



IDI Presents:

17<sup>th</sup> Annual CAESAREA FORUM

**The Future of Growth Promotion in Israel:  
A Return to Boosting Avant-Garde Industries and  
Scientific-Technological Innovation**

Team chair: Prof. Arnon Bentur

**Summary of Findings**

**Israel Democracy Institute**  
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## Abstract

The array of knowledge-intensive industries that developed in Israel starting from the 1980s, and rapidly increasing in scale in the 1990s, is justifiably considered a jewel in the crown of the modern State of Israel. This gem serves as an expression of the State of Israel's ability to bring itself to the forefront of the world's developed countries in terms of scientific and technological innovation and using such innovation to promote impressive economic growth. Today, knowledge-intensive industries serve as the major growth engine of Israeli economy and society, and make a substantial contribution to employment, exports and the GDP. This industry is not based on natural resources or physical infrastructure (which are almost non-existent in Israel), but rather on one significant infrastructure: Human capital. The state has successfully invested in and promoted Israeli human capital, and through it has succeeded in attaining a global leadership position in science and technology.

**The Israeli system of knowledge-intensive industries and innovation is undergoing an upheaval, and the success we have experienced in recent years cannot be taken for granted. This trend has been true for a number of years, long before the outbreak of the current global financial crisis.**

This leading position of the knowledge-intensive industries and its combination with a culture that venerates entrepreneurship and innovation, enabled the development of knowledge and a real ability to develop advanced technological processes and products that are marketed worldwide, and serve as the growth engine of the Israeli economy. This engendered the illusion among policymakers that the Israeli knowledge-intensive industry was “omnipotent” and served as a “magic bullet” with which it would be possible to break free of any economic crisis, without need for allocating additional public resources. In other words, the prevalent assumption is that this industry is self-sufficient and not dependent upon policy and regulatory factors.

In practice, however, the knowledge-intensive industries stand before a fault line. The system is undergoing an upheaval, and the success we have experienced in recent years cannot be taken for granted. This erosion has been taking place for a number of years, since long before the

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\* The document presented here is an unedited draft.

outbreak of the current global financial crisis. The source of the erosion process is the lack of an ongoing process of developing and building suitable infrastructure, which serves as a vital basis for the continued development and building of this industry. In this context, it should be noted that the erosion is taking place against the backdrop of mounting global competition, as states such as India, China, Singapore, South Korea, Taiwan and eastern European states are constantly upgrading their development infrastructure and support systems for knowledge-intensive industries.