



Prospects for Taiwan-Israel Economic Cooperation amid Sino-US Rivalry

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Abstract

Sino-US trade tension presents an opportunity for Taiwan and Israel—both informal protectorates of the US yet have China as a large trading partner—to upgrade their economic cooperation, and jointly diversify their trade away from China towards other Asian countries in the Indo-Pacific to restructure the global supply chain and development finance.

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Analysis

The United States under the Trump administration had been asking its allies, including Taiwan and Israel, to sever commercial ties with China in areas that present unacceptable security risks.¹ In the midst of an increasing Sino-US rivalry, mounting concerns over the security risk in over-dependence on China's market in the global supply chain, and with the military applications of dual-use technologies showing no clear signs of abating under the Biden administration, both Taipei and Jerusalem are likely to continue diversifying their relationships with other countries in the Indo-Pacific and with each other. Traditionally, Taiwan has figured prominently in US discussions regarding Sino-Israeli high-tech cooperation due to its potential adverse impact on the cross-Strait military balance.² Now, with increasing US pressure to "decouple" its hi-tech cooperation with China, Israel is looking to relocate its supply chain to other countries in the Indo-Pacific, and Taiwan—often dubbed the "Israel of the Far East"—could become an even more attractive option.³

Current Taiwan-Israel Sectoral Cooperation

Historically, economic relations between Taipei and Jerusalem have not been very significant, primarily due to Taiwan's focus on China and the United States and Israel's emphasis on trading with the EU and the United States, respectively. For example, in 2019, Israel was Taiwan's 31th largest trading partner, and trade with Jerusalem only accounted for 0.28% of Taiwan's total trade.⁴ However, in 2015, both countries began to see complementarity between their economies, with Israel serving as a world leader in innovation and Taiwan emerging as a major international hub for engineering and quality manufacturing.⁵ This culminated in the first research and development (R&D) cooperation agreement between the Office of the Chief Scientist at the Israeli Ministry of Economy and Taiwan's Department of Industrial Technology (DOIT, 經濟部技術處) in the Ministry of Economic Affairs (MOEA).⁶

Currently, there are already various joint industrial R&D cooperation programs in place, funded by Taiwan's DOIT and the Israel Innovation Authority within the Ministry of Economy.⁷ Key sectors for cooperation include clean tech, communications, internet, information technology and enterprise software, life sciences, semiconductors, nanotechnology, defense, and industrial technologies. In November 2020, during the virtual 13th Taiwan-Israel Economic and Technological Cooperation Conference, further areas discussed for cooperation

¹ Tyler Kotler, "Israel-China Ties: The 'Sticking Point With the U.S.?'", *Honest Reporting*, May 19, 2020, <https://honestreporting.com/israel-china-ties-the-sticking-point-with-the-us/>

² This apprehension goes back to the late 1990s, when Washington pressured Israel to cancel the sale of Phalcon early warning aircraft to China. The US intervened again in 2004 to thwart the sale of Harpy surveillance aircraft, leading to a Jerusalem-Beijing rift that took years to mend. Holmes Liao, "Taiwan's security; U.S.-Israeli relations", *The Jerusalem Post*, April 9, 2002, <http://www.taiwandc.org/jerusalem-post-2002-01.htm>

³ Uriel Sturm, "Taiwan—the Israel of the Far East", *Jerusalem Post*, January 16, 2020, <https://www.jpost.com/Magazine/Taiwan-the-Israel-of-the-Far-East-614365>; Roie Yellinek, "Taiwan and Israel: Don't Recognize, but Collaborate", *The Algemeiner*, March 15, 2020, <https://www.algemeiner.com/2020/03/15/taiwan-and-israel-dont-recognize-but-collaborate/>

⁴ Taiwan Ministry of Economic Affairs, "Taiwan-Israel Economic Relations", May 15, 2020, https://www.trade.gov.tw/english/Pages/Detail.aspx?nodeID=2910&pid=652094&dl_DateRange=all&txt_SD=&txt_ED=&txt_KeyWord=&Pageid=0

⁵ "A First! Israel's Chief Scientist in Taiwan to sign R&D cooperation agreement", *Israel Science Info*, April 18, 2015, <https://www.israelscienceinfo.com/en/hightech/premiere-chief-scientist-israelien-taiwan-signer-accord-rd/>

⁶ *Ibid.*

⁷ Israel Innovation Authority, "Taiwan-Israel R&D Program—9th Call for Proposals", January 1, 2020, <https://innovationisrael.org.il/en/opencall/taiwan-israel-rd-program-9th-call-proposals>

included the circular economy, financial technology, digital healthcare, and smart city development.⁸

1.4 Technology Sector & Subsector of Project (Select 1 sector and 1 corresponding subsector)

Clean-Tech

Agro biotech Energy Environment Materials

Water Technologies

Communications

Broadband Access Broadcast Enterprise Networking Home Networking

Mobile Applications NGN & Convergence Optical Networking Telecom Applications

VoIP & IP Telephony Wireless Applications Wireless Infrastructure

Internet

Content Delivery Content Management e-Commerce E-Learning

Internet Applications Internet Infrastructure Online Advertising Online Entertainment

Search Engines Social Networks

IT & Enterprise Software

Business Analytics Security Enterprise Applications Enterprise Infrastructure

Miscellaneous Design and Development Tools

Software

Life Sciences

Agro biotech Bioinformatics Biologicals Diagnostics

Healthcare IT Industrial Medical Devices Telemedicine

Therapeutics

Miscellaneous Technologies

Defense Hardware Industrial Technologies Miscellaneous

Nanotechnology

Semiconductors

Fabrication and Testing Manufacturing Memory & Storage Miscellaneous

Network Processors Equipment & EDA Processors & RFID Security Semiconductors Semiconductors

Video, Image & Audio







Source: Taiwan Ministry of Economic Affairs, Industrial Technology Research Institute
[Israel Innovation Authority](https://www.moea.gov.tw/MNS/english/news/News.aspx?kind=6&menu_id=176&news_id=92326), Taiwan-Israel R&D Cooperation Program Call for Proposals (2020).

⁸ Taiwan Ministry of Economic Affairs, "Taiwan-Israel economic and technological conference achieves positive outcomes, including signing of standards agreement", November 25, 2020, https://www.moea.gov.tw/MNS/english/news/News.aspx?kind=6&menu_id=176&news_id=92326



During the conference, MOEA Deputy Minister Chen Chern-chyi (陳正祺) and Ohad Cohen, director of the Foreign Trade Administration at the Israeli Ministry of Economy and Industry concluded an agreement on standards and inspection cooperation.⁹ Minister Chen lauded Tel Aviv as the Silicon Valley of the Middle East and highlighted the potential of pairing it with Taiwan's manufacturing sector. Furthermore, he stated his belief that both sides are poised to tap new opportunities arising from the restructuring of global supply chains.

Although two-way trade only reached USD \$1.77 billion in 2019, Cohen noted that bilateral investment and trade ties are increasing, as evidenced by a 40-plus-percent surge in Israeli exports to Taiwan in the same year.¹⁰ Moreover, the primary aim of Taiwan-Israel economic ties is not necessarily increasing trade volume, but rather promoting innovation cooperation.

Indeed, in September 2019, the Taiwan External Trade Development Council (TAITRA, 中華民國對外貿易發展協會) opened a branch in Tel Aviv called the Taiwan Trade and Innovation Center.¹¹ According to Taiwan's former Foreign Minister James Huang (黃志芳), "the two countries are very innovative and I wanted to promote their cooperation," so the purpose of the new branch in Tel Aviv is "not to trade, but to encourage business cooperation."¹²

Start-ups to Scale-up for Israeli Companies

Emma Yang, director of TAITRA's Tel Aviv office, concurred that the aim of the branch is primarily to promote technological collaboration and innovation activities between Taiwanese companies and the Israeli startup ecosystem.¹³ Yang argued that Taiwan's manufacturing prowess complements Israeli tech innovation, and Taiwan can help Israeli companies go from the startup to the scale-up phase:

"For Israeli companies, Taiwan can be a technological and strategic hub for scaling-up by providing access to all stages of the supply chain. Taiwan has a complete supply chain for many hardware tech products—from the smallest of chips and component manufacturers, through product design and assembly companies, to a large variety of end-product OEMs and brands."

Yang added that "in electronics, Taiwanese companies are the primary manufacturers of top world-leading brands' products, such as Apple iPhones and MacBooks, GoPro cameras, and hardware by Microsoft, Dell, HP, etc." In many cases, they are also the developers and designers, and as such Yang believes collaborating with large Taiwanese companies such as Acer, Asus, D-Link, and others "will place Israeli companies on the global stage and help their scale-up and growth."

⁹ Taiwan Ministry of Foreign Affairs, "Taiwan, Israel hold economic, technological cooperation consultations", November 26, 2020, https://nsppe.mofa.gov.tw/nsppe/content_tt.php?unit=6&post=189711&unitname=Taiwan-Today&postname=Taiwan-Israel-hold-economic-technological-cooperation-consultations

¹⁰ "Taiwan, Israel hold economic, technological cooperation consultations", *Taiwan Today*, November 26, 2020, <https://taiwantoday.tw/news.php?unit=2,6,10,15,18&post=189711>

¹¹ TAITRA, <https://telaviv.taiwantrade.com/home>

¹² Taipei Economic and Cultural Office in Tel Aviv, "In Taiwan we do not dispute the manager—we came to Israel to learn how to do it", October 4, 2019, https://www.roc-taiwan.org/il_en/post/2048.html

¹³ Allon Sinai, "Taiwan's Manufacturing Prowess a Perfect Match for Israeli Tech Innovation", *The Algemeiner*, October 13, 2020, <https://www.algemeiner.com/2020/10/13/taiwans-manufacturing-prowess-a-perfect-match-for-israeli-tech-innovation/>



In addition to the need for scale-up, Israel also needs scale-economies, wherein increased production translates into cost reductions, as fixed and variable costs are spread over more units of production. Too small to have economies of scale for developing its products, Jerusalem needs to attract foreign investment and export-oriented trade to maintain economic growth. In the past, both Taiwan and Israel had relied on China's immense market and well-organized infrastructure, but now Taipei is diversifying towards Southeast and South Asian markets via the New Southbound Policy (NSP, 新南向政策). Additionally, Taiwan is cooperating with Washington via its "Framework to Strengthen Infrastructure, Finance, and Market Building Cooperation" (台美基礎建設融資及市場建立合作架構), established to raise funds through private sector capital for infrastructure and construction projects.¹⁴

As for Israel, due to ongoing problems of Boycott, Divestment, and Sanctions (BDS)¹⁵ movement from the EU and the United States, China became an alternative source of venture capital and financing of infrastructure projects.¹⁶ But now, as Jerusalem faces pressure from Washington to diversify to other sources of funding, various countries in the Indo-Pacific region and the Asian Development Bank (ADB) could step in to fill the investment gap.

Development Finance and Asian Development Bank

In 2015, Israel, along with various US allies in Europe, Asia, and the Middle East, joined the China-led Asian Infrastructure and Investment Bank (AIIB).¹⁷ Recognizing the importance of the Asian market to its economic growth, Israel also sought to improve relations with Asia by negotiating free trade agreements with China, Japan, and South Korea.¹⁸

Although Washington would prefer that Israel join the Japan and US-led ADB rather than the AIIB as an alternative source of development finance, Jerusalem had been barred from the ADB due to the objections of Muslim member states.¹⁹ Israel was able to join AIIB despite membership of Muslim countries, largely due to Chinese leadership. However, now that the Trump administration was able to broker the Abraham Accords peace agreements between Israel and a slew of Arab and Muslim-majority nations—including the United Arab Emirates, Bahrain, Morocco, and Sudan—membership in the ADB looks increasingly likely for Israel.²⁰

¹⁴ American Institute in Taiwan, <https://www.ait.org.tw/zhtw/us-taiwan-convene-first-working-group-meeting-under-infrastructure-finance-framework-zh/>

¹⁵ BDS is a Palestinian-led movement promoting [boycotts](#), [divestments](#), and [economic sanctions](#) against [Israel](#). The goal is to push Israel to recognize the rights of Palestinian citizens currently living in Israel; allow Palestinian refugees, who were driven out of the country as early as [1948](#) when Israel was created, to return to their homes; and withdraw from all land that it seized after the 1967 Arab-Israeli war, including the West Bank. <https://time.com/5914975/what-to-know-about-bds/>

¹⁶ Ariel Kahana, "EU policies on Israel influenced by political pressure from radical elements", *Israel Hayom*, June 25, 2020, <https://www.israelhayom.com/2020/06/25/eu-policies-on-israel-influenced-by-political-pressure-from-radical-elements/>

¹⁷ Hillel Fendel, "Israel Joins Asian Bank, Over U.S. Objections", *Arutz SHEva*, April 17, 2015, <https://www.israelnationalnews.com/News/News.aspx/194203>

¹⁸ Dubi Ben-Gedalyahu, "Israel and Korea to sign free trade agreement next week", *Globes*, December 9, 2020, <https://en.globes.co.il/en/article-israel-and-south-korea-to-sign-free-trade-agreement-next-week-1001352448>

¹⁹ Oded Eran, "Israel should develop economic ties with CHIna, but with open eyes", *Ynet News*, March 20, 2017, <https://www.ynetnews.com/articles/0.7340.L-4938013.00.html>

²⁰ "Sudan quietly signs Abraham Accords weeks after Israel deal", *Reuters*, January 6, 2021, <https://www.reuters.com/article/uk-sudan-usa-israel/sudan-quietly-signs-abraham-accords-weeks-after-israel-deal-idUSKBN29C0Q5>



As Israel diversifies its international relationships to include Taiwan, Japan, India, and other countries in the Indo-Pacific in order to adjust to the restructured global supply chain and maintain access to flows of capital, Taipei, Washington, and Jerusalem can utilize other existing cooperation frameworks to upgrade global development finance. For example, Israel could join the Blue Dot Network formed by the US, Japan, and Australia, which seeks to promote higher-quality infrastructure investment, as well as the Global Cooperation and Training Framework (GTCF), which helps Taiwanese experts share their expertise with other countries.²¹ Established in 2015, the GTCF serves as a platform to bypass Taiwan's lack of representation in international institutions, thereby allowing Taiwanese experts to share their knowledge and best practices in various fields, including public health, law enforcement, disaster relief, energy cooperation, women's empowerment, digital economy and cyber security, media literacy, and good governance. This is especially important, as Taipei's success in COVID-19 pandemic management, as well as its comparative success in supply chain diversification from China to South and Southeast Asia, could offer valuable lessons learned for Israel as it also attempts to navigate these two challenges.²²

Remarks: Opinions expressed in this contribution are those of the author. This article first appeared in *Global Taiwan Brief*, vol. 6, issue 2, Global Taiwan Institute, on January 27, 2021.

²¹ U.S. Department of State, "Blue Dot Network", <https://www.state.gov/blue-dot-network/>; American Institute in Taiwan, "Global Cooperation and Training Framework (GCTF) Programs", <https://www.ait.org.tw/our-relationship/global-cooperation-and-training-framework-programs-gctf/>

²² Hilton Yip, "Taiwan's Economic Decoupling from China is a Model for Others", *Foreign Policy*, July 24, 2020, <https://foreignpolicy.com/2020/07/24/taiwan-china-economic-ties-decoupling/>