



Aligning U.S.-Israeli Cooperation on Technology Issues and China

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Acknowledgments

The authors are grateful to the many officials and experts—both in the United States and elsewhere—who shared their perspectives throughout the duration of the project. The authors would like to give a special acknowledgement to Ilan Goldenberg for his contributions to this report, from its inception to the final product. They would also like to recognize Emily Kilcrease from CNAS; Mark Dubowitz and Jacob Nagel from FDD; and Doron Ella, Galia Lavi, and Assaf Orion from INSS for their support and contributions. This report would not be possible without the work of Melody Cook, Maura McCarthy, and Emma Swislow, who assisted with the production of this paper. This report was made possible with the generous support of the Smith Richardson Foundation.

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Executive Summary

The United States and Israel have a long history of working together as close allies. Theirs is a relationship based on common values and security interests. In recent years, the alliance's highlights have included close cooperation on counterterrorism and intelligence, as well as deepening economic ties, technological cooperation, and mutual knowledge transfer. The United States continues to provide Israel with significant security assistance based on a memorandum of understanding signed by both countries in 2016, which commits the United States to provide Israel with at least \$3.8 billion per year in aid. The relationship is further strengthened by deep personal connections at the government and business levels as well as through collaboration between the two countries' technology sectors.

In recent years, however, the United States and Israel have differed regarding their threat perceptions and approaches to China. Whereas Israel sees China primarily as an economic partner and is increasing its ties with the country, the consensus view in Washington increasingly sees China as a global strategic rival—militarily, economically, and technologically—even while the Joe Biden administration preserves space for cooperation with Beijing in areas of common interest. In recent years, U.S. and Israeli officials have had public and private disagreements over several Chinese investments in Israeli infrastructure and technology. Although Chinese investments in Israel have declined since their peak in 2018, and even though these disagreements have yet to be aired publicly by the Biden administration and the Naftali Bennett–Yair Lapid government, this issue is likely to remain high on the agenda.

The most critical challenges in the bilateral relationship are technology protection and collaborative innovation. Chinese investment in Israeli technology companies, including those that develop dual-use technologies, remains largely unregulated. Although Israel does not export defense technology to China and has placed stringent regulation on the export of dual-use technologies, the line between civilian and dual use is increasingly blurred, and Israel has yet to fully adapt to this reality. Washington, for its part, has not been entirely clear about how it expects American companies and allies to limit their roles. The United States has been slow to offer alternatives to allies such as Israel for forgoing cooperation with China and has yet to develop a collaborative technological innovation framework that builds on the cumulative strengths of the United States and its allies, benefits all, and helps to tip the balance in the technological competition with Beijing.

To address the multidimensional challenge presented by China, the United States must enhance collaboration with its allies, including Israel, its closest partner in the Middle East. Fortunately, when the United States and Israel have had differing perspectives in the past, they have successfully engaged in deep bilateral consultations to work through these differences. These efforts have not always resulted in complete alignment, but they have significantly reduced disagreements and allowed for greater cooperation.

This paper represents the most comprehensive public analysis to date of the challenges facing U.S.-Israeli cooperation on issues related to technology and China. It proposes an approach for the United States and Israel to align their policies and bridge differences by focusing on three central areas.

First, the United States and Israel should establish a high-level working group to coordinate U.S. and Israeli policy on technology and China. This group should include a consultative structure led by the White House and the U.S. State Department with the Israeli Prime Minister's Office and Ministry of Foreign Affairs to address differences in how they see China. It should also include deeper systemic engagement between the U.S. and Israeli private sectors, academia, legislatures, and intelligence and law enforcement bodies.

Second, the United States and Israel should align their regulatory regimes, especially regulations regarding investment screening from China, to ensure their high-tech industries are defended from potential exploitation. This process should include regular dialogue between U.S. officials at the Treasury Department, which serves as the chair of the Committee on Foreign Investment in the United States (CFIUS); Israeli treasury officials; and experts from a newly established committee responsible for investment screening in Israel. This dialogue—shaped at the political level for implementation by career government staff—should focus heavily on the steps Israel should take to improve investment screening, including: anchoring the committee responsible for investment screening in legislation, building out a complementary intelligence capability, and ensuring that technology companies and investments are covered under this committee. There are also areas where the U.S. government could do a better job of communicating its perspective to Israel, explaining both how the United States defines critical technologies and the types of regulatory steps Israel would have to take for its companies to be granted certain exemptions from U.S. investment-screening requirements, which are available under U.S. law for companies from compliant jurisdictions.

Finally, the United States and Israel should deepen economic and technology cooperation as a counterweight to and substitute for Chinese investments. This process should begin with a regular high-level U.S.-Israel dialogue that brings together the key agencies responsible for innovation in both the U.S. and Israeli governments. The United States should also encourage greater U.S. private-sector investment in the Israeli technology sector as a substitute for Chinese investment and should encourage other democratic partners to do the same. The United States and Israel should leverage and increase investment in a number of existing mechanisms for U.S.-Israel technology cooperation, including the BIRD Foundation (Israel-U.S. Binational Research and Development Foundation), which provides matchmaking services between Israeli and American companies in R&D; the BARD Fund (Binational Agriculture and Research and Development Fund), which focuses on U.S.-Israel cooperation in agricultural research; and the U.S.-Israel Binational Science Foundation (BSF), which promotes scientific relations between the U.S. and Israel by supporting collaborative research projects.

Whereas Israel sees China primarily as an economic partner and is increasing its ties with the country, the consensus view in Washington increasingly sees China as a global strategic rival—militarily, economically, and technologically—even while the Joe Biden administration preserves space for cooperation with Beijing in areas of common interest.

This paper is only a first step toward addressing these challenges; more analysis from governments, think tanks, and the private sector is necessary. However, it is apparent that simultaneously aligning strategy, regulation, and economic cooperation is the most effective way for the United States and Israel to deepen their cooperation on this complicated problem set.

Background

Before an exploration of how to deepen U.S.-Israel technological cooperation and better align their China policies, a brief history of how U.S.-China competition has affected their relationships with Israel is necessary. Understanding the context for China's increasing interest and investment in the Israeli economy and technology sector adds nuance to the recommendations made in this paper.

U.S.-China Competition

Competition with China has become the defining feature of U.S. foreign policy. For decades, U.S. policy was characterized by the assumption that trade and interdependence would eventually guide China to becoming more politically and economically open while supporting the prevailing international order.¹ This has not happened. Although China has embraced global trade and economic development, it seeks to bend the international system to fit its vision, and increasingly looks to outcompete or even displace the United States. Most Americans now view China as a strategic competitor or even an adversary.

U.S. policymakers see great-power competition with China as a clash of two systems, pitting China's model of autocracy against the American-led democratic order. This competition is more likely to take place in economic and technological spheres than in military conflict. U.S. policymakers therefore view Chinese investment and technological advances in areas such as 5G, artificial intelligence (AI), semiconductors, and quantum computing as highly problematic and a strategic challenge. Even more problematic is China's well-established track record of stealing the intellectual property of countries worldwide to bolster its own technological capabilities. China often uses technology to increase surveillance, censorship, and disinformation at home. The Chinese Communist Party (CCP) also seeks to wield its investments and technological prowess to promote a competing illiberal model of governance, aiming to impose a Chinese model on other countries. Beijing often uses economic investments abroad, most notably through infrastructure projects under the umbrella of its Belt and Road Initiative, to gain leverage for coercive purposes. Moreover, through its strategy of military-civil fusion (MCF), the People's Liberation Army (PLA) acquires civilian technologies and data through illicit and licit means in its quest to develop a "world class military" by 2049.² China also seeks to expand its sway abroad through its United Front Work Department system, influencing the public and the political elite.

The Biden administration has left in place many of the harsher actions initiated by the Donald Trump administration—most notably significant new tariffs and continued entity list designations. However, its response to China in the technology realm has been to focus more on an affirmative agenda with key partners and allies. It has also participated in various groupings including the Quad countries (the United States, Australia, India, and Japan), the G7, NATO, and the EU to launch initiatives focused on economic and technological cooperation as well as investment screening and export controls. These initiatives are not explicitly anti-Chinese, but they will improve the ability of the United States and its partners to both compete economically with China and protect nascent technologies. Other proposed groupings, such as the D-10 concept proposed by the United Kingdom (which would consist of the G7 plus Australia, South Korea, and Sweden); the technology alliance framework laid out by an international team of researchers led by Martijn Rasser; and Richard Fontaine and Jared Cohen's T-12 model (which would add Israel and India) would also foster better coordination among like-minded countries on research and development (R&D) spending, create alternatives to Chinese dominance in key areas, and help to sustain the technological balance in favor of the United States and its fellow democracies.³ These proposed groupings emphasize affirmative agendas and downplay any anti-China stance, because many U.S. partners, especially in Europe, are reluctant to draw China's wrath or to harm profitable economic relations with an important trade and investment partner.

Israel's Technology Sector and Its Relationship with the United States and China

Israel, dubbed the “start-up nation” due to its high concentration of start-ups relative to population,⁴ has become a global leader in critical technologies such as AI and quantum computing. Its technology leadership has resulted in increasing Chinese interest and investment in the Israeli economy.

Israel's R&D expenditure consistently hovers above the 4 percent mark, making it second in global R&D spending as a percentage of GDP. Meanwhile, the share of high-tech employees exceeds 9 percent of Israel's total workforce.⁵ Furthermore, Israel's societal focus on security and the high-tech nature of the Israel Defense Forces (IDF) also create an environment where technology innovation thrives. Indeed, the barrier between Israel's national security apparatus and commercial sector technology is almost nonexistent because of the human networks created by mandatory military service.⁶

Economic and technological cooperation has been a pillar of the U.S.-Israel relationship. Since the United States-Israel Free Trade Agreement took effect in 1985, the United States has been Israel's single largest trading partner.⁷ Today, hundreds of U.S. companies, including Microsoft, Ford, and Google, have R&D centers in Israel. According to the Tel Aviv-based IVC Research Center, American investment accounted for 35 percent of the capital raised by Israeli companies in 2013–2018. Companies and investors choose to work with Israel partly because of incentives such as reduced corporate taxes and a range of grants, but just as important is the highly

educated workforce and an environment conducive to a high-tech economy.⁸

Meanwhile, China has become Israel's second-largest individual trading partner, after the United States, with \$11.9 billion in trade in 2020.⁹ The Israeli high-tech sector has drawn the most interest. Between 2002 and 2020, most Chinese investments and mergers and acquisition deals in Israel were in the technology sector (449 Chinese investments, with a reported value of \$9.1 billion, out of a total 463 Chinese investments valued at \$19.1 billion).¹⁰ These investments are spread across different fields, with most



Former Israeli Prime Minister Ehud Olmert attends the cornerstone-laying ceremony of the China-Israel Cooperation Center for Modern Dairy Technology on January 9, 2007, outside Beijing. China has become Israel's second-largest individual trading partner, after the United States, with \$11.9 billion in trade in 2020. (China Photos/Getty Images)

in life sciences (medical technology, biotechnology, biochemistry, and pharmaceuticals); software development and IT; internet, communications, chips, and semiconductors; and clean tech. In addition, Chinese entities have invested in Israeli venture capital funds. Chinese investment in Israeli tech grew substantially between 2014 and 2018, peaking in 2018.¹¹ Since 2018, Chinese investment in Israel has declined across the board. Today, it makes up around 10 percent of foreign capital invested. The reasons for this decline stem from the Chinese government's restrictions and the CCP's monitoring of investments abroad; the COVID-19 pandemic, which hindered foreign investments; and the cooling market effect that U.S. warnings about China, including those that led to the establishment of an investment-screening mechanism, have probably had on Israeli tech companies. Of the Chinese entities prominently invested in Israeli tech, several, including Alibaba, Baidu, Huawei, ZTE, and Lenovo, raised red flags because of clear connections to the Chinese government as well as documented issues related to security, privacy, and censorship.¹²

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Nonetheless, Chinese investment in the Israeli technology sector remains a concern. RAND Corporation research flagged several Chinese entities of potential national security concern to both Israel and the United States for a diverse range of issues, including connections with the Chinese government or PLA; issues related to security, privacy, and censorship; connections to Iran; and involvement and investment in the development of dual-use technologies and cybersecurity companies.¹³ For example, Alibaba invested in ThetaRay, a cybersecurity company that specializes in detection and prevention of advanced persistent threats, which are high-level cyber actors, usually nation-states (i.e., including China). Some of the Chinese companies investing and operating in Israel are on the U.S. Department of Commerce's trade blacklist, including Huawei, which purchased Toga Networks, which functions as Huawei's R&D arm in Israel; the China Communications Construction

Company, whose subsidiary the China Harbor Engineering Co. is building a new port in Ashdod; the China State Construction Engineering Corporation, which is building part of the light rail in Tel Aviv; and Hangzhou Hikvision Digital Technology, whose subsidiary HVI markets the company's video surveillance equipment in Israel.¹⁴ This concern is exacerbated by Israeli reluctance to regulate the tech sector for fear of undermining its entrepreneurial nature.

The History of U.S.-Israel Tensions Over China

U.S.-Israeli differences on economic engagement with China date back to the 1990s, when the bedrock of bilateral Israeli-Chinese ties was still Israeli exports of defense technology to China. Washington in particular opposed the Israeli sale to China of the PHALCON advanced airborne radar system in 1999 and the 2004 upgrades of HARPY unmanned aerial vehicles (which Israel had sold to China a decade earlier with U.S. approval).¹⁵ The latter incident escalated into a crisis. The sale was flagged in a 2004 report from the U.S.-China Economic and Security Review Commission, which warned that the drones could "detect, attack, and destroy radar emitters," posing a threat to command-and-control facilities in Taiwan and to U.S. forces in the region.¹⁶

As the crisis escalated, the Pentagon demanded the resignation of senior Israeli defense officials and suspended cooperation with Israel on the F-35 Joint Strike Fighter program.¹⁷ The Israeli government canceled the deal. Ultimately, given the deep ties between the United States and Israel, Israel decided that it was simply not worth jeopardizing its most important ally over limited arms sales to China. The United States and Israel then reached an agreement that allowed U.S. officials to review Israel's future weapons transactions. Israel would henceforth defer to the United States on defense sales to China and other countries.¹⁸

After the HARPY incident, Israel created its own arms export control agency in 2006, known as the Defense Export Control Agency. This new agency expanded Israeli requirements for export licenses and placed restrictions on the sale of arms and dual-use technology.¹⁹ A year earlier, to ensure Israeli competitiveness globally, the United States and Israel signed a bilateral agreement, known as the Declaration of Understanding on Technology Exports, whereby both countries pledged to ensure defense export transparency, with the United States pledging not to ban Israel's defense deals on commercial grounds.²⁰

The issue of evolving ties between Israel and China subsided since the mid-2000s but resurged as the Trump administration began focusing on economic competition with the Chinese. At the same time, bipartisan concerns emerged among U.S. policymakers regarding Chinese intellectual property theft, Chinese investment in the U.S. technology sector, and Chinese investment in the technology sectors of U.S. partners that have military applications.

The first sign of renewed Israeli-U.S. tensions concerning China surrounded the Haifa port construction. In 2015, Israel and the Shanghai International Port Group (SIPG) signed a contract for SIPG to operate the new port terminal in Haifa Bay. At the time, several foreign companies, including some in the United States, were interested initially, but never submitted a final bid, despite Israeli encouragement. Yet four years later, retired U.S. Navy officers objected and stated that the United States should reconsider whether the U.S. 6th Fleet should continue to use the Haifa port in the future because of concerns that the Chinese could collect intelligence on U.S. naval assets.²¹ Ultimately, Israel followed through on its agreement with SIPG and worked hard to address the United States' specific concerns. In hindsight, concerns about the port were exaggerated, but the port became a symbol of tensions over Israel's relations with China.

Of greater interest and concern for the United States is China's investment in the Israeli technology sector, specifically China's acquisition of cutting-edge Israeli technology that could both have military applications and bolster China's innovation edge. Visiting Israel in May 2020, Secretary of State Michael Pompeo specifically warned that Chinese involvement in Israel's future 5G infrastructure risked the reduction of U.S.-Israeli intelligence sharing and co-location of security facilities.²² In late 2020 at a virtual event focused on Israel-China cooperation, Assistant Secretary of State David Schenker warned about the challenges posed by Chinese investments in Israeli technology.²³

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The construction of the Chinese-operated port in Haifa renewed Israeli-U.S. tensions concerning China. U.S. Navy officers raised concerns about the U.S. 6th Fleet's use of the Haifa port given the possibility that China could collect intelligence on U.S. naval assets. (Getty Images)

Israel has taken some initial steps to respond to U.S. concerns. In October 2019, Prime Minister Benjamin Netanyahu announced that Israel would form a foreign investment screening committee, the Advisory Committee for National Security Affairs in Foreign Investments, to balance national security considerations with the need for foreign investment to further Israel's economic prosperity.²⁴ The establishment of the committee was welcomed by U.S. officials in private conversations as a “first step in the right direction.”²⁵ Nonetheless, its limitations were apparent. Notably, it functions as an advisory mechanism for state regulators, whose advice is nonbinding, and is not mandated to review deals in the technology sector.²⁶ By contrast, CFIUS may recommend that the U.S. president prohibit or suspend a covered transaction, providing a much stronger ability to address foreign investments that present national security risks.²⁷

Still, the greater focus on Chinese investment in Israel has led some Israeli companies to voluntarily reject Chinese investment offers for fear of being barred from operating in America. In addition, in September 2020, Israel launched its 5G network based on Western infrastructure from Finnish Nokia and Swedish Ericsson—not Chinese companies—effectively joining the U.S. State Department's Clean Network, an initiative to safeguard citizens' privacy and sensitive information from malign actors, in particular the CCP.²⁸

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China and technology issues have remained on the bilateral agenda in 2021 with the entrance of the Biden administration and Bennett-Lapid government. The Biden administration has prioritized technology cooperation with like-minded partners, making it a central component of new initiatives with other Quad countries and the European Union. While there is recognition among U.S. policymakers of the importance of engaging with Israel on these issues, thus far the new administration has rarely mentioned Israel in the context of collaborating with like-minded techno-democracies. Israeli Prime Minister Bennett and his team were surprised that this issue was not a central part of the discussion during the delegation's visit to Washington in August 2021.

Recommendations

The United States and Israel can align their strategic perspectives on China in ways that will enhance their long-term economic competitiveness and resilience, as well as their national security. From technology protection and collaborative innovation to deeper non-executive-branch mechanisms for cooperation and improved Israeli investment-screening mechanisms, these recommendations are the steps needed to create a strong technological innovation framework and to tip the balance in the technological competition with Beijing.

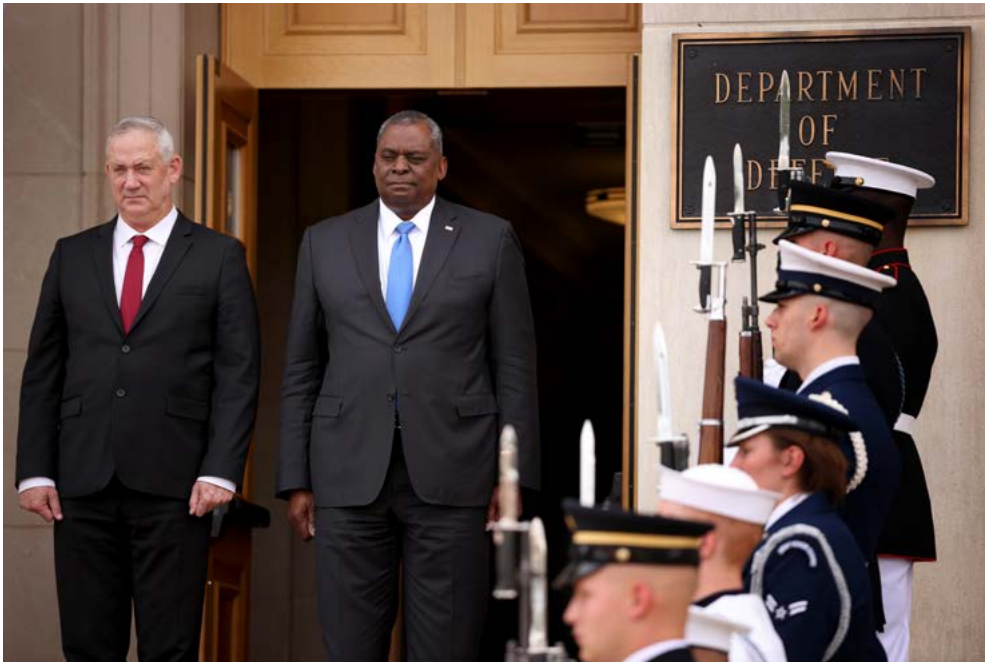
Align U.S. and Israeli Strategic Perspectives

Before the United States and Israel can begin coordinating on economic and regulatory solutions to the China challenge, they must first bridge their strategic perspectives on China itself. This does not mean that the United States and Israel must see China precisely the same way, but the two countries must develop a consultative process that can narrow the differences.

Strategic coordination in the U.S.-Israel relationship has deep roots, especially between the two security establishments. Israel receives \$3.7 billion per year in foreign military financing from the United States and deeply values the defense relationship on a strategic level.²⁹ Both sides benefit from deep intelligence coordination on common threats in the Middle East, including Iran and terrorism. And there are deep ties between the U.S. Congress and Israel, including with members of the Israeli Knesset.

However, the two sides have often disagreed on threat perceptions. The disparity is natural, given that Israel is a small country surrounded by several hostile state and non-state actors, whereas the United States is a global superpower. When disagreements have occurred—such as differing perspectives on how the United States can sell certain arms to Arab states while ensuring Israel's qualitative military edge or on Washington's brokering of the controversial 2015 Iran nuclear deal—the two sides have managed to overcome them through deep strategic dialogues, engagement through the executive and legislative branches, and private-sector exchanges. These dialogues have often resulted in one side's offering reassurances or even compensation to the other in order to assuage the other's concerns.

This deep consultative process can be applied to the challenge of China. In most previous cases, Israel has shown less tolerance for risk and been quick to raise concerns, while the United States has sought to pursue longer-term strategies that could affect Israel. The China



U.S. Defense Secretary Lloyd Austin greets Israeli Defense Minister Benny Gantz during an enhanced honor cordon for Gantz at the Pentagon on June 3, 2021. Israel receives \$3.7 billion per year in foreign military financing from the United States and deeply values the defense relationship on a strategic level. (Win McNamee/Getty Images)

case is different. As a global superpower, the United States has become increasingly concerned about the threat posed by a potential peer competitor, whereas Israel has mostly seen economic opportunity.

Although Israel is inching closer United States on the China matter, differences in perspective about both risk and urgency remain. With the possible exceptions of proliferation and—to a lesser degree—cyber and counterintelligence concerns, and despite Beijing’s anti-Israel stance and voting patterns in the United Nations and other international organizations, China ranks relatively low on the Israeli threat matrix. China’s economic rise, available cash, and strong interest in innovation are a good match for Israel’s start-up and high-tech ecosystems. Israeli public opinion of China is generally positive, with 66 percent of the population having a favorable view of China, and until recently China was mainly seen in Israel as a source of advanced and affordable infrastructure and investment.³⁰ That view may change as Israel invests more in understanding China. Currently, Israeli expertise on China lacks the same depth as the remarkable expertise it has developed over the years on Iran and the surrounding Arab states.³¹

There is also a feeling in Israel that it was blindsided by the United States’ sudden focus on Chinese investment. The Haifa Bay port terminal deal previously mentioned is a case in point. When Israel first began

discussing the agreement, no alarm bells were raised by the United States, and no U.S. companies submitted a final bid on the project despite Israeli encouragement. Yet four years later as the deal was being concluded, U.S. officials and pundits raised major objections. Some objections even found their way into one of the Senate drafts of the National Defense Authorization Act in 2019.³² From the Israeli perspective, this is an example of inconsistent U.S. policy. Israel seeks greater clarity from the United States on Chinese investment and how U.S. concerns could be addressed in a comprehensive and consistent

fashion, while Israel continues to build economic ties with China in areas that are not threatening to the United States. At the same time, Israeli leaders should recognize that America’s China-related policies are dynamic and prepare for a shifting U.S. approach to China.

In most previous cases, Israel has shown less tolerance for risk and been quick to raise concerns, while the United States has sought to pursue longer-term strategies that could affect Israel. The China case is different.

Of course, Israel is aware of the broader U.S. competition with China and wants to avoid upsetting Washington, which remains its most important strategic partner. Yet Israel is also wary of unnecessarily antagonizing China, which it sees as a great power. Indeed, Israel’s view of China is quite similar to that of many of America’s European allies, which appreciate their alliance with the United States but also are cognizant of China’s increasing power—and wish to avoid being caught in the middle of escalating U.S.-Chinese tensions.

Develop a U.S.-Israel Working Group on a Coordinated Policy and Technology Strategy Toward China

The first step toward addressing the differences between the United States and Israel on issues of technology and China is to establish a new bilateral interagency working group on China. The discussions on China have thus far been ad hoc and spread across different agencies in both countries. Given the breadth of issues involved, both countries' national security councils should take the lead. The working group should be informed by three subgroups led at the assistant secretary or deputy assistant secretary level on the U.S. side and the equivalent on the Israeli side, be it director general, deputy director general, division head, or head of directorate within the relevant ministries. The three subgroups would focus on: (1) fostering a common intelligence picture, understanding, and deconfliction of U.S. and Israeli strategic perspectives on China; (2) narrowing differences between U.S. and Israeli regulatory regimes vis-à-vis China; and (3) deepening U.S.-Israel technological and economic cooperation.

The purpose of the first subgroup on strategy would be to bridge gaps in the parties' intelligence and strategic perspectives of China—which is a prerequisite to the success of the other two subgroups. It should be jointly led by the State Department and the Defense Department on the U.S. side, and on the Israeli side by the National Security Council (NSC), the Ministry of Foreign Affairs (MFA), and the Ministry of Defense (MOD). The intelligence communities from both sides should also be part of the process, and in advance of the strategic working group meetings, intelligence exchanges should take place to try to align their assessments. The U.S. Treasury Department, the U.S. Department of Commerce, and the equivalent Israeli entities should also participate.

Discussion topics in this subgroup should include Taiwan, Hong Kong, the South China Sea, and the persecution of Muslim Uyghurs. These are all important interests for the United States; discussion of them will help Israel understand the broader U.S. concern about China, even if they are not Israeli priorities. By contrast, China's economy, investment, technology, and political influence may be seen as common challenges. Even so, China's cyber espionage or legal and economic behavior that distorts global markets may resonate differently for U.S. and Israeli policymakers. Once this subgroup has established a baseline, the other two subgroups—on investment regulation and economic cooperation—are likely to make more headway. Indeed, progress on technology questions overall will be much smoother if the United States and Israel can develop a clearer common strategic picture.

Historically, the United States and Israel have had differing views and perspectives on key strategic issues, such as Iran or Israel's qualitative military edge. However, those differences have been overcome because, ultimately, it is in Israel's interest to remain aligned with the United States, and it is in America's interest to have an effective partner that brings useful tools to the fight—whether on counterterrorism, intelligence, or technology. As the Trump administration demonstrated, the United States can achieve some success by exerting leverage and pushing Israel to act on China. However, this is in neither side's interest. Nor is it a recipe for long-standing productive policymaking among close allies. These proposed subgroups could go a long way toward helping Israel fully realize the national security implications of technological collaboration with China, while also allowing it to be frank with Washington about the limits to its ability to adapt to U.S. positions and side with its policies.

Deepen Non-Executive-Branch Mechanisms for Cooperation

In addition to bilateral government engagements, efforts to coordinate U.S.-Israel technology policy toward China will require the engagement of key outside actors, including the private sector, academia, multilateral forums and institutions, and nongovernmental organizations (NGOs).

Private-sector cooperation.

The private sector has a critical role to play, especially in facilitating joint economic cooperation and investment but also in providing input into the type of regulatory cooperation that could be most effective. Private-sector representatives, including those from large American multinationals as well as start-ups and venture capital firms in Israel, should be part of an advisory board to provide input—especially on developing mechanisms for incentivizing economic cooperation, but also on the question of investment screening. According to U.S. officials who have worked on this issue, the State Department should improve its outreach to private-sector actors, briefing them on U.S. concerns and getting their buy-in.³³

Academia.

Given growing concerns about Chinese knowledge theft and influence in U.S. and other Western academic institutions, Israeli academics must work with counterparts

in the United States to understand how to balance academic freedom and the need for financial support for research against Chinese espionage and other risks. Academic supervisory bodies in both countries should meet regularly to consult on the most effective structures to mitigate some of these risks. The academic discussion could greatly aid the first subgroup on shaping common threat perceptions.

Capitol Hill and Knesset.

Deep ties exist between members of Congress and Knesset members of all parties. China and technology issues should become part of their regular engagements, which are critical to advance relevant legislation if needed (e.g., on enhanced regulation of foreign investments), as well as to initiate and support more informed public and confidential discussions at the Knesset. This process is essential for lawmakers' tasks of reviewing government actions and making policy decisions.

Law enforcement agencies.

Given the close collaboration between Israeli and U.S. law enforcement agencies, including their respective counterintelligence teams, China should become a regular topic of their dialogues. The FBI's top counterintelligence priority is confronting the CCP's intelligence and economic espionage efforts in America. Sharing intelligence information and best practices could help bring Israel up to speed and provide evidence to back policy recommendations, which are key to creating a more robust regulatory environment.

Multilateral forums.

The United States should include Israel in its broader international technology strategy. The United States is pursuing similar initiatives through the Quad relationship with Japan, India, and Australia, and with the EU. As it pursues this multilateral approach to bringing together democracies with advanced technology sectors, it should find ways to incorporate Israel. There has been some talk of a new multilateral grouping, such as the proposed D-10 or T-12, to address these issues. Some of the countries that could be included in such an approach are key Asian partners, such as South Korea and Japan; European countries, such as France, the Netherlands, Italy, and Germany; and the Five Eyes. Many of the agenda items for such a forum would be similar to those being discussed by the United States and Israel. The U.S.-Israel bilateral

effort could be enhanced by integrating Israel into a multilateral technology coalition. Many of the perspectives that Israel has toward China are similar to those of some of America's closest European allies, which remain committed to their alliance with the United States but also see the economic benefits of engagement with China and do not wish to find themselves in the middle of an escalating global competition between China and the United States.

Track 2 and 1.5 dialogues.

Finally, American and Israeli NGOs (such as the Center for a New American Security, the Institute for National Security Studies, and the Foundation for Defense of Democracies) should host discussions on these issues, invite government officials where appropriate, hold forums to generate ideas to support the U.S.-Israel dialogue, and produce specific policy recommendations. Using the think tank platform could also create buy-in among private-sector and academic actors, who normally are averse to the perception of government regulation and interference.

Improve the Regulatory Environment

The regulatory environment in Israel is influenced by the political environment. In 2021, there was enormous political change. Longstanding Prime Minister Benjamin Netanyahu was ousted and replaced by Naftali Bennett. The new prime minister hails from Israel's tech sector; some might view his background as a harbinger of continued Israeli reluctance to further regulate foreign investment. But Bennett seeks to differentiate himself from Netanyahu, who presided over the spike in Chinese investment in Israel, which took off in 2013, after the United States entered into an interim nuclear deal with Iran that Netanyahu opposed. What started as an effort by Netanyahu to demonstrate that Israel could diversify and find other alliances opened the door for a larger Chinese role in Israel's economy. Bennett's government seems to understand that this approach is no longer viable if Israel is to sustain its close ties with Washington. In practice, this means that Israel should no longer see China as a vehicle for economic opportunity, but rather as a growing risk. So far, the prime minister appears willing to adapt so long as Israel's economy doesn't suffer. New regulations are certainly now possible, if not probable.

The greatest challenge to improving Israel's regulatory environment is emerging technologies. Through MCF, China has eroded the barriers between the private sector, including the academy, and the defense/security sector. MCF has enabled China's state and security apparatus to

leverage investments in the civilian sector. In the past, the focus was mostly on investments in critical infrastructure and technology sectors with clear national security implications, or at least dual uses. Today, China's military and security establishment is benefiting from a broader set of technologies in the rapidly evolving field of AI, machine learning, and data science. The situation has been made more urgent by China's new "common prosperity" agenda, which has in many cases become a vehicle for the Chinese government to crack down on technology companies and exert even greater control over their actions.

China's strategy for gaining access to emerging technologies is constantly evolving. Coordination between Israel and the United States in the efforts to combat this challenge has been inconsistent. The lack of clear American messaging and strategy has exacerbated this problem. This spotty coordination and opaque messaging have undoubtedly affected the U.S.-Israel relationship. Israeli officials are aware of the greater focus in Washington on China and technology, but they are less certain about the specific emerging technologies that the United States would like Israel to screen, because Washington has been less than clear about what these technologies are. Israeli officials are also left wondering how Washington proposes that the Israeli economy absorb the losses resulting from a more rigorous screening process that would include critical infrastructure, high-tech companies, and sometimes even the academy. After all, China accounted for more than \$17 billion in trade with Israel, or roughly 4.3 percent of its GDP, in 2020.³⁴ In response, U.S. officials say that rather than being prescriptive and superficially defining the tech areas of concern, they trust Israel to define its own security risks and operate accordingly.³⁵ This strategy is not likely a recipe for success.

Regulate Defense and Dual-Use Exports

In the aftermath of the 2004 HARP incident, Israel placed stringent export controls on defense-related sales and dual-use technologies. While not a formal party to it, Israel complies with the 1996 Wassenaar Arrangement, which governs the global exchange of military and dual-use goods and technology. Israel's Ministry of Economy and Industry now also runs its own Export Control Agency, "which administers and enforces controls over dual use, nuclear, chemical, and biological exports."³⁶ Israeli entities seeking to export an item, technology, or service listed in the Israeli dual-use lists (or the nuclear, chemical, and biological lists) must apply and receive an export license from the ministry.³⁷

However, this agency is poorly resourced and severely understaffed.³⁸ It faces difficulties in controlling exports of already defined dual-use goods and services (e.g., informing businesses seeking to export dual-use items to civilian end users that it is their legal obligation to obtain an export license), let alone enforcing policies on items considered critically important to both the United States (i.e., emerging and foundational), as well as to China, which experts view as the dual-use items of the future.³⁹ Indeed, the line between military, dual-use, and civilian technology is becoming increasingly blurry, especially in AI, cyber, and other technological fields.

Israel could improve the capacities of the Export Control Agency with proper staffing, training, and resources, as well as a public campaign to better publicize the legal requirements associated with exporting dual-use items and services. In addition, Israel should consider canceling the existing distinction between dual-use exports in defense and national security and those in civilian fields. Given MCF and the ties between China's government and Chinese private entities, this distinction rings hollow. China's private sector is simply not independent. Israel and the United States should therefore cooperate to define which commercial technologies not listed under international treaties warrant a national-security-sensitive designation.

Improve the New Israeli Investment-Screening Mechanism

Whereas the Israeli government has handled exports well, it has not been nearly as effective at regulating foreign investment. In January 2020, the new Advisory Committee for National Security Affairs in Foreign Investments began examining foreign investments in the financial, communications, infrastructure, transportation, and energy sectors. Its objective was weighing the ramifications for national security of foreign investments against economic considerations.⁴⁰ Although the creation of the mechanism constituted an important symbolic step, and it indeed deliberates on deals, it suffers from limitations that leave significant gaps in Israel's management of direct and indirect national security and economic risks.

For example:

- the mechanism's actions are not anchored in legislation;
- regulators approach the committee if they identify a possible threat to national security (but there is no obligation to do so); in addition, the committee itself can raise cases.
- its recommendations are nonbinding, and the final decisions rest with the sectoral regulators;

- most of its staffers are not exclusively dedicated, with some having other primary responsibilities (the mechanism is officially chaired by the chief economist of the Ministry of Finance);
- it does not discuss investments that do not perform, lead to control, nor indirect investments (e.g., those made via venture capital funds);
- it does not further scrutinize investments coming from companies owned by foreign governments;
- and, most importantly, it is not authorized to examine technology investments.⁴¹

Officials familiar with the committee say that its work is more expansive and thorough than meets the eye.⁴² Credible voices in Israel argue that the approach of informally restricting foreign investments under the radar has advantages over a more public and formal system.⁴³ However, with the process's lack of transparency and accountability, this statement is hard to verify. Recently, a consensus in the Israeli government has emerged about the need to strengthen the mechanism and formalize many of its informal practices. Specifically, there is a welcome effort to expand its team, make its participants' roles full time, and make its rulings mandatory. The Israeli government can take the following steps to strengthen the screening mechanism.

Anchor the screening committee in legislation and make its recommendations binding.

The status of the committee could remain precarious unless anchored in legislation, which would both make it permanent and give the Knesset more oversight. As previously recommended, to enhance regulation on investments, Washington should expand its outreach to the Knesset, both directly from the executive branch and through an expanded Capitol Hill–Knesset discussion. Outreach to Knesset members would also ensure regular discussion in parliamentary committees, more transparency on deliberations and the criteria applied in screening, and improved ability to oversee the screening committee's work.

In addition, as part of the formal legal framework of the mechanism, it is important to make its recommendations binding. The goal must be to create a system with strong incentives for companies to bring their transactions to the mechanism for review. In the case of the United States, it is not mandatory to report transactions to CFIUS. However, if a company fails to report a transaction or request a review, CFIUS retains the right to review the transaction later and could cancel it—a costly outcome. Israel does not necessarily need to replicate the American model. Its approach

can be tailored to its own regulatory and economic environment. But the combination of incentives and enforcement powers of the committee should motivate the private sector to bring transactions of concern to the screening committee for review.

Regulate investments in critical technological fields.

The greatest limitation of Israel's investment-screening mechanism is its lack of mandate in the tech sector. Fixing this problem quickly seems like a tall order. For one thing, the investment-screening committee is designed in such a way that regulators in the designated sectors (financial, communications, infrastructure, transportation, and energy) are to voluntarily bring investment deals for examination. However, because the tech sector does not have a regulator, there is currently no mechanism for raising tech investments for consideration. In addition, the tech sector, which relies on foreign investments, is Israel's primary engine of economic growth. Israelis view the absence of regulation as one of the factors behind the tech sector's growth and are concerned that screening foreign investments could stifle it. Further, screening investments in technology can be immensely complex, requiring a combination of top-notch business intelligence and national security expertise.

Credible voices in Israel argue that the approach of informally restricting foreign investments under the radar has advantages over a more public and formal system.

Still, it is possible to prioritize examination of investments in certain technological fields and to define criteria for deciding which deals to monitor. Basic requirements might include determining whether the investing entity is affiliated with a foreign government of concern; whether the deal would grant the investor control; and, of course, which technological areas merit scrutiny. Deciding on the last point can be done within the framework of the proposed U.S.-Israel consultative mechanism, unilaterally by Israel, or even multilaterally with other like-minded techno democracies. This initiative should also involve screening indirect investment made through venture capital funds.

Build intelligence capacity to support decision making on investment screening.

To determine which types of investments and investors constitute risks to national security, screening mechanisms in the West rely on well-established intelligence. CFIUS, for example, relies on intelligence bodies that examine several aspects of every proposed deal, including whether it was guided by a “coordinated strategy”—that is, whether a government specifically requested entities to acquire companies or investment in specific sectors and provided incentives to do so.⁴⁴ Because China is not the focus of the Israeli intelligence apparatus and there is a relative lack of China expertise in Israeli governmental bodies, the screening committee may be limited in its ability to provide evidence-based analysis to justify its recommendations. Israel should therefore develop a dedicated intelligence body that could collect and analyze relevant intelligence and familiarize the committee with its findings regarding risks. This function should carefully examine the investing entities; their relationships to the CCP, PLA, and other governmental agencies; and their leadership, personnel, and board of directors. It should also incorporate business intelligence methodologies to better analyze the risks.⁴⁵

To enhance its intelligence capacity in this area, Israel should work closely with its counterparts in America (and potentially other countries, such as the United Kingdom, Australia, and Germany). U.S. agencies should share their knowledge and best practices. Expanding the dialogue between intelligence, including counterintelligence, and law enforcement agencies on this issue could help bridge gaps in Israeli intelligence capacity. This development is critical for the provision of evidence to inform policy decisions and create a more robust regulatory environment.

Conduct a dialogue within an investment regulation subgroup under the auspices of the U.S.-Israel working group on a coordinated technology strategy toward China.

As part of deeper engagement on this issue, the United States and Israel should establish an investment regulation subgroup that reports to the broader working group addressing China and technology issues, which is recommended above. This subgroup could create similar understandings on Chinese investments in American and Israeli companies and

infrastructure. The goal is to develop effective screening mechanisms and, where appropriate, prevent risky transactions. On the U.S. side, this effort should be led by the Treasury Department and include representatives from other agencies that are members of CFIUS, export controls experts from the Department of Commerce, and trade and investment officials from the Office of the U.S. Trade Representative. On the Israeli side, Finance, the MFA, and the NSC should take the lead. There should also be heavy involvement from the Israeli intelligence community, the Ministry of Economy and Industry, and the MOD—the actors represented in Israel’s foreign-investment-screening mechanism.

Foster dialogue between U.S. and Israeli Justice officials to develop safeguards.

As part of the proposed extended Israeli-U.S. dialogue, officials from Israel’s Ministry of Justice should open a dialogue with the U.S. Department of Justice. In recent years, China circumvented executive branch processes in the United States by purchasing interests in companies in bankruptcy and by leveraging bankruptcy proceedings to obtain access to sensitive technology and intellectual property.⁴⁶ A U.S.-Israeli dialogue at the expert level could help develop safeguards to ensure that China cannot replicate this practice in Israel.

Define technological areas critical for national and economic security.

Whether through dialogue with the United States or independently, Israel must define areas it deems critical for national security and screen these fields, especially if there is risk of knowledge transfer, data theft, attempted purchase by a state-owned enterprise, or a deal that could lead to foreign control. U.S. officials rely on Israel to safeguard its own national security and to develop approaches that are predictable. Israel must therefore develop a risk-based approach to screening tech investments, drawing on domestic and international intelligence and recognized best practices. The absence of a regulator should not be a hurdle; as is the case with CFIUS, and with Israel’s own export controls, it should be incumbent on Israeli companies in defined areas that are seeking foreign investments to bring cases before the committee.

Capitalize on dialogue to create economic opportunities.

The advantage of developing new regulatory capacities through a bilateral working group is clarity, for both Israeli government officials and businesses, about the types of

Chinese transactions that are likely to draw concern from the United States and those that will not. This situation will yield more certainty for Israeli businesses and generate less friction in U.S.-Israel relations. Furthermore, there may be opportunities to create economic benefits in this area for Israel. If American and Israeli regulatory regimes come into closer alignment, Israeli companies and investors may face less onerous screening and fewer hurdles when investing in the United States. Indeed, perhaps down the line Israel can be added to the Foreign Investment Risk Review Modernization Act list of excepted foreign states and therefore be exempt from certain areas of jurisdiction involving real estate transactions and noncontrolling but nonpassive investments.

Cultivate Economic Cooperation and Incentives

The U.S. and Israeli high-tech sectors are free-market success stories, and the relationship between the two is significant. U.S. investors contribute billions of dollars to the Israeli high-tech market, and many Israeli start-ups trade on U.S. stock exchanges. This relationship creates thousands of jobs and generates wealth for both countries. Cooperation in the development of military technologies is also deep and strategic, with the United States benefiting from Israel's battlefield technology innovation and experience, and Israel leveraging America's corresponding innovation and experience, as well as its ability to scale. There are important opportunities to deepen this cooperation, which require action from both governments and the private sector in both countries.

Establish a subgroup on technology and China that focuses primarily on U.S.-Israel economic and technological cooperation.

The purpose of this subgroup would be to increase U.S.-Israel economic and technological cooperation, with the objective of both enhancing U.S. positioning in its strategic competition with China and providing Israel with competitive alternatives to Chinese investment. On the American side, this effort should be led by the U.S. National Security Council senior director for technology and national security, and should also include representatives from the State Department, the Office of Science and Technology Policy, the Department of Commerce, the National Labs, and the Defense Innovation Unit. On the Israeli side, leadership should come from the ranks of the NSC, the MFA and Ministry of Economy and Industry and include the MOD, Israel Innovation Authority, the Ministry of Finance, and the Ministry of Economy. This working group should be complemented with a private-sector advisory board.

Identify alternative investors, including investors from America.

It is not sufficient to simply reduce Chinese investment in Israel. Given the stakes for Israel's economy, the United States and Israel must identify alternative capital. Although Israel must work harder to identify these alternatives, Washington should leverage its relationships with other technologically advanced allies and partners, especially those that also share concerns over Chinese investments. The most obvious candidates for joint funding proposals are partners and allies in Europe and the Indo-Pacific, but the United States should also seek opportunities with Middle East countries that have normalized ties with Israel.

Washington should also encourage American companies to increase investments and partnerships in Israel. The lack of American participation in bidding on critical Israeli infrastructure projects, primarily because of smaller deal sizes, opened the door for Chinese strategic investment. Within the U.S. government, the U.S. Embassy in Israel should call attention to open Israeli requests for proposals. The proposed technology partnership office at the State Department, as envisioned in the U.S. Innovation and Competition Act, a Senate-passed bill focused on competition with China, or the CNAS-proposed office of a deputy national security advisor for technology competition, should coordinate efforts to recruit U.S. companies to submit proposals.⁴⁷ Israel, for its part, must make its critical infrastructure investment opportunities more transparent and organized, so that U.S. companies can take full advantage of them.

Leverage existing structures for U.S.-Israel technology.

There are numerous structures already extant to facilitate U.S.-Israel technology cooperation. More funding can be put toward these structures, with a focus on cutting-edge technology sectors most likely to benefit the American and Israeli economies. The BIRD Foundation (Israel-U.S. Binational Industrial Research and Development Foundation) provides matchmaking services between Israeli and American companies in R&D with the goal of expanding cooperation between the two private high-tech industries. Similarly, the BARD Foundation (Binational Agriculture and Research and Development Fund) focuses on U.S.-Israeli cooperation in agricultural research. The U.S.-Israel Binational Science Foundation works with the U.S. National Science Foundation to jointly fund collaborative U.S.-Israeli

scientific research; Israel's Council of Research expanded this program in 2019. Finally, the U.S.-Israel Science and Technology Foundation funds projects mandated by the U.S.-Israel Science and Technology Commission, which was jointly established in 1994 by the U.S. Department of Commerce and Israel's Ministry of Industry, Trade, and Labor to foster scientific, technological, and economic cooperation.⁴⁸ All four should be fully leveraged.

BIRD, in particular, offers interesting possibilities. There already exists a proposal to increase funding in certain areas of strategic interest to both the United States and Israel to enhance cooperation. Key areas include: AI, advanced manufacturing, robotics, health-care, and transportation. Within BIRD, a dedicated program can be created to bolster Israeli-U.S. cooperation in areas that the United States considers emerging and foundational, along the lines of the BIRD Energy program, which focuses on energy efficiency and industrial research and development. BIRD can be leveraged even further with the involvement of more countries. For example, Israeli companies recently sought investments from the United Arab Emirates, which formally normalized ties with Israel in 2020 and has since explored billions of dollars in business deals. Washington should consider a trilateral Emirati-U.S.-Israel fund focusing on more advanced technologies (and also consider including India, as part of the "New Quad" initiative recently announced by these four countries). The model should be attractive to the United Arab Emirates and fits with the country's strategic plans for domestic technology development, while also helping Washington keep it from lurching toward China. Other trilateral relationships should be considered with Indo-Pacific countries that are wary of China's rise, such as India, Japan, Taiwan, Australia, and South Korea.

Finally, the United States should leverage the U.S.-Israel Business Initiative⁴⁹ and the Business Israel programs dedicated to strengthening and expanding business relationships with Israel in all 50 states. Nevada and Arizona have collaborated with Israel on drip irrigation and desalination; Texas and Louisiana have generated projects on Israel's development of offshore natural gas resources; Big Three automakers in Michigan have teamed up with Israeli tech firms to improve their vehicles; and defense firms in Alabama and Mississippi have worked with the IDF on implementing new technologies.⁵⁰ These are just a few among many examples of state-based initiatives with Israel. The opportunities to increase such initiatives to the benefit of the American and Israeli economies are vast.

Leverage the congressionally mandated U.S.-Israel Operations-Technology Working Group to coordinate and expand defense investments in critical technological areas.

The National Defense Authorization Act of 2021 authorized the secretary of defense to create a U.S.-Israel Operations-Technology Working Group (OTWG).⁵¹ The FY 2022 National Defense Authorization Act now requires the secretary of defense, with the concurrence of Israel's minister of defense, to establish the OTWG.⁵² The goal is to strengthen military R&D cooperation to prevent dangerous capability gaps from emerging. In many cases, the two militaries need the same capabilities, even if they use them against different adversaries or in different locations.⁵³

The OTWG leverages the agility and innovation of "start-up nation" Israel and marries it with America's ability to scale production. Some key areas for priority technology innovation and investment to address warfighter requirements potentially include: autonomy and robotics, 5G open radio access networks (a software-based approach to telecommunications infrastructure), energy technologies, hypersonic aviation, quantum science, and semiconductor design and fabrication. The OTWG can also serve as forum to help address any remaining issues in the bilateral relationship between the United States and Israel related to the Chinese MCF policy and the protection of shared military technology.

Support Israel's life sciences sector.

Israel's life sciences sector has reportedly seen a decline in investment and new company formation, which may be blamed on the lag (as much as a decade) between company formation and securing external capital. Israel and the United States should offer incentives to companies interested in leveraging Israeli innovation.

The COVID-19 pandemic presented a key opportunity to jump-start increased investment in the life sciences sector. The FY 2021 National Defense Authorization Act authorized funding for a cooperative program with Israel focused on developing health technologies, with an emphasis on COVID-19.⁵⁴

Finally, Washington can leverage the congressionally authorized qualified industrial zones (QIZs) between Israel and Jordan or Israel and Egypt. The United States can incentivize pharmaceutical production of basic medicines, such as antibiotics, to prevent over-reliance

on China. QIZs offer duty-free exports for such ventures. Jordan and Egypt have existing pharmaceutical infrastructure that can be leveraged, and the cost of labor in those countries is commensurate with that of China.

Promote cooperation between Israeli companies and American government innovation funds.

Greater cooperation between Israeli companies and American government innovation funds could foster coordination on research and development and standards and norms, while helping to make up for reductions in Chinese foreign investment in Israel. The United States has the means to incorporate Israeli firms in technology accelerators, and existing plans to do so should be carried out. For example, there should be a platform for Israeli companies to engage with the national labs at the Department of Energy. The Department of Defense could open a Defense Innovation Unit outpost in Israel. Israel should also be included in the State Department's Multilateral Action on Sensitive Technologies work.

Establish a threshold for beneficial ownership and verify beneficial owners behind foreign investments.

Israel should establish a clear threshold for the level of ownership, the type of ownership, the number of board seats, and other indices that qualify a given company as improperly influenced by a foreign government. Small Chinese minority stakes in Israeli companies without board seats, access to intellectual property, or preemptive investment rights would be of less concern than investment structures that gave China more influence. But Israel still needs to be on the lookout for Chinese companies with small stakes in companies with sensitive technologies that may seek business development deals, mergers, or acquisitions. Once Chinese companies gain a foothold, the process can be difficult to reverse.

More broadly, Israel should put increased measures in place to verify the ultimate beneficial owners of companies investing in Israel. The risks extend beyond Chinese investment. Terrorist financiers, narco traffickers, human traffickers, and other illicit actors can hide behind legitimate businesses. Beneficial ownership is an ongoing challenge in the United States; significant efforts have been mounted to address it. Experts from Israel's Ministry of Economy and Industry should seek the counsel of American officials from the Departments of Commerce and Treasury for best practices. Close

cooperation between American and Israeli intelligence and law enforcement officials can help both countries learn from each other about how a wide range of bad actors are engaging in malign activity.

Update the U.S.-Israel free trade agreement to include a digital chapter.

The United States and Israel entered into a free trade agreement (FTA) in 1985—the United States' first. Today, the agreement is outdated compared with more recent FTAs; it could benefit from updates that would facilitate greater trade between the two countries. Notably, the FTA should include a digital chapter, which is now common in other FTAs. This is important because, as opposed to traditional goods and services, it is sometimes challenging to determine when a digital product crosses borders. Moreover, digital chapters in FTAs help set common standards for protecting data and digital privacy. A U.S.-Israel digital chapter in a new FTA would remove these types of barriers and facilitate greater trade and economic investment between the United States and Israel in the technology sector.

Conclusion

In rising to the challenge of China, the United States must mount a concerted effort to define its needs and policies for the benefit of its allies. Israel, as America's most important ally in the Middle East, must be willing to meet America halfway, by implementing policies and building bureaucracy to address Washington's legitimate concerns. The two countries have experience in overcoming past differences. With engagement, compromise, and a little bit of patience, the China challenge should be no different.

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