



# The Natural Bond between Silicon Valley and Silicon Wadi

*The cooperation between Israel, known by many as The Startup Nation, and the world's leading technological hub of Silicon Valley, is not accidental. Sharon Vanek reveals a special relationship.*

A recent report conducted by the Bay Area Council Economic Institute on California's economic ties with Israel brings the story of Israel's roots in the innovation economy and California's economic footprint in Israel as we try to foresee future business activities between the two.

To understand how Israel became the scale-up nation, it is important to mention Israel's remarkable economic history. The current success lies on several pillars, including a strong focus on investment in developing weaponry for the country's defense during 1970s industrialization, with a high percentage of FSU immigrants being scientists and engineers. They later provided strong assistance in enhancing Israel's technology industries and innovations in electronics, helping to pave a successful pathway in becoming a prosperous post-industrial society.

In 1985 Israel and the US signed a bilateral Free Trade Agreement. Right afterwards, the 1990s technology boom marked a shift in the scale of cooperation between Israel and the rest of the global markets. But the business connections go beyond trade, and we see the influence on creating jobs, investing in R&D, academia, tourism and much more. Nowadays, the technological connection between the two countries can be found throughout California, but more intensively than anywhere else in Silicon Valley.

The cooperation between Israel, known by many as The Startup Nation, and the world's leading technological hub of Silicon Valley, is not accidental.

Records of the last several years show that Israel invests about 4.95% of the country's GDP in its R&D, which makes it the highest R&D investment-to-GDP ratio in the world (compared to the average of 2% among the OECD countries.). The domestic R&D investments are truly fruitful: Israel has over 6,000 active startups and an economy dominated by industrial high-tech and entrepreneurship. The small country had produced 71 Israeli-founded global unicorns, many of which were "born" in the last few years.

Binational initiatives like "Yozma", "BIRD Foundation" and the "BARD Foundation" became the foundations for the bridge between Israel and California. These government grants have totalled over \$75 million till date. Silicon Valley's footprints in Israel's economy can be tracked just by the presence of FDI into Israeli startups. Since the early 2000s till now, we have seen 147 FDI projects led by California-based companies, 127 of which come directly from the Bay Area. California markets are responsible for 20% of all operations of Israeli companies worldwide, and 42% of all acquisitions by US companies. To this day, \$76 billion have been invested: 50% of the value of all worldwide acquisitions in Israel, and 70% of the value of US

acquisitions in Israel.

For years, Israel has been a leader in the field of cybersecurity. With constant threats of terrorism and a strong militarization approach, the country registered in 2020 a record of \$2.9 billion in pre-IPO investments in domestic cybersecurity firms, up 70% from the previous year. The export of cyber technology by Israeli companies totalled an estimated \$6.85 billion in 2020. Don't be mistaken in thinking that this is not the only field in which Israel leads. You will find innovative and creative Israeli companies in additional areas such as Fintech, Healthtech, Mobility, Agritech, Watertech, and others.

Even prior to this, Israel was a leader in developing agriculture and water technologies. Hence, it only makes sense that California and Israel will collaborate on issues such as food security, drought management, sustainability, robotics and field management.

People sometimes tend to forget that with all the innovations, investments, impact and buzz that Israel has gained over the years, it is still a small market, which makes it very difficult for companies to grow organically domestically. Therefore, Israeli startups need to explore opportunities in bigger markets such as the US. Nevertheless, Israel is one of the countries that we count as a global hub for technology and innovation. It is only natural that the Israeli market players will collaborate with their counterparts in California.

In 2014 an MOU was signed between California and Israel for R&D cooperation between Israel and California. The agreement stresses four main areas: water technologies, energy, storage technologies and cyber security through collaboration between research institutes in Israel and California. In 2016, another agreement between Israel's Science & Technology Ministry and the California Institute for Regenerative Medicine was signed. The agreement provides a framework for collaboration on stem-cell research, which will be jointly funded by both participants.

There is no doubt that California firms profit from business with Israel. As the only country with free trade agreements with both the United States and the European community, Israel can act as a bridge for international trade between the U.S. and Europe. Also, as mentioned above, Israel has a pool of talent



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in high technology areas, which is being utilized by the big corporations who open their R&D centers in Israel. Israel is ranked as the 2nd destination for California business as more than 1500 California headquartered companies have discovered the benefits of doing business with Israel.

Jewish philanthropy, nonprofit organizations, accelerators and community based organizations have sprouted over the years to support the growing business activities and provide market education, cross cultural etiquette, mentorship and peer learning.

The future cooperation between the two hubs lies in promising fields like biotech, data science, security, sustainability and cryptographic systems.

As for now, the priority is building even closer cooperation between the two on a state-level basis, while enhancing the groundwork done by support organizations and individuals. With your support, and as we move into the post-pandemic era, we envision more delegations, networking, closed-door discussions and conferences to come back, allowing the business ties between Silicon Valley and Silicon Wadi to flourish more than ever.

**Sharon Vanek** is Executive Director of The California Israel Chamber of Commerce. If you would like assistance and relevant information regarding the potential of penetrating the Californian market, please contact the California Israel Chamber of Commerce at: [info@ci-cc.org](mailto:info@ci-cc.org) ■