

## Israel-China Relations: Innovative Comprehensive Partnership

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In 2017, Israel and China marked 25 years of diplomatic relations. The establishment of diplomatic relations was made possible in part by geo-strategic changes – the dissolution of the Soviet Union and the Communist bloc, and the Madrid Peace Conference in November 1991. During a single week in January 1992, Israel established relations with both China and with India.

The nature of Israel-China relations has changed over the years. In general, the first decade of relations focused on close relations between the military establishments and sales by the Israeli defense industry (which had already begun in the 1980s). The second decade, in light of the decline of the military-defense component following the Phalcon and Harpy crises, focused on intensive agricultural cooperation, which was also at the core of the activity of Israel's diplomatic missions in China since the establishment of relations. This involved the creation of a number of Israeli demonstration farms in the field of greenhouse crops, research, and growing vegetable seeds, and a demonstration dairy farm in Beijing. China was designated as a target country for Mashav, the Agency for International Development Cooperation in the Israeli Ministry of Foreign Affairs. In this framework, hundreds of training courses in agriculture, entrepreneurship, education, and health were held in China and Israel, and were highly valued by the leadership in Beijing and the various provinces in China. The third and current decade of relations is marked by strengthened economic relations and cooperation in the field of innovation.

In 2018, China marked four decades since the economic reforms initiated by Chinese leader Deng Xiaoping, which included China's opening up

to the world and to the West in particular, and which led to rapid growth, with almost double-digit average annual growth and to China becoming the second largest economy in the world.<sup>1</sup> Now China is focusing on more moderate growth, what is known as the “New Normal,” placing an emphasis on innovation as a growth engine at the expense of production, export, and investments.

Indeed, in the coming years China’s economy will be based on domestic research and development, knowledge-intensive industries, services, and increasing domestic consumption. A central reason for this is the heavy environmental price of accelerated development, but no less important is China’s ambition to compete in the leading markets of Europe and North America with flagship Chinese technology products, as an equal with the developed economies. This economic strategy is expressed both in the 13<sup>th</sup> five-year plan for 2016-2020, and in the report of the 19<sup>th</sup> Communist Party Congress, which sets 2035 as a target year for making China “a world leader in innovation.”

### **Aspects of China-Israel Relations**

China values and recognizes Israel as a global center of technology, and despite the vast differences in population and size, sees it as a natural economic partner. As China’s President, Xi Jinping, said in his meeting with Israel’s Prime Minister in March 2017, “Israel is a world-renowned innovative country, and at the same time, China is also pushing forward innovation-driven development, so innovation has become the common focus of our two countries. It is also the priority for our cooperation.”<sup>2</sup> Both leaders announced that relations between the countries were upgraded to the status of Innovative Comprehensive Partnership – the product of Ministry of Foreign Affairs work with its Chinese counterpart in the months leading up to the visit (the declaration includes a joint four-page public document). The Chinese system, which places significant emphasis on defining relations with core countries in its foreign relations, thus serves as a kind of working guideline for the professional echelons to lend priority to cooperation with Israel on innovation. The upgrade in relations between the countries was made possible in part by the strengthened connection and dialogue between governmental bodies and figures, complementary interests in access to Israeli civilian technologies in return for access to the Chinese market, strengthened academic and research connections, and promotion of the movement of

people between the two countries by opening direct flight routes and easing the visa approval process.

There are six main aspects of Israel-China relations that reflect the upgraded relations between the countries over the past decade: the establishment of the Israel-China Joint Committee for Innovation Cooperation; the strengthening of intergovernmental dialogue; the establishment of a young leaders program; aspects of trade and investment; Israel's involvement in the Belt and Road Initiative (BRI) and in the Asian Infrastructure Investment Bank (AIIB); and the removal of trade barriers. The following sections expand on each of these aspects and present their significance for Israel-China relations.

### ***The Israel-China Joint Committee for Innovation Cooperation***

In May 2014, at the initiative of the Israeli Ministry of Foreign Affairs and the Chinese Ministry of Science and Technology, Prime Minister Netanyahu and China's Vice Premier Liu Yandong signed an agreement on the establishment of the Israel-China Joint Committee for Innovation Cooperation. This is a government-to-government mechanism that currently includes 14 government ministries and agencies from each side that promote cooperation in the field of innovation. The Ministry of Foreign Affairs leads and coordinates the Committee's work on the Israeli side with the Chinese Ministry of Science and Technology (MOST). As Minister of Foreign Affairs, Prime Minister Benjamin Netanyahu heads the Committee, together with China's Vice Premier, who is responsible for the variety of areas and ministries included in the Committee. A summit meeting of the Committee takes place each year, alternating between Israel and China. Four summits have taken place so far, most recently in October 2018 in Israel, where eight agreements were signed in various fields.

### ***The Importance of the Innovation Committee***

Israel is the only country with this kind of mechanism with China at a senior level. It emphasizes Israel's uniqueness and value to China. It also enables and promotes strengthened work relations between the government ministries of the two countries and greater understanding of the needs, goals, aims, areas of responsibility, and regulations of each side. Governmental bodies and ministries that understand and appreciate the potential of the Committee's work take advantage of it by advancing work plans and cooperation in their fields. Some of these plans provide exposure and integrate Israeli technologies

and capabilities, in order to make the Chinese market accessible to Israeli companies.

Among the examples of areas of cooperation that have been created and expanded thanks to the Committee:

*Academia:* The creation of the 7+7 forum of the seven top universities in each country, and official Chinese recognition of Israeli universities that are members of the forum, which is vital for attracting Chinese students and researchers. During 2018 this recognition expanded to additional institutions of higher education in Israel. A comprehensive joint program of the Council for Higher Education and the Chinese Scholarships Council has been established to provide hundreds of scholarships to B.A., M.A., post-doctoral, and summer course students in both countries. In addition, a joint research program of the Israel Science Foundation (ISF) and its Chinese counterpart (NNSF) has been established, with the mutual investment of tens of millions of dollars, and over 130 joint studies in basic science at the highest level have already taken place. The program will be renewed for another three years, with an emphasis on exact sciences, life sciences, and medicine.

*Comprehensive cooperation between the Ministries of Science and Technology:* Significant increase in support for joint research, including a joint flagship project to which NIS 12 million has been allocated by each side. In addition, it was decided to institute joint research labs at a cost of NIS 8 million from each side.

*Health:* The Ministry of Health, along with its Chinese counterpart, is advancing a number of projects and pilot programs in the field of digital health and big data, emergency preparedness, and telemedicine. In addition, a cooperation alliance was signed between hospitals in Israel and China. The goal of the projects is to integrate and promote Israeli health technologies.

*The environment:* After the meeting of ministers in September 2017 in Beijing, a working group of the ministries convened in Jerusalem in early 2018. On the agenda were collaborations in the fields of water, air quality, and treatment of solid waste. As part of the meeting, a professional seminar and a business seminar were held. The Chinese Deputy Environment Minister invited Galit Cohen, Deputy Director General for Planning and Policy in the Ministry of Environmental Protection, to serve as a special advisor to the China Council for International Cooperation on Environment and Development. The Council is affiliated with the Ministry of Ecology and Environment, and its role is to advise the Chinese government on the challenges of the

environment and development. Galit Cohen participated in the Council's annual meeting, which launched the work plan for 2017-2021.

*The Israel Innovation Authority*, together with a Chinese partner, is advancing the establishment of an Israeli-Chinese virtual investment center to be launched in 2018 in order to assist and provide professional tools and information to investors from both countries. In addition, the Innovation Authority is sponsoring the Israeli-Chinese innovation park in Chengdu, Sichuan province. Some 60 Israeli companies, mainly from the medical equipment industry, are currently registered in the park. The park is meant to assist Israeli companies with product registration processes, regulation, and access to the Chinese market. In advance of the next meeting of the Innovation Committee, activity is underway to ensure the streamlining of product approval processes and protection of intellectual property (IP).

*The Israel Patent Office in the Ministry of Justice* collaborates with its Chinese counterpart (SIPO) in information exchanges and mutual recognition of patent registration processes and protection of intellectual property.

*Mashav* came to an agreement with the Chinese authority on international exchanges of experts (SAFEA) on Chinese-funded training programs in four areas: agriculture, health, education, and entrepreneurship. The programs will include exposure and access to Israeli technologies in these fields.

The framework of the Innovation Committee enables and requires coordinated work among all of the government ministries in Israel. Preparatory meetings and information exchanges are held in advance of each annual meeting of the Committee, there is complete transparency among all of the ministries, and it is even possible to learn from the accumulated experience of one ministry or another. No less important is that the framework of the Committee serves as a better lever for advancing Israeli (and Chinese) interests when all of the issues and areas are on the table.

Convening the Innovation Committee annually ensures mutual visits of senior officials between Israel and China, while contributing to the advancement of additional issues on the bilateral agenda. For example, the announcement on the beginning of negotiations on a free trade zone (FTZ) between the countries was made during the second meeting of the Innovation Committee in March 2016. Close to the third meeting of the Committee in March 2017, the agreement on bringing Chinese construction workers to Israel was signed, which is important to the Israeli housing market, as well as the dairy protocol, which is meant to advance the export of Israeli dairy

products to China. As part of building confidence and goodwill, China's Vice Premier announced the opening of the China Culture Center in Israel. China has over 30 cultural centers in leading world capitals. The Center in Ramat HaHayal was inaugurated in November 2017, the first and only thus far in the Middle East.

### ***Strengthening Intergovernmental Dialogue***

In addition to the Innovation Committee, a G2G mechanism was established – the Israel-China economic task force. Heading the Israeli side is the Director General of the Prime Minister's Office, while the Chinese side is headed by the Deputy Chair of the NDRC – the governmental body that guides and plans socioeconomic policy for all of the government ministries. In 2018 the third meeting of the mechanism took place, advancing joint projects between the two countries. Following the Chinese Foreign Minister's visit to Israel in late 2014, the diplomatic dialogue between the foreign ministries was upgraded to the level of deputy foreign ministers. In addition, there is an ongoing dialogue between the foreign ministries in a number of areas, in which issues central to each side are raised. There is also ongoing dialogue between the economy ministries and the science and technology ministries.

### ***Young Leaders Program***

As part of the government's decision to further relations between Israel and China, the Ministry of Foreign Affairs launched the Young Innovative Leadership Program, a program to bring 1,000 young Chinese leaders to Israel in the coming years. It began in early 2016 and hosts young leaders from a variety of circles in China: government, party, provinces, research institutes, corporations and companies, academia, and media. Israel's diplomatic missions in China – the embassy in Beijing and the consulates in Shanghai, Guangzhou, and Chengdu – identified key elements, be they organizations or people, who were seen as having the potential to open doors for the State of Israel or its representatives in China.

Between 2016 and 2018, the Ministry of Foreign Affairs hosted over 50 delegations with a total of over 500 young leaders. A unique program is put together for each delegation in accordance with its professional fields and areas of interest, with the addition of a component on Israeli innovation ("start-up nation"). This program is highly worthwhile: it provides diplomatic, economic, media and academic value, and is a prominent force multiplier.

A number of examples illustrate the impact of this program:

Some of the organizations were impressed by the visit and appreciated the program, and in return offered to host young Israeli leaders on a reciprocal basis. For example, in 2017 the Chinese Academy of Governance (CAG) in Beijing, which trains all government officials in government ministries in the capital from the middle ranks and up, hosted at its expense 25 Israeli civil service students for two weeks. Following the successful visit, the CAG formalized the connection with the Israeli Civil Service Commission, through an agreement that establishes the mutual exchanges of delegations between the bodies on an annual basis.

Economic delegations have led to considerable interest in Israeli companies and investments in Israel on the part of the Chinese participants. These same Chinese organizations have initiated conferences and study days about Israel. For example, a delegation of graduates of Peking University (one of the best universities in China) from Sichuan presented the positive findings from its visit to Israel to 3,000 people attending an annual conference of graduates of the university in western China.

Following the visit of a delegation from the Chinese customs administration, good interpersonal connections were created that contributed to better communication and to quick and efficient work. As a result, there was a significant push that in early November 2017 led to the completion of the Authorized Economic Operator (AEO) agreement, which is intended to help leading Israeli exporters move quickly through Chinese customs.

Visits by figures from academia and education committees from the Chinese provinces led to the allocation of scholarships to Israeli students. Some of them invited Israeli lecturers as guest lecturers. The University of Electronic Science and Technology – one of the leading Chinese universities in the field of computer science and electronic engineering – opened an Israel Center within the university.

As part of the investment in Chinese social media, which is significant in shaping public opinion, the program hosted five delegations of bloggers who have millions of followers. Each of the delegations opened a special webpage that followed the visit to Israel. The page received millions of views and thousands of shares and comments, in addition to the articles that have been published about the different delegations.

### ***Economy, Trade, and Investment***

China is Israel's third biggest trading partner, with \$9.8 billion of trade in 2017. The balance is clearly in China's favor, with \$6.5 billion of Chinese exports to Israel and some \$3.3 billion of Israeli exports to China.<sup>3</sup> Based on an initial analysis of the figures from 2017, Chinese exports seem to have remained at the same level, despite the fact that the upgrading of the Intel production line in Kiryat Gat in the fourth quarter led to a temporary break in production and affected export figures to most countries in Asia.

In 2016, the countries announced the beginning of negotiations regarding a free trade area between them. The process, led by the Ministry of Economy, is complicated and could take a number of years, but is also expected to lead to an important increase in the volume of bilateral trade.

In addition, Israel is a clear destination for Chinese investments. The type of investments is diverse – through Israeli or Chinese venture capital funds, direct investments, private investors, private and governmental Chinese companies, acquisitions and mergers, and investment and participation in infrastructure tenders. The Chinese government investment fund CIC has also made a number of investments in Israel.

Different estimates have been made regarding the volume of Chinese investments (from China and Hong Kong) in Israel, and they range from 10 to 20 percent of total foreign investment in Israel – a figure that changes each year. In 2017, with a pause in Chinese investments worldwide in order to regulate how they are supervised, Chinese investments totaled some \$70 billion, as opposed to some \$160 billion that left China in 2016. In 2018 Chinese investments totaled some \$125 billion, as a result of restrictive policies in reaction to significant capital outflows during 2015–2016.<sup>4</sup>

In order to understand the volume of Chinese investment in Israel, we can compare it to the total Chinese investments in 16 countries in Central and Eastern Europe, with which China has a cooperation mechanism called “16 +1.” According to the *Financial Times* and the CSIS institute in Washington, Chinese investments in all 16 of these countries since 2012 totaled some \$15 billion.<sup>5</sup> Total investment in Israel, in comparison, amounted to some \$16 billion, including investment in infrastructure (based on published figures; even if a small portion of them were not implemented, the figure is impressive enough). Finally, a number of Chinese companies have opened research and development centers in Israel, and their number is expected to grow in the coming year.



### ***The Belt and Road Initiative and the Asian Infrastructure Investment Bank***

The Chinese President's Belt and Road Initiative (BRI) vision of building infrastructure and developing land and sea trade routes between China and Europe is expected to continue to have a central place in national objectives, as well as in China's foreign policy. Israel joined the Asian Infrastructure Investment Bank as a founder state, based on the assumption that its membership will create opportunities for Israeli companies to participate in the bank's projects. Over 2018 we advanced a series of actions and close dialogue with all of the bodies in China that are involved in the issue, including a central event in Beijing, in order to formalize a channel of cooperation and use Israeli technologies in the implementation of the different projects along the Belt and Road Initiative, in China, Central Asia, and Southeast Asia.

In this context, the Chinese presence in Israel in the field of infrastructure has been felt more strongly in recent years. A number of national infrastructure initiatives have already been successfully executed by Chinese companies (the Carmel Tunnels and the tunnels of the Akko-Karmiel train line) and others are in the process of being carried out (the tunnels of the Tel Aviv light rail and the private port in Ashdod).

### ***Removal of Barriers***

A number of significant steps have been taken in order to attract Chinese tourists and businesspeople to Israel. The two main barriers – a shortage of direct flights, especially of Chinese airlines, and a visa procedure that requires significant time and paperwork – underwent major changes following a concerted effort by the Ministries of Foreign Affairs, Interior, and Tourism.

In 2015, an agreement signed between Israel and China went into effect providing a mutual visa exemption for holders of diplomatic passports and service passports. Thousands of provincial Chinese government officials hold Chinese service passports, so diplomatic and economic work with provincial government offices has become easy and convenient, and Israel has become a more attractive destination for them. In 2016, the Ministry of Foreign Affairs, together with the Ministry of Interior, initiated and promoted a reciprocal agreement with China for a ten-year multi-entry visa for tourists and businesspeople. Israel has such an agreement only with China; China has an identical agreement only with the United States and Canada. For Chinese tourists and businesspeople, this is the best visa they can receive.

In addition, steps were taken to streamline the procedure for obtaining a visa. The Ministry of Tourism has also advanced a fee exemption for visas for Chinese tourist groups.

Regarding direct flights, which have created a travel bottleneck between the countries: over the past two years, with a joint push by all of the Israeli government ministries and missions in China, Hainan Airlines introduced direct flights from Beijing and Shanghai, and Cathay Pacific has introduced direct flights from Hong Kong. In 2018, a direct route from Chengdu was opened, and a direct route from Guangzhou is expected to open. These steps have led to a surge in the number of Chinese entering Israel, some 105,000 in 2017 and a similar number in 2018.

## Notes

- 1 Nominally, China is considered the second largest economy in the world. In terms of purchasing power, it became the largest economy in the world in 2014.
- 2 An Baijie, “Xi: Innovation is ‘Common Focus,’” *China Daily*, March 22, 2017, [http://www.chinadaily.com.cn/china/2017-03/22/content\\_28633164.htm](http://www.chinadaily.com.cn/china/2017-03/22/content_28633164.htm).
- 3 See: Israel Central Bureau of Statistics, Imports and Exports, By Type of Goods – China, [http://www.cbs.gov.il/www/fr\\_trade/d4t26.pdf](http://www.cbs.gov.il/www/fr_trade/d4t26.pdf) [Hebrew].
- 4 UNCTAD, *World Investment Report 2018*, [https://unctad.org/en/PublicationsLibrary/wir2018\\_en.pdf](https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf).
- 5 James Kynge and Michael Peel, “Brussels Rattled as China Reaches Out to Eastern Europe,” *Financial Times*, November 27, 2017, <https://www.ft.com/content/16abbf2a-cf9b-11e7-9dbb-291a884dd8c6>.