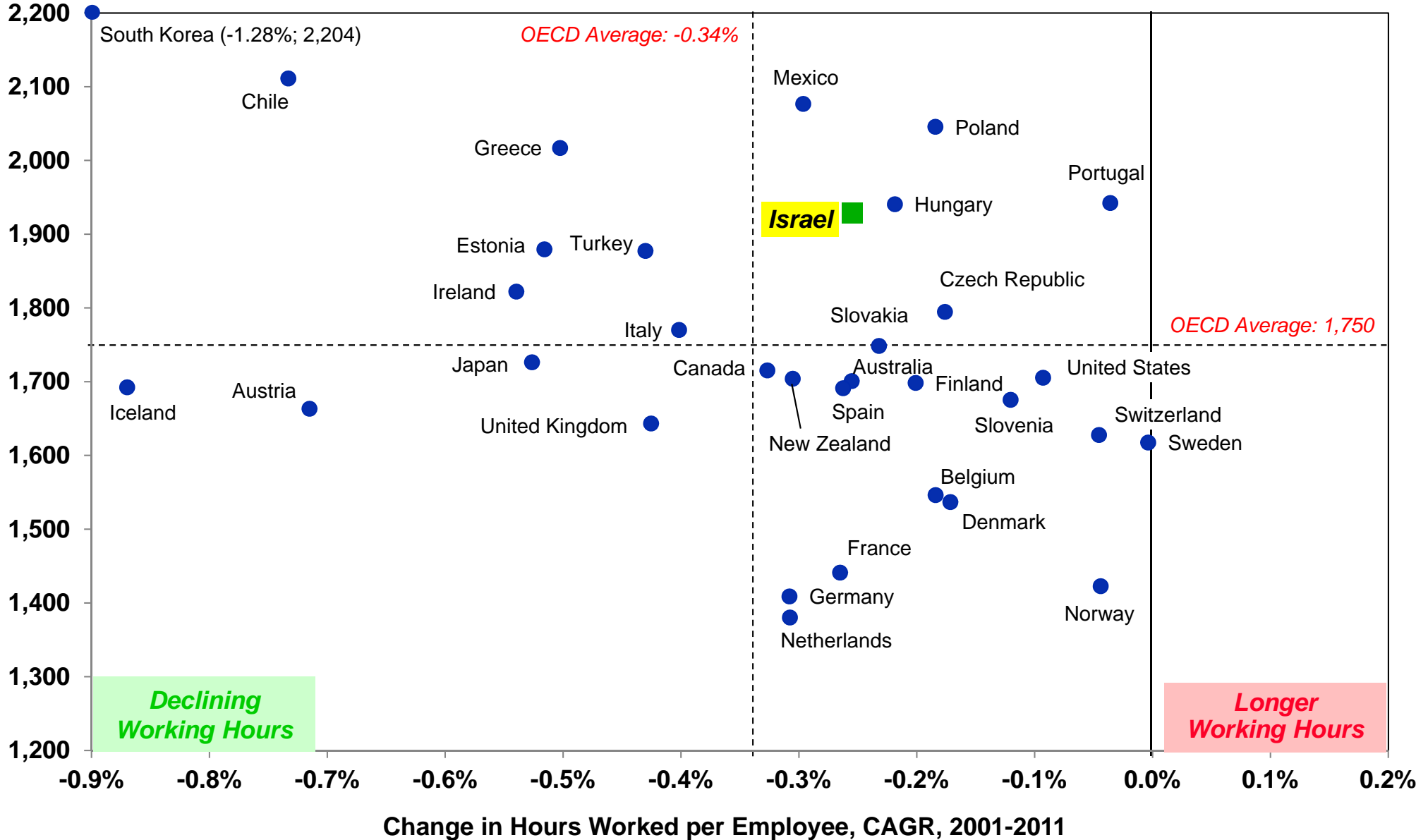
Note: Luxembourg omitted.

Source: EIU (2012), authors calculations

20121206—Israel Competitiveness Snapshot—FINAL

# Working Hours OECD Countries

Hours Worked per Employee, 2011

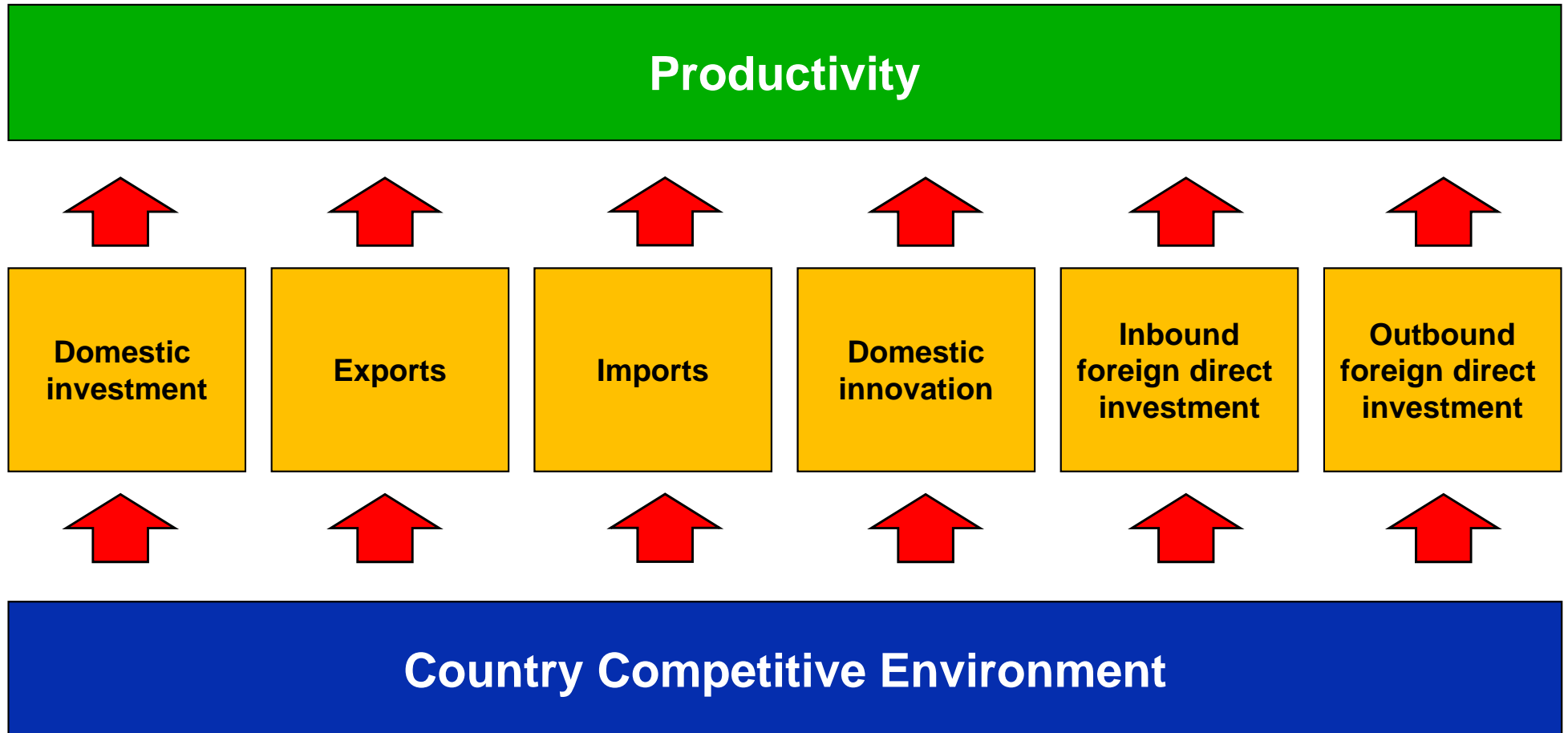


Note: Luxembourg omitted.

Source: Groningen Growth and Development Centre and The Conference Board, 2012

20121206—Israel Competitiveness Snapshot—FINAL

# Intermediate Indicators and Enablers of Productivity

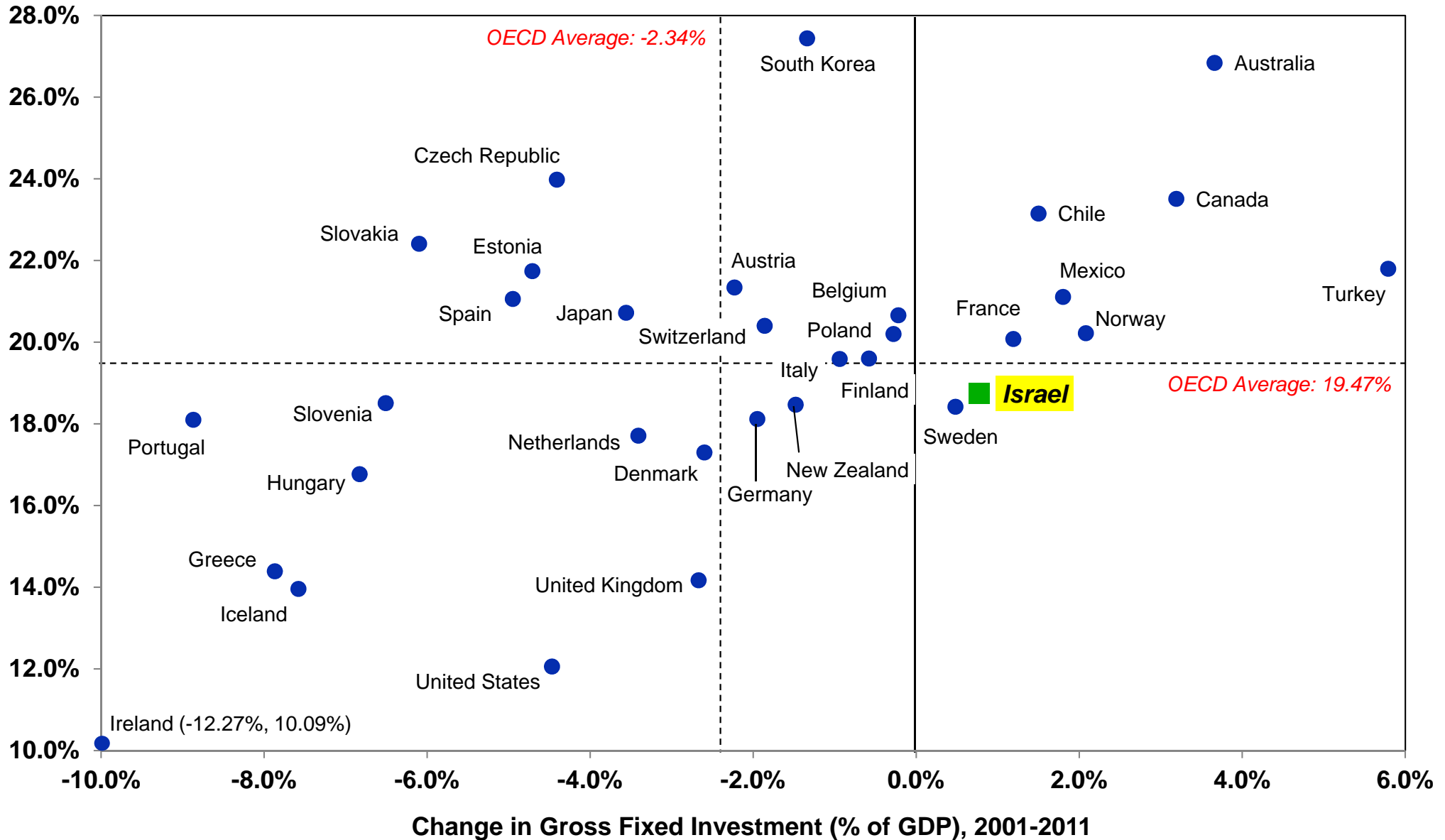




# Domestic Investment Performance

## OECD Countries

Gross Fixed Investment (% of GDP), 2011



Note: Includes inbound FDI; excludes Luxembourg.

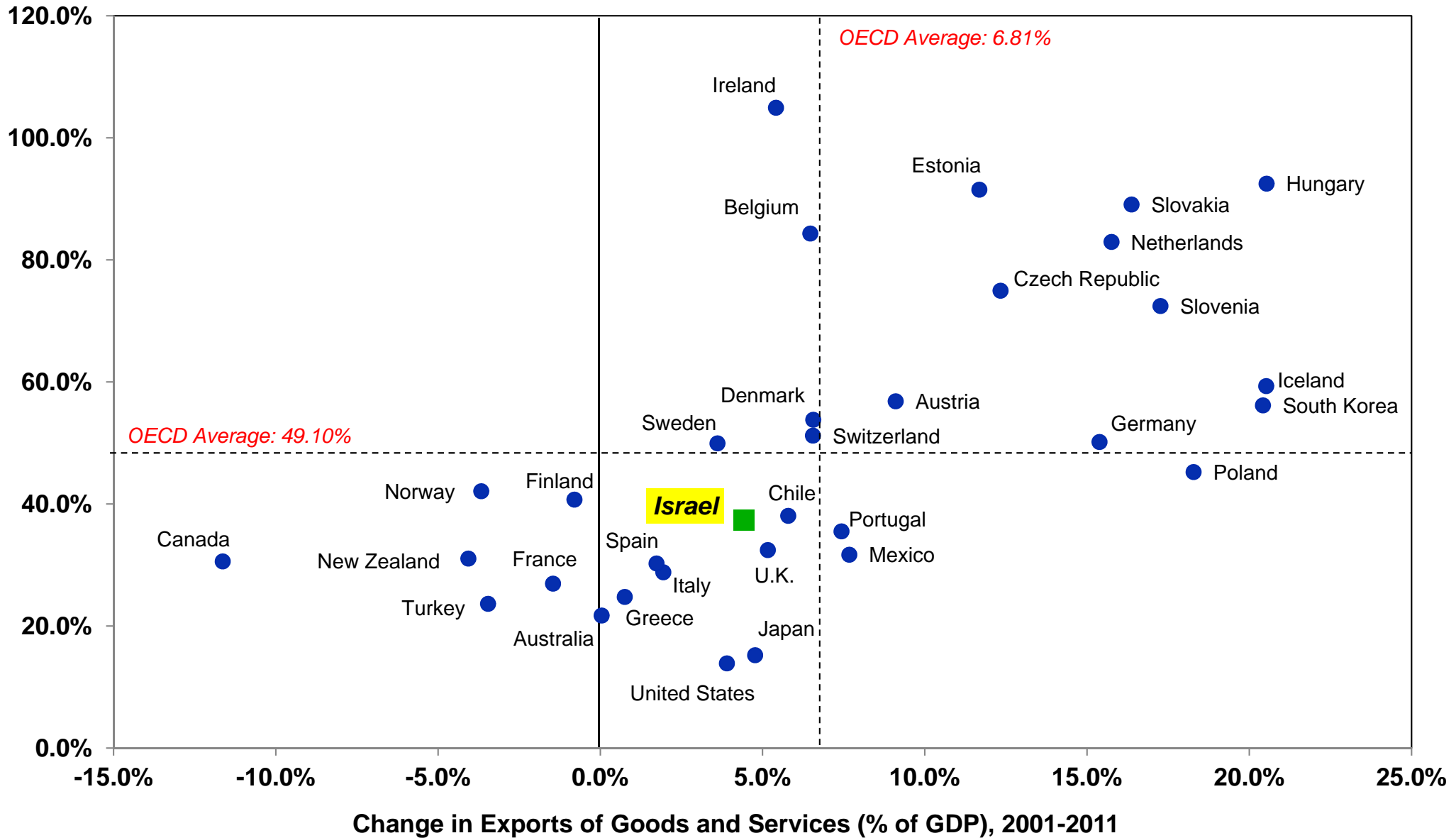
Source: EIU, 2012

20121206—Israel Competitiveness Snapshot—FINAL

# Export Performance

## OECD Countries

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



Note: Luxembourg omitted

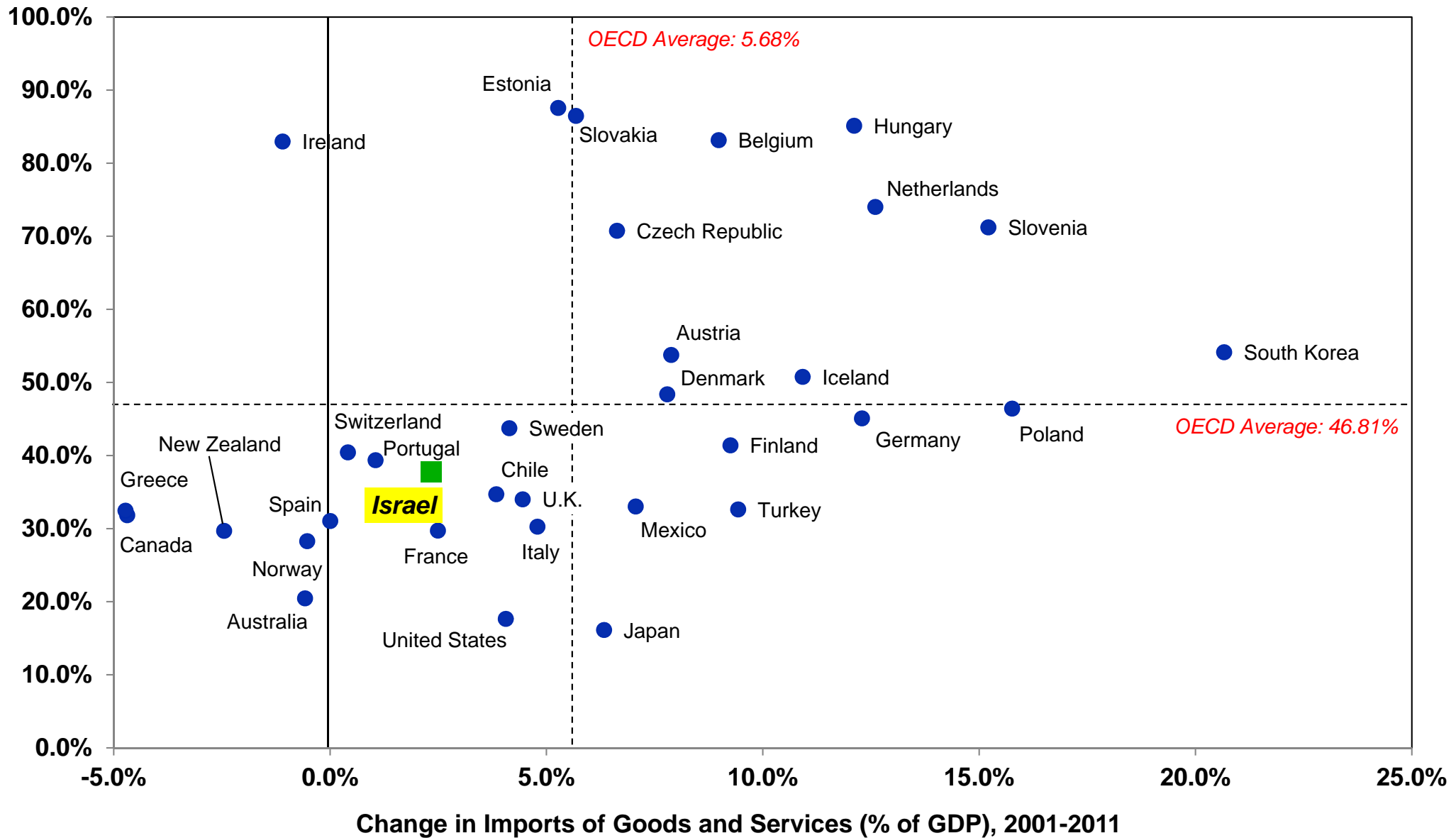
Source: EIU (2012), authors calculations

20121206—Israel Competitiveness Snapshot—FINAL

# Import Performance

## OECD Countries

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



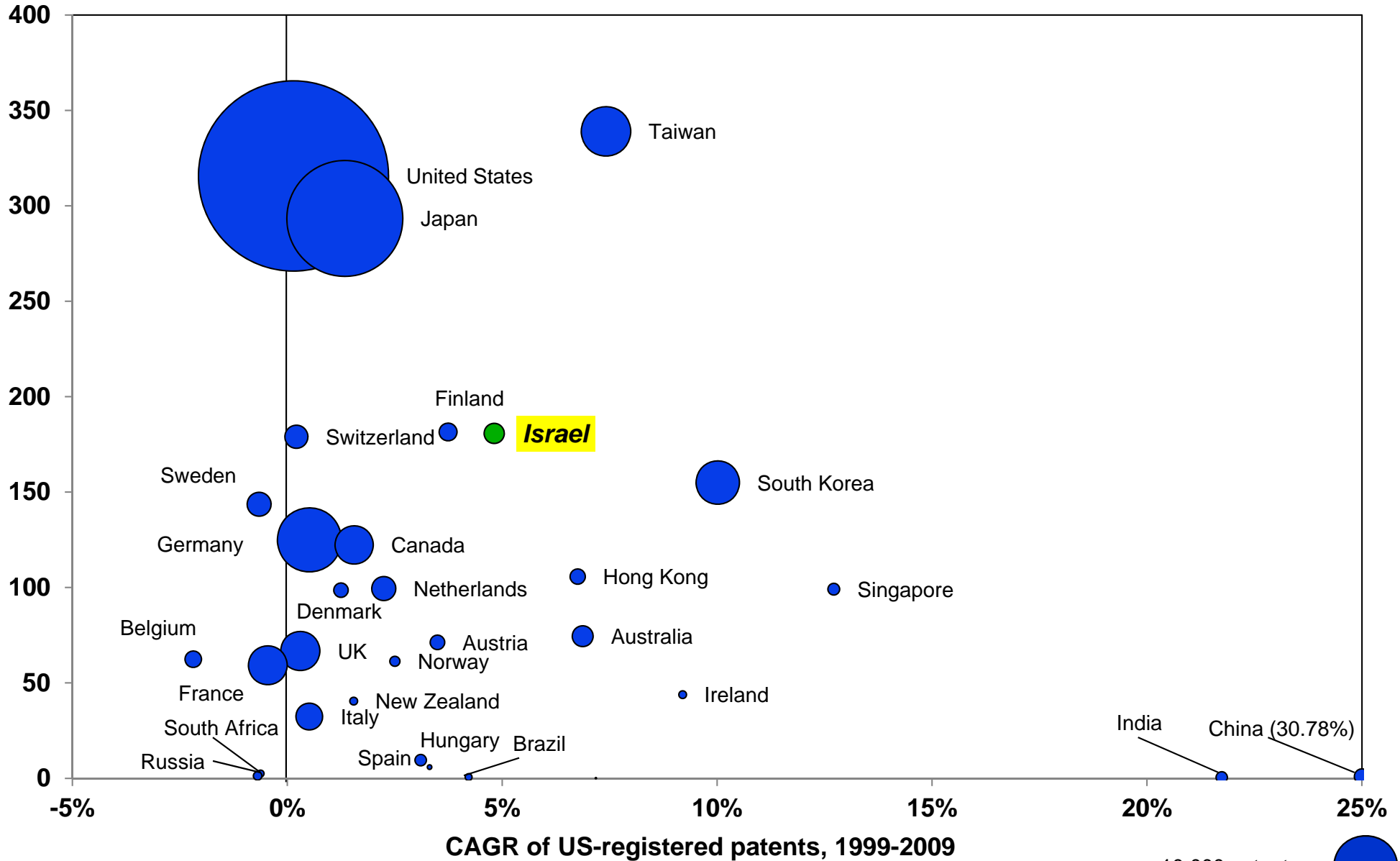
Note: Luxembourg omitted

Source: EIU (2012), authors calculations

20121206—Israel Competitiveness Snapshot—FINAL

# Innovative Output Selected Countries

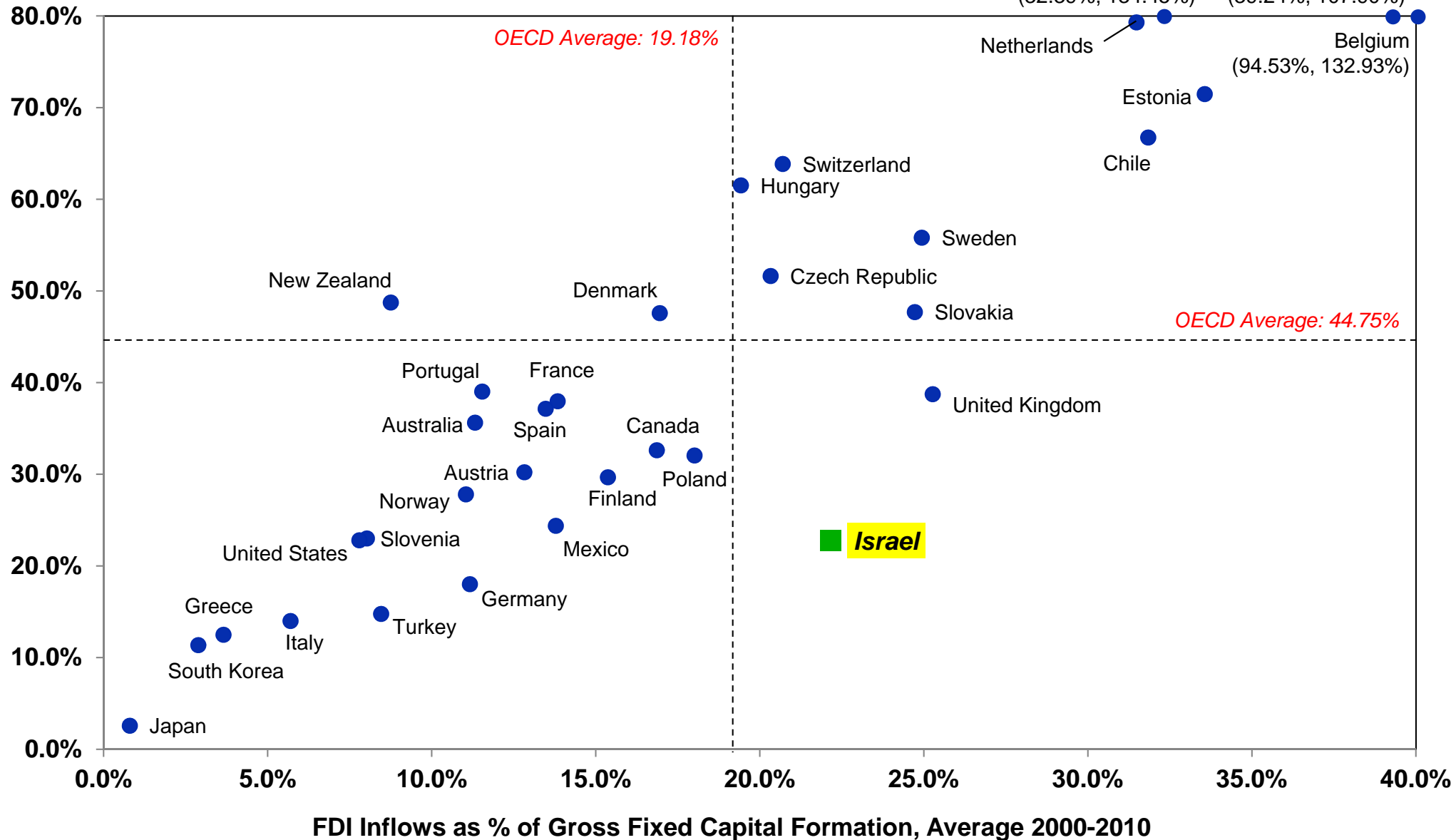
Average U.S. patents per 1 million population, 2007-2009



# Inbound Foreign Investment Performance

## Stocks and Flows, OECD Countries

Inward FDI Stocks as %  
of GDP, Average 2000-  
2010



Note: Luxembourg omitted

Source: UNCTAD, World Investment Report (2012)

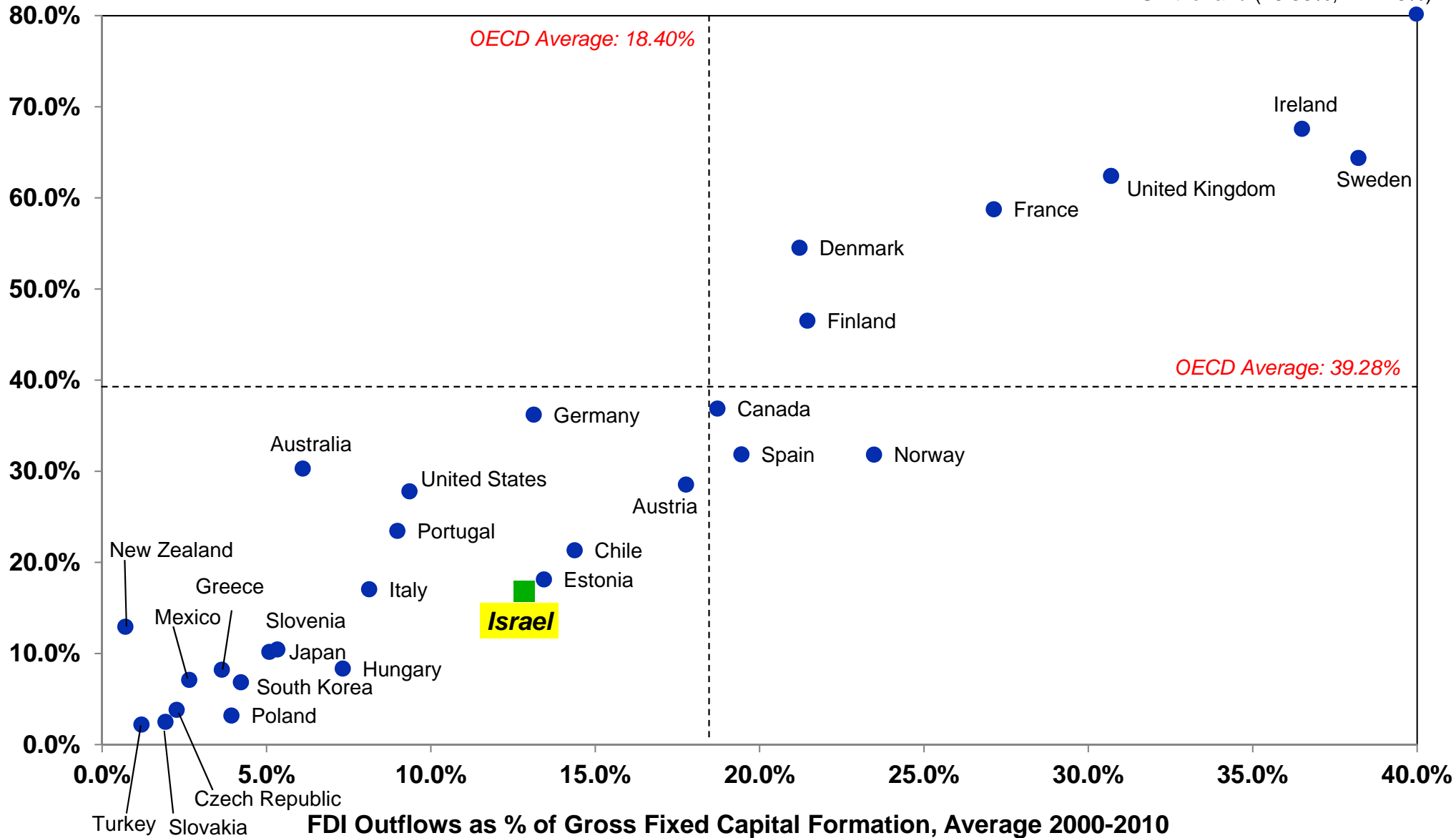
20121206—Israel Competitiveness Snapshot—FINAL

# Outbound Foreign Investment Performance

## Stocks and Flows, OECD Countries

Outward FDI Stocks as % of GDP, Average 2000-2010

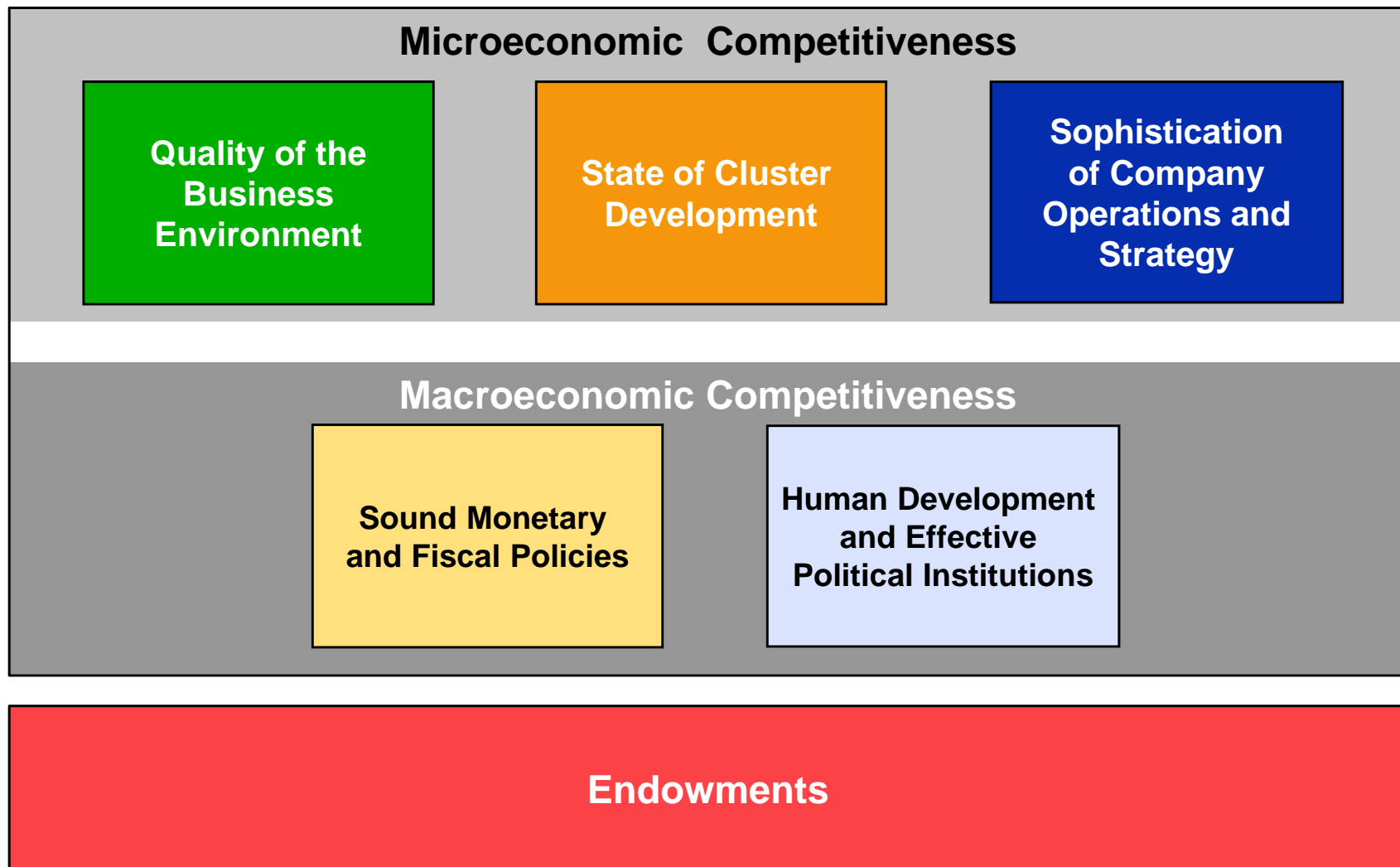
Belgium (87.81%, 127.83%)  
 Iceland (43.13%, 186.83%)  
 Netherlands (50.66%, 104.05%)  
 Switzerland (46.33%, 127.16%)



Note: Luxembourg omitted.

Source: UNCTAD, World Investment Report (2012)

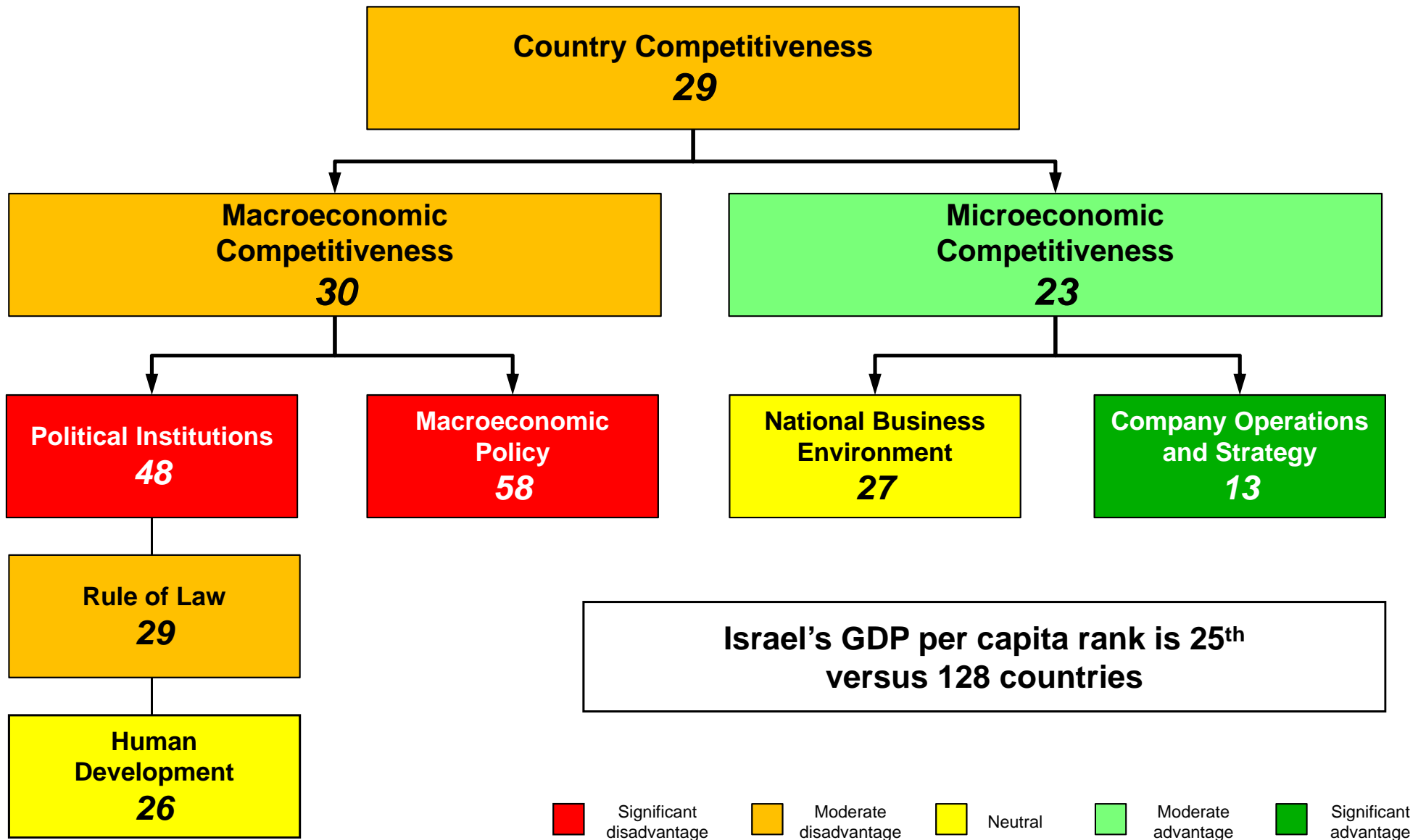
# What Determines Competitiveness?



- 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

#### Political Institutions 48

Effectiveness of law -making bodies	56
Public trust of politicians	58
(Low ) Wastefulness of government spending	64
(Low ) Favoritism in decisions of government officials	42
Government effectiveness in reducing poverty and inequality	89
Transparency of government policymaking	67
Decentralization of economic policymaking	*
Freedom of the press	16
Voice and Accountability (WB)	42

#### Rule of Law 29

Safety	39
Judicial independence	18
Efficiency of legal framework	50
Property rights	29
(Low occurrence of) Diversion of public funds	23
(Low occurrence of) Irregular payments by firms	26
(Low ) Business costs of corruption	*
Ethical behavior of firms	29
Control of Corruption (WB)	35
Rule of Law (WB)	32

#### Human Development 26

Quality of primary education	67
Quality of healthcare services	24
Accessibility of healthcare services	36
Health expenditure	47
Life expectancy	8
(Low ) Malaria incidence	1
(Low ) Tuberculosis incidence	9
(Low ) Infant mortality	19
Primary enrollment	38
Secondary enrollment	1
(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

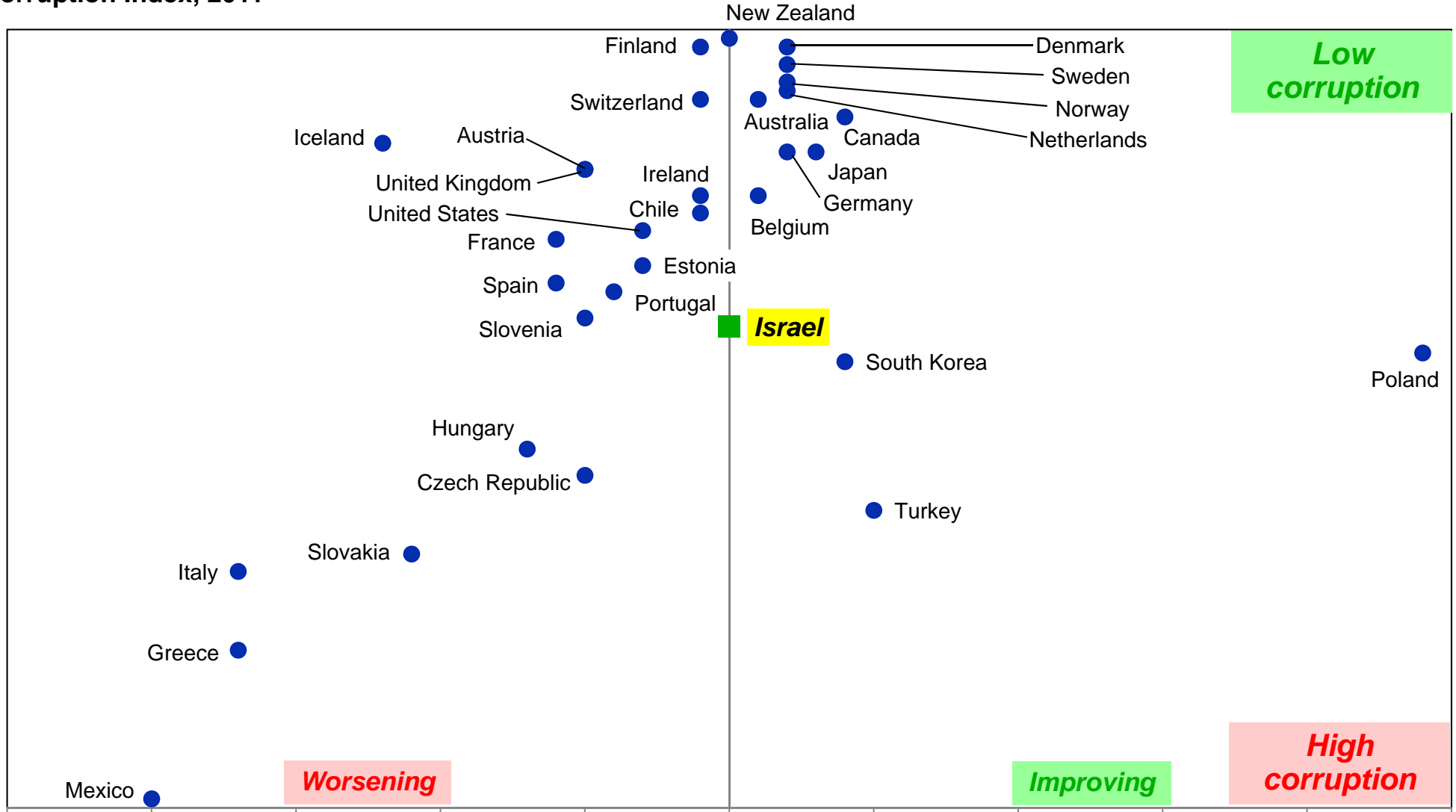
Strategy and operational effectiveness	10
Organizational practices	29
Internationalization of firms	10

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

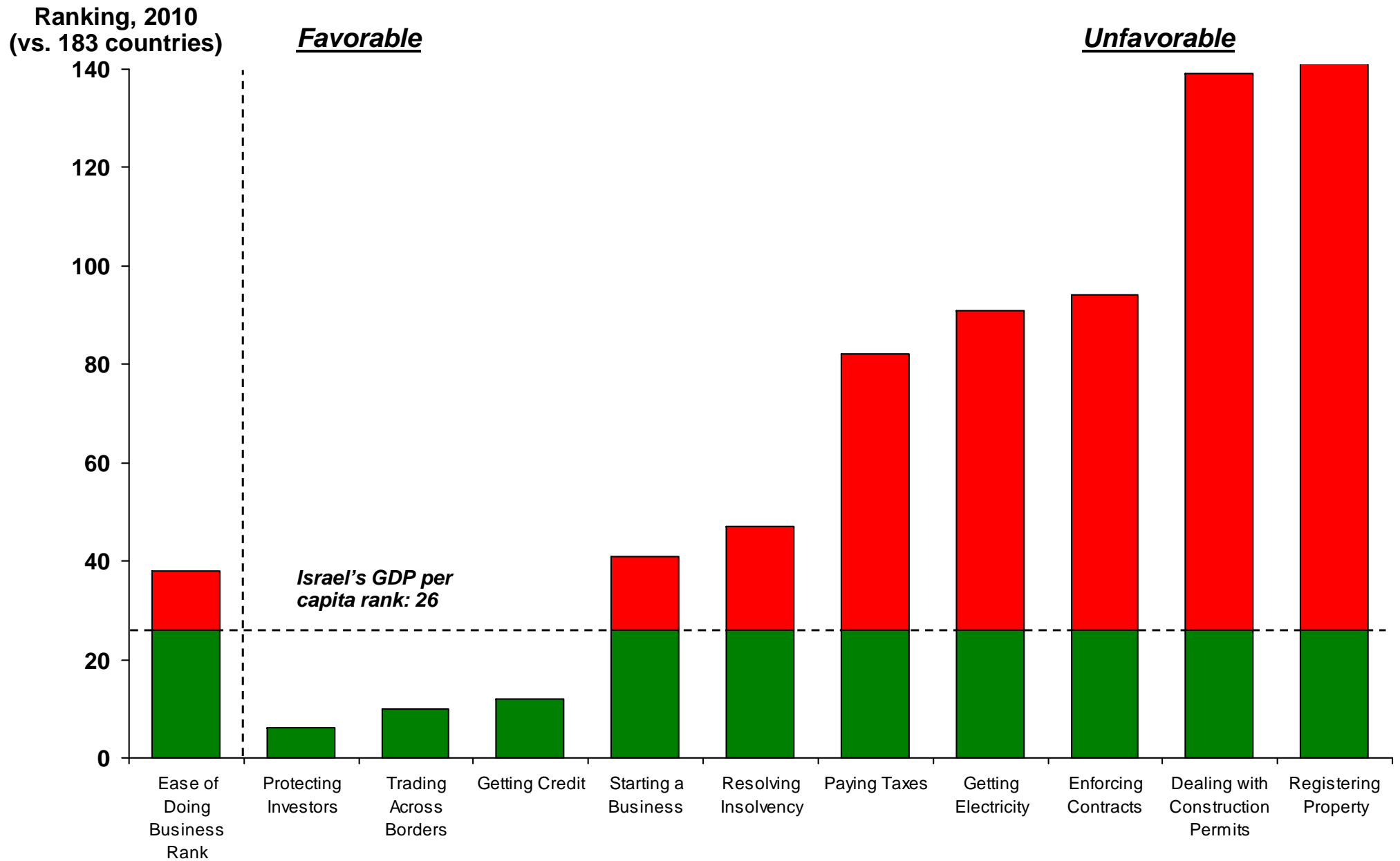
Note: Methodology for comparison is based on adjusted rankings only for countries available in both years (161 countries total)

Source: Global Corruption Report, 2011

20121206—Israel Competitiveness Snapshot—FINAL

# Microeconomic Competitiveness Indicators

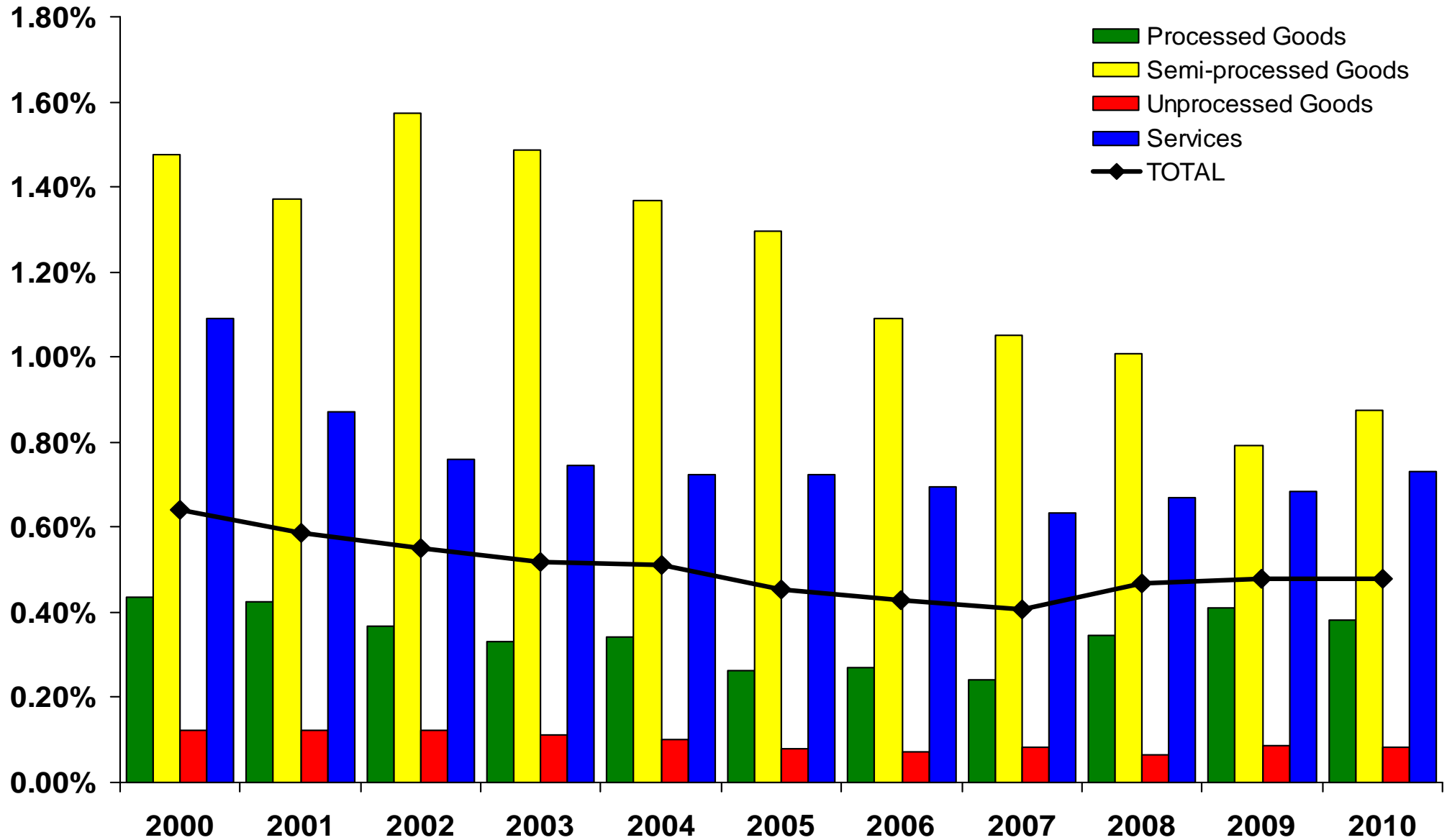
## Ease of Doing Business Rankings (Israel, 2013)



# Composition of Exports

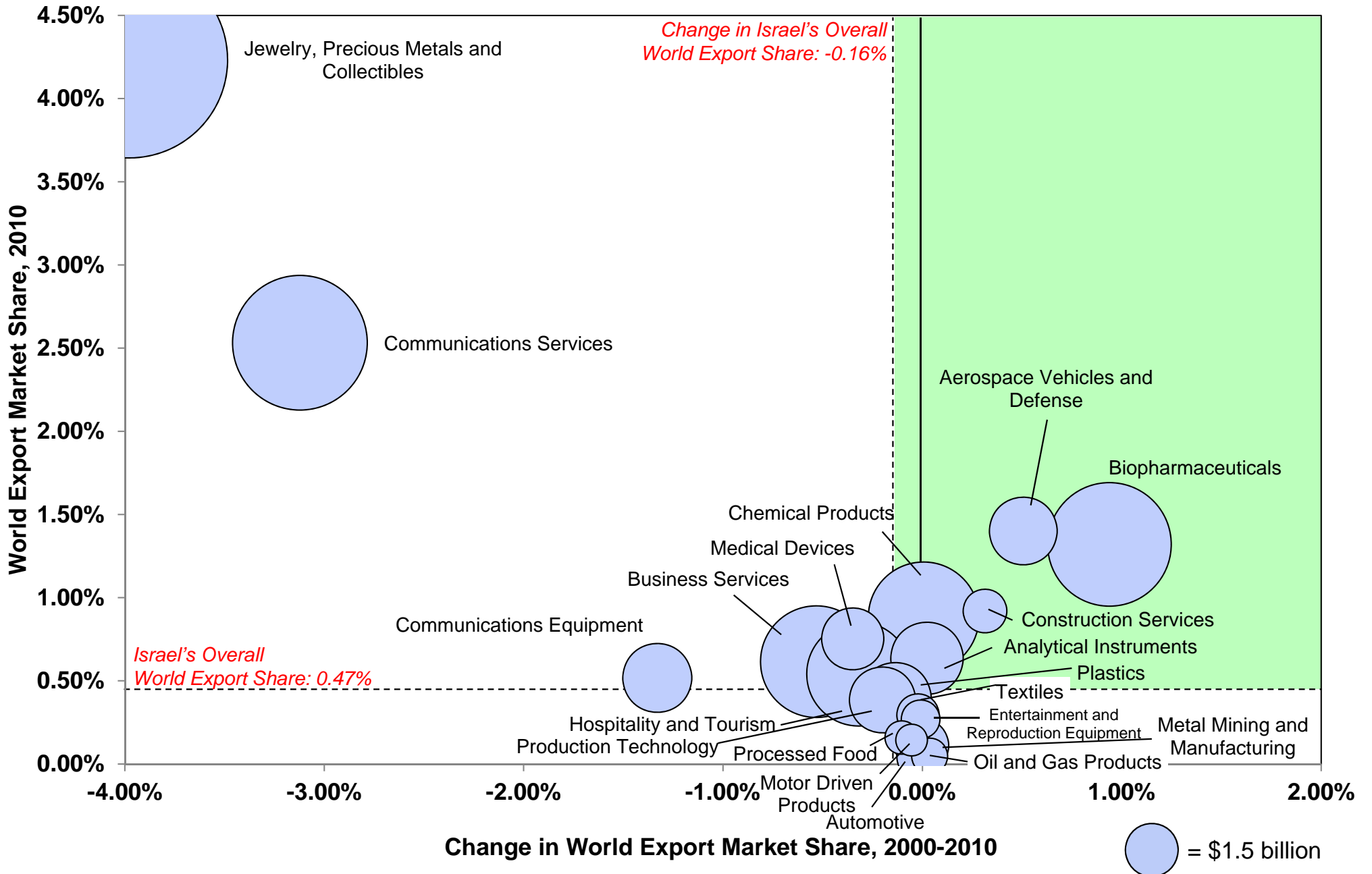
## Israel's Exports By Type of Good

World Export Market Share (current USD)



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.

# Israel's National Cluster Export Portfolio 2000-2010



# Cluster Linkages and Economic Diversification

## Israel, 2010

World Market Share

