

BIG IDEAS

Middle East Series

In Focus: 4 Ideas for U.S.-Israel Ties



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4 Big Ideas: Policy Recommendations to Expand the U.S.-Israel Economic Relationship

The U.S.-Israel relationship is most often seen through the prism of security and defense cooperation, but the two countries have also built an extraordinary economic partnership based on innovation and investment in a broad range of sectors. Hundreds of U.S. companies have research and development (R&D) centers in Israel that produce an amazing array of innovative solutions. And despite accounting for just 2% of the region's population, Israel is responsible for 44% of the Middle East region's foreign direct investment in the U.S.¹

These commercial ties are contributing to our economy, support thousands of jobs in the U.S. and Israel, and drive game-changing innovation in critical sectors, including health care, financial services, hi-tech, and sustainability. The growth of the economic relationship has been buoyed by innovative public policies established by both governments decades ago, including the U.S.-Israel Free Trade Agreement (FTA) signed in 1985, and the creation of the three binational foundations set up in the 1970s to support science, technology, and commercial relations.

Despite these successes, the once pioneering policies that support U.S.-Israel commerce are increasingly losing their competitive edge. The global economy has changed remarkably since Israel and the U.S. laid these cornerstones many decades ago.

On behalf of the U.S.-Israel Business Council and our member companies, we recommend that our governments consider the following 4 Big Ideas as they chart a way forward on U.S.-Israel relations.

1. Establish High-Level Economic Dialogue

The U.S. and Israel collaborate extensively on commerce and innovation. But unlike many other economic partners, the two governments lack a permanent high-level body charged with taking a holistic policy approach to key economic issues.

Existing government-to-government economic dialogues do important work but were set up decades ago to serve a very different U.S.-Israel economic relationship. The U.S.-Israel Joint Committee, established by the FTA in 1985, focuses on solving trade impediments, while the U.S.-Israel Joint Economic Development Group (JEDG) was established 30 years ago to oversee U.S. government economic assistance to the State of Israel, aid which was phased out by 2007².

There have been ad hoc working groups formed by both governments in areas related to innovation policy, water management, and cybersecurity. Though without a statutory basis or broader government frameworks, these dialogues have been episodic and lack the basis for follow-up action.

¹ <https://www.selectusa.gov/FDI-global-market/international-markets>

² <https://www.jewishvirtuallibrary.org/total-u-s-foreign-aid-to-israel-1949-present>

In the intervening years, governments around the world have forged new frameworks, pacts, and structures for dialogue and economic engagement, including the newly announced U.S.-EU Trade and Technology Council, an important forum to coordinate policy on trade, economic, and technology issues between Israel's two most significant trading partners.

A new U.S.-Israel High-Level Economic Dialogue would be a flexible, government-to-government platform to deal comprehensively with the full range of bilateral economic, trade, and competitive issues. Led by the offices of the vice president and the prime minister, this platform would raise the level of engagement among both governments and promote a more holistic approach to building a broader and deeper economic and innovation relationship.

A platform like this, modeled after similar high-level dialogues that were initiated and led by then-Vice President Biden, could include regular, ongoing meetings hosted by senior leaders as well as ongoing collaboration by specialized working groups. Both governments could be mobilized through this platform to cooperate on technology and innovation policy, expand collaborative research, and ensure common and compatible standards and regulation. Such a dialogue would also benefit from private sector engagement to help identify barriers to bilateral economic growth.

2. Boost U.S.-Israel Digital Economy Policies and Innovation

The coronavirus pandemic dramatically accelerated a global shift to a digital economy. Increasingly, our jobs, education, health care, government services, and beyond, rely on digital technologies that will continue shape the future in endless ways.

The U.S. and Israel are among the most digitally connected and advanced countries in the world, yet the U.S.-Israel FTA signed in 1985 preceded the internet and e-commerce. At the time, it was a groundbreaking deal (America's first FTA) that drove significant trade expansion and is still a pillar of the countries' impressive economic ties. Bilateral trade has grown nearly 10 times since the FTA entered into force in 1985³. Over the past three decades, however, trade has become increasingly concentrated in industrial, high-tech, and digital products. According to the Israel Innovation Authority, while 10% of Israeli employees work in hi-tech, these products account for 43% of Israeli exports and 15% of Israel's GDP⁴.

While there is great potential for U.S.-Israel digital trade to grow and deepen, continued growth is not guaranteed—especially when countries and regions worldwide are aggressively pursuing digital innovation strategies and devoting more attention to digital technology issues such as AI, blockchain, and 5G infrastructure.

To ensure continued growth of U.S.-Israel digital trade and innovation, both governments should consider the following:

³ <https://il.usembassy.gov/our-relationship/policy-history/fact-sheet-u-s-israel-economic-relationship>

⁴ Israel Innovation Authority'

- **Updating digital trade rules.** The U.S. and Israel should formally adopt pro-competitive, cutting-edge rules that will encourage innovation, promote digital trade, and expand bilateral economic growth in the new internet economy. Boosting digital trade rules would ensure cross-border data flows, promote government-to-government collaboration on cybersecurity and AI, promote open access to government-generated public data, facilitate digital transactions, and strike down tax and customs duties on digital products. This kind of a bilateral arrangement could help set predictable digital rules that would encourage trade and serve as a model for other economies to follow. New trade facilitation commitments for goods would also boost bilateral digital trade.
- **Enhancing cybersecurity partnership.** As our economy increasingly becomes digital, the need for cybersecurity will continue to grow. In 2016, then-Deputy Secretary of the Department of Homeland Security Alejandro Mayorkas, who is now secretary, spearheaded a U.S.-Israel agreement to automate the sharing of cybersecurity threat intelligence between the two countries. Our two governments should build on this agreement with a renewed bilateral working group led by the National Cyber Directorate and the Cybersecurity and Infrastructure Security Agency (CISA) and Israel's National Cyber Directorate (INCD) to harmonize strategies and develop technologies to defend against threats to critical infrastructure, supply chains, 5G networks, and internet-connected devices. Additionally, given the oversized role that the U.S. and Israel play in developing cyber technologies, our two countries should play an important role in shaping international information and communications technology standards and promoting international norms around cybersecurity.
- **Expanding innovation cooperation.** Israel has thousands of startup companies, the highest venture capital investment dollars/capita, the highest percentage of GDP spent on R&D globally, world-class universities, and an entrepreneurial culture not unlike Silicon Valley. That's why more than 250 U.S. multinational companies have R&D centers in Israel⁵ to tap into innovation and why Israel is a critical strategic innovation partner for the U.S. To maintain this innovation edge, it is critical that policymakers take a do no harm approach to the bilateral innovation ecosystem. Bilateral technology cooperation has succeeded in significant part because of public policies that support commercial R&D and U.S.-Israeli ventures. The two governments must maintain this supportive philosophy and work diligently to ensure that regulatory, tax, trade, and other policies do not create impediments to innovation. As part of a high-level economic dialogue, policymakers should consult on the innovation impact of laws and regulations and look at concrete steps to enhance the business and innovation environment to support the next generation of entrepreneurs and innovators. Both governments should also look to leverage the 2020 U.S.-Israel Science and Technology Agreement, a framework for scientific research and technological collaboration, and advance U.S.-Israel partnerships through the landmark U.S. Innovation and Competition Act of 2021.

3. Grow Energy and Environmental Partnerships

One of the greatest challenges today is the urgent need to combat climate change while providing the energy needed to promote competitiveness and economic growth.

⁵ Start-up Nation Central. Start-up Finder.

The discovery of natural gas off the coast of Israel has transformed Israel's economy, environment, and security and launched an entire new industry in Israel. The country, once dependent on foreign sources of energy, now has enough domestic supply of natural gas for several decades and is exporting large quantities to its neighbors. U.S. companies, including Chevron that co-owns and operates the massive natural gas fields in Israel, play a central role in Israel's energy sector through their investments and activities in upstream and downstream projects and related services.

Israel has also recently announced an ambitious energy plan to be powered 70% by natural gas and 30% by renewables, largely solar energy, with a \$22 billion investment in infrastructure over the next decade.⁶ Companies committed to renewable energy and sustainability goals are positioned to support Israel's effort to achieve 30% renewable through corporate energy procurement. Israel can enable these investments by opening the electricity market to support corporate renewable purchasing.

The Eastern Mediterranean natural gas boom is also transforming the region's energy, economic, and political future in seismic ways. Formally launched in 2020, the Eastern Mediterranean Gas Forum (EMGF) is an intergovernmental organization created by Israel, Egypt, Jordan, Cyprus, Greece, the Palestinian Authority, and Italy for governments across the region to discuss, develop, and implement cross-border policies and projects that will promote the development and movement of natural gas in the Eastern Mediterranean and around the world. EMGF is driving meaningful regional economic integration and cooperation around commercial, security, and technology issues and is a stabilizing force for the region. As an official observer to EMGF, the U.S. plays a critical supporting role as well.

Israel is also a world leader in water management and technology. It reclaims 90% of its water compared to 1% in the U.S., and over 80% of its drinking water comes from the Mediterranean Sea. Israel has pioneered major advances in water technology, including water desalination and drip irrigation. In a country that is over 60% desert and where the population promises to grow 25% by 2024⁷, it is a world leader in solutions to challenges created by water scarcity. Many states and regions across the U.S. can apply these lessons to navigate a world of water shortages while still attracting new business, maintaining high standards of living, and finding new opportunities for economic growth.

Both bilaterally and regionally, the U.S. government has and should continue to play a critical support role through the following:

- **Expanding the U.S.-Israel Energy Dialogue and innovation programs.** In 2011, the Obama administration launched the U.S.-Israel Energy Dialogue to convene senior officials from both governments to share best practices in areas related to natural gas development, cybersecurity of energy infrastructure, energy R&D, and beyond. This dialogue can also take on new focus on bilateral strategies and technologies to manage climate risk and reduce greenhouse gas

⁶ <https://www.timesofisrael.com/israel-ups-2030-renewable-energy-target-from-17-to-30-at-cost-of-22-billion>

⁷ *Let There Be Water: Israel's Solutions for a Water-Starved World*. Siegel, Seth. 2015. Italicize book titles. For books, first use author's name—Seth Siegel, then book title italicized, publisher, then date of publication. Publisher and date of pub in parens.

emissions with an eye toward leveraging the binational funds—the U.S.-Israel Energy Center and BIRD Energy—and other federal programs to support commercialization of U.S.-Israeli innovation.

- **Establishing an interagency working group focused on the Eastern Mediterranean.** The White House could convene agencies such as the International Development Finance Corporation, the Export-Import Bank of the U.S., the U.S. Agency for International Development, the U.S. Trade and Development Agency, and the departments of State and Energy to advance project finance and support for new Eastern Mediterranean energy projects, including gas for Gaza, and manage diplomatic issues with non-EMGF countries across the region.

4. Institutionalize an expansive U.S.-Israel health care partnership

Defense and national security interests have always been the centerpiece of America's relationship with Israel. As the world continues to confront the greatest health crisis of our time, protecting our citizens and institutions from harm extends beyond the battlefield and into the public health domain. Health security is national security. The pandemic has also underscored the need for strong collaboration across borders with partners like Israel to drive health innovation, manage issues in our supply chains, and promote economic recovery.

Israel is a leading hub for health-related technology and has been a source of innovative therapeutics, diagnostic solutions, and other health IT to combat COVID-19. Likewise, Israel has one of the largest databases of electronic medical records in the world and has been able to share unparalleled real-world data on the efficacy of COVID-19 vaccines. While the global pandemic has highlighted the potential for many of these technologies, the need to build stronger U.S.-Israel ties in health care transcends this crisis.

To unlock the potential, the governments should elevate the health agenda to prioritize its strategic importance through the following:

- **Expanding the U.S.-Israel Health Memorandum of Understanding (MOU) between the U.S. Department of Health and Human Services (HHS) and Israel's Ministry of Health (MOH).** The two lead health agencies could expand coordination on key public health issues and joint activities, including cross-border health data cooperation, streamlining regulatory and registration processes for innovative health products in both markets, ensuring high-standard intellectual property protections, and boosting cooperation between companies, academics, government agencies, and entrepreneurs to discover, develop, and commercialize new health care technologies. The bilateral MOU offers the framework for a more robust and routine U.S.-Israel health dialogue between entities such as the National Institutes of Health, the Centers for Medicare & Medicaid Services, the Centers for Disease Controls and Prevention, the Biomedical Advanced Research and Development Authority, the U.S. National Academy of Medicine, and parallel partners in Israel.
- **Establishing health attaché positions in embassies.** HHS posts and supports health attachés in almost every region of the world and leads global health diplomacy in their respective countries. These officials touch on the intersection of health and any number of sectors, including trade,

security, and the environment, and act as a resource for representatives of HHS and other U.S. agencies in the region. HHS should post a health attaché at the U.S. Embassy in Israel. Similarly, Israel's Ministry of Health should post an attaché at Israel's Embassy in Washington, D.C., to demonstrate the significance of this sector and ensure continuity in government efforts.

- **Streamlining regulatory and registration processes.** Market access and entry issues exist for both Israeli companies looking to enter the U.S. market and U.S. firms seeking approvals in Israel. The governments could develop processes on both sides to expedite registration of new products, including a "green channel" in Israel for new products based on certain U.S. compliance standards, and support the establishment of a regional U.S. Food and Drug Administration (FDA) presence in Israel so that Israeli products can reach American patients more quickly. Israel should also participate in U.S.-led and multilateral efforts to enhance cooperation on regulatory processes and information sharing through programs such as FDA's Project Orbis, a framework for concurrent review approval for critical oncology products among international partners, and the World Health Organization's Global Digital Health Partnership, a 30-country partnership that HHS co-founded in 2018 to exchange best practices to promote the effective implementation of digital health technologies.
- **Exploring opportunities to provide access to U.S. and Israeli health care data for the benefit of each country's citizens.** This could build on the *Cloud Computing Circular* published by the Israeli Ministry of Health this year, which aims to foster increased research and innovation by making use of secondary health care data in Israel.

About the U.S.-Israel Business Council

The U.S.-Israel Business Council at the U.S. Chamber of Commerce is the premier national business advocacy organization dedicated to strengthening the trade, investment, and innovation relationship between the U.S. and Israel. The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. For more information, [visit our website](#).