

Israel-China Ties: A Developing Friendship that is Cause for Concern?

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The Israel-China Innovation Conference, held in Jerusalem on October 24-25, 2018, signals a new era in Israel-China relations. Chinese Vice President Wang Qishan attended the conference, heading a large delegation of senior officials and businessmen; Wang is the highest ranking Chinese official to visit Israel since 2000. It thus appears that the upgrade of political relations between the two countries matches the tightening of economic relations. At the same time, criticism has been voiced in Israel regarding Chinese investments in Israeli infrastructure, charging that Chinese investments in critical transportation infrastructure are liable to harm Israel's national security. These voices are calling on the government to devise a regulatory system to assess and regulate foreign investments in Israel. Prime Minister Netanyahu too is currently urging the establishment of an entity to examine foreign investments in Israel, which will likely also deal with Chinese investments. This is a welcome initiative, which should define industry sectors considered strategic assets that are not for sale or for investment that would facilitate control by foreign parties. Overall, the Ministry of Foreign Affairs is correct in arguing that Israel's economic relations with China are welcome and should be expanded for the good of the Israeli economy. On the other hand, critics are right that Chinese investments in Israel should be scrutinized further to ensure the state's independence and national security.

The Israel-China Innovation Conference, held in Jerusalem on October 24-25, 2018, signals a new era in the Israel-China relations that have developed over the past two decades. Chinese Vice President Wang Qishan attended the conference, heading a large delegation of senior officials and businessmen; Wang is the highest ranking Chinese official to visit Israel since 2000. Some regard his visit as an upgrade of relations and a welcome sign of the developing friendship between the countries; others in Israel call on the government to exercise caution and limit Chinese involvement in Israel's economy out of concern for national security and Israel's relations with the United States. The correct perspective lies somewhere in the middle.

The Innovation Conference, a mechanism established by the Ministry of Foreign Affairs, serves as an annual platform for dialogue and cooperation between Israeli and Chinese government ministries. The conference is also an opportunity for visits by senior officials

and an occasion to sign cooperation agreements in trade and investments. For example, the opening of negotiations for a free trade agreement was announced at the 2016 conference, and an upgrade of relations to an "innovative comprehensive partnership" was announced at the 2017 conference. In 2018, ministers and deputy ministers from 13 Chinese government ministries joined the Chinese vice president at the conference. Of these, the highest ranking was Minister of Science and Technology Wang Zhigang; Jack Ma, chairman of the Alibaba ecommerce group, made his second visit to Israel, and other leading business figures from China attended. Some eight cooperation agreements in science and technology, life sciences, innovation, digital health, and agriculture were signed in the framework of the conference. In addition, Prime Minister Benjamin Netanyahu and Wang signed a new three-year plan for the conference.

Government sources noted with satisfaction that the visit to Israel by the Chinese Vice President upgrades the level of political contacts with Israel. Prime Minister Netanyahu said, "This is the most important visit by a Chinese leader in the past 18 years. This is a sign of the developing friendship between us." In 2000, then-Chinese President Jiang Zemin visited Israel, but not long after the Phalcon incident occurred, which prompted China to suspend visits to Israel by its high-ranking leaders.

Moreover, Israel-China relations have grown closer in recent years, certainly in the economic sphere. In 2017, the volume of bilateral trade (excluding diamonds and Hong Kong) totaled \$9.67 billion: one third comprised Israeli exports to China, with the rest Israeli imports from China. Israeli companies also exported \$753 million in business services to China in 2017. In 2018, China became Israel's second largest trading partner after the US, ahead of the European Union. Exports to China rose substantially in the first half of the year, reaching \$2.8 billion - 73 percent of the total for the preceding year - with electronics constituting the dominant export sector. The importance of China for Israel is also reflected in the widespread deployment of commercial attaches sent to China by the Ministry of Economy and Industry. There are currently six economic offices there, Israel's most extensive deployment in one country. Furthermore, Chinese tourism has become more significant for Israel. In 2017, 113,000 tourists from China visited Israel, a 46 percent increase over the preceding year. At the same time, new direct Tel Aviv-Shanghai and Tel Aviv-Chengdu air routes were opened.

It thus appears that the upgrade of political relations between the two countries matches the tightening of economic relations. If so, does the dispatch of the Chinese Vice President to the conference signal that China has put past tensions behind it, and is this the main reason for the visit? This is by no means certain. Another possibility is that there is a connection between the visit and a much broader question – the developing trade war between China and the United States.

In recent months, the United States and China have increased the customs duties imposed on one another. The Trump administration has levied customs duties of over \$250 billion on Chinese goods, while China has retaliated by imposing customs duties on American goods, although to a lesser degree. The United States is also examining Chinese investments in industrial sectors that are considered as critical to US national security more rigorously than before, especially those involving American technologies that could be used to upgrade Chinese military capabilities and contribute to China's becoming a significant military rival.

In view of the tense relations between China and the United States, primarily due to accusations of the theft of advanced technologies and purchases of dual use equipment, some in Israel have warned policymakers of a possible clash with the United States resulting from sales of similar technologies to China. According to the IVC research center, which analyzes business information in the Israeli hi-tech industry, Chinese investments in Israeli hi-tech companies have almost tripled in the past five years (from \$232 million in 2013 to \$596 million in 2017). China also emphasized innovation in the recent visit, which culminated in the Chinese Vice President's inauguration of the Peres Center for Peace and Innovation. The business entourage accompanying Wang underscored China's desire to continue cooperating with Israel in innovation and technology.

Criticism has also been voiced recently in Israel regarding Chinese investments in Israeli infrastructure. A Chinese company is building the new port in Ashdod, and another Chinese company is scheduled to exercise control over the operation of Haifa Port. Chinese companies are digging, wiring, and supplying equipment for the Tel Aviv light rail. The increase in these investments has alarmed former security figures, government figures, and analysts, who assert that Chinese investments in critical transportation infrastructure are liable to harm Israel's national security. These voices are calling on the government to devise a regulatory system to assess and regulate foreign investments in Israel.

This criticism was voiced openly in many newspaper articles in advance of the Chinese Vice President's visit to Israel. Some of the critics confined themselves to hints, while others made open statements that may have played a role in attracting attention in the United States to this question. According to a Channel 2 news report, at least three US administration figures have contacted Israel to clarify the nature of relations between China and Israel. These reports engaged the Israeli Ministry of Foreign Affairs, which tried to ease the concerns of both its American colleagues and Israeli critics. Ministry of Foreign Affairs Deputy Director General for Asia-Pacific Affairs Gilad Cohen published

an article in an effort to calm the critics, writing, "There is no question that every country has to safeguard its security and strategic infrastructure. But that is a far cry from the repeated statements, including in the media, to the effect that the Chinese should not be allowed to come to Israel – and such behavior even causes damage."

The Ministry of Foreign Affairs is correct in arguing that Israel's economic relations with China are welcome and should be expanded for the good of the Israeli economy. On the other hand, the critics are right that Chinese investments in Israel should be scrutinized further to ensure the state's independence and national security. Perhaps in defiance of the critics, Prime Minister Netanyahu said at the Innovation Conference that cooperation between China and Israel "has no restriction or limit," but this statement cannot constitute a basis for practical and realistic policy.

Netanyahu himself is currently urging the establishment of an entity to examine foreign investments in Israel, which will likely also deal with Chinese investments. This is a welcome initiative, which should include a preliminary discussion to define industry sectors to be considered strategic assets that Israel does not plan to sell or allow investment that would facilitate control by foreign parties. Which sectors can be sold and where investment is allowed that might facilitate control by foreign parties should also be delineated. Industrialized democracies, such as Australia and the United States, have already defined such areas, and Israel can use their parameters for reference, with adjustments. The list of such assets can guide the entity to be established, but that is insufficient. It must also be ensured that the agency considers every foreign investment laterally, combining an assessment of the industrial sector in which the investment is made and all of the investments by the investing company, in the realization that Chinese companies tend to expand into areas that are not their original field of business. Such an examination will ensure that through government companies a foreign party does not hold concentrated investments or a monopoly that enables it to exercise direct or indirect influence on decision makers in Israel.