



Israel's 60th Anniversary celebrations at Times Square, New York



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## Investment Climate in Israel Our Competitive Advantage

Multinational companies, such as Microsoft, Intel, SAP, IBM, Google, HP, Applied Materials and Motorola have discovered that in Israel they can find the technologies that comprise an important part of the engine for their future growth in the competitive global market

Foreign direct investment (FDI)<sup>1</sup> is acknowledged in the world today as one of the primary engines for economic growth in general and for the economies of small countries in particular. The global economy today is driven by multinational corporations. These conglomerates account for 70% of the business R&D expenditures in the world (about \$400 billion in 2007). In recent years, there has been a significant increase in the percentage of manufacturing and R&D activities conducted by corporations

in foreign countries. This affords many countries the opportunity, each according to its relative advantages, to accelerate economic development by utilizing the knowledge and funding resources of those corporations.

In many ways, the past three years have been record years for world economics. One way in which this is expressed is by the ever-increasing scope of foreign direct investments around the world, which reached a new record of \$1.8 trillion in 2007, surpassing the previous record of \$1.3 trillion set in 2000.

Global investment has undergone many changes since the previous record was set. In recent years, a new trend has emerged where economic power has been shifting towards the emerging economies, which

subsequently invest huge sums annually in developing countries. For instance, in 2007, the developing economies accounted for 13% of foreign direct investment. Multinational companies and corporations from countries such as China, India, Mexico and Brazil, which have accumulated surpluses of foreign currencies, have started to invest in rich countries, thereby changing the rules of the game as we knew them in the past. Thanks in part to its liberal government policy in recent years, Israel has opened its doors to the global market and has enjoyed the fruits of economic prosperity, enabling it to utilize its relative advantages in the field of high-tech. In the past three years, Israel has enjoyed annual growth of more than 5%, consistent price stability, a drop in unemployment and an increase in exports. ➤

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Concurrently, the country has experienced a growth trend in the magnitude of foreign investments in Israel. Foreign Direct Investment entering Israel in the last three years was \$28 billion (\$4.3 billion in 2005, \$14.3 billion in 2006 and \$10 billion in 2007), out of total incoming investments of \$50 billion (financial and direct investments alike). In international competitiveness the IMD<sup>2</sup> 2007 report ranked Israel 6th in the world in inward foreign direct investment in relation to GNP (14.15% of the GNP), ahead of England, USA, China and India. This is a significant jump from 2004 when Israel ranked 50th in the world with 0.47% of the GNP. On an absolute scale (in dollar terms), the report ranked Israel 17th in

the world, following Sweden, Russia and Mexico.

The investments take varied forms, and include venture capital infusions, collaborations between Israeli and overseas companies, establishment of new companies by means of acquisitions of Israeli start-up companies, and the creation of R&D centres by multinational companies. As such, Israel has become, in recent years, an important player in the world of global investments, resulting in the overall scope of foreign investments emerging from Israel exceeding its incoming investments. "In the last three years, the total sum of Israeli investments abroad reached \$68 billion, of which \$25 billion were direct investments".



### R&D Centres in Israel of Leading Multinational Corporations

Corporation	Employees	Sector
Intel	5,400	Semiconductors
HP-Indigo	2,500	Capital Equipment
IBM	1,300	Computing Equipment
Cisco	1,000	Software
Motorola	1,000	Telecom
Applied Materials	1,000	Capital Equipment
HP-Mercury	1,000	Software
SAP	800	Software
Freescale	570	Semiconductors

Included in the list of impressive investments which have taken place in Israel recently is the sizable acquisition of Mercury Interactive Corp by HP for \$4.5 billion, converting the Mercury facility in Yehud into a software R&D centre with 800 employees. The acquisition of 80% of Iscar's shares for \$4.0 billion by the Berkshire Hathaway Holdings Company owned by investor Warren Buffet was the first one of its kind outside the USA for that firm. These acquisitions are examples of multinationals infusing foreign capital into Israel while at the same time, maintaining and developing the activity of the companies in the country. Most recently, we witnessed the establishment of local development and manufacturing centres by new players

## Government Support

The Office of the Chief Scientist (OCS) supplies the tools for encouraging industrial R&D in Israel and offers conditional grant programmes, at a rate of up to 50% of the total cost of the approved programmes

The State of Israel encourages foreign investments through its competitive taxation system (according to the current taxation programme, the corporate tax rate is expected to drop to a low of 25% by 2010), tax benefits and grants to foreign investors, and by creating interfaces for collaboration between Israeli industry and multinational companies. Exploiting the **Encouragement of Capital Investments Law**, by which the government extends taxation benefits - exemption from taxes and reduced tax rates and grants at a rate of up to 24% of material fixed assets has been an added bonus. In addition, the Ministry of Industry, Trade and Labour offers funding programmes to encourage the opening of centres in the periphery, and programmes for assisting in professional training.

The **Office of the Chief Scientist (OCS)**



Minister E. Yishay making a point

supplies the tools for encouraging industrial R&D in Israel and offers conditional grant programmes at a rate of up to 50% of the total cost of the approved programmes. Concurrently, the Office of the Chief Scientist presents

on the local scene such as Google, Yahoo, Veolia, Scigen, etc. In addition, there is a new trend of acquiring Israeli start-up companies, which often then become the development centres of the global mother companies. In the last year alone, corporate giants Samsung and AT&T have chosen to invest this way. Another example from the past is the German company SAP, which started its activities in Israel in 1998, investing in Ofek-Tech. Today, the Israeli centre is their fourth largest in the world with 800 employees. Similarly, in 1999, the software company BMC acquired New Dimension Software and converted it into an Israeli development centre that today employs 450 people.

Concurrently, in recent years we have witnessed the considerable expansion and intensification in the activities of leading and established multinational companies in Israel such as Microsoft, HP, Intel, Applied Materials, Motorola and others.

In Israel today, multinational companies operate more than 120 R&D centres that contribute to the enhancement of human resources in Israel, including the management and development of markets, thus making them a significant element the value chain of the parent companies. In recent years, global companies have discovered that in Israel they can find the technologies that comprise an important part of the engine for their future growth in the competitive global market. In fact more than half of these centres were established after 2000. 37% of the centres are in the

## The Investment Promotion Centre

Over the last three years, more than 250 foreign investors have taken advantage of the Centre's assistance

The **Investment Promotion Centre (IPC)** of the Ministry of Industry, Trade and Labour operating alongside the **Foreign Trade Administration**, is responsible for promoting direct foreign investments in Israel. The IPC works closely with potential and current investors and serves as a one-stop resource for investment-related information about Israel. The Centre also observes foreign multinational companies and private investors interested in investing directly or in shared initiatives in Israel.

This monitoring is undertaken throughout the entire process of the investment.

Over the last three years, more than 250 foreign investors have taken advantage of the Centre's assistance. The leadership of the Ministry has set three areas as primary targets for outreach. These include the life sciences, water and renewable energy and traditional industries. Within the scope of its activities, the Centre operates **Israel NEWTech** – the government programme supporting Israel's water technology sector. Israel NEWTech has set as its goal converting Israel into the world leader in water technology by increasing Israeli exports, enhancing international investment and promoting water technology R&D. The trade representatives of the Ministry of Industry, Trade and Labour, located in 35 target countries around the world, serve as the long arm of the Ministry for promoting investments and trade in Israeli industry and are responsible for most of the significant projects that have been handled by the Centre in recent years.

**IPC website: [www.investinisrael.gov.il](http://www.investinisrael.gov.il)**



Mrs. Rachel Roei with British Telecom's CEO, Mr. Ian Livingston (seating) and BT's CTO, Mr. Matt Bross (first from right), at the Israeli Innovation Day organised by British Telecom in London on June 2008.

a platform that encourages multinational companies to sign "The Agreement of International Corporations". Within the framework of the OCS initiative, there is ongoing technological cooperation between multinationals and Israeli companies that develop technologies suited to the company's global strategy. This initiative, together with other vehicles, is marketed to multinational companies by the **Investment Promotion Centre**.

To date, some of the companies that have become part of this programme are Oracle, Merck, Sun Microsystems, IBM, Renault, Alcatel, Microsoft and Coca Cola.

An additional programme that was conceived and recently launched by the Office of the Chief Scientist is a programme for project development centres for multinational companies. Its purpose is to encourage multinational corporations

from various fields of traditional industries to invest in development projects in Israel, especially in the periphery. With the support of the OCS, a multinational company can set up a project centre in Israel which operates in conjunction with Israeli companies and academic organisations.

The Ministry of Industry, Trade and Labour (**MOITAL**) expends significant effort and resources to expand the scope of foreign investments in the periphery and in traditional industries. The Ministry's leadership considers this to be of great importance in assimilating advanced technologies and applying the knowledge accumulated in the high-tech arena to traditional industries. This is one of a number of policies by which the Ministry seeks to narrow the gap between the periphery and the centre of the country. For this purpose, Minister **Eli Yishay**

appointed a committee headed by **Israel Makov**, former CEO of Teva, which recently submitted its recommendations to encourage investments in the periphery and traditional industries.

### The bottom line

Israel offers to multinational companies all over the world a highly attractive investing climate characterized by:

- Accessibility to a competent workforce, a quality innovation infrastructure, high class research institutes and universities, as well as advanced industrial parks.
- The protection of patents and intellectual property, a legal system based on international law and an advanced financial structure.
- A warm welcome and the certainty that they will receive an encouraging and generous governmental support.



field of communication, 35% in information and software, 18% in life sciences and 2% in renewable energy. About 75% of these activities are located in the centre of the country with the rest in Haifa, Jerusalem and the periphery.

### The Competitive Advantage

Why have such multinational companies as IBM, GE, Intel, Microsoft, HP, Motorola, Cisco, SAP, Time Warner, Google, Johnson & Johnson, Unilever, Berkshire Hathaway and others chosen to invest in Israel? The reasons are varied but most depend upon six main criteria: Israel's quality and availability of human resources; Israel's position as a centre for technological innovation and excellence; a unique innovative spirit that characterises Israeli society; the maturity of the Israeli market, competitive research costs and supportive government policy. It is worth noting that these competitive advantages stem from and are dependent upon the first reason listed above. Israel's most significant natural resource is its competent human workforce which is highly motivated, resourceful and demonstrates independent thinking, areas in which Israel can successfully compete in international markets. The combination of competence, initiative and flexibility leads to creative solutions and technological breakthroughs resulting in a faster process of bringing new products and services to the market. Israel is among the world's leaders in



innovation, ranking first in the world in rate of R&D expenditures as a percentage of GNP (4.7%). The country ranks second in the world (after USA) in the absolute number of start-up companies and the number of technology companies traded on NASDAQ. It is fifth in the world in patent registration per capita and ranks second in the degree of availability of venture capital. The highly developed venture capital market contributes markedly to the encouragement of innovation by infusing

### Israel's Competitive Edge – IMD World Report 2007

Country Rank	1st	2nd	3rd	4th
Business Expenditure on R&D	ISRAEL	SWEDEN	FINLAND	JAPAN
Total Expenditure on R&D as a Percentage of GDP	ISRAEL	SWEDEN	FINLAND	JAPAN
Availability of Qualified Engineers	ISRAEL	SINGAPORE	INDIA	ICELAND
Venture Capital Availability	USA	ISRAEL	DENMARK	NETHERLANDS
Information Technology Skills	ICELAND	ISRAEL	KOREA	SINGAPORE
Flexibility and Adaptability of the Workforce	ICELAND	IRELAND	ISRAEL	HONG KONG
Higher Education Achievements	CANADA	JAPAN	SINGAPORE	ISRAEL
Cooperation between Universities and Industry	SWITZERLAND	SINGAPORE	ICELAND	ISRAEL

resources and sharing risks with young start-up companies. Israel ranks fourth in the world in the speed and flexibility of transferring information from academia to industry, and serves as an example of how innovative technological solutions can be creatively converted from a variety of different spheres. For example, Given Imaging, by converting military technology

to medical use, developed the ingestible video camera which assists doctors to diagnose cancer and digestive disorders by displaying pictures of the small intestine from the inside while travelling through the gastro-intestinal system.

This is one of many developmental advances which have helped to distinguish Israel as a country of profitable innovations and technological breakthroughs. Some others include:

■ **M-Systems** offered the first disk-on-key flash (USB) memory, changing the way in which data is stored.

■ The **CT Philips Brilliance Scanner**, used in hospital emergency rooms, produces a comprehensive photograph of the patient within seconds.

■ **Comverse** developed voice mail technology used worldwide.

■ The **Intel Centrino** and **Pentium 4** chips, developed in the company's R&D centres in

Israel, have been incorporated into millions of computers around the world, and have given the company its advantage over the competition.

■ The **ICQ** software for immediate messaging through the internet, which changed the way people communicate, was developed in 1996 by four young Israelis (**Mirabilis** company).

■ **Netafim** changed the world of agriculture by developing drip-irrigation technology. Israeli companies continue to lead the world in this field.

### The Spotlight is on Israel

The continuous achievements in Israel over the years and the potential they hold have attracted the attention of global investors. Indeed, global companies that have invested in Israel and are manufacturing here, and that provided considerable value and intellectual capital in the process, have helped place Israel in the global spotlight. In recent months, we have been visited by several representatives of giant corporations, among them the chairmen, CEOs and chief scientists of GE, Veolia, Applied Materials, General Motors, Coca Cola, Merck, Renault, Deutsche Telekom, Baxter, Roche, HP, Cisco, Intel, etc.

1 **Direct investment** – buying the control of an Israeli business or setting up a new business, real estate and venture fund.

2 **IMD** – International Institute for Management Development in Lausanne, Switzerland.