

Innovation at the heart of success story

Israel's high-tech boom is powering the economy, with Chinese investment playing an increasingly important role as business activity evolves

By **ALFRED ROMANN** in Tel Aviv
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Over the past year or so, Limor Epstein has been looking for funds to take her Israel-based big-data startup to the next level.

She reached out to investors around the world. Eventually, the fastest sum of money, close to \$1 million, came from Chinese investors through a Hong Kong fund. Epstein's company, Data2Life, is a big-data processing firm that mines and maps healthcare data.

"It was the fastest investment I've ever had," Epstein said. "They are coming in waves," she said of Chinese investors, traders and interested visitors to Israel. "I wouldn't say it's millions, but it's a lot."

Attending a conference at a hotel near Tel Aviv's stunning beachfront, she is sitting on a high stool at a table filled with papers, a laptop and a phone — and as she speaks, she multitasks.

For the past couple of days, she has kept Data2Life running by staying in touch with her team, pitching the company to investors and attending meetings. It is clear that she is on track to turning an idea into a multimillion-dollar business.

"We saw a concrete problem that we wanted to solve," said Epstein of her company's big-data services.

In many ways, she is the typical technology-savvy entrepreneur increasingly driving the Israeli economy and turning the country into one of the world's most powerful innovation centers.

Having grown steadily over the past few decades, innovation and entrepreneurship are at the very core of the Israeli economy.

Trade and investment from China to Israel rose steadily in the decades following 1992 and spiked last year, tracking the evolution of both countries' economies.

Israel has a population of fewer than 9 million people and an economy valued at around \$300 billion.

The per capita national income topped \$35,000 in 2015, according to the World Bank. And the Organization for Economic Co-operation and

Development says that as many as 45 percent of Israelis have a university education.

It is, however, difficult to apply traditional metrics for a country that is quite unique.

A 1960 report by the International Bank for Reconstruction and Development (the precursor to the World Bank), titled *The Economy of Israel*, pointed out that "Israel's circumstances are so unusual that it is difficult to apply the normal yardsticks to measure the economic progress that has been made in the past or the prospects for the future."

Israel was founded on May 14, 1948, generally following a plan set out six months earlier through United Nations Resolution 181 that sought to divide the territory among Jews and Arabs.

By 1958, Israel had a population of 2 million, about half of whom had immigrated between 1948 and 1957. Through the 1950s, the country's GDP grew by 10.5 percent and the GDP per capita by 5.9 percent.

"This growth record was achieved without the benefit of rich natural resources and in the face of formidable obstacles, particularly the absorption of more than 1 million immigrants," said the 1960 report.

Much of the growth came from external support, basically cash from the United States, Great Britain and the Jewish diaspora around the world.

Despite a lack of natural resources and the fact that a large part of the country is desert, Israel developed industries in agriculture and manufacturing, particularly in research-intensive high technology.

Until the 1970s, according to Israel's Ministry of Foreign Affairs, sectors such as food processing, textiles and fashion, furniture, fertilizers, pesticides, chemicals and metal products made up most of the industrial output. A lot of this was aimed at improving food production.

The next phase of industrialization focused on arms manufacturing and technology. Through the 1980s and 1990s, multinationals set up shop and Israel ramped up international trade to a much greater



Phones of different models are stored at an Israeli research laboratory to enable researchers to detect vulnerabilities that would allow hackers to crack into them. Innovation and entrepreneurship are at the core of the Israeli economy. AFP

degree. Trade with China started in earnest in 1992.

"Twenty-five years ago, trade was mostly the exchange of basic goods. Products manufactured in China were sold to Israel. A few Israeli exports," said Yariv Becher, head of the international financing department at the Foreign Trade Administration of Israel's Ministry of Economy and Industry.

In the intervening decades, Israel developed one of the most powerful engines of innovation in the world, which is changing the way the economy works.

Today, services account for about two-thirds of GDP and industry for a little less than a third. The country also engages in a fair amount of trade, which adds up to about 56 percent of its GDP by value. Israel's economy grew an estimated 3.8 percent in 2016.

Although the US is still the largest trade and investment partner, China is playing an increasingly important role in Israel's economy. A stronger relationship with China fits into Israel's economic need for more capital to drive a powerful

innovation engine.

Speaking to *China Daily Asia Weekly*, Becher noted the strong activity in technology and innovation in the country today.

"We see Israeli companies going to China and establishing a presence and joint ventures and working with Chinese technology companies. And we see Chinese technology companies coming to Israel and investing in high-tech companies," he said.

"We also see investments, not just in technology companies ... We see a sea change in the business activity between Israel and China."

Becher said a lot of Chinese capital is flowing into Israel. Raising capital is not an easy task for companies in Israel, he said, as most funding comes from the US. So for Israeli companies to raise funds in foreign markets, Chinese capital is welcome, he added.

"China is moving more toward an innovation-driven economy based on technology, and that aligns more with the strengths that Israel has.

"Israel is a small country. There are a lot of startups, a lot of innovation and a lot of technology," Becher

said. "It is important for us to make sure we don't miss out on the growth that is going on in China ... as a government we have placed it a very high priority."

Up to 2010, Israel had just one commercial office in China, located in Beijing. Today there are five — in Beijing, Shanghai, Chengdu, Guangzhou and Hong Kong — comprising the single largest number of trade offices in any single country.

The future is even brighter for bilateral trade as Israel and China are in talks to negotiate a free trade agreement, which could lead to a "tremendous increase in trade between the two countries," said Becher.

Still, for all its growth, Israel remains a small economy with a small population. It is unlikely to make much sense as a market destination on its own any time soon. The real value of Israel for its partners, like China, is in its ability to innovate.

"When Chinese look at a map, they don't see a market in Israel, they see a source for innovation," said Becher.