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Amidst Political Rift with the U.S., Israel seeks New Economic Alliances in Asia

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Following the state's founding in 1948, Israel's fragile presence as the sole Jewish nation in the predominantly Muslim Middle East has kept trade low with its immediate neighbors. However, following years of conducting the majority of its trade with Western countries such as the U.S. and the European Union, increased demand for Israeli exports has arisen from Asia. Now, particularly in the face of diminished faith in the United States as both a strategic ally and trading partner, Israel has turned its attentions toward two rapidly growing economies in the East: China and India. With growing Chinese investment in Israeli high-tech innovation and increased revenue from military arms exports to India, Israel could soon afford to replace dependency on U.S. weapons imports with domestically produced defense technology.

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CHANGING TIDES: ISRAELI TRADE AT A GLANCE

Perhaps not surprisingly provided its nickname, the ‘startup nation,’ Israel is currently a high-income country with a GDP per capita of US\$304.22 billion (Israel GDP 2015). Nevertheless, Israel’s precarious situation as a tiny outlier nation in the geopolitically volatile Middle East implicates challenges for both Israeli national and market security. Today, Israel’s primary international export is high-tech defense technology (World Trade Policy Review, 2015) equipment that the state once largely imported from the United States and has now come to produce domestically, selling the output to trade partners in various corners of the globe.

Who are these distant commercial partners of Israel? In fact, Israel does significant trade in Asia, with China and India representing its largest trading partners. At present, Israel trades expertise in many categories of high-tech innovation with Chinese investors as well as provides India with agricultural and military defense technology (Parashar 2014). When analyzing partnerships, we must examine both strategic as well as business alliance. In general, while Israeli exports to China mainly consist of agricultural technology, including the cutting edge drip irrigation system to support farmers in rural China (China Bilateral Trade Review 2011), Israel’s farming products to India are supplemented by a host of defense equipment, making the Jewish State India’s second largest arms supplier after Russia. (Israel-India 2013) This relatively recent trend in defense technology begs the question of strategic importance placed by India on military imports from Israel, especially provided India’s increasing tensions with Pakistan, a situation of hostility among neighbors that Israelis understand all too well. Herein lies the apparent difference between Chinese and Indian interest in Israeli exports: while the former seeks investment profit from technology, the latter desires enhanced security through trade of military technology specifically.

Finally, our preface would not be complete without a reference to the United States, Israel’s largest trading partner, top exporter of weapons and foreign investment, and a participant in official bilateral trade with Israel since the year 1985 (Zanotti 2015). Indeed, the U.S. has remained a strong supporter of Israel’s national security throughout the past six decades and yet, the current prospect of improved trade relations with Iran could be said to have Israel questioning American loyalty and turning to Asian markets, such as China and India, as a result. At its core, Israel’s perilous political position has instilled a need for national security as a chief element of Israeli cultural ethos (Glick 2006). Such a value can be observed not only in the identity of Israel’s new geographically distant trade partners but also in the nature of the main products traded. In the near future, however, Israel might have to consider manufacturing its own weapons rather than relying upon U.S. imports.

CHINA AND ISRAEL: INVESTMENT IN INNOVATION, TRADE IN DEFENSE

With a wealth of high-tech startups blossoming throughout the Jewish State, Chinese investors have flocked to Israel’s market. In fact, this past year of 2015 has seen Israeli exports to the Far East nearly surpass those to the U.S., with a rise of 4.7% in goods to Asia (Coren 2014). Such burgeoning trade between China and Israel has resulted in plans for an official bilateral free trade agreement proposed for the year 2015 (Blanchard 2014). Already, a new tax agreement is

underway to facilitate trade in addition to the influx of Chinese foreign investment already flowing into Israeli startups (Elis 2015). Successfully eased commercial relations will ideally support the exchange of goods, services and investment in all industries between these two fast-growing markets. For example, it could make it easier for Chinese investors to travel more freely back and forth to Israel and enable the establishment of Israeli research and development facilities in China to supplement their Chinese counterparts already operating in Israel.

Of course, commercial relations between China and Israel have included political challenges of weapons trade, reaching as far back as the Chinese communist period under Mao Zedong. Whereas Mao wrote off Israel as a Western-backed symbol of imperialism, his Cold War-era successor, Deng Xiaoping, recognized an opportunity in increased access to Israeli high-tech weaponry via improved diplomatic ties and subsequently liberalized trade relations (Gottesman 2015). Indeed, his view may have been the spark that led to the curiosity held by many of today's Chinese investors regarding Israeli innovative technology. In turn, to show its support for China, Israel ceased all weapons sales to Taiwan in the year 1986 and thus, a solid and discrete new business alliance was formed.

Perhaps most interestingly, a common work ethic and ancient ties to their respective cultures seem to have played a primary role in shaping this blossoming new relationship between China and Israel. In particular, Israel's alias as the 'startup nation' seems to not only have piqued the intrigue of many Chinese investors but has also contributed to the growing number of Chinese learning centers established recently in Israel to help the former study new cow milking, water sanitation, and various other techniques to improve China's currently struggling agricultural market (Israel and China: The Odd Couple 2015). In general, the branding consensus among the Chinese portrays Israel and the Jews as a smart people, and every day, news of innovative technology reaches China's investors and various other types of professional citizens within the country via social media. Moreover, several leading Chinese investors have taken interest in the fact that many products developed by the world's top technology firms, such as Google and Intel, originated in Israel. Ronnie Chan, Chairman of Chinese holding company Hang Lung Group, elaborates on plans for Sino-Israeli investment in technology: "Some companies can set up research and development centers here, some can bring Israeli companies to China, some can open up the Chinese market for Israeli companies. I have no idea where this will lead" (Cohen 2013).

Promising as it may appear, China's solidifying commercial relations with Israel also pose a risk of alienating the former's primary source of oil: Iran. While China's interest in Israeli high-tech firms remains unique compared to its energy-based interest in most other Middle Eastern countries, Israel could see China surpass the U.S. in terms of its largest export market. With Israeli exports to China having reached over US \$3 billion, Chinese investors are considering a variety of sectors in the Jewish State, including communications, water treatment, medical equipment, and renewable energy, in addition to agriculture and high-tech (Meidan 2014). In this light, resuming official military cooperation between these two nations becomes a question of whether adding military defense trade to their already fast growing commercial ties will render a profit worthy of risking both China's relationship with the oil-rich countries in the Middle East as well as Israel's alliance with and financial aid from the United States.

Perhaps it was this need to safeguard diplomatic relations alongside business ties that contributed to the appointment in 2012 of Israel's current ambassador to Beijing, Matan Vilnai. As a former commander in the Israel Defense Forces, Vilnai now works alongside Israeli Defense Minister Ehud Barak to both protect peaceful political ties with the Chinese as well as emphasize the significant role of defense technology in Israeli exports to China (Kumaraswamy 2012). Particularly in the absence of a tense history or pro-Palestinian, anti-Israel sentiment as exists today among many European nations regarding Israel, China has a wealth of opportunity to offer the Jewish State. Indeed, with U.S. hegemony on the decline and subsequent American scrutiny of Sino-Israeli relations coupled with suspected pro-Muslim bias from President Barack Obama, investment in manufacturing defense technology remains enticing. Israel could stand to gain a great deal from covertly replacing its Western trading partners in the EU and the U.S. with the rising giant to the East.

INDIA AND ISRAEL: STRATEGIC ALLIES AGAINST FUNDAMENTALISM

Since the election of Hindu nationalist Narendra Modi as the current Prime Minister of India in May of 2014, Israeli Prime Minister Benjamin Netanyahu and his cabinet have capitalized on the surge in Indian hawkishness toward the security threat with Pakistan to re-enforce plans for an Indo-Israeli bilateral trade agreement, with particular emphasis upon exports of high-tech defense technology. Already, the past decade has seen Israel nearly catch up with Russia as India's second largest defense supplier, hitting a record of US \$10 billion in high-tech military exports (NP 2012). In fact, Israel now overtakes Russia when it comes to specific sectors within aerospace defense technology. In an interview with Indian Aerospace and Aviation professional, Parag Patkar, UAVs were revealed as being of particularly valuable quality to India:

“India lacks expertise in a few areas that Israel Aerospace fulfills. The main area is Air Defense, but there are a few others like sea-launched anti-ballistic missiles, Unmanned Aerial Vehicles / Drones. But where Israel has a lock on Indian Defense purchases is in Air Defense Technologies - AWACS (Airborne Radar System), Ground-based Radar, anti short-range missile systems (components of the Iron Dome), and a large range of electronic warfare equipment. The other area where India prefers Israeli tech is in aerial reconnaissance and surveillance. For these areas, India relies on Israeli tech versus Russian tech, because Israeli tech is superior.” (Patkar 2015)

The fact that an ever-expanding market such as India now depends strongly upon Israel for weaponry—in some ways, more so than its long-time supplier, Russia—clearly indicates a sense of strategic alliance between the two nations as well as Indian acknowledgment of the invaluable quality of Israeli aerial technology. Simply stated, India recognizes a superior manufacturer and a kindred spirit in Israel since both experience perpetual terrorism at the hands of hostile neighbors who adhere to Islamic radicalism. The fact is, India and Israel need one another. While Israel seeks to replace trade revenue losses from its recent stagnation in commercial relations with Turkey, India requires the most cutting edge defense technology available in their struggle over the Kashmir border with Pakistan, which many have deemed the bloodiest border in the world. In particular, Israel Aerospace Industries has offset prices on certain drone and missile

exports to India in order to persuade Indian consumers to choose Israeli products over those of American and Russian competitors (Opall-Rome 2015). Already, Israeli producers have an advantage in terms of air defense technology, as the Indian Army has made major use of such weaponry in defending its border with Pakistan. Moreover, not unlike in China, Israelis enjoy a reputation in India as world-class scientists, further solidifying the likelihood of Indian reliance upon Israeli technology. Especially now that India has turned its attentions toward Iran as another potential adversary, Indian military officials are increasingly interested in Israel's aerial technology, such as Israeli Heron UAVs² and Barak-1 missiles (Ningthoujam 2014).

Indeed, while Israeli exporters will likely always face competition from fellow international producers of military technology as well as opposition from protectionist forces within India that prefer domestic procurement, the value of strengthening Indo-Israeli trade relations are undeniable and stem largely from strategic origins. In casting a glance at history, Muslim Pakistan's hostility toward India despite Indian support for Palestine since the founding of Israel in 1948 has gradually urged many Indian elites to soften in their stance toward the Jewish State (Desai et al. 2008). Therefore, such an alliance in the face of similar conflicts with practically ideologically identical hostile opponents should come as little surprise.

In fact, India now serves as the largest export market for Israeli arms; they have even expressed interest in purchasing – or at the very least, studying the development of – Israel's renowned Iron Dome missile defense technology (Parashar 2014). Even though both China and India view Israel as a force to be reckoned with in terms of technology innovation and defense, bilateral relations with India seem closer on the horizon, particularly provided China's precarious situation with safeguarding access to Iranian oil. India, on the other hand, has comparatively little to lose, weak as its reputation is among the community of Islamic nations provided the current situation in Kashmir. Meanwhile, Israel would do well to use trade revenue from such military exports to India as another source of funding for manufacturing its own weapons.

THE U.S.: A FADING SPARK

At last, we turn to what many would consider the longtime best friend of Israel – the United States. In the past 20 years, exports from the U.S. to Israel have increased from US\$2.5 billion to US\$11.3 billion, with a large chunk of products flowing into Israel's military aircraft supply (The U.S.-Israel FTAA 2011). Moreover, commitments between these two nations have narrowed over the years from military financing to joint research development in counterterrorism and security initiatives (U.S. Relations with Israel 2015). At this point in time, Israel has begun looking for back-up trade partners and strategic allies, should the U.S. desire to appease Islamic countries in the Middle East for oil access during times of recession surpass their dedication to shared American-Israel security concerns. Might expanding trade with China and India mean adding two markets to Israel's seemingly ever-successful commercial relationship with the U.S.? Perhaps not. Israel's courtship of new business prospects in Asia could reflect less an attempt to expand trade and more of an effort to replace what the Israelis fear may be weakened loyalty on America's part. As the international community grows

² Unmanned Aerial Vehicle; drone

increasingly critical of Israeli policy toward the Palestinians and specifically scrutinizes the use of U.S.-manufactured weaponry against civilians in the Gaza Strip, Israel fears that its status as top recipient of U.S. foreign aid and military exports (Hartung 2002) might be in question. Furthermore, provided the recent election of reformist Hussein Rouhani to the Iranian presidency and subsequent plans voiced by U.S. President Barack Obama to normalize trade relations with Iran in the near future, Israel might envision the U.S. as potentially facing the same challenge as China regarding choosing sides when it comes to the option of forming an alliance with either Iran or Israel. If anything, the recent nuclear deal signed between Iran and the United States has caused Israeli Prime Minister Netanyahu and his government the most skepticism yet regarding America's commitment to Israel's security.

CONCLUSION

Essentially, what we are witnessing these days between Israel and its long-time ally, the U.S., is a game in which political support often yields economic profit. Since America's signing of the Iran Nuclear Deal and the dire impact of the 2011 U.S. recession, the Jewish State has turned a cold shoulder to Obama and begun looking elsewhere for alternative commercial and strategic connections. However, despite China and India both serving as economically promising prospects for major trade partners in defense technology with Israel, each nation presents a slightly different case for supporting increased business relations. China, on the one hand, has enjoyed subtle yet steady trade with Israel ever since the beginning of the Cold War. Indeed, with Israeli trust in the U.S. quickly diminishing, the powerful Chinese market will likely appear far brighter and China will be hard pressed to turn away an influx of affordable and cutting edge Israeli agricultural and military technology for Iranian oil, access to which its trade with the Jewish State thus far has hardly endangered. It seems that both China and Israel can only gain from striking official commercial ties, especially considering how successful Chinese investment in Israeli high-tech has proven thus far.

Continuing on the topic of attracting new buyers, Israel's lowering of prices on military exports to India also speaks volumes in terms of efforts to hasten stronger trade ties with the Indian people, whom many Israelis view as facing challenges of Islamic terrorism that mirror those faced by the Jewish State. Particularly with the rise of a more Hindu nationalist leadership, Indian government is less preoccupied with appeasing its resident Muslim community and more concerned with accessing the necessary weaponry to defend its border against Pakistani militants, a feat in which Israeli defense innovation plays a major role.

Whether Israeli exports flow mostly into the agriculture or defense sector, the trend remains that as Israel realizes more trade with these two Asian markets, financial support from the U.S. will be rendered less crucial. By and large, while Israel will unlikely completely sever its cord with the United States, the age of Israeli-American dominated economic cooperation may soon encounter a rival in blossoming multilateral trade among Israel, China, and India.

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