

POLICY CHALLENGES

# CHINA'S RISE, US OPPOSITION, AND THE IMPLICATIONS FOR ISRAEL

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INTRODUCTION BY  
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# Introduction

By Dennis Ross

Shalom Wald is a serious student of China. He knows its history. As importantly, he knows how China's history affects its self-image and its role in the world. He offers assessments of China in a clear-eyed and non-polemical fashion

His JPPI paper, "China's rise, US Opposition, and the Implications for Israel," once again reflects his careful analytical approach. He offers not an apology but an explanation for why China, having suffered a century of humiliation by external powers in the 19<sup>th</sup> century, is focused on re-establishing its rightful role in the world – a role it believes its global economic weight entitles it to have.

Wald offers an unvarnished view of why America sees China through a prism of growing threats and observes that the US in the 20<sup>th</sup> century faced competitors but none like China. Whether it was the Germans or the Japanese or later the Soviet Union, America faced military challengers but never an economic one. China, even today, according to Wald may already have more purchasing power than the US.

That does not mean that China will necessarily outpace the US and dominate the emerging economic landscape. But the US will have to work at and heavily invest in Artificial Intelligence and quantum computing at a time when China is determined to steal a march on both. Wald offers a comparison between the relative strengths of America and China as they compete to see who is more likely to win the race in these cutting edge technologies.

While Wald's comparison of the relative strengths of the two societies is presented analytically—even agnostically—I would point out that we have once again seen the limits of authoritarianism and its implications. The Chinese response to the coronavirus is a vivid reminder of the fear that constrains honest discussion or reporting or intellectual development in that vast country. Had its doctors not been afraid of reporting what might be a new epidemic, given the fear of punishment, the disease would surely have been far more easily contained and China's image, not to mention its economy, would have suffered far less

of a blow. I would argue that China's authoritarianism makes it far less likely to win the competition with the US—and this year both with Hong Kong and the coronavirus, China has exposed its weaknesses for all to see.

That is not an argument for complacency, but for perspective. And, Wald offers important perspective on what he sees as quasi-US hysteria on China as a rising threat. He makes the case that the US and China need each other. His arguments are worth considering—and, of course, so is his discussion on the fall-out that Israel faces getting caught between these two giants. He argues effectively for why Israel must be able to maintain its economic and technological relationship with China. He bemoans a US approach that seems reflexive and not thoughtful even as he makes a series of recommendations for what Israel needs to do to work out understandings with the US on what is and is not permissible in Israel's commercial, trading relationship with China. Here he notes there is a burden on Israel to work out with the United States a set of understandings across the range of economic and technological activities it pursues with China. Until now, Israel has not established the mechanisms that would act on that burden.

Wald's analysis and his recommendations should be read and taken seriously by Israeli and American policy-makers.

# CHINA'S RISE, US OPPOSITION, AND THE IMPLICATIONS FOR ISRAEL

## China's Changing Place in the World's Economy and Technology

The confrontation between the United States and China and US demands to be supported by its allies have their origin in China's historically unparalleled, economic and technological growth. It is now common to speak of China as the second "super-power."<sup>1</sup> In 2013, China became the world's largest trading nation and in 2014, the world's largest economy in purchasing-power parity (PPP) terms.<sup>2</sup> According to Stanley Fischer, former Bank of Israel Governor, PPP is the most accurate measure of a country's real economic power. In 2018, China accounted for approximately 25 percent of the world's manufacturing output in nominal terms. Economic historians estimate that in the mid-18<sup>th</sup> century China produced approximately 32 percent of the world's manufacturing goods. The two figures show that China is climbing back to the global economic position it held more than two centuries ago. The 2018 Global Fortune 500 Index comprised 126 American and 110 Chinese (including Hong Kong) companies. The number of Chinese firms operating around the world grew from 10,167 in 2010 to 37,164 in 2018, more than three-fold in eight years.

China's growth has shaken up trade and political relations across the globe. For example, between 2003 and 2007, 4 percent of Australia's annual gross economic output was exported to China. The figure jumped to 16 percent in 2019. Between 2000 and 2017, China reduced its relative economic exposure to the world in trade, technology, and capital while the world increased its exposure to China: China imported relatively less and exported relatively more, partly because China's economy was re-gearing toward more domestic consumption. This is the background of international complaints about the country's trade practices.

In 2011, the Paris-based OECD (Organization of Economic Cooperation and Development), published global economic growth predictions for the years 2030 and 2060. These are the estimated percentages of global GDP by year and country:<sup>3</sup>

	2011	2030	2060
USA	23%	18%	16%
Euro-Zone	17%	12%	9%
China	17%	28%	28%

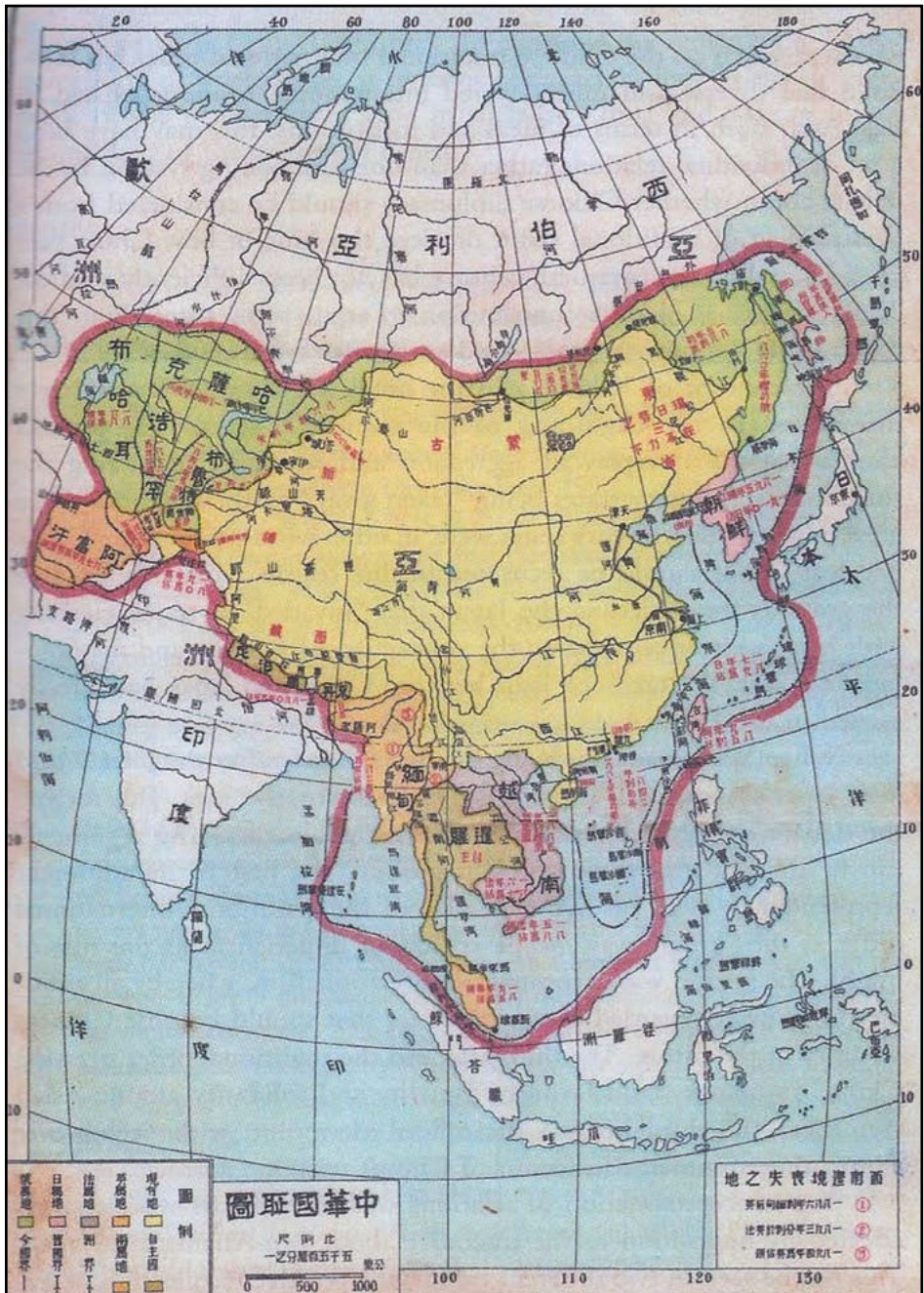
China's share of the world economy in 2060 would be almost twice that of the United States. But economic trend extrapolations over almost 50 years are perilous. How the world of 2060 will look is still beyond imagination. Unsurprisingly, since Mao's death in 1976 there were Western predictions every couple of years that China's rapid growth would soon come to an end. "The Chinese bubble will burst," wrote the *Wall Street Journal* years ago. The first 2020 forecasts of China's economy were mixed but cautiously positive. Suddenly, in February 2020 the coronavirus has rendered all forecasts obsolete. The long-term economic impacts of the shut-down of much of the country should be manageable. However, the wider political consequences of the current torrent of outrage on China's social media against the alleged mishandling of the health crisis are unpredictable.<sup>4</sup> "The ways of Heaven are dark and silent," said Sima Qian, China's "Grand Historian" (2<sup>nd</sup> century BCE).

## What Does China Want?

China wants to be equal, that much is certain. China wants to have an influence on the world's economic and political "rules of the game" commensurate with its economic weight. It also wants to recover the position it held until the late 18<sup>th</sup> century, when it was the dominant regional power in East Asia and controlled the world's largest, self-sufficient economy. Its exports of silk, cotton, porcelain, tea, lacquer and more comprised approximately 30 percent of international trade. Then, in the 19<sup>th</sup> century, the Chinese Empire began to unravel under the weight of foreign interference, superior Western technology, and internal unrest. The Imperial Chinese notion of "dominance" mostly meant deference to China and its interests in its broad neighborhood, which had been for centuries under its cultural influence. But it could also mean a tributary relationship with countries and tribes regarded as vassals, or the slow cultural osmosis of less "civilized" border regions. China's claims do not depend on who will ultimately rule China. During the 1920s and 1930s various maps of "National Shame" or "National Humiliation" circulated in China during Chiang-Kai-shek's governing Kuomintang regime. The one shown here was published for elementary schools in 1938. It draws China's borders around a much larger part of Asia than the Chinese ever controlled.



Fig 1. Map of National Shame (Hong Maoxi, eds.). Authorized by the Ministry of Interior for Elementary School, Oriental Geography/ Cartography Society, Chongqing, 1938.



Politicians who hope that a non-Communist China would be easier to handle could be badly mistaken. During the Second World War, China was starving and under Japanese attack. It needed US support desperately, but President Roosevelt found China's Chiang-Kai-shek extremely difficult and assertive. Reclaiming an 18<sup>th</sup> century or earlier predominance overlooks the fact that the US did not exist then, but it does exist now. China needs to cope with a fundamental historical change. And no one can guarantee that China will never extend its claims to restore its past power. It could adopt a strategy of wider expansion, particularly if it faces unremitting antagonism from its opponents.

Recent books claiming that China does want more, that it wants to defeat the United States and rule the world, became bestsellers both in China and the US. Song Qiang et al. published *Unhappy China: The Great Era, the Grand Goal and our Challenges* (2009), and Colonel Liu Mingfu: *The China Dream – Great Power Thinking and Strategic Posture in the Post-American Era* (2010).<sup>5</sup> American authors quickly lend credence to China's alleged revanchism. Michael Pillsbury in *The Hundred Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (2016) discovered a secret Chinese plot to dominate the world – a variation of the infamous anti-Semitic *Protocols of the Elders of Zion* produced in Czarist Russia, except that the Chinese were now replacing the Jews.<sup>6</sup> In 2019, Jonathan Ward published *China's Vision of Victory*<sup>7</sup>; China wants to rule the world, so he argues, because its ascendancy was interrupted by “a century of humiliation.” These books, and similar voices from public figures on both sides rarely express official policy, but they fuel the alarmist tone of the debate.<sup>8</sup>

Ancient Chinese philosophy thinks in much longer terms: change is permanent, history moves in cycles and empires rise and fall. When General Chen Bingde, Chief of Staff of China's army made an official visit to Israel (August 2011), he said to an Israeli general: “You will see, in 50 years you will be on our side.” He took the long view. For our generation and the next, what does it mean to “replace America” (Pillsbury) or achieve “victory” over America (Ward)? America and China are not only nation-states, they are civilizations. The century-old global ascendancy of the American civilization is one of the most enduring “soft power” successes of history. China will not “replace” American mass-culture, its language, Hollywood, music, literature, Coca Cola, jeans and many more US contributions, but it will compete in science and technology. Henry Kissinger has warned that the relationship between the two giants must not be seen through the lens of 19<sup>th</sup>

century European power politics. Neither China nor the US can “rule” or “replace” the other, they are both too large.

Some mention China’s “Belt and Road Initiative” (BRI) as proof that China seeks global expansion. For the first time in history, China invests in all continents in order to build roads, railways, and ports. On a more modest scale, China also reached out in ancient times. In 138 BCE the Han Emperor Wudi explored Central Asia in order to establish contacts along the “Silk Road.”<sup>9</sup> Much later, Chinese Buddhist monks travelled to India to retrieve Buddha’s original texts. China presents President Xi Jinping’s BRI as a renewal of the more than two thousand year old “Silk Road” tradition. Is the BRI meant to exploit other countries’ resources? Or is it a brilliant long-term strategy to pull the rug from under America’s global power and bring Asia, Europe, and Africa under Chinese guidance? Or, is it designed to help Europe’s former colonies “de-colonize” economically? What if the true genesis of BRI does not fit any of the above hypotheses, what if the underlying ideas came slowly together in a more haphazard way? Did the BRI start as a slogan that was converted into a mega-project? We do not know.



# The United States and China: Deep Reasons for Conflict

Today, both America and China see themselves as victims. Americans recall that China fueled its growth through the economic globalization the US had promoted, while also stealing, as they see it, American jobs and intellectual property.<sup>10</sup> This view is shared by both political parties and a great majority of the American people – a unique case of unanimity in America’s deeply polarized political landscape, and a worrying sign that a dispassionate debate with diverging views on China has become difficult. The Chinese, on the other hand, recall their “century of humiliation” when they were defeated, humiliated, and robbed by the West, Russia, and Japan. President Xi Jinping has returned to this complaint more than once. This unresolved resentment is an open wound that the West ignores at its own peril. China is using it as a political tool. This is one reason for Chinese feelings of affinity with Jews and Israel: the Jews too have suffered; should they not understand China? There is a link between China’s bitter historical memory and its current attitude toward the West, particularly its trade and intellectual property practices, which have triggered US retaliation. Ironically, the American 19<sup>th</sup> century military intervention in China was modest compared to that of Japan and Europe.<sup>11</sup> However, no country can tolerate a policy of permanent revenge by one of the two main stake-holders of the global economy. But American hostility to the Chinese also has an older pre-history. China was already on the receiving end of American and Western antipathy in the 19<sup>th</sup> century, when it threatened no foreign country. The fear of the “Yellow Peril” was one of the West’s most pervasive and racist stereotypes. German Emperor Wilhelm II, warning of the Yellow Peril, prohibited the purchase of East Asian art by the famous imperial art museums in Berlin under his tutelage. The first Chinese art donations to the Berlin museums were made by German Jewish collectors.<sup>12</sup>

The “Office of the Historian” of the US State Department has drawn up a chronology of about 120 events that dot the US-China relationship from 1784 to 2000.<sup>13</sup> These events oscillate between “positive” ones – meetings, agreements, treaties – and “negative” ones – disagreements, clashes, ruptures. After 1911

when Sun Yatsen overthrew the Qing dynasty and created the Republic of China, the US started to help China. The US-China relationship peaked in 1942 with a close military alliance against Japan. But even then there were enormous misunderstandings between the two. The commander of the allied forces, General Joe Stillwell, admired the resilience and cheerfulness of the Chinese and battled to reform the Chinese army. Alas, he failed. His biographer, the historian Barbara Tuchman, saw in his failure a symbol of “the American Experience in China”: America’s generosity toward China and its failure to change the country going hand in hand. She understood the culture gap between the two, not least because she was Jewish and familiar with more than one culture. This is how her book ends: “China was a problem for which there was no American solution.... It could not hold up a husk nor long delay the cyclical passing of the mandate of heaven. In the end China went her own way as if the Americans had never come.”<sup>14</sup>

The mutual hostility between the US and China following the Communist victory in the Civil War (1949) was mitigated by the Beijing visits of Henry Kissinger and President Nixon (1971, 1972). Apart from a Taiwan crisis, there was a relatively stable period between the two until the Tiananmen catastrophe (1989) and the collapse of the Soviet Union (1991). Then, China’s military and economic rise became major US concerns. China’s unabated growth was a challenge the United States had never faced before, except for Japan for a short period in the 1970s. In the 20<sup>th</sup> century, the United States was confronted by four great power challengers: Imperial Germany in World War I, Imperial Japan and Nazi Germany in World War II, and the Soviet Union during the Cold War. None of the four ever challenged America economically. All four raised only military challenges. America knocked out Japan and the Soviet Union and twice helped to knock out Germany with military power enhanced by its economic power. China is different. It is challenging America with many of the same economic assets that have made America great: hard work, technological development, large transport and other infrastructure investments, international trade, but also in China’s case, disregard for intellectual property. When President Trump launched his “Trade War” against China (2018), he brought a tectonic shift between the two powers into the open. This was not a sudden quirk by a president accused of being unpredictable. It was the culmination of a process that had started years before.

# Behind the Trade War: Technology and the Global Balance of Power

The tug-of-war for global technological supremacy is the most important of all US arguments with China. This emerged when the US attacked China's Huawei: its 5G Broadband leapfrogged over American technology. Whoever controls the advances of science and technology (S&T) will have the key instruments for shaping the future of the world. The historian Niall Ferguson said in September 2019 that the world was at the beginning of a new Cold War: even President Trump could no longer stop it because trade, technological supremacy, and the future global balance of power are now inextricably linked. Studies to evaluate the relative strengths and weaknesses of the American and Chinese S&T systems are under way. It is important to distinguish between incremental and transformative innovations (the OECD called the latter "revolutionary" or "paradigm changes"). Incremental innovations are derived from earlier transformative innovations and can enter the market faster. Chinese innovations have been incremental more than transformative. It is the latter that revolutionize the way we produce, live, think and win (or lose) wars. America has been the father of the great majority of transformative innovations for the last hundred years: from the invention of air travel (Wright brothers, 1903) to space travel, from nuclear technology and genetic engineering to the accelerating informatics revolution. Today the world is at the cusp of major transformative breakthroughs. Artificial intelligence (AI) – the simulation of human intelligence processes by machines, especially computer systems – is one of the most important. Artificial intelligence could transform production, health, transportation, energy, war – everything. China's official, ambitious strategy is to bridge the AI gap with the West and become the global AI leader by 2030. The following tentative list of American and Chinese assets and liabilities is derived from reflections on **conditions for success in AI innovation**, but it is valid for technological innovation in a broader sense.<sup>15</sup>

## Current Strength:

The US, with its elite universities and large companies, remains the leader. *China is catching up.*

## Government Support:

There was until very recently little special US government boosting of S&T as happened under the federal government after the Sputnik-scare (1957), but awareness of this shortcoming is growing rapidly and proposals to increase federal spending have been made. *Chinese direct financial government support for S&T increased more than 30 times since 2000. There is also indirect, non-financial support.*

## The Innovation Eco-System:

The US system is heterogeneous, multicultural, and open. Challenges to hierarchy and traditions are normal. Informal networks in and outside of the workplace lead to cross-fertilization. *The Chinese system is more homogeneous and less open. Challenging hierarchy is not encouraged. There are fewer informal networks.*

## Foreign Access to S&T:

The US is restricting access to some of the best (particularly Chinese) S&T graduates. *China is sending students/graduates to the world's best S&T centers.*

## High-Level Priority Setting for S&T:

When mistakes are made in the US they can often be corrected. *In China, high-level priority setting works well, but when mistakes are made, they are very difficult to correct.*



## S&T Personnel:

The US pool is smaller than China's, but this is partly made up by the US ability to attract talent from abroad (now hindered by restrictions on foreigners). *The Chinese pool is larger and mostly of high quality. Many in the US have underestimated China's S&T potential and its quality (as they did in the past in regard to Japan).*

## Top Scientific Talents in AI:

The US has, by far, the largest pool of top AI talent of all countries. They deepen the scientific bases of AI. *The Chinese top talent pool is much smaller, but the Chinese assert that top talent is not required for most AI (or other) innovations.*

## Public, Legal, Ethical Acceptance of Innovation:

In the American democracy, innovation is often delayed by public hurdles. Some AI applications face problems: mass surveillance, robotic medicine, killer robots. *China has no, or fewer, public problems. The state can control these.*

## Intellectual Property Protection:

The US regards intellectual property protection as essential. *China has benefitted from intellectual property infringements and forced technology transfers, but its own innovation drive and US pressure are now compelling it to pay more attention to intellectual property protection.*

The end result of these multiple interacting and counteracting forces and the balance between assets and liabilities are not predictable. Moreover, China's technological advances have domestic and foreign consequences beyond the high-tech competition, which could feed back into the competition. With improving S&T, state surveillance of the Chinese people has become more extensive and

censorship more restrictive. Surveillance is not a Communist invention. Across the centuries every Chinese dynasty has regarded surveillance and censorship as an essential guarantee of the peace and prosperity of its wide-spread population. Has China become more repressive since the 2008 Beijing Olympics because it feels challenged? But tech-savvy Chinese know how to undermine censorship, as happened temporarily during the coronavirus crisis. Technological progress cuts both ways. As to foreign impacts, high-tech and a suspected army of Chinese spies are blamed for extending surveillance widely abroad. Do the Chinese unwittingly extend their traditional governance principles to the world, or do they target the world as an exploitable adversary? Espionage, like intellectual property infringement, has conferred some trade advantages to China, but no strategic advantage. Neither can explain China's economic rise. But these practices clashed with Western principles, raised prejudices and fears, and triggered a backlash. In the end, the high-tech competition between China and the United States could lead to two global technology systems, with smaller countries being forced to choose between the two. No third country would be happy with such an outcome.

# The US-Israel-China Triangle: New Tensions in Historical Perspective

The Israeli and Jewish relationship with China could not have been more different from America's – different by origin, purpose and significance. From the early 19<sup>th</sup> century on, the US was involved with China as ally or adversary, in major ways, on many fronts, and for multiple purposes. Both sides carry emotional baggage as attraction and antagonism kept alternating over almost two centuries. Their relationship is an important part of their historical memory. Jewish links with China are much older than America's, but few and marginal. They were never problematic as anti-Semitism was and remains unknown in China.<sup>16</sup> Israel also remembers that Shanghai saved more than 20,000 European Jews from death during World War II while Western countries closed their doors to them. Even when Mao's China assailed Israel together with all other Western countries, it never targeted the Jewish people or Judaism, in contrast to the Soviet Union. Three months after Mao Zedong had declared the independence of the People's Republic of China (Oct.1949), Israel recognized the new country, which welcomed Israel's gesture (Jan.1950). But in 1951, with the accelerating Korean War, the US warned that it would cut essential food aid for Israel if it kept seeking links with Beijing. American displeasure with Israel's China links is almost as old as Israel itself. Apart from differences related to Israel's conflicts with its neighbors, China has been one of the earliest and most frequent bones of contention between the US and Israel. US interference in the China-Israel relationship was not always restrictive as in 1951. From 1979 on, Israel shipped large quantities of heavy weapons to China, including 600 new Soviet tanks captured during the Yom Kippur war, in order to strengthen the country against a threatening Soviet Union. The US certainly knew and condoned that deal as it conformed with identical US concerns.<sup>17</sup> And in 1992, the US welcomed China's decision to establish diplomatic relations with Israel. The timing of this decision was a direct result of America's victories in the Cold War and the First Gulf War. A radical change in US attitudes emerged in 2000 and 2004 when the US forced Israel to abandon any weapon sales to China. In 2000, the sale of an Israeli reconnaissance

plane, the Falcon, had to be cancelled. The Pentagon voiced concern that in Chinese hands the Falcon could compromise some US-derived technologies. The US could no longer condone a defense-relationship between Israel and its biggest rival, China. From then on, Israel tried to improve its damaged image in China through economic cooperation. China's market is huge, and its interest in Israeli technologies manifest.

And this is exactly what triggered a new major wave of US irritation with the Israel-China relationship. On October 24, 2018, China's Vice President Wang Qishan and Prime Minister Netanyahu attended Israel's Fourth Innovation Summit, promising future technological cooperation. A few weeks later, a large number of American experts, all non-governmental, fired a salvo of warnings at Israel. It was a simultaneous assault, a coordinated media campaign. Here are two headlines, among many others: Elliott Abrams (then not in government): "Israel Mustn't Let its Economic Relationship with China Threaten its Political Relationship with America."<sup>18</sup> Dan Blumenthal: "Israel's Embrace of China is Sorely Misguided."<sup>19</sup> The experts criticized Israel's agreement to allow China to enlarge and manage a part of the Port of Haifa, as well as other infrastructure investments that were said to raise safety risks for Israel and the US. The immediate reaction by Israeli defense experts – among them, Nadav Argaman, the head of Israel's internal security service (Shin Bet) and a few retired senior officers – was to say they shared some of these concerns. Two weeks later it was official: both John Bolton, then National Security Advisor, and Secretary of State Mike Pompeo put Israel on notice: "Pompeo warns US could curb security ties with Israel over China relations."<sup>20</sup> In the same speech, Pompeo announced that the United States would recognize Israel's annexation of the formerly Syrian Golan Heights. Was he offering Israel a deal on behalf of President Trump: We let you have the Golan and you leave China to us?

Then China joined the spat. Beijing protested that the US "has been abusing national 'security' to smear and strike down normal business activities of Chinese enterprises."<sup>21</sup> China's fear that the US was using Israel as a model for other allies was serious. An analysis of the Chinese media – an indication of what Beijing's leaders are thinking – showed great nervousness about US pressure on Israel.<sup>22</sup> Some Chinese papers looked for a way forward. The *South China Morning Post* (SCMP): "Israel has enough sense and self-interest to avoid efforts to drag it into US-China trade war,"<sup>23</sup> and six days later: "A new role for US allies who are also

friends of China.”<sup>24</sup> The new role conferred to Israel was to mediate between the giants. Some Chinese continue to believe that the Jews have enormous influence in the world. In the meantime, Israeli experts had second thoughts about the US pressure. There was a chorus of voices that amounted to an Israeli backlash. Eran Lerman, a former senior National Security Council official, wrote: “Israel’s Strategy towards China Doesn’t Conflict with American Interests – It Serves and Reinforces Them.”<sup>25</sup> Carice Witte, the founder of the NGO *SIGNAL*, reminded her readers of the many facets of the China-Israel relationship beyond investments.<sup>26</sup> A surprising rebuttal came from former Ambassador to Beijing Maj. Gen. (ret.) Matan Vilnai who three weeks before had asked the Israeli government to cancel the Port of Haifa agreement: “Ex-envoy to China does about-face, says OK Chinese will manage Haifa port.”<sup>27</sup> In his words, the Chinese surely did not need the Haifa port if they wanted to spy on the US Navy. Brig. Gen. (ret.) Michael Herzog concurred: “A building overlooking the port would suffice.”<sup>28</sup> Amb. Oded Eran was equally sarcastic in advising the US Navy to check their own website. It turns out that Chinese companies control ports of many US allies, even parts of US ports that serve as US Naval bases. “China phobia is not a strategy.”<sup>29</sup> So why the fuss about Haifa? It hides a broader agenda. As things stand now, Israel has apparently won and the Chinese will stay.<sup>30</sup> But in the end, the US was the stronger party. The conclusion of this year-long “tempest-in-a-tea-cup” was that the US got at least part of what it wanted – and what Israel should have done long before according to its own best experts.<sup>31</sup> On Nov. 3, 2019 Israel set up a new governmental oversight panel to review foreign investment proposals for their security implications. China was not mentioned. This panel is a first step. It is still weak, has no enforcement mechanism, and does not focus on high-tech. The “tempest in a tea cup” revealed some of the characteristics of the three actors that make up the “triangle.” The American initiative was well-planned, well-timed, and well-targeted, while Israeli reactions seemed unprepared, messy, and discordant. The Chinese reaction was fast, alert, and unwilling to let go of Israel.



# Israel's Dilemmas: Coping with Conflicting Policy Objectives

Israel's dilemma is to protect its irreplaceable human, political, and military links with America while also broadening its relationship with China. The links with America include America's Jews as well as Silicon Valley and Wall Street, backbones of Israel's high-tech. These links are existential. Those with China are not, but they will become increasingly vital as China keeps rising and entering the Middle East. As long as China appeared hostile to both the US and Israel, it was easy for Israel to align its China policy with America's. But now China wants to be friends with everybody in the Middle East – although responsible for nobody. Its elites are well disposed toward Israel and Jews. The Chinese understand Israel's predicament and have communicated that they want Israel to remain a close friend of the US and benefit from American protection,<sup>32</sup> but they also want the world to see that America's best friends can remain partners with China. In contrast, America does not want to let one of its most pampered friends get away with a Chinese dalliance, as they see it. Israeli officials are worried because they see no solution to their conflicting policy objectives. America's identification of China as its main strategic enemy is a calamity for Israel. The US is expected to demand more Israeli support in confronting China. Israel will have to maneuver.

Israel and China hoped to increase their links in three sectors: trade, investments in Israeli companies, and in infrastructure. In 2018, Israel's exports to China reached approximately 5 billion dollars, which is twice the figure for 2014.<sup>33</sup> In comparison, Israel's exports to the US reached twice as much, approx. 10 billion dollars in 2018, but the figure has changed little since 2014. It must be added that the majority of Israeli exports to China come from just two companies. Although Israeli companies find it very difficult to penetrate the Chinese market, one over-optimistic expert believes that China could in some years become Israel's first trade partner, overtaking the US.<sup>34</sup> The US has had its hand in Israel's China trade since 2004. Israel's technology exports are subject to controls to prevent defense or dual-use items being sold to China. Trade experts say that Israel's exports to China would be higher without this obstacle.

Chinese interest in Israeli industry investments, particularly in high-tech is causing American annoyance. Reliable statistics of Chinese direct investments in Israeli industry are lacking – China was perhaps the third most important source of foreign investments, and thus, important but not indispensable. Artificial Intelligence demonstrates the problematic implications of Chinese interest in Israeli high-tech. AI plays a key role in the competition between the US and China (see above). Israel, too, aspires to become one of the world AI leaders.<sup>35</sup> It is the fastest growing sector of Israel's high-tech. In 2018, 37 percent of the total capital raised for Israel's high-tech sector was designated for AI companies. The Israeli government is said to be developing a national strategy to achieve its AI goal, which will include major investments in defense AI. A lot of money has already been invested in AI, mainly by global companies. The initiative has come from industry, not from government as in China. Israel's most stunning AI success so far was the 2018 sale of its Mobileye self-driving car technology to Intel USA for 15 billion dollars. It is vital for Israel to maintain close links with the relevant American companies, but it is also useful not to lose contact with China's advancing AI research. In January 2020, the US embargoed certain AI exports to China. Israel cannot support China's side in this fight, but rejecting Chinese potential investments will be a loss for Israeli companies and research centers. More critical than trade, and at least as critical as high-tech investments, is China's role in improving Israel's infrastructure. OECD reports indicate that Israel suffers from one of the most deficient infrastructures among advanced countries. To maintain the growth rate necessary for its social and defense needs, Israel must improve its roads, ports, railway, tram and subway lines, residential buildings and more. Israel lacks the means and experience to do this job alone. China is the world's first, most competent and least expensive infrastructure builder. When Israel published its tender for enlarging the Port of Haifa, only the Chinese responded. Israel first solicited American companies but none was interested. Cutting China off from improving Israel's infrastructure would damage Israel's economic development.

Finally, there are older and deeper reasons for Israeli interests in a lasting relationship with China. There is a hidden agenda here that Israelis will not want to raise with Americans. Israel's founder, David Ben-Gurion, called on the Jewish people and later Israel to seek links of friendship with Asia, predicting the rise of China and India from 1930 on.<sup>36</sup> In 1963, he said that the United States and



the Soviet Union would not control the world forever: “There is no doubt that... China and India would become the greatest powers in the world.” His colleague, and later foreign minister, Moshe Sharett, saw a more specific link between Israel’s hope to be accepted in the Middle East and “the amount of goodwill and solidarity which we shall succeed in evoking on the part of the great Asiatic civilizations.”<sup>37</sup> Such hopes have had little success so far with China but they influenced the few diplomats and businessmen who looked for bridges to China during the years without diplomatic relations. A hidden concern that America, apparently lowering its profile in the Middle East, will not “control the world forever” or will one day stop supporting Israel remains present in many minds.

While American policies are often transient, China’s policies are planned for the long term and rarely yield to foreign pressure. As in the past, China will refuse to “pick sides” in the Middle East, apart from lip-service. It will support all anti-Israeli UN resolutions submitted by the Muslim world, which will “reward” China by ignoring its treatment of its own Muslim population. The UN does not affect China’s officially stated friendship for Israel. For 60 years China never intended to damage Israel. China has supplied some, but never “game-changing” weaponry to Middle Eastern countries, including Iran (less from the 1990s on). Israel was hit by Chinese missiles a few times: China had sold them to Iran in a “tit-for-tat” for US weapon supplies to Taiwan. Iran then transferred some without Chinese approval to Hezbollah and Hamas (which arguably, the Chinese could have anticipated). China’s support for Iran is directed against the US, it is not only due to China’s oil needs, as Chinese diplomacy claims. Iranian oil is replaceable. Whereas the US is challenging internal Chinese policies, e.g. in Hong-Kong and Xinjiang, China cannot do the same to the US. Therefore, it supports America’s far-away enemies, Iran and North Korea. Israel is “collateral damage” of the US-China confrontation, not of any direct Chinese hostility. Whatever China’s motives, the fact that it is close to Israel’s worst enemy is a serious problem. Israel hoped that its growing economic and diplomatic relations with China would motivate the Chinese to show consideration for its gravest strategic threat, but this has not, thus far, happened. In recent years, China has, as far as is known, never publicly condemned Iran’s extermination threats against Israel – an easy and cost-free step. In contrast, the other UN Security Council members have done so.



# Policy Considerations

- **Internal:** Start to effectively coordinate all China policies. Set up a coordination mechanism in the Prime Minister's Office involving the relevant ministries, trade representatives, and universities. This means setting priorities. What does Israel want and need from China?
- Strengthen the recently created panel to examine foreign investment proposals. Authorize this panel to make decisions in this regard.
- Train and employ more professionals who understand China, Chinese history, and politics, as well as US concerns about China. Israel has a few excellent experts. Many more are needed in the Prime Minister's Office, in government, in NGOs, in the business-sector, in academia, and particularly the media.
- Henry Kissinger (Nov. 2019) warned that America's global campaign to constrain China could end in America's isolation. This would weaken Israel too. Start a regular dialogue and information exchange particularly with European countries that are also under US pressure.
- Put together an estimate of the probable economic losses Israel is incurring because it has to restrict trade with, and investments from, China.
- In the past, contacts by American Jewish leaders with China have been helpful to Israel. Use the existing channels of communication with US Jews – if this is not done already – to inform and discuss with US Jews its China-related dilemmas.
- **External-US:** A regular US-Israel dialogue regarding China is necessary. Reassure the US that Israel understands their concerns very well and knows how to protect its own security.
- Suggest to the US to create a centralized Federal "clearing house" in order to agree on US policies in regard to Israel-China relations. This would be a counterpart to the proposed China policy coordinating mechanism in Israel. It is not always clear to Israel what the US wants. It is likely that the Americans are not always clear themselves. Israel needs more clarity.

- Welcome US assistance to strengthen the weak academic basis of Israel's China studies programs. A Rand Corporation report on the China-Israel relationship emphasizes this shortcoming and proposes US help to overcome it.<sup>38</sup>
- Explain that Israel's interest in China has always been more than commercial. It is part of its long-term survival strategies and its wish to build support in important countries bordering the Muslim world. This does not conflict with US policy goals in the Middle East, on the contrary.
- Review with the US repeated Chinese entreaties that Israel or the Jewish people could play a moderating role in the current tensions, or help the West to understand China. Some Chinese believe that the past sufferings of Chinese and Jews create affinities, and others have an unrealistic belief in alleged Israeli or Jewish power. But "the perception of power is power" (attributed to Francis Bacon).
- **External-China:** Chinese policy makers are currently interested in discussing the Middle East with Israeli professionals. Israel's expertise is held in high regard, while the Chinese know that they have a lot to learn. Explore how to initiate and frame such dialogues and support the already involved Israeli NGOs.
- Ask China for more "reciprocity" in economic and political relations with Israel. Reciprocity is a key concept of Confucian philosophy, the moral basis of human relations. China wants something – it should give something.
- Explore whether Israel and Saudi-Arabia could jointly influence China's Iran policies if they work together.
- Caution China that its Iran policy has the potential of escalating tensions between Israel and Iran, including the danger of a direct confrontation that would damage Chinese interests.

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## Endnotes

- 1 The definition of a “super-power” is debatable, and so is the question of whether China has already reached the status of a super-power. US power is of a different dimension than that of any other Western country, Japan or Russia. The US is a super-power. As China wants parity with the US it can be regarded as an aspiring super-power.
- 2 Most of the following figures are taken from *China and the world – inside the dynamics of a changing relationship*, McKinsey Global Institute, July 2019.
- 3 OECD Economic Policy Papers 03: *Looking to 2060: Long-term global growth prospects – A going for growth report*, OECD, November 2012.
- 4 <https://chinadigitaltimes.net/2020/02/netizens-demand-free-speech-after-death-of-disciplined-wuhan-doctor/>
- 5 English edition New York: CN Times Books Inc. 2010.
- 6 Paperback, New York: St. Martins Griffin, 2016.
- 7 Jonathan D.T. Ward, *China's Vision of Victory – And Why America Must Win*, Atlas Publishing: Washington-New York, 2019.
- 8 The Chinese government can and does prohibit the publication of unwanted book but did not do so in these cases. The US government does not have the same power.
- 9 The term “Silk Road” was a Western (probably German) invention of the late 19<sup>th</sup> century. It was accepted by the Chinese and everyone else.
- 10 In China, intellectual property is considered a production input, not a scientific achievement.
- 11 The only major American military intervention was the participation of US marines in a Western intervention force that suppressed the Boxer rebellion of 1900/1901, a violent anti-Western and anti-Christian movement.
- 12 Cella-Margaretha-Girardet, *Juedische Maezene fuer die Preussischen Museen zu Berlin*, Engelsbach: Frankfurt-Washington, 1997, 101.
- 13 *Chronology of United States – China Relations 1784 -2000*, Office of the Historian, Department of State, United States of America. [history.state.gov/countries/issues/china-us-relations](http://history.state.gov/countries/issues/china-us-relations).
- 14 Barbara W.Tuchman, *Stilwell and the American Experience in China 1911-45*, New York: Bantam Books, 1971, 678.
- 15 Thanks are expressed for the help of Prof. Steven Popper, Professor of S&T Policy, The Rand Corporation, and Prof. (ret.) Ron Atlas, Univ. of Louisville, Kentucky who was for many years involved in US Federal S&T policy.
- 16 In 2016 China prohibited public religious celebrations of a small Chinese community claiming Jewish ancestry in Kaifeng. They depended for decades on spiritual and financial help from American Jews which may have sealed their fate. They are innocent victims of a general sweep against foreign beliefs. Israel's Embassy and China's Chabad rabbis do not recognize them.
- 17 As the relevant documents remain classified in all three countries, it is not known who paid the estimated 3,5 billion Dollars for this transfer. Source: Prof. Yitzchak Shichor.
- 18 *Mosaic Magazine*, 15.11. 2
- 19 *Mosaic Magazine*, 12.11.2018
- 20 *Times of Israel*, 21.3.2019
- 21 Adi Pick, *Calcalist*, *Ynet news com*, 22.1.2019
- 22 “US-China-Israel Triangle: Assessing Chinese Media Coverage – Insights from A.B.Pevsner”, *The Diplomat – Trans-Pacific View*, 11.2.2019
- 23 *SCMP*, 23.1.2019
- 24 *SCMP*, 29.1.2019

- 25 *Mosaic Magazine*, 19.11.2018
- 26 Carice Witte, in Sam Chester, "Experts downplay impact on Haifa Port decision," *The Jerusalem Post*, 10.1.2019.
- 27 *The Jerusalem Post*, 31.1.2019
- 28 "China, Israel and the United States: Triangular Pressures", The Jewish People Policy Institute (JPPI), 3.1.2019, [jppi.org.il](http://jppi.org.il).
- 29 *The Jerusalem Post*, 8.2.2019
- 30 Yonah Jeremy Bob, "China wins Haifa Port as fight is on", *The Jerusalem Post*, 11.12.2019.
- 31 Efraim Chalamish, "The Israel-China debate", *The Jerusalem Post*, 22.1.2019, writes: "The need to adapt the Israeli regulatory regime to rising Chinese investments and new global industries such as AI and Big Data is long overdue. The Israeli government has not developed a comprehensive foreign investment policy that includes defining 'national security' or 'national interest...'"
- 32 Eytan Halon, "Hong Kong billionaire: Only US can be Israel's friend in trade war", *The Jerusalem Post*, 3.12.2019.
- 33 Statistics from Israel's Export Institute, see [https://www.export.gov.il/api//Media/Default/Files/Economy/Snapshots\\_2019/China.pdf](https://www.export.gov.il/api//Media/Default/Files/Economy/Snapshots_2019/China.pdf), and [https://www.export.gov.il/api//Media/Default/Files/Economy/Snapshots\\_2019/USA.pdf](https://www.export.gov.il/api//Media/Default/Files/Economy/Snapshots_2019/USA.pdf)
- 34 Yossi Mekelberg, "China and Israel: evolving relations in the shadow of trade wars", *Castlereagh Associates*, 20. September 2019.
- 35 Eanna Kelly, "Israel sets out to become the next major artificial intelligence player", *Science/Business*, 2 July 2019
- 36 Yitzhak Shichor, "My Heart is in the West and I am at the End of the East: Changing Israeli Perceptions of Asia". *The World Facing Israel – Israel Facing the World*, ed. Alfred Wittstock, Berlin: Frank & Timme, 2011, 242-257.
- 37 Yulia Egorova, *Jews and India: Perceptions and Image*. New York: Routledge, 2006, 51.
- 38 Shira Efron et al., *The Evolving Israel-China Relationship*, Rand Corporation: Santa Monica, California, 2019