

**The Coronavirus and Israel**

**Tomer Fadlon and Galia Lavi**

**The coronavirus that erupted in December 2019 in the city of Wuhan in China has infected tens of thousands of people and so far claimed over 2400 lives. The rapid spread of the virus has sparked global panic, and several countries, including Israel, have taken unprecedented measures to deal with the danger of infection, such as closing their gates to foreigners arriving from China and other countries, evacuating their own citizens from China, and putting them into quarantine until cleared of possible infection. Business companies have also taken extreme steps: airlines have cancelled flights to and from China, while giant corporations have announced they are stopping their activities in China until further notice. Beyond the medical dimension, the outbreak and ensuing responses have potentially far reaching implications, particularly on the economic level. In light of China's central position in the global economy, any disruption or slowdown in its economic activity will also have an impact on Israel and its global environment. At the same time, in the absence of a broader global spread of the virus, the damage to Israel is expected to be limited. In fact, in this crisis, Israeli companies could even find new opportunities to promote their business with China.**

China's major role in the global economy since joining the World Trade Organization (WTO) in 2001 is indisputable. Today, China's GDP, which stands at \$14.1 trillion, constitutes almost a fifth of global production. According to estimates by the International Monetary Fund, China's growth rate fell to 6.1 percent in 2019, but its share of the world economy rose.

China's growing impact on the global economy has included Israel, deriving in part from Israeli policy that seeks to strengthen economic ties with Asia in general, and China in particular. Accompanied by dozens of Israeli businesspeople, Prime Minister Netanyahu visited Beijing in March 2017, aiming to deepen these economic ties while focusing on China's growing interest in innovation and technology and Israel's desire to increase its exports to China. During this visit, dozens of agreements worth billions of dollars were signed in a variety of fields, including medical equipment and hi tech. There was also agreement over the need to accelerate the introduction of the free trade zone between the countries, and to bring 20,000 Chinese construction workers to Israel.

The Israel-China trade balance is a good reflection of these strengthening ties. In 2009, Israeli exports to China were totaled about \$1 billion, while imports stood at \$4.6 billion. By 2018 exports to China (excluding diamonds) reached \$4.7 billion (9.8 percent of all Israeli exports), while imports from China reached \$11 billion (14.9 percent of all imports).

The coronavirus outbreak has led to a temporary absolute halt in most of China's business activity. Factories have stopped working, ports have closed, transport has come to a stop, and supply chains are blocked. All non-urgent activity has been postponed, including business delegations in both directions, negotiations, purchasing, and investment. Chinese working abroad who returned home for the Chinese New Year holiday have been banned from returning to work because of travel restrictions in China or the countries where they worked.

According to the latest estimates for 2020, global growth will be lower than previously forecast; up to 0.3 percent will be cut from expected global growth, which will amount to 3 percent. In this context, the most significant expected damage in the Middle East will be in the oil industry, which will suffer an immediate blow due to cancelled flights and drop in demand from China. China is the world's largest importer of crude oil, and about half its imports come from the Middle East. In mid-February, OPEC slashed its forecasts of demand for oil in 2020 by a quarter of a million barrels a day – to 99 million barrels. This was due to concerns of a slowdown caused by the virus. Moreover, lower demand at a lower price reduces the revenues of the oil exporters such as the OPEC countries, as well as Russia. Saudi Arabia – whose biggest customer for oil is China – and other OPEC countries are already considering the option of reducing quotas to deal with the drop in price. A continued crisis could be highly damaging for Iran, since 30 percent of all Iranian exports after the imposition of sanctions, which are largely based on oil, are intended for China.

Contrary to the economic damage expected by its neighbors, Israel apparently has fewer grounds for concern. Excluding the secondary effects of a slowdown in the global economy, which could be expressed most forcefully in the Israeli capital market, Israel's direct relations with China lie largely in trade, construction of infrastructures, investments, Chinese workers in the building industry, and tourism. Imports from China are not expected to be affected in the short and medium term, and there is no forecast of a shortage of goods imported from China, since stores in Israel generally have stock for several months. Following the extended Chinese New Year holiday, factories in China gradually began to resume operation, and past experience shows that they will make up any deficit through extra work. Exports to China are also not expected to be significantly

damaged. Half the goods that Israel exports to China are electronic components (\$2 billion in 2018), most of which are manufactured by Intel. According to the Israel Export Institute, the components made in Israel are sent to China for testing and assembly in various products, but this international corporation has numerous plants all over Asia and the world, which could provide a replacement for the factories in China.

In the fields of infrastructure and investments, in which Chinese companies are very active in Israel, projects are spread over many months and even years. Therefore, it is likely that once the crisis is over, the work on started projects will make up the delay, negotiations in progress will resume from where they broke off, and investors will cover the gaps – and perhaps with even greater drive. Even in the construction industry the situation is not particularly serious. Although no new workers are arriving from China, those who are here are continuing to work and not leaving. If the crisis continues, it is possible that the Israeli government will be forced to respond to the demands of the Israel Builders Association for assistance in importing workers from Eastern Europe and from the Palestinian Authority to prevent a crisis in the industry, which suffers from a shortage of workers even without the effect of the virus.

Tourism is the industry that is most vulnerable to damage due to the virus. Incoming tourism from China has risen steadily, with a growth of 37 percent in tourism from China in 2019 over 2018. But this figure must be taken in context: the 160,000 Chinese tourists who visited Israel last year represent a very small slice (3.4 percent) of incoming tourism in Israel. Although the Chinese tourist in Israel tends to spend more than other tourists – on average \$230 per vacation day, compared to an average of \$150 per day spent by other foreign visitors – the panic due to the coronavirus has led many Israelis to cancel their visits to the Far East and plan a vacation in Israel, which will go some way to compensate for the loss of income from Chinese tourists.

In conclusion, no country that is part of the global economy is immune to a crisis that lasts for many months and paralyzes large areas of the world's economic activity, as is currently the case in the Hubei Province. The consequences typical of a broad financial crisis are expected to result from a widespread epidemic leading to a sharp downturn in the global economy, and this will also hurt Israel. However, it is possible that contrary to the media panic in Israel, unless the coronavirus crisis is prolonged dramatically or there is a wide outbreak of the virus in Israel itself, the damage is expected to be limited in scope and depend on the damage to the global economy.

In fact, Israeli companies could even find new opportunities to promote business with China. For example, companies that develop products for the health industry and online services will find the Chinese particularly receptive to cooperation. At present exports of

medical devices to China represent a small slice (6 percent) of total exports to China. Israel should leverage its positive reputation in this field to increase exports. Moreover, the health crisis could give Israel an opportunity to strengthen ties with China in fields that are not directly linked to health, to direct technological cooperation in “soft” areas that do not conflict with American demands in this regard. In order to achieve this objective, Israel must act with sensitivity and responsibility, showing empathy with a friendly partner at a time of crisis, and offering support and assistance, even if only symbolic.