

INSS Insight No. 1192, July 15, 2019

Tectonics, Techno-economics, and National Security:
The Strategic Clash between the United States and China,
and Implications for Israel
Assaf Orion

A series of "volcanic" eruptions are reported around the world: "trade war," mutual imposition of tariffs, sanctions on companies, military signaling in the South China Sea, summits between leaders, and temporary "ceasefires." All are manifestations of the historic clash between the "tectonic plates" of the United States of America and the People's Republic of China. Like the processes that shaped the earth, the collision will shape the landscape for future generations: politically, economically and militarily. Israel has a marginal and secondary role in this dynamic, but the shockwaves reach its shores and present complex challenges to its policy and national security. Essentially, Israel should continue its policy in which the United States is its strategic ally and China is an important trade partner, making an educated choice on each issue with its eyes set on the full strategic context.

Four decades of rapid economic growth coupled with military buildup and reforms have enabled China to express its "dream of national rejuvenation," to expand its regional and global influence, and to show an increasingly assertive foreign policy, especially since the 2008 financial crisis. In its long term plans China's leadership has marked innovation as the main lever for its prosperity and has defined the technological capabilities that are essential to its future. For its part, the United States has in recent years awoken to find itself surprised and angered by a "lost decade" in Middle East wars, during which it abandoned the stage to China and even assisted its rise. President Donald Trump, who focused on China already during his election campaign, pursues an aggressive and ongoing pressure campaign against China to improve the trade balance with it and to change trade conditions that he views as unfair and disadvantageous to the United States. Heavy negotiations-supporting tariffs imposed on China were defined by the media as a "trade war" – an overstated label that incorrectly places the issue at the center of the superpower rivalry.

The National Security Strategy (NSS) published by the administration in late 2017 defined its relationship with China as strategic competition, and placed it at the top of its agenda. The NSS recognized innovation, advanced technologies, and economic

prosperity as one of the United States pillars of national security, and identified data, like energy, as an essential resource. Accordingly, the United States started to work vigorously against the major threats it identifies to its national security: the massive transfer of technology to China, through espionage, technology theft, academic and commercial activity, and the forced transfer of knowledge; foreign influence and takeover of infrastructure, know-how, and technology assets, inter alia through investments and business acquisitions; American dependency on foreign-manufactured components within the supply chains of essential technologies, including in the defense and military fields; the displacement of the United States from the Indo-Pacific area by means of a combination of Chinese military buildup and economic-infrastructure-political tools ("geo-economics"), first and foremost the Belt and Road Initiative, which Chinese President Xi Jinping announced in 2013; China's striving for a change in the world order and international institutions, which were shaped by the United States after World War II; the challenge to liberal democracy as the desired model of government in the world by an authoritarian regime, centralized economy, massive and penetrating surveillance, and vigorous suppression of minorities and regime opponents.

Against this wide spectrum of threats spanning the entire globe, the United States is in fairly early stages of policy formulation and response, both domestically and vis-a-vis partners and allies. Changing trade relations is perhaps the ripest effort in its implementation; not far behind is the communications sector, with fifth generation (5G) cellular communications at the heart of the matter. This future infrastructure is essential for the Internet of Things (IoT), autonomous vehicles, robotics, information-intensive economic activities, and the military realm. In this context, the United States identified China's telecommunications giants, Huawei and ZTE, as key players in the competition to shape the world's communication and data landscapes. After more than a decade of reports on Huawei's role in the service of China's Communist Party, its army and its government, the United States launched a series of steps against the company, among them: inclusion in a list of companies banned of parts and services; charges of sanctions violations against Huawei's CFO; and various other legal and economic measures. The United States also called on its close friends in the Five Eyes intelligence alliance (Britain, Canada, Australia, and New Zealand) and other partners in the world to ban Huawei products from their communications infrastructures, or else face serious ramifications for their intelligence and security cooperation with the United States. Its demands, however, were met with mixed reactions. In any event, it appears that US policy will gradually seek to decouple certain global systems (such as advanced communications) and in other areas will continue to operate within the integrated global economy and develop its relations with China under improved terms.

China is currently a "hot topic" in the United States, both in various government bodies, as well as in politics, the business sector, and the general public. The identification of China as the number one threat to national security makes it a useful lever for promoting various agendas, from the buildup of US military forces, through the preservation and development of jobs in both traditional American industries and the IT sector, to human rights concerns. In the words of one Washington expert on US Asia policy: "The Chinese threat is today a growth engine for any organization in the United States," and media publications reflect this in both volume and tone. Experts in DC describe a significant sway of US Sinologists toward more hawkish positions ("dragon slayers"), including among formerly moderate experts ("panda huggers"). In the polarized and divisive world of American politics, China appears to be the subject of a bi-partisan, and negative, consensus.

Meanwhile across the Atlantic and Mediterranean, the past decade has seen rapid growth in China-Israel ties, which have focused on promoting economic and trade relations, while sidestepping their differences in political, security, and strategic spheres. In early 2017, the two established a Comprehensive Innovative Partnership, thus reflecting on the one hand the core of their common "matchpoint," and on the other hand avoiding the use of the term "strategic," which crowns many of China's global relationships. Since the crises of this century (over the cancellation of the Phalcon early warning aircraft in 2000 and the Harpy loitering munition in 2005, both under pressure from the United States), it is clear to all parties that defense exports, and even dual use items from Israel to China, are off limits. While Israel is a small and negligible player in the global competition, the convergence of Great Power interests in the fields of its relative advantages – technological innovation and cyber expertise – intensifies Israel's policy challenges. Like a well-guarded gate in an open prairie, the legacy security mechanisms are dwarfed by the perpetual expansion of the superpowers' national security definitions.

Ripples from gathering storm in the United States are felt in Israel. The past year saw a gradual increase in the number of publications in the United States expressing concerns about Israel's growing relations with China, and viewing them as a combination of risk to US national security and ingratitude on the part of a close ally. At the root of the matter is a deep gap between the threat perceptions in the United States and in Israel: while for Israel, China poses a certain security risk – with which it has limited experience – for the United States, China is the primary threat to its national security: militarily, economically, technologically, strategically and ideologically. According to media reports, official US messages to Israel have focused on three main issues: supervision of foreign investments, Chinese involvement in the Haifa port, and bans on China's engagement in from future communications infrastructure in Israel. According to the reports, the US issued warnings on these matters at official meetings between

government representatives, and the issues were mentioned recently in proposed legislation at the Senate Armed Services Committee.

In the triangle of relations with China and the United States, Israel's policy needs to balance between tapping China's considerable potential for the advancement of its economy against management of the entailed risks: both direct, to Israel's own security, and indirect, to its strategic relations with the United States, a central pillar of Israel's national security. Published government resolutions on the subject (the most recent is No. 1687 from 2014), put stronger emphasis on pursuit of opportunities than on risk management. The past year saw the scales tilt, and the Israeli government is busy formulating a response to several issues and seeking finding the right balance between economic and security considerations. Predictably, government preoccupations and repeat elections do not expedite progress, which necessarily requires resolving tensions between various agencies and interests. At the same time, the government is engaged in an ongoing dialogue with the Washington administration to allay its fears. Overall, the government's response to the public diplomacy challenge is still in its infancy.

Israeli policy sees the United States as its strategic ally, whereas China is an important trading partner. As an organizing concept, this means siding with the United States in every field necessary, while continuing development of relations with China in all fields possible. Practically speaking, based on Israel's independent risk assessment and an intimate dialogue with the United States, Israel should accept US demands on issues in which Washington has defined a severe threat to its national security, formulated a response, and demands unequivocal support. In areas where the United States itself sees low risk in its relations with China or is still formulating possible response and policy, Israel has greater leeway to continue promoting trade relations with China. Thus, among the issues raised by the US with Israel, communications infrastructures security, with an emphasis on fifth generation, is apparently the defining and most important issue for the US nowadays, followed by the issue of supervision of foreign investments. Regarding the first issue, it is highly likely that problematic Chinese components will not be used in Israel's advanced communications infrastructures, and with regard to the second issue, there will likely be further progress in government risk management processes. As for the Haifa port, according to reports and talks with senior officials close to US policy, it appears that the administration does not see the threat level as severe as that posed by the other issues, and that possible risks can be managed responsibly and mitigated without canceling the deal.

Looking to the future, Israel should assume that US-China relations will continue to be the most important in the world for decades ahead, and that the tensions between them will not disappear with a change in administrations and presidents. The dynamism and

dialectics in the relations between the superpowers and in US policy necessitates that Israel update its policy on an ongoing basis in accordance with developments and on the basis of constant dialogue. The challenges ahead lie in the fields of artificial intelligence, semiconductors and advanced chips, robotics, quantum computing, space, biotechnology, and innovation in general, all of which have enormous potential in economics, security, and military affairs. The superpowers have already flagged these fields, but the fields themselves and the related policies are constantly evolving. It is of the utmost importance for Israel, both for itself and with regard to the dialogue with Washington and Beijing, to learn from the experience of other countries that possess similar assets and seek to maneuver in the inter-power space.

According to the nature of the challenge, Israel's policy management should include the following components:

- a. Launch processes led by the Prime Minister's Office, with an integrative, overarching view of all the considerations involved in managing the Israel-United States-China triangle: strategic, security, economic and scientific; typically, this should be the PMO director general's role.
- b. Increase resources for this issue in security bodies and government ministries;
- c. Conduct ongoing multi-agency dialogue with the US administration, in accordance with the numerous bodies involved in relevant issues in the United States;
- d. Deepen the techno-economic partnership with the United States and work toward a "strategic innovation alliance," thereby maximizing Israel's contribution as an asset to the US innovation base;
- e. Proactively manage related public diplomacy challenges, both in Israel and the United States, in the media, in Congress, and in politics, where the stage has so far been left to critical voices only;
- f. In tandem, promote trade relations with China in fields where this is possible and correct from an overall perspective
- g. Accelerate rapidly Israel's national, academic, and government knowledge infrastructure on modern China, which at present is not commensurate with China's current and future role in the world, as reflected in the policy challenges facing the Israeli government.