PHYS.ORG

Israeli high tech adjusts to Asian challenge

November 16 2010, By AMY TEIBEL , Associated Press

(AP) -- It's well known that the emergence of India and China is casting a shadow on the developed economies of Europe and North America. Less famous is the challenge facing Israel: With the Jewish state having quietly prospered as a global haven of innovation, key players here are asking whether the Asian giants might steal their high-tech thunder.

The laundry list of Israeli achievements is surprising for a country of just 7.6 million. The country helped give the world instant messaging, voicemail, and Internet telephony. Its nanotechnology has enabled great advances in medicine.

It boasts more companies on the technology-focused Nasdaq exchange than any place outside North America, and houses research and development centers for multinational giants like Microsoft and Intel.

All this has fueled economic growth and given the Jewish state, for all its troubles with the Arab world around it, a first-world standard of living. Technology now accounts for an eighth of Israel's economy and has pushed the per capita output up to a respectable $30,000 - more than many countries in Europe, and just under Japan, at about $32,000.

But there is increasing concern that just as Asia was able to seize a dominant slice of manufacturing - as well as outsourcing basic programming and call centers - with cheap labor, so it might do with higher-level technology.

Entrepreneurs here generally seem confident that they will maintain, at least for a while, an edge in the ability to innovate - a quality Israelis ascribe to a combination of circumstances, including the need to develop military technology and a societal bent to break the rules and challenge the established order.

But with the populations of India and China each topping 1 billion, so much larger than Israel's, it's easy to see how a shift could come quickly, by dint of sheer numbers alone.

Chinese technology companies employed 9.6 million people in 2009 - 2 million more than Israel's entire population. And India graduated more than 350,000 engineers in 2009 - more than three times the number of all of Israel's registered engineers.

"At some point, quantity becomes quality," says Zeev Holtzman, chairman of Giza Venture Capital in Tel Aviv.

As they weigh their options, there is a distinct sense among key players in the industry that to maintain its position in the long term, Israel must do something differently.

Generally speaking, "many of the (Israeli) funds and many of the startups and many of the entrepreneurs need to reinvent themselves," said Erel Margalit, managing partner of Jerusalem Venture Partners and an early champion of melding tech and other disciplines. "What you did five or 10 years ago is not novel anymore."

One emerging idea is to target the consumer: Rather than focus on hardcore technology that only other engineers could possibly understand, why not innovate for the end user? Essentially, why should Israel not have a Nokia?

"When a country or companies are focused on technology as the choice of innovation, there is a ceiling that company can reach unless it becomes a customer-focused innovator," said Adam Fisher, an Israel-based partner for Bessemer Venture Partners of the U.S.

For the moment, India and China are focusing on converting existing technology into products for their huge domestic markets and not on trailblazing ideas, which is Israel's specialty.

India and China "have a domestic market to supply," Fisher said. "And when you have that, there is very little reason to develop cutting-edge innovation for U.S. enterprises... When will that stop? I give it about 20 years."

Slowing things down, many engineering graduates in India are deemed by employers not ready for the workplace, leading software services giants like Infosys to launch intensive training programs for new hires. An emphasis on rote learning and general fear of failure, some executives say, also dampen the creative spirit needed for groundbreaking innovation.

But Chinese companies are now also developing technology and expanding into services and systems - areas where Israeli companies excel. And the huge domestic market gives companies cash flow to finance research and economies of scale.

Both Asian giants benefit from an incubator that helped to galvanize Israel's own technology industry decades ago: Research facilities set up by dozens of multinationals to take advantage of abundant engineering talent coming at a far lower cost than Israel's does now.

For now, Israelis continue to be a magnet for the venture capital that has helped the tech industry grow. Israeli venture funds aren't attracting the kind of money they did a decade ago following an industry trend, but they do hope to raise $500 million this year - more than double the figure in 2009.

Although venture capital money can be attracted by opportunities - meaning countries are not necessarily competing for a given pool - it is instructive to look at recent trends.

According to Dow Jones VentureSource, which tracks the global venture market, venture capitalists from around the world invested nearly $904 million in Israeli startups in the first nine months of 2010. Chinese companies drew a little more than $2 billion in that same period and Indian companies drew $710 million, the VentureSource figures show.

Israeli funds "have a challenge in recruiting follow-on funding because of the shift in global attention to the east," said Holtzman, referring to repeat, later stage investments.

Meanwhile, many Israeli tech companies are outsourcing programming to India. Giza maintains an Asia office in Singapore. Ness Technologies, an Israeli computer services outfit, has offices across India.

"Those are big markets that we need to start targeting and already are," said Michael Eisenberg, a partner in the Israel office of U.S.-based Benchmark Capital. "India and China have to be a focus. There are 2.5 billion people there."

A technology conference held in Tel Aviv this month underscored, perhaps, the beginnings of a move to consumer orientation.

Among the companies on hand were outfits that provide Internet TV storefronts, produce gaming platforms and Facebook applications.

Conduit, for example, is a service that enables web publishers to create applications using their own brand and content, and to distribute them to engage users beyond their own websites.

Another promising startup called Outbrain alerts readers of blogs and media sites to recommended links targeted to their specific interests, much the way Netflix or Amazon make movie and book recommendations to their customers. The idea is to help readers cut through information overload and find information that is relevant to them.

Clean technology is another key area: Better Place, the brainchild of Israeli entrepreneur Shai Agassi, hopes to revolutionize the global automobile industry by laying down the world's first electric car grids next year.

Citation: Israeli high tech adjusts to Asian challenge (2010, November 16) retrieved 25 April 2024 from https://phys.org/news/2010-11-israeli-high-tech-adjusts-asian.html