MARKETPLACE SHLOMO MAITAL

The tale of the elephant and the mouse

To strengthen its ties with China, Israel needs to leverage its reputation for innovation and creativity

Economic giant: The shipping container area at Yangshan Port of Shanghai

ALY SONG / REUTERS

THERE ARE two reasons why wooing China is critically important for Israel – politics and economics.

Politically, Israel faces growing isolation after the November 29 UN vote giving the Palestinians non-member nation status. The fact that Micronesia, the Marshall Islands, Nauru, and Palau (half of the eight countries who voted with Israel against the resolution) are supporters offers little comfort; Israel needs friends with more clout. During Operation Pillar of Defense against Gaza, China – as usual – sided with Israel's critics; condemning Israeli attacks while neglecting to condemn Hamas rockets.

Economically, China is the world's second biggest economy and, as one of the fastest growing ones, on its way to becoming the largest. America's economy, still the biggest, will grow by about 2 percent in 2013; China's will grow by 8.6 percent. For the first nine months of 2012, Israel's total exports were $48.1 billion, down about 8 percent from the same period last year, while exports to China were up by 10 percent, at $2.2 trillion, comprising mostly high-tech products and chemicals. However, when only about one Israeli export dollar in every 25 goes to China, there is huge potential for gains.

To woo China, Israel can and must leverage its global reputation for creativity and innovation. I recently ran a workshop on innovation in Pudong, Shanghai, at the enormous Zhangjiang High-Tech Park. I was assisted by Marta Garcia de Alcaraz, who was born and raised in Spain, worked for Israel's Tahal Group (which plans and manages water resources) and now lives and works in Shanghai with her Israeli husband Roy.

De Alcaraz sees huge opportunity for Israel in the massive transition China is now undertaking – described trenchantly by the business weekly the Economist as "from brawn to brain," that is, from low-cost manufacturing to innovation and R&D.

"Formerly the factory of the world of low-cost products, China is striving to become a knowledge-based economy, and it knows that collaboration with an innovation-based economy like Israel is key," she notes. "The Chinese admire the Jewish people and want to emulate our way of doing things. It is therefore the opportune time for Israeli companies to do business in China."

CHINA IS struggling with three major simultaneous transformations. In addition to shifting to innovation from cheap labor, China is changing its top leadership. New President Xi Jinping and Premier Li Keqiang, who served as deputies for a decade, are now in charge, after succeeding Hu Jintao and Wen Jiabao, respectively. And it is switching from an export-driven economy to a consumption-driven one. In 2011 and 2012, for the first time personal consumption in China

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accounted for more GDP growth than did capital formation.

"The end of cheap China is at hand," the Economist observes, noting how wages in China's coastal factories have been rising at double-digit rates for a decade. "China is no longer a place where manufacturers can go to find ultra-cheap hands. China's leaders know this and are pouring billions of dollars into research and development."

Israel Makov, the former CEO of Teva Pharmaceuticals Industries Ltd., once summarized for me in nine words how he built Teva into a global giant: "First to imagine. First to move. First to scale." Israeli innovators are superb at "first to imagine." They are good at "first to move." But they face immense difficulties in scaling their businesses globally. They lack finance, skilled engineers, experienced managers, and marketing channels.

In contrast, scale is the vast China's advantage. The scale of China is simply beyond belief. For instance, Zhangjiang High-Tech Park has 200,000 employees, two-thirds with college degrees, equivalent to more than all the high-tech R&D engineers and workers in Israel. With 1.3 billion people, almost 200 times that of Israel, China's land mass, some 9.6 million sq km, is 482 times larger than Israel inside the Green Line. China can help Israel scale up its entrepreneurial innovations. And Israel, in turn, can help China find and foster its creativity. Elephants and mice generally don't mate but, in this case, the two nations – an "elephant" and a "mouse" – each bring valuable skills to the table.

DURING A break in the workshop, I spoke with young Chinese entrepreneurs in the coffee lounge. I found them surprisingly similar in some ways to Israeli start-up enthusiasts. Mary Zhu is the business development officer for Shanghai Lyceem Travel Products Co., which sells travel bags online. A college grad, her English is excellent. She told me how Lyceem grew from a dozen workers to 50 in only two months, and then quickly doubled again to 100 employees, a rapid scale-up that Israeli start-ups would find challenging. Some of Lyceem's products are humdrum (like cosmetic cases) but some are innovative, like a lovely transparent waterproof bag for mobile phones, intended for use at the beach. Unlike Israeli start-ups, which must think and act globally from day one, Lyceem can thrive solely on the domestic Chinese market – a huge advantage.

I asked Zhu what her personal goals are, expecting to hear about the desire for wealth most young Chinese are allegedly seeking. "To be a good person," she said emphatically. "To be happy with my husband, my parents, my kids. To be an honest person. To develop my dream. Work is just a means to that." Like Israeli entrepreneurs, the Chinese start-up youth seem more enthralled with the process of launching a business than the fruits it yields them.

Israel's Consul General in Shanghai, Jackie Eldan, joined me at the workshop. In his five years in Shanghai, he has worked tirelessly to match Israeli innovations and technology with Chinese investors and businesses. He told me that his goal is political – making friends for Israel in China's financial hub, who will help generate political support. The more China benefits from its links to Israel, the less it will side with Israel's foes.

There are several case studies of successful Israel-China partnerships. For instance, the Israeli global firm Strauss-Elite has partnered with the Chinese consumer electronics firm Haier, to market throughout China a version of Tami 4, a device that heats, cools and purifies tap water. The device is manufactured in China, but the technology core, a high-tech water filter, is based on a breakthrough of an Israeli start-up and is made in Israel.

I believe Israel should not woo China by selling it resource-based companies, like the recent sale of Makhteshim Agan Industries Ltd. (a manufacturer of branded pesticides) to ChemChina Petrochemical Corp. China has nearly $3 trillion in dollar reserves and, like a rich kid in a poor neighborhood, can buy any company or resource it wishes. Such acquisitions benefit China, of course, and do not necessarily benefit the employees of the acquired company. An example of high-level Chinese interest in Israel was the visit of 13 Chinese executives in early December, including the head of computer maker Lenovo and a leading Chinese real estate magnate.

What should Israelis avoid in China, when seeking cooperative agreements? "Doing business in China is never easy," de Alcaraz cautions. "A word of advice: Check any arrogance or overconfidence at the door – working with the Chinese takes a lot of patience, relationship building, and a strong dose of modesty. But for those who succeed, the payoff is worth the effort."

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