

MARKETING

# Can Israel Expand Its Startup Culture To Nearby Regions?

Oct 24, 2016

📌 Business Radio, Law and Public Policy, Podcasts, Strategic Management

📍 Israel, Middle East & Africa



*A brand is as important to a country as it is to a company — or a region. To learn more about such values ahead of the Wharton Nation Brand Conference set for October 28, Knowledge@Wharton hosted Erel Margalit, an Israeli Knesset member and an accomplished venture capitalist — founder of Jerusalem Venture Partners — whose vision helped create many cultural and business centers. He spoke with Tom Lincoln, conference director, about how to improve not just Israel’s brand but that of the entire Middle East.*

*An edited version of that interview appears below.*

**Knowledge@Wharton:** In the book *Start-Up Nation*, published in 2009, you were mentioned as one of Israel’s start-up nation architects. As one of the primary people driving Israel’s reputation for innovation and entrepreneurship, could you describe some of the innovations

that have come out of Israel — like water, energy, agriculture and high-tech?

**Erel Margalit:** Israel's big drive for fusing innovation and business came in the 1990s, when one of the major revolutions occurred: Telephone systems around the world turned from voice, where you said, "Hello, Mom, it's me," to data, where you really created a foundation of the communication infrastructure. Today, this network serves as a big video network around the world. That has to do with defense-related technologies like optics and like wireless. ... It was really about making them civilian applications. And the rise of venture capital in Israel in the beginning of the 1990s was a key force that merged together with the entrepreneurship, with science, with the American-style management that came into Israel during these years with companies like Intel, Motorola and digital IBM. It led to one of the biggest revolutions, and we started with communication and software. It was the foundation of the Internet revolution as well.

Currently, a lot of this is cybersecurity. I had the pleasure of investing in a cybersecurity incubator that I founded in Be'er Sheva. It is also about new themes that are now coming together, like the combination of food, agriculture and health care, water technology, alternative energy, and a variety of additional themes that need technology in order to transform themselves and the environment in which we live.

**Knowledge@Wharton:** A lot of the innovation coming out of Israel has been coming out for decades. One of your biggest successes has been to promote cooperative initiatives within Israel, with the goal of turning areas in the north and the south into international hubs of innovation. I understand that you're now intending to do the same on the regional level. You have a new "converging interests, economic and security" plan, and it aims to develop projects in which Israeli and Arab partners cooperate — a kind of start-up region. What kinds of converging interests might lead to this cooperation?

**Margalit:** Just on the political level, whenever people talk about an agreement in the Middle East between the Israelis and the Palestinians, they usually confine it to what Israel needs to give up, and to a very narrow political solution of a two-state solution between the Israelis and the Palestinians — which, you know, we are all for. But one of the big themes that I'm talking about is not only what Israel needs to give up — in other words, land for peace — but also, what it is that Israel can gain for its own interests, and what can the region gain from countries working together, rather than just standing alone?

**“One of the big themes ... is not only what Israel needs to give up ... but also what Israel can gain for its own interests.”**

There are two major threats. One is that many countries still feel quite threatened by Iran, and there's a big infusion of capital going into Iran. The other is the rise of ISIS and fundamentalism. When it meets poverty, extremism becomes very dangerous. So one of the things that I'm saying to the countries around us, like Egypt, like Jordan, like Saudi Arabia and the Gulf states, like Morocco or Tunisia, is: “Hey, this region was called in ancient times the Fertile Crescent. And it's been a while since we have been using the very strong traditional cities like Cairo and Jerusalem and Aman and Casablanca, and other major cities in the region, and bringing the message of innovation and cooperation.”

Instead of standing and looking at the big influx of capital into Iran and just worrying about it, I'm saying, let's create several big regional projects around water because the Middle East is drying up and Israel and some other countries have very strong water distillation technology, irrigation technology, something that the region needs in a big way. Agriculture [too] because the region needs to feed itself. There are a lot of people in the region, and many of the crops, because of the changes in weather, need new strategies. The U.S. and Israel and Europe and different countries in the region could work together on agricultural strategies and food strategies. They could feed the people in a way that would give more prosperity and a better day-to-day existence to a lot of people.

And then there's energy. The region has been known for its fossil fuels. But today, there are alternative energies, solar energy and others, that the region could be working on, in order to move away from fossil fuels into alternative energy, which will keep the region cleaner.

And then finally, there's technology. A lot of people have been talking about “start-up nation,” and how technology is very strong in Israel. But one of the things that I've seen in addition to that is that there are major hubs of growing innovation in other parts of the region as well, that as an Israeli, as an entrepreneur, as a venture capitalist, as a political figure, wants to bring innovation into the political world, I'm looking at themes that we can cooperate on in places like Ramallah [in the West Bank], in places like Cairo and Aman, in places like Istanbul.

What I'm calling for, what I'm saying, is "Let's call it the power of yalla." Yalla, in Arabic, means, "Let's move." And we're using that concept in Hebrew as well. I'm saying if we wait for all the political figures to figure this out, we're going to wait for a long time. There is a new generation of innovators, of people that are saying what they can do rather than just what they cannot do. I'm calling for a regional project of different themes that we can move on together, and I'm presenting this in different Arab countries.

I'm presenting this in the U.S., in Europe, to the Chinese, to others who want to hear about this. And I'm saying, "Let's take some major themes and move them forward." That would give a background to the political negotiations, but it would also make the things that we can work on together tangible, real, and bring more prosperity to a lot of people who are talented, that want a new chapter, and who want to see how they could move the region forward, rather than just look at each other through the lens of a gun.

**Knowledge@Wharton:** What opportunities do you see in your converging-interests plan for new foreign investment in Israel from outside of the Middle East?

**"If we wait for all the political figures to figure this out, we're going to wait for a long time."**

**Margalit:** There are a lot of projects and a lot of themes that are ready to be defined for international capital. I brought more than nine countries to invest in JVP, Jerusalem Venture Partners, in the sovereign funds of these countries. But it's only when we defined a well-strategized fund that had a focus, whether it was cybersecurity or communications, whether it was the web, whether it was health care IT.

The same thing goes for large infrastructure projects. If you're going to build a major airport between Eilat [in Israel] and Aqaba [in Jordan] near the Red Sea, and you're going to involve Jordan, Israel, the Saudis, and Egypt, you need an economy of airports. You need a big plan. You need a big project. There will be quite a bit of capital that would be interested in investing in such a project, but it needs to be defined in a way that the capital could understand.

So what I'm looking for the governments to do is to provide a framework for discussion. What I'm looking for entrepreneurs and local leaders and academic leaders and business leaders to do is to identify some of these big themes, and to get into a process where some of these themes become real, tangible projects.

There's also security. It's a big issue in the Middle East. We are in the midst of very trying times. But what I'm saying is, it's not Arabs against Jews in the Middle East. It's extremists — whether they're ISIS or Al Qaeda or Hezbollah, or the militant factions of Hamas — against those who are willing to stand against them — countries that are ready to be moderate. Some of them are even ready for more democratic processes. Some of them are not. But there are countries that are willing to stand up to extremism, and need cross-border cooperation on the security level as well.

Because if you're going to protect the airports, if you're going to protect the banks, if you're going to protect the utility companies or the energy companies, you need cross-border technology, security cooperation, and the region needs to address that. It's not that the U.S. and Russia are going to always intervene. It's the countries of the region that need to work together if they're going to protect the civil society, and they're going to allow their people to move on, rather than face extremism in different parts of the region.

**Knowledge@Wharton:** JVP has been instrumental in building dozens of high-tech start-ups into global corporations. How has the venture capital industry in Israel changed over the last 25 years?

**Margalit:** The world has changed in a big way due to technology. We're seeing it on the West Coast, on the East Coast. We're seeing it in places in Europe. And we're seeing it in a big way in Israel. Technology has been a driver in a lot of the revolutions that we've had in our daily lives.

But now, we need to embark on new themes. We need to feed the world in a better way. Processed food needs to be something that heals people, rather than brings about diseases, like the sugar and different substances that will need to be replaced in our ordinary food do. I think that food is going to be a big source of healing, rather than chemical drugs. That's going to be a big theme in the next few years, and I think that there's a lot of cooperation between nations that needs to occur on that front. And the venture capital community will need to see how they could make a profit in investing in some of these themes around medical food, around healing food and wellness.

**“It's not Arabs against Jews in the Middle East. It's extremists against those willing to stand against them.”**

I also think that the environment, water, all these themes are going to be important for large, urban communities around the world. And once you have strategies that make sense, you will need technology and you will need investments. Some of them would be early stage, and some of them would need to be more project investments, as these things are going to be working. And you need to make it profitable for the investors, so that it's not just the social profit endeavor. It needs to be something that the investment community could really enjoy.

The venture capital industry, both in Israel and in our neighborhood, and around the world, needs to transform different themes not only in terms of things that we were doing in the past — like communications or software or web, or biotechnology — but also around new themes that could be exciting socially, and could be very beneficial from an investment standpoint as well.

**Knowledge@Wharton:** I noticed that the Chinese had purchased some of Israel's great food brands. What is your take on large investments in Israel from China? Have those dried up because of the turbulence in the Chinese economy, or is Chinese investment in Israel still growing?

**Margalit:** No, I think the Chinese are still trying to find their way into Israel in different strategies, one of which is technology. The fund that I was managing, JVP, has quite a number of Chinese investors. Large Chinese technology companies and financial investors are trying to find their way into Israeli innovation.

Also, food — that's true. What I'm calling for is not only food companies, but also food innovation and food security. That's a big theme that I think the Chinese are worried about. But I got Israel to invest in the Asian Infrastructure Bank, because it's the Silk Road bank that's investing in the West. And I'm saying, "Please don't put all your Western-looking projects into Iran. Come to Israel. Come to regional projects in Israel, Jordan, Egypt and so on."

The Chinese love big infrastructure projects and building projects. But in order to bring capital — I know from my years of experience — you need to package the project in a way that the investor can understand what needs to be done, and how they can make the rate of return they want. That's the goal of the business leaders and the political leaders, and the local leaders in the next few years. And I think that the more examples we have, the more capital will find itself in our region and help transform it.

**Knowledge@Wharton:** You're the chair of the Knesset Taskforce for Economic Development in the north and the south of Israel. I'd love to talk about your work transforming regions of Israel into international economic hubs. You'd mentioned earlier Be'er Sheva. Tell us a little bit about

what the process was for transforming Be'er Sheva from a desert into a cybersecurity capital.

**Margalit:** One of the things I like best is the economy of inclusion. In other words, a lot of times, there's a debate between right-leaning economic theories and left-leaning economic theories. I love public-private partnerships. I love to bring the business community to make a profit in a region where I need to make a social profit. And many regions that are left behind are used to thinking small.

I like cities and regions to think big, just like I'd like start-ups to think big, in order to win against the large companies. So one of the things that we were able to do in Be'er Sheva was, instead of thinking — “What's a little bit of software development, or a medical development we can do here and there?” — we created the No. 1 cybersecurity hub for innovation.

I created this with a JVP incubator when I was still an entrepreneur. Then as a public figure, I was able to help bring some of the large American companies like Lockheed Martin and Oracle and IBM and EMC and others into the region, with each one of them benefitting from a large cybersecurity project that they were undertaking. They got a large number of very talented young engineers who were hungry to succeed, and so they got profitable projects.

**“I love public-private partnerships. I love to bring the business community to make a profit in a region where I need to make a social profit.”**

We've got — as a country — thousands of quality jobs for people who are making a good living, and who are able to drive innovation forward. So a region that was left behind in the desert suddenly becomes a thriving city that is part of Israel's 21st-century economy.

In order to succeed in Israel with innovation, you need to become not only a national center — you need to become an international center. That's why we have so many American companies, European companies and others joining this initiative. And this is one very good example.

**Knowledge@Wharton:** You've done some urban development as well. Tell us a little bit about the JVP Media Quarter that you built in Jerusalem, and its impact on culture as well as business in that city.

**Margalit:** For years, I was working in Jerusalem, creating companies and an industrial high-tech park on the outskirts of the city. And in the midst of the Second Intifada in 2002-2003, I decided to come into the city, into the old train station — it was the old Mint Building, overlooking the Old City — and to say, “We are now taking innovation to transform Jerusalem, and to give it hope.” Much like many Americans needed to do in New York after 9/11.

We took very old buildings and renovated them. Old train station warehouses, and renovated them, and created a media quarter, with media companies, with start-ups, with incubators. With cultural centers where live music comes together with other performing arts, with restaurants. And then, with the largest social project, which I’m so proud of, that I built together with my wife. It’s called Bakehila – which means “in the community.” And it really worked over the years, with 27,000 kids from underprivileged neighborhoods in both Jewish and Arab communities.

It’s part of the mentality of transforming the society around us — not just the brightest people and the smartest people, but everyone. Everyone. And because it’s social entrepreneurs, cultural entrepreneurs, and business entrepreneurs working together inside the city, it is infectious. Just like despair is infection, when you create something positive, it’s infectious as well.

So a lot of other people decided to start companies, to start ideas. In a matter of about 10, 15 years, more than 37,000 jobs in technology were created — each one of these jobs adds about three jobs in small businesses, academic services, social services, culture, and so on. And so it’s really taken Jerusalem from a city that was in a very dark moment of despair with suicide bombers into a city that still has its problems, but that finally has a model of coexistence, of building companies, of building creative things. Because a city with a heavy load of history always needs a new theme of current creativity if it’s going to continue to thrive.

**Knowledge@Wharton:** And now you’re going to take that positive outlook and you’re going to turn to the north with the food tech and wellness industry. Could you define that, and tell us a little bit how that’s impacting the Galilee region.

**Margalit:** The Galilee is sometimes referred to in Hebrew as “the periphery,” Periferia. And this is ridiculous. It’s one of the most beautiful, lush landscapes. It has the highest mountains and the lowest valleys. And it has great agricultural heritage.

Yet the cities of the Galilee really need an infusion of energy and innovation. So when we looked what the Galilee could do, what it could lead the country with, we looked at the combination of the agricultural revolution, the health care revolution, and food. We are creating a food tech

incubator, one of the largest in the country. We have partnered together with Rutgers University in New Jersey. We're looking to bring international players into the region, just like we did in cybersecurity in the south.

The nice thing about it is, it's a combination of communities in the north. It's the *kibbutzim* — you remember, the *kibbutzim* are the agricultural communities — and the small cities. And the Arab young communities who are really people with quite a bit of education, who want to get involved, want to be part of Israel's economic strategy, and really have quite a bit of agricultural heritage as well as their education.

**“I think wellness is a big theme for Israel and other countries to embark on.”**

So it's taking a region that is beautiful in the way it looks, but is somewhat behind in terms of economic drive, and taking a lot of the good will that exists towards the Galilee, and bringing innovation into it. Allowing young people, young Jewish people, young Arab people, to stay — to thrive, to build companies, ideas. When you have the cities working together with the agricultural communities, you create a kind of excitement that I think the Galilee needs today in order to get on the map as one of the world's innovation places.

I think wellness is a big theme for Israel and other countries to embark on. And I also think it's a theme that is very relevant for other countries in the region as well.

**Knowledge@Wharton:** How is what you're doing in Haifa different?

**Margalit:** Haifa is actually where a lot of Israel's innovation began — in the Technion, which is a great academic institution. Intel has designed many of their chips there. And Apple and some other companies as well. But now, we're embarking on some new themes in Haifa. We're thinking about health care IT. It's the combination of health care strategies with IT strategies. And we're doing it, again, in the old seaport of Haifa, an area that was neglected and left behind. It's one of these classic places where you have large buildings that were warehouses — exactly the kind of place where innovation can meet, young people can meet, academic strategies can meet, small businesses.

We're very excited about this because there's a lot of talent, but we need a great story and an urban story that the young people can get excited about, just like we had in Jerusalem. We think it could be a thriving place.

**Knowledge@Wharton:** All of these examples of projects that you are developing are also helping to build Israel's brand in a really positive way. The whole world mourned over the passing of President Shimon Peres. I wonder if you could talk a little bit about how he impacted Israel's nation brand.

**Margalit:** Shimon Peres has been a great inspirational leader in Israel, together with Yitzhak Rabin in 1992. People don't realize how big a change their language, their attitude, their strategy, created in the country for many of us.

We were then the young generation. We got two calls. One was the call to our neighbors and to the Palestinians and to the Arab world: "Let's try to work together. Let's try to resolve the differences between us. And we have been fighters for this country. We will defend this country. But out of strength, we want to try to come to a resolution." That was a big message, and a big sign.

And the other was internally, within Israel. Remember, we had about 1 million new immigrants from what was the former Soviet Union. We needed jobs. And the message was innovation. "Let's go, let's create an innovation economy, a new economy — something that will bring new ideas — something that will work on a win-win strategy, with different countries around the world."

My generation got the message, and we went out to do it. Now, it's time for people from the start-up nation era to come and transform the political landscape a little bit as well, and to bring win-win strategies to the region. Yes, we need to defend our country. We need strong armies. We need to be strong. But we also need to identify the opportunities in the region. And we need to rebrand not only the start-up nation, but the start-up region, and give people hope and something to look for, so that despair will not lead them to strategies that everybody loses from.