

Challenges to Israel's Policy on China

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With its dramatic growth over the last three decades, China has catapulted to become a global economic superpower, second only to the United States. Concurrently, it has established itself as a political power, and it is likewise seeking to expand in the military-security realms. These decades also saw the development of China's relations with Israel, which began in 1992 and grew particularly rapidly over the last decade, mostly in economic terms.

China already possesses significant markets, capital surpluses, and excess production, some of which it turns abroad. At this point, it seeks to ensure its continued growth and stability by developing a domestic market and domestic services, improving the quality of life and the environment, and seeking a global leadership role in innovation and technologies. China's needs in areas of technology, innovation, food, water, medicine, and the environment, match Israel's relative advantages in these fields, and indeed, both sides have identified the potential for a "win-win" situation, to use famous Chinese diplomatic language. However, the symmetry of the expression is misleading, because clearly this is not a partnership between equals, but rather relations between an enormous global powerhouse and a small nation, even if extremely innovative and powerful for its size, at the western edge of western Asia. Managing these complex relations to promote Israel's interests is a main challenge of Israel's China policy. The policy issues that the Israeli government generally faces with regard to every other nation are compounded by challenges stemming from China's uniqueness.

The combined opportunities, challenges, and risks in Israel's relations with China on all levels renders these relations strategically significant for Israel's national security in the broad sense of the term. This complex blend

demands that Israel conduct a responsible, prudent and balanced policy that is revised and updated regularly so as to maximize opportunities and minimize potential risks. Such a policy requires Israel to articulate clear goals for its relations with China in the immediate, interim, and long terms, and formulate orderly mechanisms, processes, tools, and channels to achieve them.

This essay analyzes the challenges the Israeli government faces as it tries to consolidate its policy toward the People's Republic of China and realize it over time. These challenges stem from China's characteristics and its relations with third nations ("know the other"), but equally from Israel's own attributes ("know thyself"), as well as the unique features of the encounter between the two and its systemic, practical, and cultural dimensions. Based on analyses of the challenges and divides, possible directions to confront the situation are proposed. The essay, which draws from insights derived by studies at the Israel-China Program in Israel's Institute for National Security Studies (INSS), attempts to articulate some significant, integrated, balanced, and practical statements on the subject.

The essay begins by establishing a "compass" for policymaking in the form of a strategic purpose; it surveys the policy goals and challenges related to the economy and foreign affairs; describes the constraints and risks in relations with China, first and foremost the necessity for avoiding damage to Israel's special, strategic, and irreplaceable relationship with the United States; outlines some additional features of Israel's strategic environment in which China operates, including the Middle East and defense exports; maps the state of knowledge in Israel necessary to support the formulation of a China policy; and concludes with recommendations to enhance Israel's success in promoting its strategic purpose vis-à-vis China, maximizing the important opportunities and confronting the challenges, difficulties, and risks of this important and pregnant relationship.

The Strategic Purpose

A strategic purpose defines the link between a desired future reality and the actions needed to achieve it. A comprehensive view of a strategic purpose should include its positive goals (what we would like to happen) as well as the constraints and limitations (what we would like not to happen), which mandate the need to reduce risks; every purpose must balance various goals and resolve the tensions inherent in any policy.

The purpose of the Israeli government's policy in Israel-China relations is to maximize the potential China bears to advance Israel's economy. As is evidenced by government resolutions and actions, this is currently the core of Israel's strategic purpose in its China policy, and is based on reasonable logic and justification. Another positive goal would be to promote Israel's political interests insofar as these relate to China, although there are some inherent difficulties in achieving this.

Alongside the positive goals of the strategic purpose of Israel-China relations, possible risks and undesirable components must be recognized, stemming from the power differences between the two nations; the network of relations between each of the nations and other nations, especially the United States; and relations with regional nations and actors. It is also important to identify additional risks, some of which are common to Israel's relations with other nations and some of which are unique to Israel and China, and map ways to contain them.

Promoting Economic Ties

The rise of Asia as a core of the global economy, with China's unprecedented growth at its midst, is a key factor in Israel's export dependent economic development. The great and still developing power of China's economy represents significant potential for the growth of Israel's economy and that of other nations around the world – as a source of capital and investments, as an important market for Israeli goods, and as a target for competitive manufacturing capabilities. Asia's importance, with emphasis on China, is most prominent given the relative slowdown in the growth of Western economies in recent years. Furthermore, threats of political boycotts occasionally lurk over Israel's trade with Europe, raising questions about its future, even if to date the BDS movement has had little practical impact on Israel's economy.

Promoting the positive goal of expanding Israel-China trade relations faces several challenges, most of which are shared by China's other trade partners. Despite the impressive growth in the overall scope of Israel-China trade (\$15.67 billion in 2018, according to the Israel Export Institute) – with most of that, some \$10.97 billion in Israeli imports of Chinese goods (figure 1) – most of Israel's exports to China consist of goods manufactured by a mere handful of companies (figure 2).¹ The scope of Israel's exports to China will possibly near the goal Israel's government set in 2014 – doubling it to \$5 billion by 2019, as it reached \$4.7 billion in 2018.² Israeli manufacturers

complain of the difficulty in penetrating Chinese markets, working with them over the long term, and withdrawing capital from China. Explanations include differences in language and culture, outsiders' difficulty in gaining a deep understanding of the Chinese market, the market structure, and the close ties of the Chinese Communist Party and government with business activity. While the Chinese President stated that his nation would work to make market conditions more open than they are, this was in response to the many complaints by China's trade partners about unfair competitive practices that favor Chinese players and discriminate against foreign ones. Improving China's market conditions for foreigners is presented as a goal of the trade struggle ("war") the Trump administration has waged against the Chinese government since early 2018.

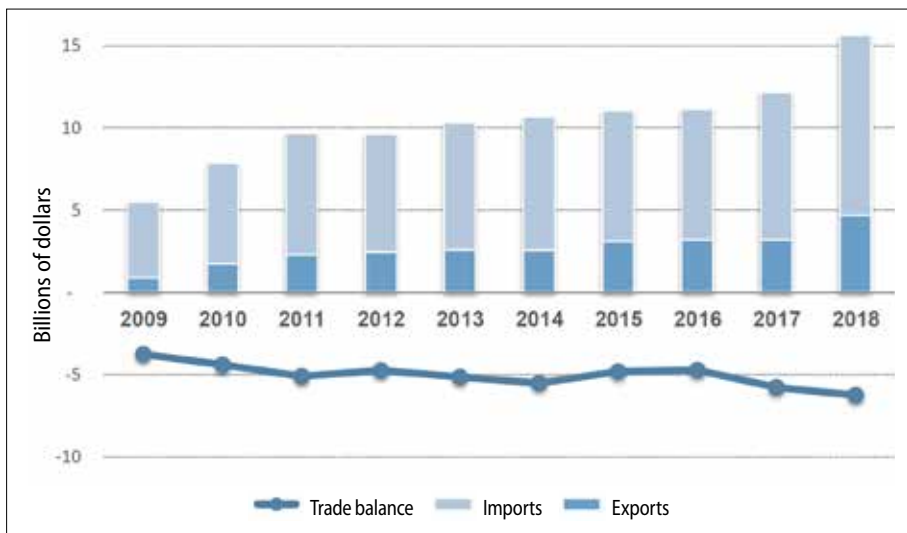


Figure 1. Trade with China: Imports and Exports, excluding Diamonds, 2009-2018

Source: Economic Unit of the Israel Export Institute, 2019³

Accordingly, the first challenge to Israel's policy and relations with China is how to advance trade relations so that the tremendous potential that China offers can be maximized and benefit Israel's economy over the long term. This is primarily a challenge to the business sector, and at first glance a challenge every exporting company must address. But given the cumulative lateral ramifications for the stability of the entire Israeli economy and the importance the Israeli government ascribes to the economy in its

overall policies, the challenge is also the state's. In practice, it is necessary to combine the state's efforts and capabilities with the work of the business sector, e.g., in establishing agreements (such as trade agreements), formulating an enabling and encouraging policy, and improving the tools and capabilities available to the private sector to safely promote business activity in China. There is considerable work to be done in these fields, but overcoming the challenges is a key to success in the long term.

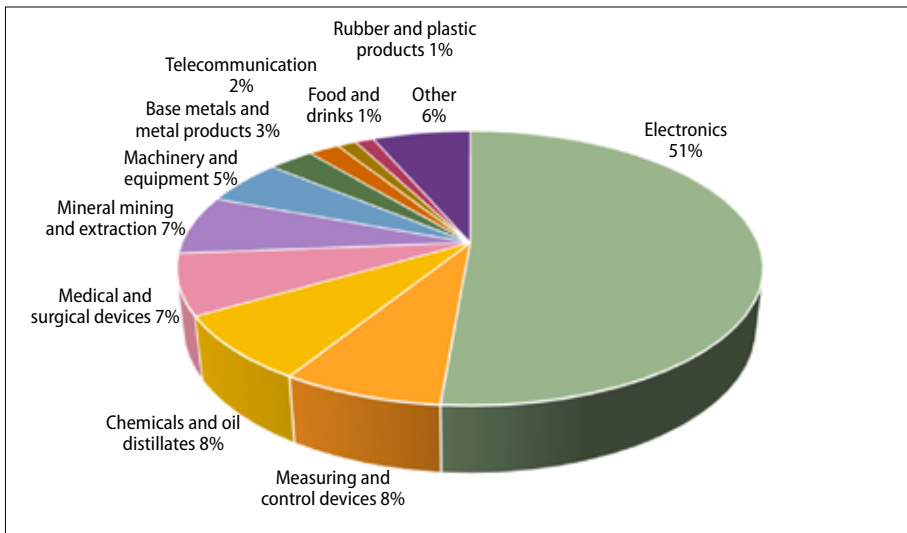


Figure 2: Breakdown of Exports to China, by Category, 2015-2018 (average)

Source: Economic Unit of the Israel Export Institute, 2019⁴

Promoting Israel's Political Goals

Like every other nation, China's policy in the international theater and international institutions is based on self-interest, worldview, strategic considerations, and organizational concerns. For a long time, China operated within the bloc of nonaligned nations, which differentiated themselves from the Cold War blocs of the United States and the Soviet Union. In fact, China led the developing nations as they faced the developed nations, and somewhat still views itself as their leader; at the same time, it positions itself creatively as simultaneously both a developed and developing nation, the former based on gross product size, and the latter on per capita average. For years, China favored close relations with the Soviet Union rather than the United States, a trend that was reversed in the early 1970s when China

began forging closer relations with Washington at Moscow's expense. In recent years, and in the context of its remarkable growth, China has striven, together with other actors, to shape a world order more conducive to its own ends over the current order that China sees as a reflection of Western dominance and Chinese weakness, which it considers a vestige of the past. This ambition is also meant to generate a new and more convenient power balance that would reflect China's rise and the alleged US decline.

China's voting patterns in international institutions generally oppose Israel's interests. Often, China votes as Russia does (previously like the USSR), adopting resolutions that are problematic for Israel. The reason seems to stem from a combination of realpolitik and an organizational tradition. In terms of its realistic considerations, China stands with the large regional nations wielding political and economic weight and with which it already has relations, especially Muslim states, the Arab world, and Africa, as well as Russia – as opposed to the United States. In terms of its organizational tradition, the Chinese Foreign Ministry – like many other foreign ministries around the globe – clings to traditional positions despite a reality that has fundamentally changed. A striking example is China's position on the Palestinian issue, which Israel considers to be closer to the Palestinians' own stance; in reality, it reflects a rather broad international consensus on concepts that have lost much of their validity, given both cumulative experience and regional changes.

China and Israel have opted to manage their rapidly growing ties in an “economic bubble,” amidst and to some degree insulated from their political differences in other spheres. At the official level, the relations were defined in early 2017 as “an Innovative Comprehensive Partnership,” with a mutually significant and convenient agreement to avoid defining the partnership as “strategic,” an adjective used fairly commonly to describe China's relations with other nations. At the organizational level, those charged with relations with Israel tend to be Chinese government bodies responsible for economic issues. Like the Israeli Ministry of the Economy, Israel's Ministry of Foreign Affairs also sees its principal mission here to develop economic ties, with no real expectation of improvements in China's international policy. In other words, both nations deem that it is possible, even appropriate, to continue to promote economic ties in isolation from the political dimension. China, as is its wont, does this while still engaging in international political activity that is unfavorable to Israel, while Israel believes it is getting the most

possible out of the economic dimension; regarding the political dimension, the guiding principle is “few expectations, few disappointments.”

Given that the channels of communication are dictated by the Chinese government, Israel finds it challenging to hold an official ongoing dialogue at the most senior levels. While the Israeli Prime Minister is granted meetings with the Chinese President, Vice President, and Prime Minister, diplomatic and economic envoys from Israel meet mostly with Chinese representatives at the executive level, and routine dialogue is conducted with position holders who are generally not at the decision making level, i.e., members of the Permanent Committee, the Political Council (Politburo) of the Chinese Communist Party, or its Central Committee. Limited access is sometimes overcome by prominent international businessmen, some of whom are Jewish,⁵ who can serve as unofficial backchannels to the halls of power in Beijing. Israel must use the full range of its contacts from all over the world, especially its US and Asian partners, Jewish leaders and businessmen, and others, to pave a way to where political diplomacy proves insufficient.

Risk Management and Reduction

The way to realize the opportunities China offers is not free of challenges and risks, which is likewise true for other nations in their relations with China. Among the challenges in promoting trade relations are language difficulties, cultural differences, divergent strategies, lack of transparency, difficulties in making inroads into Chinese markets, unfair trade practices that favor local companies, and difficulties in withdrawing capital from China. Information and complaints from around the world indicate that other significant challenges include the high level of involvement of the Chinese government and Communist Party in ostensibly private companies, the risk of industrial espionage, especially cyber espionage, violations of trademarks and intellectual property rights, obstacles to competitiveness, the use of economic pressure to promote Chinese government policy goals,⁶ corruption, and other challenges to typical free market features.

The Chinese government is not indifferent to these claims, not only because of what they say but also because of what they might mean for China's economy and growth. Indeed, there are already some signs of change and improvement in terms of encouraging investment and business activities by foreign companies, improved law enforcement on intellectual

property matters, and massive clean-up of party members' involvement in bribes and corruption, steps motivated primarily by domestic considerations.

Yet these welcome developments are not a full response to the challenges and risks to China's trade and investment partners. Therefore, many governments around the world conduct risk management processes, especially over foreign investments and acquisitions and especially regarding the sale of advanced technologies, which may play a key role in China's future economy and military-technological power. Transactions defined as strategic from a national perspective – those involving land, national infrastructures, data, and unique knowledge assets – also earn special attention. Several nations have control and regulatory mechanisms for foreign investments designed to find an appropriate balance between the need to accelerate economic growth with the help of foreign resources and the need to preserve national security and the sturdiness of the national economy over time. Australia, Canada, and Germany, for example, have had regulated mechanisms of this kind in place for years; the European Union is carrying out processes to establish something similar, and the US administration is working constantly to enhance the Committee for Foreign Investments in the United States (CFIUS). The Office of Investment Security has issued a new pilot program under the legislative framework of the Foreign Investment Risk Review Modernization Act (FIRRMA), which broadens CFIUS authority in a considerable manner. First, the pilot program expands the scope of transactions subject to review by CFIUS to include certain investments involving foreign persons and critical technologies. Second, the pilot program makes effective FIRRMA's mandatory declarations provision for all transactions that fall within the specific scope of the pilot program.⁷

In recent years, Chinese entities have invested, completed acquisitions, and carried out significant national infrastructure and technological projects in Israel. In the same period, several attempted acquisitions in insurance and financing have been blocked by the regulatory bodies charged with that field. However, other than defense exports, government decisions on relations with China were for a long period mostly opportunity driven, while the risk management considerations and processes have had a belated start. Therefore, like other nations, Israel is still working on an orderly mechanism for balanced and integrated risk management that would allow it to maximize the benefits of the Chinese potential while preserving its strategic independence, national security, and economic competitiveness over time.

The Israel-United States-China Triangle

In addition to the problems all nations experience in trading with China, Israel must consider its own unique risks and challenges, first and foremost possible ramifications of closer ties with China for its strategic relations with the United States.⁸ In recent years, the two great powers have had an increasingly complicated competitive/contentious relationship, alongside deep and extensive economic and trade connections. These only heighten the complexity of the challenge Israel faces in formulating relevant policy.

The potential for damage should Israel be caught in a clash between the powers was made manifestly clear in crises of the previous decade⁹ that erupted over Israeli defense exports to China and that caused lasting damage to Israel's relations with both China and the United States. Consequently, Israel established an orderly mechanism to oversee defense exports (the Defense Export Controls Act, or DECA). In practice, defense exports to China have all but stopped and stringent restrictions also apply to the export of dual use technologies. Ostensibly the risk has been identified, contained, and managed in order to prevent similar crises in the future.

In practice, this challenge is still policy-relevant in the context under discussion here, given the multidimensional change in the systems affecting the triangle of relationships. Relations between the two powers have deteriorated into fierce strategic competition, when as China's star is rising, it increasingly challenges the US posture in East Asia and hegemony in the international theater. While the competition is rife with political elements and, increasingly, military and defense components, the rivalry is first and foremost in the economic domain where the two vie for supremacy in innovation and technologies, which are emerging as the keys to overall future dominance. Already, the United States is highly sensitive to Chinese acquisitions in the fields of artificial intelligence, robotics, autonomics, semiconductors, and so on, not all of which are directly military/defense-related or even dual use. But the lines between civilian and military applications of these technologies are not steadfast, and the potential of such acquisitions in the development of economic, political, and military advantages is fairly obvious. Continued and increasing superpower competition over technological leadership results in heightened sensitivity in the United States (for strategic but also for business, economic, and thereafter political reasons) over China's technological progress, compared to the United States or even at the expense of the United States. This also raises the potential for tensions in Israeli-US relations over

civilian trade with China in certain technological areas, requiring Israel to formulate a response above and beyond DECA, sooner rather than later.

Other Triangles

The complexity of the risks in Israel-China relations and their management are not limited to the most important triangle, where the United States stands at the apex; they extend to other geostrategic realms as well. In Asia, China sees India – a key customer of Israeli defense exports and Pakistan’s enemy – as a strategic rival, complicated by the fact that Pakistan, an Islamic state that embodies the joint threat of terrorism and nuclear capabilities, is a Chinese protectorate. India and China often appear together in Israeli government resolutions, but this does not ease the tensions between them. This was evident in the 2017 Sino-Indian border crisis, when the Chinese questioned why Israel sold weapons to China’s enemy,¹⁰ and if Israel was in fact a friend of China. When formulating its policy on developing relations with both nations, Israel must address this complexity and reduce its risks.

In Israel’s close environment, China has extensive and multi-branched relationships with regional nations, especially Iran, whose obsessive commitment to Israel’s destruction is flagrantly well known. Over the years, China has been involved in the proliferation of weapons used to attack Israel,¹¹ as well as nuclear technologies to Iran. Along with its contribution in attaining the nuclear agreement with Iran (JCPOA), China actively circumvented sanctions imposed on the Islamic Republic because of its nuclear program. Following the reimposition of US secondary sanctions, China officially told its oil companies to avoid purchasing Iranian oil. However, according to some reports, Chinese oil tankers continue to transfer oil from Iran, using deceptive methods.¹² At the same time, China maintains parallel relations with Turkey, Saudi Arabia, and Egypt, and has shown some token signs of activity in Syria, Lebanon, and the Palestinian theater. China’s habit of managing concurrent relationships with sworn enemies is well reflected both in word and in high profile visits: in early 2016, the Chinese President visited Saudi Arabia, Egypt, and Iran during the same trip, even though Iran and Saudi Arabia are bitter enemies. China announced its friendship with both and signed a range of agreements with each. At that time, China issued two separate presidential letters for the different stops on the itinerary: one addressed to the “Arab world,”¹³ which was greeted with gestures of appreciation in his visit to the Arab League headquarters, the other addressed

to Iran.¹⁴ China is successfully resolving the tensions in its overall policy on the conflict riddled, divided Middle East by maintaining separate channels, avoiding taking sides, and focusing on areas in which the conflict is more tempered, chiefly economically.

Similarly, as in the advancement of their political goals, both China and Israel keep their economic ties separate from their relationships with other regional nations and avoid highlighting their differences of opinion. This makes a certain amount of sense, as it allows progress in a mutual comfort zone, but it also means forfeiting the potential contribution China could make to regional stability, e.g., by massively advancing economic infrastructure development in the region, especially the Palestinian theater, an interest that is a long term Israeli objective.

Defense Exports

Traditionally, most of the Middle East arms market depends on the usual providers, primarily the United States, Russia, and the West. China's main defense exports focus on its nearest neighbors in East and South Asia; China's weapons industries are meant for its own needs, and export arms of competitively priced, and relatively low quality. While Israel has from time to time encountered Chinese weapons in enemy hands, these have not posed a particular challenge, either qualitatively or quantitatively, compared to Soviet or Russian systems, which represent the bulk of the arsenals of Israel's enemies.

In all likelihood, the nature of China's defense exports will gradually change. China's economic growth of the last few decades has provided it with significant resources, and there has been parallel growth in its defense and security budgets (figure 3), which today are second only to those of the United States.¹⁵ At the same time, the Chinese military is undergoing major processes of change, reform, and modernization to arm itself with advanced weapons and use high quality, self-manufactured systems. Manufacturing excesses typical of China can also be expected in its military industries, which will expand the scope of defense exports of newly improved weapon systems. The Middle East of the future is sure to have a full complement of buyers bidding for Chinese arms. The first signs of this are already evident in Chinese exports of ships, surface-to-surface and surface-to-air missiles, and especially UAVs to the Gulf states, and the possible export of manufacturing infrastructures for UAVs and SSMs to Saudi Arabia.

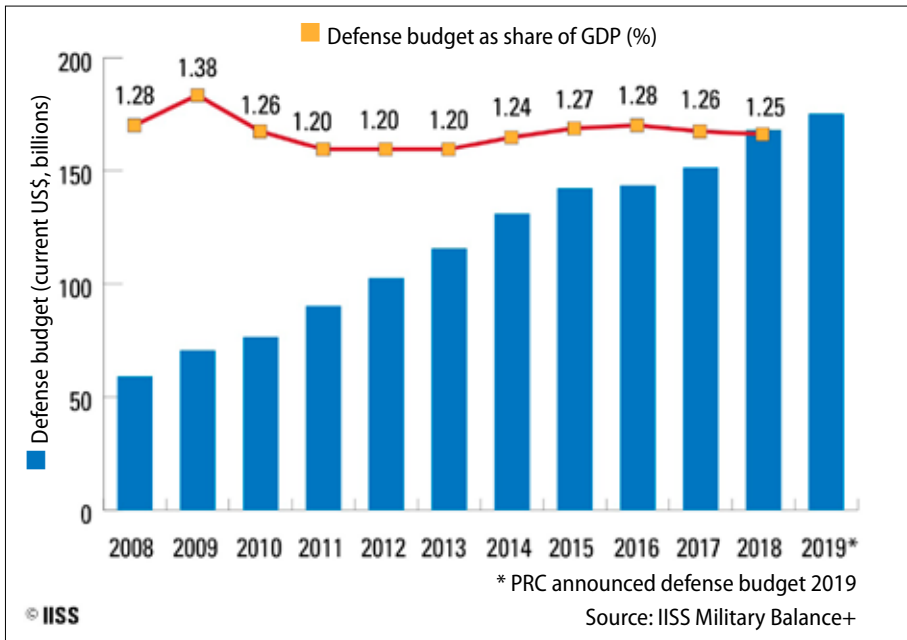


Figure 3: China's Defense Budget 2008-2019¹⁶

This direction poses a layered challenge for Israel: the appearance of advanced Chinese weapon systems in the hands of regional actors, both friends and enemies; the lack of a Chinese commitment – unlike that of the US – to preserve Israel's qualitative military edge over the other nations in the region; the absence of mechanisms and a tradition of defense dialogue, which it has with Russia; and the fact that China is a serious competitor to Israel's defense exports in areas in which Israel has to date enjoyed an enormous advantage, such as UAVs.

Policy Mechanism

As with other non-security fields in Israel, there are significant gaps between policy formulation and implementation over time when it comes to management of Israel-China relations. Already in his 2009 government, Israeli Prime Minister Benjamin Netanyahu named China a key target in terms of the development of economic relations, but the government's current policy rests mainly on three key resolutions, the last of which (No. 1687) was taken in June 2014. Despite many efforts on relations development, it is not clear whether there is an ongoing process of overall updating all aspects

of policy in light of developments that have occurred in the intervening years, for good or for bad. The goals defined in the resolution were the product of insufficient staff work and were riddled by both overestimates (of expanding exports) and underestimates (of tourism). The policy resolutions lacked reference to risks and how to reduce them; therefore, the mechanisms in this field are still catching up with the comprehension of the challenge throughout the world. Policy oversight and control mechanisms and their implementation operated, if at all, for a short time at the ministerial level, and not continuously at the senior echelon of officials. Despite weighty opportunities and risks hanging in the balance, Israel has not managed to generate system-wide, continuous, balanced processes to maximize the Chinese “Gold Mountain” while providing an appropriate response to reduce the risks of the dragon perched on its peak.

When one adds the differences of governing systems and perceptions of time to this picture, what emerges is another dimension of policy challenges. The Chinese government and the Communist Party lead a planned economy, while Israel is a free market economy. The Chinese government defines long term goals for the next several decades, sets in motion fairly detailed five-year plans, and enjoys 70 years of governing stability of the Communist Party, with individuals and collectives enjoying long terms in office, resulting in continuity of the leadership and the system. In 2018, the party-controlled National People’s Congress passed a set of constitutional amendments that include the removal of the ten-year presidential and vice presidential term limits in place since Mao’s time. General Secretary of the Communist Party of China and President Xi Jinping and his Vice President are now expected to head the government for the foreseeable future. Israel, by contrast, even without the 2019 election crisis, has several governments in a single Chinese presidential term, and its publicly elected leaders often tend to improvisation rather than planning. In the encounter between China’s long term mechanisms and Israel’s short term and disjointed measures lie further challenges to the formulation and implementation of policy.

Knowledge Bases and Decision Making Expertise

Formulating policy for Israel’s relations with foreign nations requires understanding Israel’s characteristics, goals, needs, strengths, and weaknesses, and a similar understanding of the other side. Clearly, China poses a significant challenge in terms of studying and understanding it as a unique, multifaceted,

large, and profound civilization, as well as an authoritarian state where more happens behind the scenes than on the stage and where strategic control of information and knowledge is a central regime tool to ensure governance and the realization of policy. For geographical and historical reasons, the encounter with China is, for Israel, a special challenge. Israel is reasonably knowledgeable about the Middle East, where it is located, and about the West, with which it identifies itself. By contrast, China lies outside Israel's traditional strategic environment and beyond its "system borders"; China had little contact with Israel for decades, it has no large Jewish communities, and there is no Chinese-Jewish newcomers' community in Israel. Consequently, Israel's familiarity with China is quite circumscribed, and significantly more limited than its knowledge of America, Europe, and Russia.

For these and other reasons, Israel's government and its decision makers lack sufficient knowledge about China. Government ministries employ only a few experts on modern China, and as a result, the government's ability to reach an independent, high quality situation assessment based on in-depth knowledge of China is severely limited. The situation at Israel's universities is similar, and there are only a handful of modern China professors (fewer than five in all of Israel), despite the hundreds of students studying Chinese at the undergraduate level (figure 4). As such, Israeli universities are currently limited in their ability to provide professional backing and an expert support for the Israeli government. Furthermore, the experts at hand are not systematically integrated into policy formulation processes. Under these circumstances, Israel has no solid base of knowledge on China it can use, thus increasing the difficulties in formulating a realistic policy and successfully implementing it.

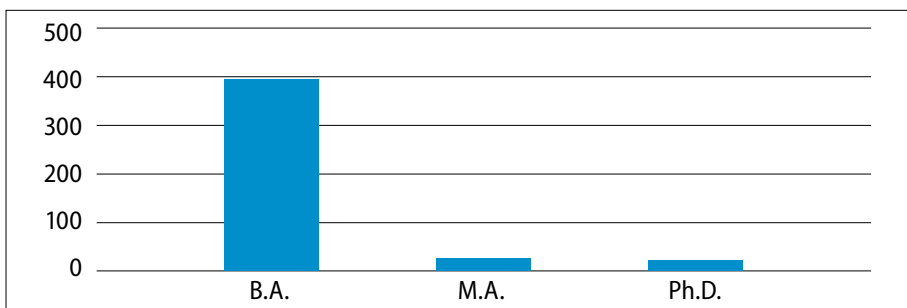


Figure 4: Students Studying Chinese at Israeli Universities¹⁷

Conclusion and Recommendations

Given Israel's interests and the potential of opportunities and challenges inherent in China, Israel's strategic purpose vis-à-vis its China relationship should include the following components: maximizing Chinese potential for Israeli economic development for years to come; preventing any harm to the special strategic relationship with the United States, Israel's irreplaceable ally; preserving Israel's strategic independence; and promoting Israel's political goals in the region and global theater. The unique features of the Israeli-Chinese encounter pose serious challenges in achieving each component, both in terms of the positive goals, economic and political, and in terms of the constraints and risks. The great and growing importance of China to the global economy, to the international theater, and slowly but surely also to Israel's strategic environment, oblige the Israeli government to formulate and realize a professional, responsible, prudent, and balanced policy to promote goals and reduce risks.

As an enabling condition, it is necessary to generate a rapid, in-depth change in the national system of learning and action and give it a significant "China boost" by establishing a broad and deep knowledge infrastructure about contemporary China, and recruiting China experts in policy formulation and implementation processes. Such a change should be realized with integrated government, academic, and business efforts: expanding the scope of academic research on modern China to support policy, decision making, and economic advancement; integrating modern China experts in these processes in the Israeli government and in the business sector; increasing the number of modern China experts in the relevant state mechanisms; and deepening the knowledge of China-related officeholders and practitioners by investing in advanced training of civil service personnel and business people in these areas. To undertake such a strategic change, it would be wise to look to the experience of other nations; in this sense, the United States is again a relevant model.

In tandem with this effort, it is necessary to establish a permanent, inter-ministerial apparatus (headed, for example, by the Director General of the Prime Minister's Office) within the Israeli government dedicated to the relations with China, which would hold ongoing, orderly integrative work processes over the long term with joint leadership and permanent ministerial supervision, oversight, and control. Such an apparatus, whose general outline was already drafted in government decisions that were never implemented,

would generate a continuously updated situation assessment of relations with China, perform system-wide, professional staff work, formulate current policy, define realistic, attainable goals, track their realization, and update them based on developments in practice in a feedback loop going from action to policy.

As a derivative of this policy apparatus, it is necessary also to establish a corollary risk management mechanism, specifically aimed at foreign trade and foreign investments in strategic assets, in order to strike the right balance between economic development, national security needs and the need for strategic independence. Here, the experience of other nations where such mechanisms are already in operation and undergo periodic revisions based on emerging challenges and lessons is highly important. Just as every nation formulates the control mechanism best suited to it, Israel must also formulate a mechanism that is most appropriate to its unique needs, structures, and context.

In terms of risk management, special attention must be paid to Israel's strategic relations with the United States. In tandem with rapid progress in Israel-China relations, the contentious competition between the United States and China is growing worse, despite their partnership and mutual dependence in the global economy. In this complex triangle of relations, in which Israel is at most a very small vertex, Israel must find the right balance that will allow it to maximize China's economic potential and reduce possible tensions with the United States, stemming from strategic, security, economic, or – more likely – political reasons. To do this, it would be appropriate not only to hold multi-channel dialogues to prevent misunderstandings and crises, but to bolster the US-Israel alliance by forging a Strategic Alliance for Innovation.

Based on China's growing importance in the international and regional systems in economic, political, and security terms, Israel must engage in a profound study of China and its activities in Israel's strategic environment, especially China's relations and activities in regional nations and its relations with the other great powers. To this end, it is necessary to devote sufficient organizational attention (in the form of job openings and processes) in the intelligence community and security establishment, and universities and research institutions, while integrating the work of East Asia experts with that of Middle East scholars. In the stiff competition over resources, it may be difficult to compare the urgent regional challenges of the moment with

the challenges of understanding long term processes of vast scope, such as the rise of China. However, precisely this imperative mandates conscious government intervention to ensure that Israel thoroughly understands China in its strategic environment and its influence as a world power, or, in the words of one China scholar, the power that hides in plain sight.

Notes

- 1 As figure 2 demonstrates, electronic components constitute Israel's main export branch to China, and the field is largely dominated by Intel. In 2018, the total export of electronic components came to about \$2.5 billion, which is similar to 2017, and represented more than half of the scope of exports by Israeli companies to China – about 51 percent. Another important branch of exports to China consists of chemicals, which represent 8 percent of Israel's exports to China.
- 2 A breakdown of Government Resolution No. 1687 at the Israel Government Services and Information website, https://www.gov.il/he/departments/policies/2014_dec1687 [Hebrew].
- 3 The Economic Unit of the Israel Export Institute for 2019. See <https://www.export.gov.il/api//Media/Default/Files/Economy/IsraelChinaCom18.pdf> [Hebrew].
- 4 Ibid.
- 5 For example, the role that billionaire Shaul Eisenberg played is well known, when he headed Israel's first defense delegation to China in the 1970s with the blessing of the US administration. It seems that Sheldon Adelson, close to Prime Minister Netanyahu, also has ties to the Chinese government.
- 6 Prominent examples here can be found in Chinese involvement in financing politicians in Australia, on the one hand, and on the other hand, changes in political positions of foreign governments, such as Greece, to favor China, in exchange for significant Chinese investments.
- 7 *Federal Register* 83, No. 197, October 11, 2018 https://home.treasury.gov/system/files/206/FR-2018-22182_1786904.pdf.
- 8 Strategic relations between Israel and the United States, based on extensive political, defense, and economic aid of many years on the part of the United States, should be viewed as a case unique to Israel and of special sensitivity when it comes to managing them. At the same time, other close US partners (the United Kingdom, Australia, and in contrast, Singapore) have extensive ties with China; Israel must find the right balance in this context.
- 9 The Phalcon crisis of 2000, when Israel was forced to cancel a large contract selling aerial early warning aircraft made by Elta to China, and the 2005 Harpy attack drone crisis over loitering munitions sold earlier to China, which ended several senior Defense Ministry careers. See Ze'ev Schiff, "Selling Arms to China, or Not," *Haaretz*, December 22, 2004, <https://www.haaretz.com/1.4840708>.

- 10 “The Border War Is on the Verge! But This Country Has Sold More Than 8,000 Missiles to India,” *Sina*, July 7, 2017, <https://bit.ly/2DZiaYD>.
- 11 Such as the C802 missile Hezbollah fired at the Israeli navy corvette *Hanit* and Chinese cluster rockets that fell in Israel, both during the Second Lebanon War.
- 12 Saket Sundria and Dan Murtaugh, “China Is Buying Iranian LPG Despite Sanctions, Ship-Tracking Shows,” *Bloomberg*, June 19, 2019, <https://bloom.bg/2XAf90E>.
- 13 The full text of the position paper as it appears on the Chinese government website: “Full Text of China’s Arab Policy Paper,” January 13, 2016, <https://bit.ly/2VZ2rbc>.
- 14 H. E. Xi Jinping, “Work Together for a Bright Future of China-Iran Relations,” Ministry of Foreign Affairs of the People’s Republic of China, January 21, 2016, <https://bit.ly/2HicjU6>.
- 15 In 2017, China’s defense budget was double that of 2008, based both on official declarations (close to \$150 billion) and on estimates of external research institutions (more than \$200 billion).
- 16 Meia Nouwens, “China’s Defence Spending: a Question of Perspective?” IISS, 2019, <https://www.iiss.org/blogs/military-balance/2019/05/china-defence-spending>.
- 17 The graph is based on figures supplied by universities in Israel.