

Monthly Review of China's Global Impact by SIGNAL

HIGHLIGHTS

Does the U.S. have an international coalition to tackle China?

Insights from the February session of SIGNAL's *Virtual Roundtable Series - China on the World Stage*

Israel to Formalize Scrutiny on Foreign Investments

Plan classifies Israeli infrastructure according to their sensitivity.

China Passes New Law Permitting Coast Guard to Shoot Foreign Vessels; U.S. & Allies Increase Maritime Footprint

Tensions increase in the resource-rich South China Sea.

From SIGNAL's Policy Research Desk

Dale Aluf with Jodi Becker warn of the implications for Israel from the **looming U.S.-China Clean Tech race**



Quad Holds First-Ever Summit Ahead of China-U.S. Face-to-Face Meeting

Ahead of the first face-to-face meeting of senior Chinese and U.S. officials since the Biden administration took office (page 3), U.S. President Biden, Japan's Prime Minister Suga, India's Prime Minister Modi, and Australian Prime Minister Morrison held - virtually - the inaugural Quad Leaders' Meeting (page 4).

Above: Prime Minister Morrison joins from Canberra the virtual Quad Summit Meeting
Photo credit: *Prime Minister Morrison's Twitter Account*

WHAT IS SIGNAL'S TEAM FOLLOWING - Outcomes of China's "Two Sessions" & the 14th Five-Year Plan

The "two sessions" - the annual meetings of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) - met in Beijing during the first half of March. Among the most important political events in China, the meetings reveal decisions that will shape both China's domestic arena and the global economy. This year's meetings were particularly significant as they unveiled the nation's 14th five-year plan - an articulation of the priorities to bolster the party's control domestically and China's position abroad. SIGNAL's Team is now following-up on the outcomes of the meeting and new five-year plan. Follow this space.

SIGNAL is an Israeli policy organization that specializes on China-Israel relations. Focusing on academic and policy networking, **SIGNAL** empowers Israeli policy practitioners by cultivating in-depth knowledge of China and presents an informed understanding of Israel and the Middle East to China's current and future leaders. Harnessing its global China policy network, **SIGNAL** seeks to strengthen Israel's regional and international position and serves the national interest of Israel. More at: sino-israel.org

At SIGNAL's Virtual Roundtable: Does the U.S. have a "United Front" to Tackle the China Challenge?

The February meeting of SIGNAL's Virtual Roundtable Series - China on the World Stage - sought to unpack U.S.' relations with its allies on China.

Held under the Chatham House Rule, speakers contended that ***in addressing the challenge that China poses, the U.S. and its allies are not on the same page.*** Japan and Australia are America's most resolute allies vis-à-vis China, and India is closing ranks and not far behind. However, U.S. allies in Europe are - by and large - more reluctant to commit to the Biden administration's ambition to be "tough" on China.

The U.S. and its key allies in the Indo-Pacific share a similar threat perception of China - viewing it as a multi-dimensional and long-term challenge that could harm their security, prosperity, and way of life. However, Europe is disunited and ambivalent, and lacks an appetite for containing or isolating China. The recently concluded EU-China investment deal was raised as a demonstration of the business sectors' key role of the shaping Europe's stance towards China, albeit with increasing qualms regarding China's domestic and international conduct, especially on human rights.

Furthermore, participants noted two additional factors that are hampering the American pursuit of a formidable coalition to counteract China's rise. First, China's global economic heft and its embrace of "dual circulation" are increasingly luring not only European business. Foreign direct investment from the U.S. in China is rising and the other three Quad partners have strong commercial interests in China despite recent tensions. In addition, speakers pointed to the limited capacity of the Quad. The re-emergence of the Quad is indeed a remarkable shift in the Indo-Pacific order - from a set of bilateral alliances between the U.S. and its Asian allies (the Hub-and-Spokes) to an embryonic and loose multilateral setting. With India not formally designated as a U.S. ally and the notable institutional informality of the Quad, this forum has yet to evolve as a coalition that could deter or deny China's regional and global ambitions.

Therefore, speakers contended that ***the U.S. will have to adopt a multi-pronged approach and work with imperfect coalitions with ad-hoc and varying partners on different policy aspects.***

SIGNAL's **China on the World Stage** Virtual Roundtable Series convenes China policy experts and practitioners from Israel and around the world to deliberate topical themes every month. Deliberations are held under the Chatham House Rule, and participation is by invitation only.

From SIGNAL's Policy & Research Desk

SIGNAL's Director of Research and Strategy **Dale Aluf** wrote [this piece](#) with assistance from SIGNAL's **Jodi Becker**: **Israel's looming conundrum: a US-China cleantech arms race.** A version of the article was published in the Times of Israel [here](#). "Israeli leadership needs to shift course and place Israel's China policy on a more proactive path, replacing the ad hoc measures of "putting out fires" that currently characterizes Israel's approach to managing relations with Beijing."

Dale Aluf explains [here](#) why Israeli policymakers and business entrepreneurs should follow China's "two sessions" and the newly-minted five-year plan of China.

From SIGNAL's Archives: In summer 2020, **Dale Aluf** [foresaw](#) the escalating crisis between **China and Australia - a 'Diplomatic Ice Age'**

China-U.S. First Face-to-Face Under Biden

Both sides ramp-up rhetoric ahead and during meeting – mark a shift in approaches

Chinese and U.S. envoys held their first direct meeting in Alaska since the Biden administration took office (April 18-19). Secretary of State Tony Blinken and National Security Adviser Jake Sullivan met with China's top diplomat and politburo member, Yang Jiechi, and with the Foreign Minister, Wang Yi. The two-day rounds of meetings opened with a [public display of](#) rancor and ended without a joint statement. The ceremonial opening of the talks turned into an open exchange of mutual accusations. After Politburo member Yang accused the U.S. of acting in a "condescending" manner in a 16-minute-long rebuke of America's domestic challenges, Secretary Blinken warned that "it's never a good bet, to bet against America." [View the opening session [here](#)]

U.S. officials told reporters that subsequent discussions were cordial. [Following the talks](#), Secretary Blinken noted that the exchange in itself was valuable. Politburo member Yang similarly noted that "this strategic exchange was frank, constructive and helpful," in remarks to Chinese state television.



Secretary Blinken speaks as Politburo member Yang (left) and Foreign Minister Wang (second from left) look on
Credit: Pool photo by Frederic J. Brown

The Alaska meeting well-reflected the evolving shift in the respective approaches of the two powers. Since the [two-hour call between Presidents Xi and Biden](#) through the meeting in Alaska, the **U.S. administration sought to maintain a tough posture in both deeds and words.** In both encounters, the American side has consistently and harshly criticized Beijing, but also opened the door for cooperation – albeit on a restricted set of issues of "shared concern". Ahead of both exchanges, the administration underscored a tough posture vis-à-vis China that would be based on international coalitions. Just before a call with his counterpart, President Biden warned that [China would face "extreme competition"](#). In his first [major foreign policy speech](#), Secretary Blinken referred to relations with China as America's "biggest geopolitical test of the 21st Century."

In the run-up towards Alaska, President Biden convened the first-ever leaders' meeting of the Quad that took aim at China's "vaccine diplomacy", and then dispatched the Secretaries of State and Defense for their first international trip to consult with their counterparts in Tokyo and Seoul. From Seoul, Secretary Austin headed-off to India for meetings, while Secretary Blinken flew to Anchorage to meet his Chinese interlocutors. The White House announced that Japan's Prime Minister Suga will be the first foreign leader to call on President Biden face-to-face in Washington in early April. In Tokyo, Secretary Blinken [pledged](#) to "push back if necessary when China uses coercion or aggression to get its way." A day ahead of the meeting in Anchorage, the State Department [announced](#) it would place individual sanctions on 24 Chinese and Hong Kong officials "whose actions have reduced Hong Kong's high degree of autonomy."

Following the meetings in Tokyo, China dialed-up its own rhetoric. The Foreign Ministry's spokesman, Zhao Lijian [referred](#) to the U.S. as "the top threat to world peace and security" and that Japan "willingly stoops to acting as a strategic vassal of the United States." In Alaska, Foreign Minister Wang admonished the American hosts for imposing sanctions on the Chinese officials just ahead of the meeting, saying "this is not supposed to be the way one should welcome his guests." In response to American criticism of China's human rights record, Politburo member Yang accused the U.S. of hypocrisy, cited the Black Lives Matter movement and claimed that "the challenges facing the United States in human rights are deep-seated."

While U.S. officials contended that the Chinese officials' public remarks were "grandstanding", analysts have argued that the [Chinese approach reflects Beijing's confidence](#) in pursuing its interests and aims openly and blatantly. **Chinese leaders appear assured in their capability to confront the U.S. and advance their agenda in the international arena.** Responding to Secretary Blinken's remarks that he heard real concerns regarding Chinese coercive behavior in his talks in Tokyo and Seoul, Politburo member Yang flaunted his country's economic heft and noted that those two allies were China's second and third largest trade partners.

Inaugural Quad Leaders' Meeting: Not a Word on China

President Biden's push for the [first-ever meeting of the Quad's leaders](#) so early in the administration signals that the **'Quad' will become a central part of the U.S. strategy in Asia**. President Biden is building on the previous administration's efforts to solidify the strategic partnership. The forum, revived in 2017, is intended to be a counterweight to the rise of China, but the leaders' joint statement titled "The spirit of the Quad" and their co-authored *Washington Post* [op-ed](#) does not mention China by name.

Nevertheless, the leaders targeted one of China's recent initiatives - dubbed "vaccine diplomacy" - a push of China-made vaccines from Africa to the Middle East and Latin America to [further the "Health Silk Road."](#) as Beijing has called it. Chinese officials were hoping that people receiving Chinese vaccines will develop positive attitudes towards China.

To counter the Chinese effort, the four Quad members [pledged to jointly manufacture and deliver](#) up to 1 billion doses of [coronavirus](#) vaccine throughout Southeast Asia and potentially elsewhere by the end of next year. The vaccine would be produced by India, with additional funding from the United States and Japan, and distributed with logistical support from Australia, national security adviser Jake Sullivan said. The leaders also agreed to hold regular senior officials and foreign minister levels and to meet in-person by the yearend.

China's Foreign Ministry spokesperson, Zhao Lijian, lashed out at the Quad without referring to the forum its members: "certain countries have been so keen to exaggerate and hype up the so-called "China threat" to sow discord among regional countries, especially to disrupt their relations with China. However, their actions ... will not be welcomed or succeed. ... Certain countries should shake off their Cold-War mentality and ideological prejudice, refrain from forming closed and exclusive small circles, and do more things that are conducive to solidarity and cooperation..."

Israel to Formalize Scrutiny on Foreign Investments

The Ministry of Strategic Affairs and the Israel Security Agency (Shin Bet) drew up a [plan for reviewing foreign investments in Israeli infrastructure](#) projects. The plan assumes an increase in foreign firms' interest in major Israeli infrastructure tenders. While the plan does not specifically name countries, the new plan's authors appear concerned not only because of Chinese investments, but also because of potential investments from UAE. The extensive plan is based on a classification of Israeli infrastructure according to their sensitivity. Using a "traffic light" system of classifications, the plan suggests which projects must be scrutinized by the newly formed Foreign Investment Review Board. The plan thus proposes to formalize the Board and make mandatory the referral of certain projects for review.

China Covets Role in Reviving the Nuclear Deal with Iran

Chinese oil imports from Iran soar

Within less than a month, **Chinese and U.S. envoys held three calls** for what China's foreign ministry [called](#) an "in-depth exchange of views on the Iranian nuclear issue". After one of the calls between special envoy for Iran, Rob Malley, and China's Vice Minister Ma Zhaoxu (February 22), the latter placed a call to Iran's Deputy Foreign Minister Abbas Araghchi. A spokesperson of China's Foreign Ministry [warned](#) that the nuclear deal is at "a critical point".

Meanwhile, China has become [Iran's "economic lifeline"](#) as it imports increasing amounts of oil. During 2020, China imported on average 300 million barrels-per-day of crude; in March, [oil imports from Iran soared to more than 850 million barrels-per-day](#). A major factor drawing China to import oil from Iran is the lower-priced Iranian oil due to remaining U.S. sanctions.

China Passes New Law Permitting Coast Guard to Shoot Foreign Vessels; U.S. & Allies Increase Maritime Footprint

The National People's Congress standing committee [passed a law](#) in late January granting permission to the coast guard to use force. The law prescribes "all necessary means" to stop foreign vessels, including use of weapons aboard Chinese coast guard ships, a fleet of 200 vessels patrolling the disputed South China Sea.

Nevertheless, U.S. and Western navies are increasing their maritime presence around China since February. The U.S. conducted a [two-carrier military exercise in the South China Sea](#). The Theodore Roosevelt and Nimitz carrier strike groups conducted what the US Navy characterized in a statement as a "multitude of exercises aimed at increasing interoperability between assets as well as command and control capabilities." On February 5, in another tough naval signal, the USS John S McCain [conducted](#) a freedom of navigation operation in the vicinity of the contested Parcel Islands.

Rear Admiral James Kirk said the [US navy had seen an expansion of Chinese capabilities](#) during the period that the Nimitz spent sailing through the South China Sea on an almost 10-month deployment. This included a rare joint aircraft carrier exercise with the USS Theodore Roosevelt. "We're seeing larger number of aircraft, larger number of ships available to the Chinese military being utilized on a daily basis. So, the capacity has clearly increased," Kirk told a small group of reporters via phone from aboard the Nimitz as the carrier was returning to the US west coast.

The U.S. is not alone in naval deployments in the South China Sea and will be joined by the three largest European military powers - the UK, France, and Germany. [France waded into the South China Sea](#) in February. France's Defense Minister Florence Parly announced that they deployed the nuclear attack submarine Émeraude along with naval support ship Seine to the South China Sea to "affirm that international law is the only rule that is valid, whatever the sea where we sail."

The UK announced that it will [dispatch the HMS Queen Elizabeth Carrier Strike Group](#) to the Pacific, crossing the South China Sea to Japan. The Strike Group led by UK's only operating aircraft carrier is an indication of [how important Britain considers](#) freedom of navigation and maritime security in the Indo-Pacific. Germany's Defense Minister, Annegret Kramp-Karrenbauer announced the deployment of a navy frigate to the Indo-Pacific from August 2021 to February 2022. On its return, it will be the [first German warship to cross the South China Sea](#) in twenty years.

The Biden administration's increasingly tough stance against China, including [multiple naval deployments](#) to the South China Sea and Taiwan Strait in recent weeks, has also emboldened smaller regional powers to stand up to the Asian powerhouse. China's two main rivals in the South China Sea, the [Philippines and Vietnam, have vowed to fortify their positions](#) in the disputed waters, including through expanded naval patrols as well as tighter security cooperation with the United States and like-minded powers.

In response, Chinese authorities plan to position their first [homegrown semi-submersible oil rig in a deep-water field in the South China Sea](#) to show rivals how far it is willing to go for energy security and possibly to expand its political clout, observers believe.

UAE & China - New Deals and Ventures

The [UAE military will acquire Chinese](#) unmanned aerial vehicles (UAVs) capable of carrying large payloads of missiles or bombs - the Golden Eagle CR500 and the MH40. The deal follows a relatively new Emirati-Chinese strategy to work on long-term development and research projects for unmanned systems. UAE's International Golden Group and Norinco (the Chinese manufacturer of the Golden CR500) have operated for more than a year the China-Emirates Science and Technology innovation laboratory (CEST) that focuses on R&D in the field of UAVs.

In addition, UAE-based offshore vessel and jack-up services provider, Zakher Marine International (ZMI), announced that it has secured its first [windfarm installation contract in the South China Sea](#) valued at \$110 million. "With this award, ZMI becomes the first UAE and [Gulf Cooperation Council] offshore contractor to be awarded a contract with the Chinese government to support the development of an offshore windfarm," Zakher Marine said.

China Engages Europe and the U.S. on Climate

[China tapped 71-year-old Xie Zhenhua](#), a familiar name in Beijing's climate bureaucracy and diplomacy, to serve as special climate envoy. This appointment follows the appointment of John Kerry as special presidential envoy for climate. Xie previously served as China's top representatives for climate negotiations from 2007 to 2018 – during which time he oversaw a landmark deal between the U.S. and China on climate change commitments. Xie's return to the field is seen as a positive signal for U.S.-China cooperation over climate issues, as the Chinese negotiator is familiar with John Kerry. "This is clearly tailored towards the US," Li Shuo of Greenpeace China [wrote in a tweet](#) on Xie's re-appointment. "I assume the 'who should Kerry speak to' question is answered."

Chinese analysts assessed that talks on climate could become "[a safe channel](#)" for China-U.S. relations. John Kerry welcomed Xie's appointment and said that the U.S. [must deal with China on climate change](#) as a "critical standalone issue," but stressed that confronting Beijing's human rights and trade abuses "will never be traded" for climate cooperation.

Meanwhile, China and the EU conducted their first [high level Environment and Climate Dialogue](#) in early February, with Chinese Vice Premier Han Zheng and Executive Vice President of the European Commission Frans Timmermans participating via video. Han said the two sides should **uphold multilateralism** and promote the construction of a fair, reasonable and mutually beneficial global environmental governance system, [Xinhua reported](#).

China-Australia Rift Persists

Bloomberg reported that Australia's [trade fight with China](#) cost it about \$3 billion in commodities sales last year, and that relatively small impact suggests there's little economic need for the country to bow to Beijing's pressure. At the same time, China's state-aided splurge on infrastructure to rescue its economy from the pandemic has lifted the amount of iron ore it needs to fuel record-breaking steel production. And there, Australia is the dominant producer. Purchases by China rose almost \$10 billion last year. However, the [import ban continues to hit Australian products](#), the latest Chinese customs data shows.

At the end of February, a top Chinese trade official expressed interest in restoring ties.

China attempts to woo EU unsuccessful

Chinese Foreign Minister Wang Yi [called on the EU to act "independently and autonomously."](#) Wang made the remarks in a video meeting with EU foreign policy chief Josep Borrell, who [told](#) his Chinese counterpart that the EU had "strong bonds" with the U.S. and welcomed Biden's "commitment to working cooperatively with international partners and multilateral institutions."

[Beijing's move to test Brussels' geostrategic loyalties](#) follows the Biden administration's effort to align the EU with the US on addressing the China challenge. While holding reservations regarding the American stance and keen to advance business interests with Beijing, the EU is increasingly concerned about Chinese assertiveness and human rights record.

In a first since 1989, the [EU will impose sanctions](#) on four Chinese officials and one "entity" for their responsibility for the repression of Uyghur Muslims in Xinjiang. Further, Germany's top envoy to the EU went on record to claim that the EU ought to urgently develop a well-funded program to [counter China's BRI plan](#).

Meanwhile, UK Prime Minister Boris Johnson introduced in parliament the "integrated review of security, defense, development and foreign policy". The [document portrays China](#) "as the biggest state-based threat to the U.K.'s economic security," but advocates for enhancing trade ties with it.

The Dutch General Intelligence and Security Service (AIVD) released a [report](#) on threats to Dutch national security interests. The report stated that [Beijing's cyber espionage poses an "imminent threat"](#) to the Dutch economy.

Russia & China in Space

[SpaceNews reports](#) that according to a memorandum of understanding, Russia will help China with its planned [International Lunar Research Stations](#) (ILRS). This is a striking – but not surprising – pivot from Russia's partnership with the nations contributing to the International Space Station and possibly affecting the [geopolitical landscape of space exploration](#). The China National Space Administration is planning to build a research station on the moon's south pole within the next 10 years.

Chinese Increasing Footprint in Pakistan Raises Concern

Chinese companies are taking over major businesses in Pakistan's export-led manufacturing sector, the profit-making heart of the nation's \$276 billion economy. As rising [Chinese investment promises to boost Pakistan's ailing economy](#) in an hour of need, there are concurrent nationalistic concerns expressed by local businesses and groups that Chinese investors are cornering key local industries, state assets and businesses to the detriment of Pakistani players and interests.

Meanwhile, China is poised to lay the last stretch of a [cross-border fiber optic cable in Pakistan](#), a Belt and Road Initiative (BRI) project designed in part to cut Pakistan's current reliance on rival India for internet connectivity. The project, led by Chinese telecom giant Huawei and part of Beijing's so-called "Digital Silk Road", will complete the Pakistan East Africa Connecting Europe (PEACE) submarine cable in the Arabian Sea, a line that will service BRI-participating countries and Europe. Media reports in Pakistan have claimed that the Huawei-built cable, apart from providing faster and more reliable and internet speeds, could also allow Beijing to surveil local communications and even eventually lead to "politically motivated censorship."

Analysts say non-CPEC Chinese private investment in Pakistan is increasingly driven by cheap labor and securing access to raw materials that are shipped back to China's factories. China is also building factories in Pakistan to export finished goods directly to European markets Beijing hopes to more readily reach via its BRI infrastructure investments.

Pakistan is the latest nation struggling to [repay Chinese loans](#) extended under the Belt and Road Initiative, with indications emerging that Islamabad will soon seek to reschedule as much as \$22 billion in outstanding power sector credits.

China Eyes Iraqi Infrastructure

Media [reported](#) that the General Company for Iraqi Railways (GCIR) was in discussions with state-owned China Railway Construction Corporation (CRCC) on investment in Iraq's expansive Dry Canal project. The project is a broad initiative to rehabilitate the country's rail and other transit infrastructure and transform Iraq into a critical transit link for Asian and European trade. The two sides [discussed](#) two specific components of the Dry Canal project: the Basra-Turkey and Basra-Al Faw railway projects. These discussions were held just days after an independent announcement by GCIR that it intends to offer large rail projects to investors and that it is cooperating with a "Chinese government company in this respect."

SIGNAL's Must-Reads

Eyck Freyman argues in *Foreign Policy* that [China is outflanking the U.S. in the Middle East](#) all the while it remains below the radar and avoids entanglement.

The **Wall Street Journal** publishes a special report – key findings from the newspaper's coverage of [how President Xi is reshaping China and what that means for the West](#). The report contends that Xi Jinping has brought more change to China than any leader since Deng Xiaoping – a nationalist vision that "retains much of the state capitalist model that powered China's economic rise, but revives Maoist methods of mass mobilization".

Ryan Hass contends in *Foreign Affairs* that ["China is not Ten Feet Tall"](#) and that "alarmism" might undermine the U.S. position.

Elizabeth Braw explains in *Foreign Policy*, [Why Western Companies Should Leave China](#): Consumers will punish brands that rely on forced Uighur labor. While abandoning the Chinese market might hit profits, it will bolster reputations.

Nikkei Asia runs this exclusive report: [US and allies to build 'China-free' tech supply chain](#).

Bruce Shen writes in the *China Story* about [the defiance of China's local newspapers](#).

