Israel-China Relations: Opportunities and Challenges

Assaf Orion and Galia Lavi, Editors

Memorandum 194

המכון למחקרי ביטחון לאומי
THE INSTITUTE FOR NATIONAL SECURITY STUDIES
TEL AVIV UNIVERSITY אוניברסיטת תל אביב

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Institute for National Security Studies

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יחסי ישראל-סין: הזדמנויות ואתגרים

עורכים: אסף אוריון וגליה לביא

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Contents

Foreword

Both Israel and China are approximately 70 years old. Each is the homeland of an ancient nation, has a rich historical heritage, and embodies the immense national pride of its citizens. Since the establishment of official diplomatic relations between Israel and China, the bilateral connections have evolved and grown, and today are especially noteworthy in the realms of economy, culture, and tourism. The volume of trade between the countries has increased in the areas of agriculture, health, water, hi tech, and more. In the cultural realm, there are exchanges of knowledge, student exchanges, and deep mutual interest in the history, religions, and cultures of the two nations. In the field of tourism, in recent years the number of tourists and visitors has doubled in both directions, and continues to increase steadily.

Four years as Israel's ambassador in China taught me that appearances do not always reflect reality, and that there is much more to China than meets the eye. We must remember that the gap between the cultures is substantial, and that the encounter between them is complicated. Often Israel does not understand the Chinese side well. The Chinese rely on trust, which takes time to develop. For Israelis who like "everything here and now," it is not easy to sustain the considerable patience that is required with the Chinese. Our tendency as Israelis to speak openly and directly clashes with the Chinese tradition of indirect, implied, and veiled speech, as well as with the important Chinese value of maintaining the honor of others and refraining from disgracing them and causing them to lose face. Thus, often the true intention is not clear to the Israeli side, which has difficulty reading the situation and its implications correctly.

Israel must also recognize additional challenges in the relationship. China is an enormous dragon operated by the ruling party, while we in Israel operate as a free market in which each person and company operates independently. All Chinese companies are connected to the Chinese government, and every transaction is a piece of a larger puzzle that the Chinese government puts together. Israel is a small cog within the international system, while China is one of its main engines. Israel must open its eyes accordingly, get to know its Chinese partner, and develop a suitable strategy for working within this complicated relationship, which is only one element among the superpower's many considerations.

We must not be deterred by the Chinese giant, and instead must get to know it and walk with it with eyes wide open. In the foreseeable future, China will continue to grow stronger and more powerful, in light of the vision of its President to make it the leading superpower by 2050. Carefully and sensibly, Israel must find its place in this process, with the right combination of creativity, hope, modesty, realism, and good judgment. Economic cooperation is auspicious and benefits both countries, but it should be advanced while looking at the entire puzzle. Continuing to deepen mutual knowledge and understanding is vital for bridging the gaps and for the continued realistic development of relations between the countries.

Maj. Gen. (ret.) Matan Vilnai
Former Israeli Ambassador to China

Preface

With the economic growth of the Asian superpower comes its increasing global political power, and also, gradually, its influence within Israel's strategic environment. The political relations and economic and cultural connections between the two countries have developed quickly over the past decade, but in historical terms this is a very young relationship. The two countries are only beginning to get to know one another, with no deep, diverse, and long term relations behind them, in comparison with Israel's relations with the United States or even Europe. The meeting between China and Israel at the current point in time is unique, has considerable potential, and is exhilarating in light of the differences in size, culture, mentality, and language, and in light of the correlations of supply and demand in the realm of shared interests between the economic giant and the small and innovative "start-up nation." Above the individual challenges of relations in the fields of research, economy, business, tourism, science, and diplomacy is the overall challenge of formulating and conducting a balanced national policy that will realize the opportunities and address possible risks in Israel-China relations.

The INSS Israel-China research program was designed to promote the knowledge infrastructure on relations between the two countries in order to support the formulation and management of policy and to assist the relevant bodies with practical recommendations. To this end, the program pursues research on China's policy in the Middle East, relations between the superpowers, characteristics of China's foreign and economic policy, and Israel's relations with China. Developing knowledge for policy is not the task of individuals but a shared task; its breadth, depth, and diversity require a range of opinions, perspectives, practical experience, and multiple views. Thus, from its beginnings, the Israel-China program has served as a meeting place for researchers, practitioners, academics, government officeholders, businesspeople, and elected officials who are our partners in this effort.

This is the place to thank the Diane and Guilford Glazer Foundation for its ongoing contribution to the establishment and operation of the program.

This memorandum accurately reflects the challenges of research and knowledge development for policy on Israel-China relations, as well as the joint activity that enables addressing these challenges. The writers include former and current Foreign Ministry officials, the program's academic researchers, and members of the security establishment. The articles compiled here discuss Israel-China relations from different angles as well as the relations of other countries with China, including their lessons and implications for Israel. This selection is only a partial sample of the wealth of relevant topics, perspectives, angles, and dimensions of policy-supporting research on Israel-China relations, and is thus additional evidence of the size of the challenge faced by the community of researchers, practitioners, and policymakers.

The memorandum's foreword was written by Major General (ret.) Matan Vilnai, former head of the Israel-China program and former Israeli ambassador to China, from the perspective of his four years as ambassador in Beijing. The opening article was written by Hagai Shagrir, assistant director of the Asia and Pacific department at the Ministry of Foreign Affairs. In the article he describes the progress of Israel-China relations over the past decade, with an emphasis on the work processes, joint mechanisms, and main areas of focus of the Israeli government's activity with respect to China. Dan Catarivas of the Manufacturers Association of Israel, who is a veteran Foreign Ministry official on China, reviews the development of economic relations and their challenges from his point of view, and recommends future directions. The article by Galia Lavi, a Ph.D. student at Tel Aviv University and researcher in the Israel-China program, and Rotem Nusem, M.A. student and intern at INSS, reviews challenges in China's relations with Australia – a Western democracy in China's extended "neighborhood" that has a large Chinese immigrant community and a large student population of Chinese origin. Along with the significant economic benefits from its relations with China, Australia is coping with complex national security challenges, some of which are unique to it and some of which are relevant to Israel as well.

Doron Ella, a Ph.D. student at the Hebrew University and researcher in the Israel-China program, analyzes the attempts by other countries to find the right balance between investments on the one hand and economic and national security considerations on the other, by creating mechanisms for monitoring and supervising investments. His article also analyzes China's investments in Israel and points out implications and consequences for Israeli policy, which seeks its unique balance between the opportunity of economic relations with foreign countries and the managing and minimizing of the resulting risks. Hiddai Segev, an M.A. student in international relations at the Hebrew University of Jerusalem and research assistant in the Israel-China program, and Ofek Riemer, M.A. student in a program on diplomacy and security for senior officials and a research assistant at INSS, survey China's military exports to the Middle East over the years. The picture that arises is that over many decades, China has been a minor supplier of weapons to the Middle East in comparison to the United States, Russia, and Europe, and it remains so today. However, in light of the development of the Chinese army and the growth of its military industries, there are signs of a significant increase in China's export of particular weapon systems such as unmanned aircraft to Middle East countries, in a way that may affect Israel's security environment as well as the weapons export markets in which Israel competes.

The article by Dr. Oded Eran, former Israeli ambassador to the European Union and to Jordan and a senior researcher in the Israel-China program, examines Israel-China relations within the broader context of China's relations with the United States, the competing global superpower, and with India – China's strategic adversary on the Asian continent and in the Indian-Pacific region – as Israel has extensive and thriving relations with both the United States and India. Maintaining parallel relations with countries that are adversaries of one another is a prominent feature of China's foreign policy, and in the context outlined by the article, Israel may even benefit from maintaining "Chinese-style" relations with the three superpowers.

The volume concludes with my integrative article that summarizes the challenges of Israel's policy toward China from the perspective of strategic-defense planning, as a broad framework that includes the topics of the prior articles and many additional issues. The article points to unique gaps, challenges, and opportunities, and offers recommendations for Israel's policy toward China. This systematic overview also outlines the existing academic and government knowledge infrastructure on modern China for the purposes of formulating and conducting policy. It emphasizes conspicuous gaps in the knowledge infrastructure about China in Israel, and indicates directions for urgent activity to improve it fundamentally. Thus the research effort of the writers goes beyond the "limited" context of Israel-China relations, and even the wider context of China's relations with other countries and with the superpowers, and touches on the relation between research and knowledge on the one hand and Israeli policy and action as a complete ecosystem on the other hand. Our conclusion in this regard is that without a true revolution in Israel's practical knowledge infrastructure on modern China, Israel will find it difficult to conduct relevant and beneficial policy over time, in terms of realizing opportunities arising from its relations with China and managing the range of complexities that accompany them.

I hope you find the memorandum's articles interesting and useful, and that you see them as an invitation to discussion, thought, and knowledge, and an exploration of the depth of this fascinating and promising relationship between Israel and China – two ancient cultures that are now engaged in a current, developing, rewarding, and challenging encounter.

Brig. Gen. (res.) Assaf Orion
Director, INSS Israel-China Program

Israel-China Relations: Innovative Comprehensive Partnership

Hagai Shagrir

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.[1] 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 13th five-year plan for 2016-2020, and in the report of the 19th 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."[2] 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.[3] 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.[4]

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.[5] 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.

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 [Hebrew].

4 UNCTAD, *World Investment Report 2018*, 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.

Israel-China Relations: Ideal and Reality

Dan Catarivas

This article analyzes the economic relations between China and Israel, from the establishment of diplomatic relations in 1992 until the present. On the basis of this analysis, questions regarding the future of these relations and possible directions for development will be raised, and a framework for preferred relations will be suggested. A central question is: can Israel-China relations develop in directions that are desirable and beneficial for Israel's national economic interest, and if so, how?

Since the establishment of diplomatic relations between Israel and China 27 years ago, the Chinese economy has undergone sweeping changes that transformed it from an underdeveloped country into the second largest economic superpower in the world. Today, China continues to grow and develop at a fast rate, and according to estimates, by 2032 it will be the largest economy in the world, alongside other Asian countries such as India, which are also expected to be leading economies.[1] China's impressive growth, steady and ongoing over the course of many years, has been accompanied by economic reforms to transform China from an agriculture-based economy to an industrialized economy, and from an export-based economy to a services-based economy. Under Mao's reign, China's markets were closed, but with the beginning of the reforms China became a source of cheap labor and an attractive destination for foreign investors. However, today Chinese exports are only one of the country's growth engines, and most of its production is directed mainly toward the domestic market. China's principal growth engines are now domestic consumption; domestic investment, mainly in infrastructure; and Chinese investment around the world, which is meant to ensure the supply of raw materials for Chinese industry and the developing domestic market.

These structural economic reforms led to changes in the character of the Chinese population. Early in the era of reforms in 1978, only 17.9 percent of the population lived in urban areas; today 56.7 percent of China's population is urban.[2] The reforms also brought about important changes to China's foreign policy, which led to a change in China's standing and activities in the international arena, and mainly in its economic relations with other countries. Indeed, China, which was and remains a destination for foreign investment, has now become a prominent and important player throughout the world.

Israel likewise underwent sweeping changes over the past 40 years. Economically, Israel changed from a centralized agriculture-oriented economy, in which the government had a central role, to a free market service-oriented economy. The State of Israel has succeeded in leveraging the results of the massive investment in education and in research and development in the 1960s and 1970s, and in branding itself as the "start-up nation." However, the changes that the Israeli and Chinese economies underwent are incomparable qualitatively, and even more so, quantitatively – despite the fact that the similarities and differences in the respective economic processes is a frequent topic between Chinese and Israeli professionals.

The Development of Economic Relations between China and Israel

Despite the similarities between the respective processes involving economic change, there is still no prominent reflection of these changes in the economic relations between China and Israel, which existed already before the establishment of official diplomatic relations. Even though there was no prohibition on economic relations before the establishment of diplomatic relations, the volume of economic and commercial connections was very limited. One example of the connections that did exist was the activity of international businessman Shaul Eisenberg in China, which was very substantial in the early 1980s. According to foreign reports, Eisenberg was involved in the sale of equipment, transfer of knowledge, and the upgrade and improvement of the Soviet military equipment possessed by the Chinese army.

January 1992 saw the establishment of diplomatic relations between Israel and China, and the following October, the first trade agreement between the two countries was signed. Israeli exports to China in 1991, not including military exports, amounted to $22.8 million, while imports barely reached one million dollars. But within five years, exports rose to $71.3 million and imports soared to $206 million. 2017 figures show a significant improvement in commercial relations, with Israeli exports of $3.31 billion and imports of $6.527 billion.[3] Yet despite the improvement in commercial relations between the countries, over 55 percent of Israeli exports have been in two areas controlled almost entirely by two companies: printed circuit boards (produced by Intel Israel, which sells to Intel China), and chemicals (Israel Chemicals Ltd., which sells agricultural fertilizers). If Intel and ICL are excluded, export figures over the years paint a bleak picture: Israel exports less to China than to Belgium, Switzerland, or Holland. Moreover, a review of the development of Israeli exports to China over the past 27 years and the makeup of the exports indicates little diversity of trade (figures 1 and 2). The make-up of exports has improved slightly in recent years, with the field of medical equipment playing a larger role in Israeli exports to China ($418 million, which constituted 12 percent of exports in 2016).

Furthermore, the survival of Israeli companies in the Chinese market is fraught with difficulties. The number of Israeli companies active in China has remained almost constant over the years, and has not succeeded in growing significantly. Many Israeli companies try to enter the Chinese market but

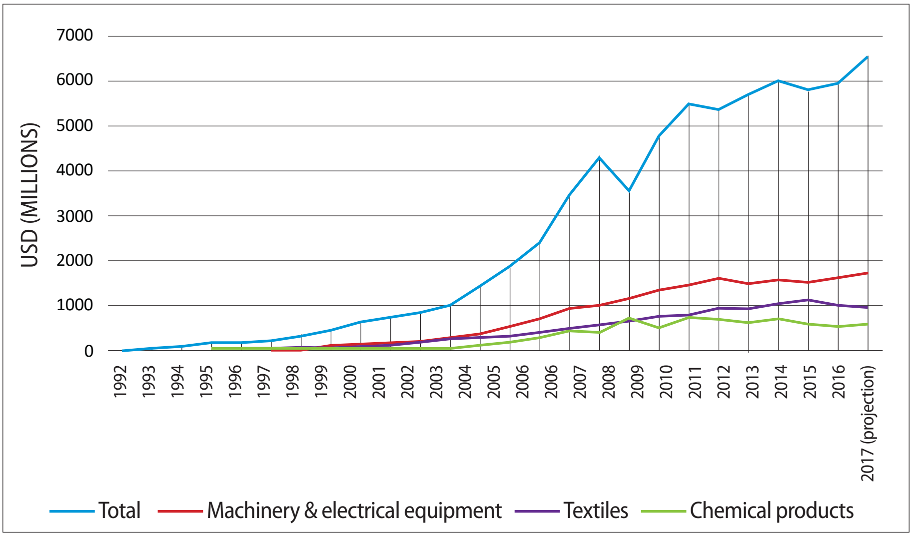

Figure 1: Import of Goods from China to Israel, 1992-2017

Source: Central Bureau of Statistics. http://www.cbs.gov.il

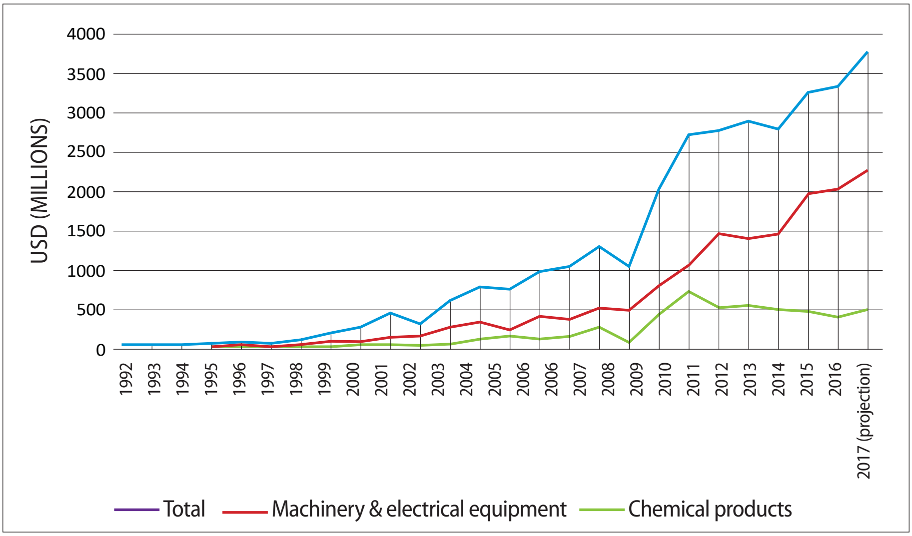

Figure 2: Exports of Goods from Israel to China, 1992-2017

Source: Central Bureau of Statistics. http://www.cbs.gov.il

do not last over time, and exit after getting worn down and losing a lot of money. This, however, does not prevent new Israeli companies from trying their luck in penetrating the Chinese market. Ideally the diversifying trend of Israeli exports to China will strengthen in the coming years, but there is no doubt that the figures are far from meeting expectations, and Israel has not fulfilled the true potential of its commercial relations with China.

The Chinese like to remind audiences that the economies of Israel and China complement one another, despite the enormous differences in size between them, and thus the two countries would do well to build a broad, diverse, and extensive set of relations. During the first decade of bilateral relations, China saw Israel as a model and central player in many fields, including agriculture, communications, and medical equipment. The Chinese sought to acquire Israeli agricultural technologies and to import agricultural knowledge about seeds, agricultural mechanization, crop growing methods, and water technologies. Indeed, Israel established an agricultural demonstration farm near Beijing in 1994 with one-sided Israeli investment.

However, the field of military exports, which saw prominent deals, has been a disappointment. The famous Phalcon (July 2000) and Harpy (2005) affairs led to a serious crisis of confidence between the two countries, and this harmed the development of economic relations over the past decade. In both of these cases, Israel sought to sell military systems to China, the United States vetoed, and Israel bowed to the American dictates and canceled its deals with the Chinese. The United States claimed that the Israeli military equipment included American technologies, and that the sale to China would endanger overall American interests, as well as the security of Taiwan and other US allies. This dual crisis, between Israel and China and between Israel and the United States, led to the imposition of strict rules regarding the export of Israeli military and dual use equipment in general, and to China in particular. Following these crises, the Defense Export Control Agency (DECA) was established within the Ministry of Defense, and since then export of military and dual use goods to China has ceased entirely, even if the goods are intended for civilian use only.

The definition of dual use goods is quite broad, and this deters Israeli technology companies operating in the American market from operating in the Chinese market. In addition, Israeli companies with dual use technologies and goods are deterred or intentionally refrain from establishing economic relations with Chinese customers. Many other Israeli technology companies are not interested in developing relations with the Chinese due to the special and strong connection that they enjoy with the American market. Furthermore, DECA's safety margins for providing permits for export to China considerably limit and impair the export of Israeli technology products. There is no doubt that the crisis of confidence between Israel and China significantly changed China's attitude towards Israel, and negatively affected the continued development of economic relations between the countries.

It is remarkable that many companies without a military connection are completely absent from the Chinese market, due to concerns about Chinese entities copying their products and knowledge, because of the lack of protection of intellectual property in China and enforcement of such regulations. In recent years, the Chinese government has made a serious effort to improve the protection of the intellectual property of foreign companies operating in China. Nonetheless, China's image on this issue continues to lag, and it is seen as a problematic country in terms of its ability to protect the intellectual property of foreign companies operating there.

Despite these crises, over the past decade considerable efforts have been made to develop civilian economic relations between the countries and to create tools to assist Israeli exports, such as signing financial protocols, creating an agricultural demonstration farm, opening Israeli trade missions in Shanghai, Chengdu, and Guangzhou, posting trade representatives at consulates, and strengthening the economic mission in Beijing. In addition, agreements have been signed in the field of industrial research and development with a large number of provinces in China, and many actions have been taken by the Ministry of Foreign Affairs Agency for International Development Cooperation in training thousands of Chinese in Israel, as well as running many courses in China. However, all of these actions have not yet led to a significant breakthrough in Israeli exports to China.

Looking Ahead

The most important change in economic relations between the countries would be a change in the attitude of the Chinese, who crave Israeli technology and innovation. China is fully aware of its economic power, and following its transition from an economy exporting cheap labor to a superpower that invests in other countries and is interested in developing original goods and technologies on its own, it is investing extensively in research and development in accordance with a new vision that places it at the center of developing the world's most innovative technologies. The Chinese value Israeli innovation and technology, and see Israel as a source for acquiring technologies to upgrade Chinese systems. China's current leadership, and especially the economic vision of China's President Xi Jinping, have been and will be represented in the development of relations with Israel, particularly as part of the Belt and Road Initiative (BRI). This was demonstrated by Netanyahu's successful visit to China in March 2017, which symbolizes a new era in relations between the two countries. During the visit, the new framework of relations between the two countries, which is now defined as an Innovative Comprehensive Partnership, was set in place, and it is the basis for further developing relations between the two countries. Furthermore, a visit by Chinese Vice President Wang Qishan in October 2018 marked another step forward in the relations, as he is the highest ranking official to visit Israel since 2000.

It is thus absolutely clear that the Chinese are interested in achieving technologies and connecting to the innovation "stream" flowing in Israel. In contrast, Israel's aspirations in its relations with China are less clear. There is no doubt that Israel, as a small country with a small market that is dependent on globalization processes, cannot ignore the China phenomenon. Israel should connect to the Chinese economy; the question is whether this is possible. Israel's experience over the past 27 years shows that developing business with China is no simple matter. In order to succeed in China, Israeli companies need a long term business horizon, patience, and the willingness to invest considerable capital. These are qualities that do not characterize the Israeli business or government sectors. Even though the Israeli government created a tool for assisting exporters and even established a special task force for developing economic relations with China within the Prime Minister's Office, no defined and measurable objectives have been set. It is still not clear if there is an overarching policy with clear goals that can be achieved.

Is it even possible for Israel, which is a free and open economy, to set economic objectives in its relations with an important country that operates according to different economic norms, like China? After all, no such objectives have been set regarding Europe or the United States. However, it seems that the Chinese arena is different from all other arenas in terms of business, politics, and culture, and thus with China it would be best to try to set goals, objectives, suitable tools, and an overarching strategy that are different from those that serve relations with the United States and Europe. Would it be best to consider advancing Israeli relations with Japan and India alongside relations with China, or would it be best to prioritize Israel-China relations over relations with other Asian countries? Another important question is Israel's relations with the United States, and how it would perceive strengthening Israeli relations with China, in light of the change in China's global standing. Therefore, can and should China replace Europe or the United States as Israel's main economic partner in the coming decade? These are weighty questions that require internal Israeli discussion at the government level.

A number of questions arise regarding trade and investment as well. China currently invests considerable capital in Israeli infrastructure and technology, and it is Israel's main trade partner after the United States. Negotiations are underway regarding a free trade zone agreement between Israel and China, which would undoubtedly be of great significance for the Israeli economy, but have tariffs between the two countries been the barrier preventing the development of Israeli exports to China over the past ten years? Would such an agreement truly help Israeli exports and advance the removal of tariffs as well as non-tariff barriers in Chinese regulations and bureaucracy? Most of the developed countries are currently addressing the China phenomenon with one level of success or another. Thus, it would be best to share information and learn from the successes and failures of other developed countries active with China.

Furthermore, China's Belt and Road Initiative, in which Israel has a critical role due to its geographic location, could provide substantial economic benefit. How to make the most of it for the Israeli economy in the coming years demands serious thought. Israel has already seen the impact and benefits of this initiative on its domestic economy, even if not everyone agrees that China's actions in Israel are actually part of the Belt and Road Initiative, rather than separate processes. China has penetrated into the Israeli economy in many fields, from expanding and operating ports to acquiring Israeli companies such as Tnuva, Adama, and Ahava, alongside investments in Israeli start-ups and venture capital funds. This raises the question: are all of these actions independent and purely economic, or are they organized and calculated steps as part of China's overall policy toward Israel? There is currently no clear answer to this question, but there is certainly room to discuss the significance of this massive presence of Chinese companies in different aspects of the Israeli economy in the short, medium, and long terms.

Conclusions

There is no doubt that the 21st century is the "Asian century," and we are likely to see increased Chinese activity and dominance in the global economy, against the background of the decline of the United States and Europe. The main challenge for Israel, therefore, is to identify where and how it is possible to harness China's strength for the benefit of Israel's national economic interest. In short, the Israeli economic interest is continued economic growth and prosperity and heightened standard of living, with full employment, increased economic productivity, and ongoing competitiveness. But can these objectives be achieved through cooperation with China? Presumably yes, and there is no reason that it wouldn't be possible to harness China's economic power toward the benefit and prosperity of the Israeli economy.

The future of economic relations between China and Israel does not necessarily depend on increasing the trade balance between them, as Israel had a trade deficit with China and the volume of imports from China continues to grow. The future, then, depends more on the attempt to create partnerships between Israeli and Chinese companies, although most of the production and cooperation itself will happen in China, and only a small portion will remain in Israel. Chinese companies can upgrade Israeli products and technologies, but it seems that most of the profit will remain in China due to regulatory restrictions on moving capital abroad, especially since 2017. Perhaps Israel will be able to develop joint Chinese-Israeli activity in the markets of third countries such as in Africa, whereby the technologies will be Israeli but the implementation and funding will be Chinese. But again, in such a model most of the profit will be received by the Chinese side and not the Israeli side.

China's investments in Asia and the Middle East as part of the Belt and Road Initiative are an opportunity for Israel. Israeli companies would do well to try to integrate directly or indirectly with local companies along the route of the Chinese plan in Asia and the Middle East. Advancing the integration of Israeli companies along the path of the BRI is a worthwhile national project that can bring immediate economic benefit, as well as a positive and stabilizing influence on the entire region. China's involvement in the Middle East and in Israel brings new types of interaction, different from previous encounters with superpowers. The challenge of the coming years is massive, and Israel must prepare for it carefully. Israeli economic activity, both government and private sectors, must be adapted to a completely different reality in which different and unfamiliar players create new centers of economic power. Thus, Israel must learn to navigate these new channels wisely.

Notes

1 Fergal Obrien, "China to Overtake U.S. Economy by 2032 as Asian Might Builds," *Bloomberg*, December 26, 2017, https://bloom.bg/2py4lk8.

2 World Bank, "United Nations Population Division. World Urbanization Prospects: 2018 Revision," https://bit.ly/2X3NB0A.

3 See "Central Bureau of Statistics, Imports and Exports, by Type of Goods – China," http://www.cbs.gov.il/www/fr_trade/d4t26.pdf [Hebrew].

The Rising Tension between China and Australia: Lessons for Israel

Galia Lavi and Rotem Nusem

A series of reports in Australia on Chinese influence on Australia's economy, political arena, and academic world has led to public protest, and elected officials on the Australian continent were forced to pass new legislation and impose regulations to curb foreign influences in politics and tighten regulation on investments. The tension at universities intensified to the point where China was compelled to issue a rare warning to Chinese students in Australia out of concern for their safety, after a number of incidents where Chinese students were beaten and racist pamphlets were circulated at two universities in Melbourne.[1]

These events are presumably not connected to Israel. While Australia and Israel are democratic countries with free market economies and both have the same strategic partner in the United States, their relationships with China are completely different. Australia, whose diplomatic relations with Communist China began in 1972, is of considerable importance to China, which describes relations between the two countries as a "strategic partnership of mutual benefit." Australia's proximity to the South China Sea – China claims sovereignty over most of this body of water – alongside its connections and ability to influence countries in the Asia-Pacific region are elements of Australia's considerable strategic importance from China's perspective. In addition, the economic connections between the countries are strong, as is their dependence on one another. China maintains extensive trade relations with Australia. In contrast, despite the establishment of diplomatic relations between Israel and China in 1992, the economic relations between the two countries are still in their infancy, with total two-way trade valued at $9.8

billion (not including diamonds) in 2017,[2] amounting to only 9 percent of Israel's total trade. China's main interest in Israel is in local innovation capabilities, as is made clear when relations between the countries are defined as an "Innovative Comprehensive (but not strategic) Partnership," and as evidenced by numerous Chinese investments in the Israeli tech industry. From a geostrategic perspective, Israel is not located within China's primary region of influence, and it is of minor significance in the issues leading the Chinese agenda. Furthermore, China's need to import oil from the Middle East creates a certain dependence on Saudi Arabia, Iran, and Iraq, which affects its overall considerations and interests and makes Israel secondary.

Yet despite the considerable differences between Israel and Australia, Israel can learn from the recent events on the distant continent. This article will examine three areas – economy, politics, and academia – in which China's influence has been evident in Australia, and consider these same areas in the Israeli context. The purpose of the article is to identify the potential influence of China and other foreign countries on Israel, and consider different ways to address this challenge. The Israeli government and the other relevant bodies will need to find suitable ways to ensure continued productive cooperation with foreign countries, while ensuring the independence of Israel and its institutions, and its long term well being.

Potential Economic Leverage

China and Australia maintain close commercial relations. China is Australia's largest trading partner, with trade in the 2016-17 tax year valued at $135.6 billion, which constitutes some 24 percent of Australia's total trade. This trade volume far exceeds the next two largest trade partners (figure 1), and given that approximately one quarter of Australia's total trade is with China, its economic dependence is very high. At the same time, China is also dependent on Australia, mainly for importing iron and coal. Australia is China's principal supplier of minerals, with some $40 billion of imports in 2016 – more than 40 percent of the minerals imported by China.[3]

In contrast with the extensive trade between the countries, the volume of Chinese investment in Australia is very low, compared to investments of other countries in the Australian continent (figure 2). In 2016, total foreign investment in Australia was valued at $618 billion, 51 percent of GDP. Of this, Chinese companies invested a total of $32.5 billion in Australia – only 2.7 percent of GDP. This volume of investment is much lower than that of the United States (with investments totaling $151 billion, which constituted 24.5 percent of total foreign investment in Australia in 2016).[4] The volume of Chinese investment in Australia was even low in comparison with countries like Japan (with investment constituting 11.4 percent of total foreign investment), the UK (8.5 percent), and Holland (6.3 percent).

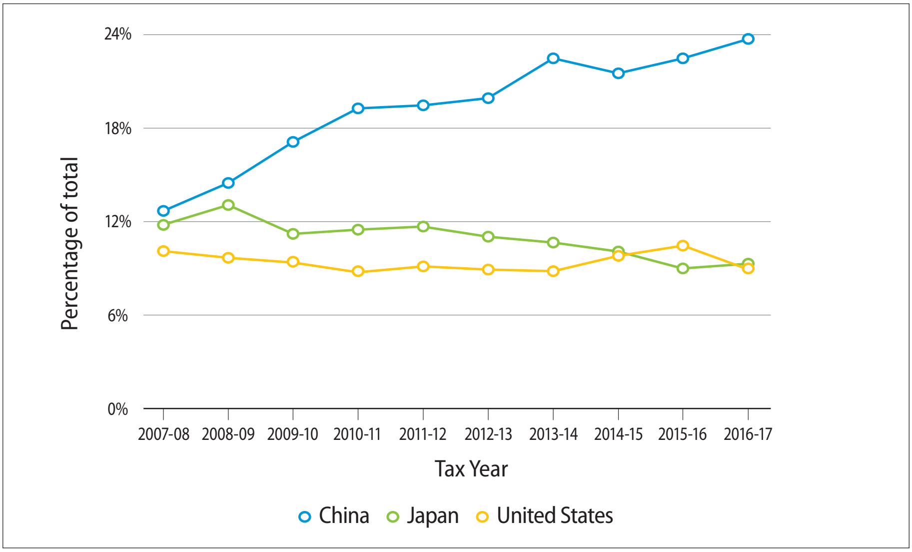

Figure 1: Australian Goods and Services Trade (Imports and Exports), 2007-2017[5]

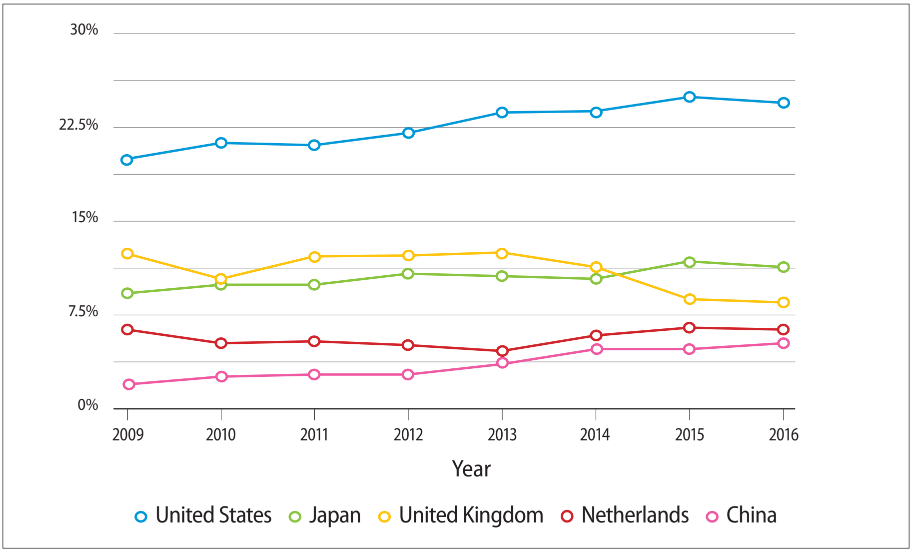

Figure 2: Five Main Sources of Foreign Direct Investment (FDI) in Australia, as Percentage of Total FDI [6]

Israel's volume of trade with China in 2016 was valued at $9.1 billion (only 8 percent of Israel's total trade), the majority of it in imports, second to the volume of trade with the United States, which was valued at $25.5 billion in 2016 (20 percent of total trade). In light of the multi-year growth trend in trade relations, presumably Israel's dependence on China is also growing, but it is important to remember that in contrast to Australia's dependence on foreign investment,[7] in Israel the total volume of foreign investment is very low, amounting to only 3.85 percent of its GDP in 2016. The volume of China's investments in Israel is estimated at less than half a percent of GDP.

Table 1: Comparison of Economic Figures for 2016

	Australia	**Israel**
Total volume of trade with China	$135.6 billion	$9.1 billion
Total Chinese investment	$32.5 billion	$1 billion

Thus, unlike Australia, which is highly dependent on trade with China, Israel's economic dependence on China is very low. But despite the fact that the low volume of Chinese investment in Australia and in Israel seems not to pose risks to the two countries, a more careful examination of the areas of interest of Chinese investors reveals potential Chinese influence over strategic infrastructure. For example, in October 2015, the Australian government signed a $506 million agreement to lease Port Darwin to the Chinese company Landbridge for 99 years.[8] Two years later, the company sought to use the port as a guarantee for a $400 million loan from a Chinese bank owned by the Communist Party,[9] and created a risk whereby not meeting the conditions of the loan could transfer control of the port to a foreign government and threaten the independence of an Australian strategic asset.[10]

Similarly, in Israel, Shanghai International Port Group (SIPG), which is owned by the local government in Shanghai, leased the new Haifa port for a period of 25 years.[11] Note that Australia has over 70 ports, while Israel only has two ports in the Mediterranean Sea, and the Haifa port, with its civilian and military infrastructure, is a strategic asset for Israel. Therefore, leasing the port creates potential influence by a foreign government over the continuous movement of goods to and from the port, creating leverage over the Israeli government.

The lease of the Haifa port is just one example of the economic activity involving Chinese companies with respect to Israeli infrastructure. Chinese companies dug the Carmel tunnels, are building the new Ashdod port, are digging the light rail tunnels in Tel Aviv, and are bidding for a tender to expand Jerusalem's light rail tracks. In addition to the mutual dependence between different types of infrastructure such as transportation, electricity, and information,[12] significant concentration of infrastructure in the hands of companies that are all connected to a single foreign government could create leverage for influence over the Israeli government.

In Australia, concerns about conflicts of interest and threats to national security led the authorities to block a number of deals with Chinese companies. In 2012, the Australian Security Intelligence Organisation (ASIO) rejected $30 billion worth of contracts for providing equipment to the national broadband network by the Chinese company Huawei,[13] and in 2016 the government blocked a deal to sell part of Ausgrid, a local electricity distribution company.[14] Also in 2016, the Australian government blocked a deal twice to sell an enormous farm to the Chinese company Shanghai CRED.[15] In response, the Chinese company had to create a partnership with an Australian company, owning 33 percent of the shares.[16]

In Israel too, a number of deals with Chinese companies have been blocked, but these focused mainly on fields directly related to security. Both Israel and Australia are security partners of the United States and thus restrictions apply to them, especially in the field of military exports. In addition to military deals, a number of deals in the field of insurance have been blocked in Israel. In light of China's enormous economic capabilities and its proven experience in building infrastructure projects, the Israeli government sees China as a very attractive player for strengthening economic relations in general, and for integrating large scale projects in particular. However, the government must consider the fact that such relations cost more than just currency. The more these economic relations deepen and Chinese investment increases, Israeli regulators will also have to consider the strategic risks. Prerequisites to every decision are mapping and defining strategic assets in Israel and assembling a broad picture of all investments in Israel, with an emphasis on investments by foreign entities, especially foreign governments.[17]

Influence over the Political System

Traditionally, Australian law did not prohibit political parties from receiving contributions from foreign entities. Recently, however, there were media reports of a number of incidents in which Australian members of parliament received contributions from Chinese businesspeople, and in return were asked to support Chinese policy positions. Yet in fact, Chinese influence over Australian politics is not new. Chinese businesspeople connected to the Communist Party and to the Chinese army have donated to Australian politicians since 1993, and from 2000 onwards some 80 percent of all foreign donations to Australian political parties were connected to China.[18] In return, the recipients of donations were asked to help the Chinese with actions and public support on certain issues. One prominent example of Chinese influence following political contributions was in November 2014, when former Trade Minister Andrew Robb received a $40,000 donation from a Chinese real estate mogul named Huang Xiangmo.[19] That same day, the Australian Trade Minister signed the free trade agreement between China and Australia. Suspicions were raised again two and a half years later, when shortly after Robb completed his term as Trade Minister, he received a job with an annual salary of $880,000 as a consultant at Landbridge, owned by Chinese businessman Ye Cheng, who is also connected to the Chinese Communist Party.[20]

Another incident in the headlines was that of Senator Sam Dastyari from the opposition Labor Party, who also had connections with Huang. Dastyari supported the Chinese position in a number of instances, sometimes even in opposition to the position of his party. For example, in July 2014 he opposed a welcome speech by the Prime Minister of Australia in honor of the Prime Minister of Japan that included words of praise for Japanese soldiers. Dastyari claimed in response that "involvement in territorial conflicts in Asia contradicts Australia's national interests."[21] In another incident, in June 2016, Huang threatened to retract a $320,000 donation to the Labor Party, due to a statement by the head of the party against Chinese militarization of the South China Sea.[22] The next day at a press conference, Dastyari spoke out against the head of his party and claimed that "the integrity of China's borders is a Chinese matter."[23] But Dastyari did not only provide verbal support – on two occasions he also contacted the Department of Immigration and Border Protection and sought to help Huang receive Australian citizenship.[24]

This series of events cost the senator his job, as he was forced to resign in November 2017.

There is a recurring pattern in these two cases: a wealthy Chinese businessman donates to a political party or to politicians, which incurs an obligation on the recipient, who in turn is expected or prone to help or take stances sympathetic to the donor. There is no evidence of direct involvement of the Chinese Communist Party in these incidents, at least not through its official channels, and it is entirely possible that the Chinese businessmen acted on their own, out of a sense of patriotism toward their country. Nonetheless, this does not rule out the potential for foreign influence over the political system, whether directed by the Communist Party, out of individual initiative, or as a result of circumstances. Australia is currently updating the law to prohibit foreign donations to political parties.[25]

Unlike Australia, Israel's political system is partially protected from foreign contributions, precisely in order to prevent such incidents. The Political Parties Law (Funding) 1973 and the Parties Law 1992 prohibit parties from receiving donations from people who do not have the right to vote for the Knesset. At the same time, the law does not prohibit foreign donations directly to politicians, and does not prevent the possibility of foreign influence over Israel's political system. Nonetheless, we are not aware of any cases thus far of contributions from Chinese individuals to Israeli politicians. However, China acted in a different way in one instance, and succeeded in influencing decision making in Israel through political pressure, when in 2013 the Israeli government headed by Benjamin Netanyahu prevented testimony by a key witness in a trial against the Bank of China after pressure from the Chinese government.[26] The plaintiffs, a Jewish family from Florida whose son was killed in a terrorist attack in Tel Aviv, were encouraged by the Israeli government to sue the Bank of China, accusing it of transferring funds to terrorist organizations that perpetrated the attack. The bank itself claimed that it did not know what the funds were used for, and thus Israel promised that in the trial, a member of the Israeli security forces would provide testimony that was vital for contradicting the bank's claims. The testimony was canceled after the Chinese government made clear to Israel that this would harm relations between the countries, against the background of Netanyahu's upcoming first visit to China.

Since 2013, relations between China and Israel have strengthened greatly, especially economically. While no additional instances of Chinese influence over Israeli politicians are known, the more economic relations are strengthened, it is quite possible that politicians will be more exposed to Chinese demands, requests, hints, and insinuations, or that they will try to appease the Chinese at their own initiative in order to advance greater access to the enormous market in the East. The Israeli government should consider this risk and discuss possible solutions.

Influence in Academic Institutions

Freedom of expression and freedom of research are among the pillars of academic activity, and they enable academia to achieve its goals – to develop and impart knowledge and train future generations of researchers; to undertake and publish advanced research; and to develop groundbreaking technologies. The democratic approach holds that restrictions on freedom of expression and freedom of research may threaten the creativity of researchers and thereby impede the development of science and technology and, as a result, the country's economy. Therefore the state, along with academia, has an interest in maintaining academic freedom and protecting its intellectual capital. At the same time, the government and academia are interested in promoting partnerships with foreign bodies, whether in the form of student exchanges or in the form of joint research and development initiatives. Both of these enable the mutual dissemination of ideas, the transfer of knowledge, the strengthening of connections, and the improvement of the country's image in the world.

Australian academia relies to a large extent on foreign students. In 2014, some 38 percent (around 328,000) of the students at institutions of higher learning were foreigners; of them 29.6 percent (about 97,000 students) were Chinese.[27] The Chinese students in Australia join the large community of Australian citizens of Chinese origin,[28] and together they serve as a pressure group that protests against criticism of the line taken by the Communist Party or promotes activities that support China. For example, in a number of incidents in 2015, Chinese students in Australia confronted their lecturers and even forced them to apologize for their words after the lecturers spoke out or presented information in a way that opposes Chinese policy, for example regarding Taiwan or the South China Sea.[29]

The activity of Chinese expatriates in general and Chinese students in particular is directed by an organization known as the United Front Work Department (Zhōnggòng zhōngyāng tǒngzhàn bù 中共中央统战部), which was established by the Party, whose purpose is "to recruit Chinese groups and communities who are supportive or have the potential to be supportive in order to serve the interests of the Chinese Communist party."[30] As a result, Chinese nationalist students serve as agents of government influence who distribute "officially approved propaganda."[31] With the help of the United Front Work Department, the Communist Party directs the actions of members of the Chinese community around the world out of a sense of loyalty to their motherland, or due to pressure by the Chinese authorities on the students themselves or on their families who have stayed behind in China. In Australian academia, this occurs through Chinese student unions, which receive assistance from officials and from the Chinese embassy. Thus in honor of the Chinese Premier's visit to Australia, the student union organized a reception rally, and the Chinese embassy provided them with flags, rides, food, an attorney, and also an incentive for students who participated in the rally – certificates that will help them find work upon returning to China.[32]

In cases where Chinese students participate in activities that contradict the party line or that are related to issues that China defines as "core" issues, they are exposed to harsh criticism, threats, and even investigations and arrests. One example is the case of the Chinese student Tony Chang, who engaged in protest activities against the Tiananmen Square events and in favor of Taiwanese independence, as well as during a visit by the Dalai Lama to Australia. It was reported that security agents visited Chang's parents in China, warned them about their son's participation in these activities, and urged them to ask him to stop his anti-Communist activity.[33]

In addition to the involvement of students and their activity in favor of the Chinese stance, academic institutions in Australia are connected to Chinese businesspeople who donate money and fund research institutes within universities. For example, in 2013 the University of Technology Sydney established an institute on China-Australia relations, with $1.4 million of funding from Chinese tycoon Huang Xiangmo.[34] In 2016, the University of New South Wales established an innovation center with the help of $80 million from the innovation project of the Chinese party Torch.[35] This cooperation raised concerns of the transfer of sensitive technologies and military capabilities that could provide China with a military advantage in the region, as well as increased exposure to foreign political influence. In another case, in 2017, the Australia-China Research Innovation Centre in Information and Electronics Technologies was established with the China

Electronics Technology Group Corporation, which is closely connected to the Chinese army.[36] In this case too, the focus of the center on military and dual use technologies could lead to the (unintentional) transfer of knowledge and assistance to foreign organizations in a way that could threaten Australia's national security.[37]

Thus, in Australia the risk of influence over academia comes from two directions: pressure from Chinese students to influence public opinion and public and academic discourse, and funding of research partnerships and the transfer of sensitive technologies.

In Israel, the potential risks stem mainly from the second possibility, since unlike Australia, the percentage of foreign students in Israel is very low, at 1.4 percent – only 3,220 out of the approximately 230,000 students in the 2015-16 academic year. Of this low number, the number of Chinese students is estimated at only a few hundred.[38] Out of a desire to increase the number of foreign students in Israel, the Planning and Budgeting Committee of the Council for Higher Education decided to allocate five million NIS to bring outstanding students from abroad. The chair of the committee, Prof. Yaffa Zilbershats, even noted that the committee "aims to make Israel a center for outstanding students from different countries around the world."[39] In the meantime, until this aim is achieved, the low number of foreign students in general and of Chinese students in particular makes it difficult for them to influence Israeli academic institutions or public opinion.

However, Israeli universities are eager to receive funding, and the Chinese have the ability and the desire to provide it and receive its benefits. The most well-known example is the $130 million donation by Chinese tycoon Li Ka-shing to the Technion, with an additional donation of $150 million for the Technion to establish a technological institute in the Chinese province of Guangdong.[40] This technological institute, which is expected to award academic degrees of all levels, will encourage innovation and the transfer of technology, and will develop an eco-tech industry.[41] Tel Aviv University has also established a $300 million joint initiative with Tsinghua University in Beijing, the XIN Institute for graduates of both universities.[42] The institute focuses on cooperation in the field of nanotechnology, and in the future it will include additional fields.

Similar to the Technion and Tel Aviv University, additional academic institutions in Israel maintain partnerships with Chinese institutions. Haifa University established a joint research center with the Shanghai Academy and signed a memorandum of understanding with the Chinese holdings and beverages group Wahaha, with the goal of strengthening cooperation between the sides in the fields of life sciences, ocean sciences, and applied science fields such as robotics and cancer research.[43] The Chinese group committed to invest at least $10 million over the course of five years in establishing a research center that will specialize in fields such as autonomous cars, information technologies, biotechnology, and biometric identification.[44]

The increased ties between Israeli academia and Chinese institutions raise questions about the desirability of Israel's transferring advanced technologies to China; the need to develop the resource of Israeli innovation over time; the balance between receiving Chinese resources for development and the loss of comparative advantage by helping a powerful competitor; and the ability to safeguard freedom of expression and freedom of research. In addition to these questions, which the Israeli government and the relevant bodies should address – and in light of the incidents in Australia – another question is to what extent the desire or need of Israeli academic institutions for Chinese funding could expose them to demands that are inconsistent with the principles of academia, whether they are stated explicitly by the Chinese or are restrictions that the university places on itself in order to avoid harming donations. Such demands were already raised in 2008, when Tel Aviv University conceded to the Chinese Embassy's demand to remove an exhibit of Falun Gong practitioners (Falun Gong is a Chinese meditation method that the Communist Party sees as a prohibited political organization trying to undermine the Chinese government).[45] Despite the opposition of a senior faculty member from the East Asian Studies Department, the university administration ordered the exhibit removed; thereafter, the organizers of the exhibit sued the university in court and won. The court ordered that the exhibit be presented for a week, and the judge even criticized the university, saying that it "gave in to pressure from the Chinese Embassy, which funds different activities at the university."[46] Even though this was a single incident, it is easy to imagine a situation in which an academic institution would hesitate to organize similar events, or a faculty member would feel obligated to censor content related to sensitive Chinese issues, due to concerns that these would affect donations.

Thinking Ahead

The incidents that demonstrate Chinese involvement in Australian academia have not attracted much attention in Israel. Seemingly, Israel is far from Australia, and not only geographically. There are many differences between Israel and Australia with respect to the size of the country, geographical proximity to China, structure of the political system, number of Chinese in the country, and the size of the economy and importance that China sees in bilateral relations with each country. However, and perhaps because it "isn't there yet," Israel would do well to examine the incidents in Australia, where relations with China are already highly developed, in order to learn from them, plan its actions wisely, and ensure that relations with China and with other countries develop in the most positive manner. Furthermore, even now Israel is not immune to foreign influences, and in each of the three areas discussed there have already been instances of Chinese influence.

In Australia, the incidents described above led to public alarm and created urgent pressure on the government to legislate regulations in order to adapt the law in light of the incidents. The new law prohibiting foreign political contributions is a first step in ensuring the independence of the political system, but Australia will also need to address another problem, as many donors are Australian citizens of Chinese descent, to whom the law does not apply.

Unlike Australia, in Israel immediate steps do not seem urgent because Israel is not dependent on China, and the risk of incidents in Israel similar to those that occurred in Australia is low. However, Israel currently has an opportunity to examine what occurs elsewhere in the world and to adjust its legal system in order to prevent loopholes that in the future could lead to unwanted influence. China offers Israel an extensive market and a wealth of enticing economic opportunities for companies, academic institutions, and the country in general. The law regulating exports is a positive starting point for reducing security risks, but it is clear that since it was enacted there has been considerable development in new fields that were not reflected in the law's formulation. The Israeli government, together with various economic bodies and security agencies, must decide which of Israel's strategic assets it is willing to open to trade partners or foreign investors, and which of the country's assets will be domestic enterprises only that must remain outside of the realm of foreign influence. In order to encourage foreign investment while maintaining national security, Israel must establish a clear regulatory system regarding investments in the fields of dual use and other advanced technologies. To this end, the Israeli government can benefit from learning about Australia's experience and its regulatory model – the Foreign Investment Review Board – as well as successful regulatory systems from other countries.[47]

Special attention should be given to academic collaborations, while understanding their importance to the standing and growth of Israeli academic institutions. The university authorities must be aware of the risks involved in research collaborations that involve innovative and dual use technologies. Naturally, it is especially important to have a system-wide perspective on the issue, and thus a solution should be developed that assesses the risks and benefits of each academic collaboration locally and nationally. In this respect, it is recommended that the solution be developed in cooperation with academicians and security officials, in order to understand the full implications of the proposed collaboration, and in order to raise possible concerns and offer suitable solutions. Until such a solution is developed, academic institutions must be aware of the potential influence of foreign entities with respect to freedom of expression and academic freedom, and in regard to the transfer of advanced technology and information.

The recent incidents in Australia can help the formulation of a relevant framework for the Israeli government and its authorities on this issue, in order to assess the potential influence of foreign governments on Israel's government, economy, and society, and to create mechanisms for reducing the risk. Israel's relations with foreign countries, including China, are important for the country's future and prosperity. Therefore Israel must ensure that these relations continue in a positive manner, while maintaining Israel's interests and strategic independence.

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Regulation of Foreign Investments and Acquisitions: China as a Case Study

Doron Ella

Over the past decade, Chinese state-owned enterprises (SOEs) and private companies have acquired Israeli companies and invested at a growing rate in various Israeli civilian industries such as transportation infrastructure, food, chemicals, mining resources, cellular technologies, cybersecurity, and medical technology. In Israel, companies are required to turn to the Israel Securities Authority and report any outside overtures to acquire their assets (or investments that would constitute control), starting from the negotiation stage.[1] The current regulatory process in Israel focuses on essentially financial aspects, and assesses the acquiring company's corporate structure and its degree of financial leverage.

In many countries, the acquisition of local resources by foreign companies is subject to regulation. Indeed, unlike in Israel, different industrialized Western countries have special regulatory agencies that also assess security and political risks that could result from the acquisition of local companies by foreign bodies, and from their possible control over what are defined as strategic assets. These countries see China's global purchasing campaign as a combined economic and political challenge.

Economically, China's fast progress toward becoming a technology and innovation superpower threatens the competitive advantages of developed countries with knowledge-intensive economies such as the United States, Germany, South Korea, and Japan. In 2016, China for the first time ranked 25 in the World Innovation Index (while Israel ranked 21),[2] and in 2017 it climbed to 22 (while Israel climbed to 17).[3] Thus, China's becoming an innovation superpower, combined with its enormous production capacity and its political aspirations in the international arena, is seen as a threat to the economic future of developed countries. Politically, various countries are concerned that if companies owned or connected to the Chinese government control assets defined as strategic (such as ports, electricity and communication infrastructure, agricultural land, and civilian technologies with military applications), this in turn could enable the Chinese government to leverage its economic control into political influence or use its acquisitions for military buildup. These concerns have led certain countries to create special regulatory agencies to address China's increased penetration of their markets.

Israel faces similar risks in managing investments in its assets by foreign bodies in general and Chinese bodies in particular, whether they are owned by the Chinese government or by ostensibly private companies. In recent years, Israel has positioned itself as an international technological innovation giant, and Israel's flourishing hi tech industry is one of the pillars of Israel's economic growth, along with the defense industry, diamond processing, tourism, and metal and chemical processing. Israel is considered a knowledge-intensive economy; the costs of labor in Israel are high, and it lacks the manpower necessary for maintaining efficient production lines over time that would complement its developed services industry. China, in contrast, has extensive and proven production capabilities, as well as a large, attractive, and growing domestic market. On many occasions, Chinese leaders have described Israel and China's economies as complementary,[4] and in their view China can use its extensive capital to invest in Israeli companies, to benefit from their technological knowledge and open production plants and research and development (R&D) centers in China. China's dominant economic power, its unique political culture – characterized by close connections between party, government, and industry – and its national aspirations regarding technological development and innovation, along with its increasing investments in a variety of Israeli companies, are therefore an economic and political challenge for Israel.

This article compares the mechanisms for regulating foreign investments in the United States (CFIUS), Germany (BMWi), Australia (FIRB), and Canada (ICA), and the existing regulatory regime in Israel. It analyzes the risks and challenges to Israel in light of increasing Chinese acquisitions, and proposes policy recommendations. For the purpose of this study, official documents and protocols of the relevant countries were examined along with secondary sources and media reports, and discussions were held with personnel at various Israeli governmental bodies.

China's Uniqueness and its Acquisitions in Israel

Supervision and monitoring of Chinese investments and acquisitions in Israel is necessary for four principal reasons. First, in China there are unique connections between commercial, government, and private companies and the ruling Communist Party and government. Many of the Chinese companies that have the financial capability to acquire foreign companies are completely or partly owned by the government. Chinese government ownership means that the Communist Party has access and is able to control various aspects of the companies' activity, such as the employment of workers and decision making – including with respect to export policy – as well as the transfer of knowledge and technologies as part of the company's activities. Private companies in China are also generally subject to the interests of the Communist Party, and their international activity is sometimes directed toward aims specified in the Chinese government's five-year plans.[5] According to official figures, in 2017 there were Communist Party cells in over 70 percent of private companies in China, and in most of them at least one member of the board of directors was a Party member.[6]

In addition, Chinese government companies have access to enormous capital resources and the possibility of investing outside of China with the help of layers of debt from different sources, including government-owned banks. China's commercial competitors usually do not have access to this scale of capital resources, which thus increases the risk of considerable concentration of foreign assets in the hands of Chinese government companies and local competitors ousted, especially in cases where the investing companies encounter financial difficulties and need lifelines from the Chinese government, in the form of loans from government-owned banks.[7] When it comes to Chinese companies, there is not a clear distinction between private and governmental. All companies are subject to the influence of the government and will likely act not only out of independent business considerations but also out of strategic considerations on the part of the Chinese government.

Second, China's ambitions regarding developing its economy and becoming a technological innovation superpower are an economic challenge for Israel in the medium to long term. In its twelfth five-year plan (2011-2015), China declared its intention to become a technological innovation superpower by

2025, as part of the "Made in China 2025" plan. One of the means to achieve this goal, as declared in the plan, is to acquire and adopt foreign technologies and adapt them to the Chinese market – which would enable developing a local Chinese knowledge base.[8] In this context, Israel is seen by China as an innovation hub that can contribute greatly to China's technological development, on its way to becoming an innovation superpower in its own right. Thus, it is clear that China is not merely a customer of Israeli technologies and partner in investments in Israel, but also a direct competitor of Israel in the field of technological innovation, adopting and improving upon technologies originally from Israel.

Third, China makes frequent use of its economic power to further its policy objectives, both in its immediate vicinity and around the world. One example is the support for China's position regarding the South China Sea dispute, on the part of countries that receive aid and investment from China;[9] another is Chinese economic pressure to convince countries to cut off relations with Taiwan and adopt the "One China" policy.[10] A specific example is Greece's decision to veto the European Union's decision to condemn China's human rights policy, after the two countries significantly expanded their economic relations, and COSCO, which belongs to the Chinese government, acquired control of the Greece port of Piraeus.[11]

Finally, from a broad perspective, there is room for considering the economic, political, and even military competition between China and the United States – Israel's irreplaceable superpower patron.

Regulatory Mechanisms: A Comparative Perspective

Many countries see their growing economic ties with China both as an important opportunity to develop their economy and as a phenomenon with unique economic, political, and national security risks. These countries must thus balance between making the most of the opportunity for development while managing the risks, and consequently created the mechanisms for regulating foreign investments and acquisitions. The discussion below presents four examples of noteworthy regulatory activity: Australia, the United States, Germany, and Canada.

Australia

Australia's regulatory activity regarding foreign acquisitions and investments was anchored in legislation in 1975 and updated regularly.[12] As in many countries, the Finance Minister is directly responsible for regulation – in other words, the law sees the issue as primarily economic. Nonetheless, the Minister can block acquisition and investment deals for a variety of reasons, including due to "possible harm to national interests." This formulation is intentionally vague in order to cover a variety of issues such as possible harm to national security, Australia's strategic assets, internal competition within Australia, or Australia's competitiveness in the international arena; or for considerations of the community's attitude toward the investor; or due to the investor's connections or general character. In addition, when the investor is a governmental body, Australian regulation requires assessing whether the foreign government has political or strategic interests that are behind the acquisition or investment, which could harm Australia's national interest and create a situation of foreign control over its strategic assets.

In order to conduct a comprehensive and reliable assessment of investments in Australia, the Finance Ministry is aided by the Foreign Investment Review Board (FIRB),[13] which is made up of economists, senior industry figures, legal scholars, and senior figures from the Australian defense forces. According to the Australian regulatory rules, this committee examines any investment or acquisition of at least 20 percent of the value of an Australian company valued at over $252 million. One prominent exception is agricultural land; in this case, the Australian government decided that foreign companies must undergo a regulatory assessment for any acquisition over $15 million.[14] Even though there is a free trade agreement between Australia and China that allows for investments of up to 1 billion dollars without regulatory assessment, transactions in areas considered sensitive, such as media, transportation, defense, military, and nuclear development must still undergo regulatory assessment according to the regular criteria. Furthermore, foreign governmental companies are subject to stricter criteria in terms of the sectors that they can invest in, and for them the acquisition or investment amount that requires regulatory assessment is lower.

In 2016, Australia blocked two Chinese acquisitions within its territory, on the grounds of harming Australian security interests. The first was in April, when the acquisition of a private Australian-owned beef farm constituting 1 percent of the area of Australia and 2.5 percent of its agricultural land was blocked, due to potential harm to national security. According to reports, the main reason for blocking the acquisition was that part of the farm was located on land controlled by the Australian Defense Ministry used for missile testing.[15] Four months later, Australian regulators blocked a company owned by the Chinese government and prevented the acquisition of an electrical transmission company owned by the Australian government (Ausgrid). Here too, the acquisition was reportedly blocked due to concerns of Australian national security interests.[16] The two transactions were blocked by FIRB after the sides had already signed sale contracts, and as a result received harsh responses from the Chinese, who claimed that Australia unfairly discriminates against Chinese companies.

United States

American regulation of foreign investments and acquisitions operates in accordance with the Foreign Investment and National Security Act (FINSA), passed in 2007.[17] This followed the creation in 1975 of the Committee on Foreign Investment in the United States (CFIUS), which advises the President on such issues. Following the committee's recommendations, the President is the deciding authority on mergers, investments, and acquisitions carried out by foreign companies in the United States. The committee is made up of the Secretary of State, the Attorney General, and senior officials from the Departments of Homeland Security, Defense, State, Commerce, and Energy. In addition, the Director of National Intelligence is an external advisor to the committee and is responsible for assessing the risks that these investments and acquisitions pose to US national security. Similar to Australia, here too the committee includes economists, industrialists, and defense officials.

The committee's main role is to assess each investment and acquisition carried out in the United States by foreign bodies, in order to decide if it threatens national security or creates a situation where a foreign person or entity controls strategic American assets. Furthermore, when the investing or acquiring entity is governmental and the transaction could create a situation where a foreign government controls infrastructure or assets that are essential to the United States, the committee conducts a longer, more comprehensive and more critical investigation.[18] Nonetheless, at the outset of the Trump presidency, figures in the administration directed considerable criticism at CFIUS. They claimed that it currently lacks a coherent strategy, and has become an anachronistic organization that is not able to address the current challenges that China poses to the American economy. Indeed, as one of a series of steps aimed at streamlining the committee, the administration intends to publish a list of key countries where transactions will be scrutinized more deeply and comprehensively. This is in addition to legislative efforts to expand the authority of CFIUS and examine limiting the acquisition of American companies in certain sectors by companies owned by foreign governments (directed mainly at companies owned by the Russian and Chinese governments).[19]

In 2012, CFIUS blocked acquisitions that the Chinese media company Huawei was involved in, as it was claimed that it is connected to Chinese military intelligence.[20] The committee recommended to American companies not to do business with Huawei or with the Chinese company ZTE, and not to enable them to carry out acquisitions and mergers in the US, arguing that they constitute a threat to US national security, due to fears that their products are also used by China for espionage.[21] Similar suspicions led the government of Australia to prohibit Huawei from participating in a tender for operating Australia's national broadband network (NBN).[22] Huawei and ZTE were investigated again in 2016 by the US Department of Commerce due to suspicions that they violated the sanctions imposed on North Korea, Syria, Cuba, and Iran by selling them American technologies that can also be used to monitor cellular networks,[23] and in April 2018 the United States placed a prohibition on trading with ZTE for some seven years, after it was suspected of trading with North Korea and Iran and did not meet its commitment to punish senior employees who were involved in these deals.[24] However, approximately three months later, Trump canceled the trade prohibition and replaced it with a monetary fine and a demand to create an American committee that would supervise the company's activity in the US.

In early 2016, two Chinese-American deals were canceled due to concerns that they would not pass American regulatory assessment. Tsinghua Unigroup, a company owned by the Chinese government, withdrew its $3.8 billion offer to acquire Western Digital, which is involved in data storage, after the deal's details were submitted to CFIUS for assessment, due to concerns that the committee would not approve it. A second deal was canceled by the American company Fairchild Semiconductors, which had received a $2.6 billion acquisition offer from two corporations owned by the Chinese government. The Chinese offer was higher than offers it received from American companies in the field, but was rejected at the outset due to concerns that it would not pass the American assessment committee. In August 2016, the Obama administration, acting on a recommendation by CFIUS, blocked the acquisition of a German microchip company (Aixtron) by a Chinese investment fund called China's Fujian Grand Chip Investment Fund, claiming that the German company, which has branches in the United States, produces semiconductors that can be used for military purposes, and are also used for upgrading the American Patriot missile system used by NATO forces.[25] The semiconductor industry receives special attention from the US administration in light of repeated attempts by China to upgrade its capabilities by subsidizing the local industry with $150 billion,[26] acquire companies that specialize in the field (for example the Israeli company Alma Lasers), employ foreign engineers and specialists (mainly from Taiwan), and engage in massive industrial espionage.[27]

Recently, China has taken an interest in additional technological fields such as artificial intelligence, robotics, cloud computing, big data, facial recognition technologies, and more. China is investing large amounts in funding local companies involved in these fields, and encouraging them to acquire companies outside of China in order to deepen and expand China's knowledge base. Some in the United States claim that China is adapting these technologies for military and security use – for example, using facial recognition technologies to track its citizens, using big data analyses to forecast political protests, and increasing use of robotics and artificial intelligence in order to develop unmanned military vehicles and aircraft.[28] Aside from the potential military use of these technologies, the United States is concerned about the loss of its standing as the world leader in the field of artificial intelligence. Senior figures in the American tech industry warn that China's fast progress in this field, along with its massive government investment as part of China's plan to become a leader in the field of artificial intelligence by 2030,[29] will enable it to surpass the United States in advanced artificial intelligence development within five years.[30]

Canada

Investments and acquisitions by foreign entities in Canada occur under the framework of the Invest in Canada Act (ICA). This law, in force since 1985, regulates the process whereby the government reviews the creation or acquisition of businesses in Canada by foreign entities. The government agency responsible for enforcing the law overall is the Canadian Department of Innovation, Science and Economic Development, which operates at the ministerial level. ICA replaced the Foreign Investment Review Agency (FIRA), established in 1973, and was updated in 2009, 2013, and 2015. In the framework of FIRA, each foreign acquisition was subject to comprehensive review by the government regardless of size, and buyers were responsible for proving that Canada would significantly profit from the transaction. The new law reduced the range of transactions to be reviewed and lowered the threshold for the profitability test that foreign investors had to pass, in order to encourage additional foreign investments to Canada and make it an attractive destination for foreign investors.[31] Nonetheless, ICA allows for review of any investment, acquisition, or establishment of a business operating in Canada, even partially.[32]

The Canadian investment law distinguishes between two categories: reviewable investments and investments that only require notification. According to the law, reviewable investments are:

a. Investments in which the purchasing entity is government-owned (by a country that is a member of the World Trade Organization), the business in which it is investing is for profit, and its value is over $354 million;
b. Investments in which the purchasing entity is not government-owned and the value of the business in which it is investing is over $600 million;
c. Investments by entities from countries that are not members of the World Trade Organization in Canadian companies whose value is over $5 million;
d. Any investment by a foreign entity that the Canadian government defines as a transaction that could threaten national security.

Acquisitions according to criteria 1-3 are subject to review by the Canadian Industry Minister, who reviews their economic viability, consulting with other relevant governmental bodies.[33]

According to criterion 4, the Canadian government restricts acquisition of control by foreign entities in a number of fields that it defines as essential assets for the country, including civil aviation, fisheries, electricity, energy, financial services, mining, real estate, and telecommunication. Furthermore, in cases where the Canadian government sees a foreign investment or acquisition as a threat to national security, the ICA tasks the Canadian cabinet with reviewing it and approving or rejecting it. According to the law, if the relevant Minister has a reasonable basis for believing that a certain investment could harm Canada's national security, he is authorized to submit the transaction to the cabinet for review.[34] The law does not define what is considered "national security," and there is no minimum level of investment beneath which no review is carried out. This creates uncertainty for potential investors, but also expands the range of transactions that can be reviewed in this framework.[35] Since ICA came into effect, the Canadian government has reviewed eight foreign investments in Canadian businesses according to the criterion of posing a possible threat to national security, and of these, it blocked three investments, without publicizing the names of the companies involved or their origins.[36]

Germany

The Foreign Trade Law, first presented in 2009, is the framework for Germany to implement the regulatory process regarding foreign investments and acquisitions within its territory. This law enables the German Ministry for Economic Affairs and Technology (BMWi) to prohibit or restrict foreign investments in German companies from outside of the territory of the European Union, in special circumstances that constitute a threat to public order or to Germany's security. In the framework of this law, Germany can prevent mergers or direct or indirect acquisitions amounting to over 25 percent of the total stock of domestic companies. This law is not limited to a specific sector, and is only activated when there is a reasonable concern that the acquisition or merger will lead to potential harm to social order or to Germany's security. The decision on acquisitions and mergers is subject to the government's approval, and the German Foreign Office and Interior Ministry often participate in the decision making process. The acquiring or acquired company is not required to report the transaction, but this can be reported by the German Financial Supervisory Authority, which receives registrations of all transactions made within the country. The simplest method for companies interested in carrying out acquisitions or mergers within Germany is to receive a non-objection letter in advance from BMWi, in order to prevent investigations at a later stage that could threaten the success of the deal.[37]

In early 2017, Germany expanded the authority of the Ministry of Economic Affairs and Technology regarding acquisitions and investments by foreign companies in German companies, in light of growing concerns about the increasing number of acquisitions of German tech companies by Chinese companies, and the lack of reciprocity in commercial relations and investments between China and the European Union. Ostensibly, the expansion of its authority was in response to the acquisition of the German robotics company Kuka by the Chinese company Midea, and increased concerns over the transfer of German technologies to foreign control. In this context, the expansion of its authority in the framework of the law was done in way that allowed immediate investigation of any acquisitions in fields considered "essential infrastructure," including companies that produce software for power plants, energy, water supply infrastructure, electronic payments, hospitals, and transportation systems. Companies engaged in the development of defense equipment, including electronic surveillance and defense equipment, will also be covered by the law.[38]

In February 2017, Germany, France, and Italy requested that the European Commission review foreign investments and acquisitions in European Union countries, due to concerns that Europe is losing its technological advantages. These countries sought to block transactions in cases where the mother country of the purchasing company does not enable equal investments in its territory, and where the principle of reciprocity of investments is not upheld (this too is clearly directed at China).[39] Currently, only 13 of the 28 member states of the European Union have official supervisory systems for foreign acquisitions and investments, which are intended to determine whether the transaction threatens national security or public policy objectives. In September 2017 the President of the European Commission, Jean-Claude Juncker, announced steps to monitor and filter acquisitions of European companies by foreign entities more strictly, in order to narrow gaps in comparison with the regulations in place in the United States and other large economies when it comes to monitoring acquisitions by foreign companies in strategic sectors.[40]

Clearly, the governments of the United States, Australia, Canada, and Germany, and to a certain extent the European Union too, are interested in developing their economies through foreign resources. However, they also see foreign investments and acquisitions, mainly on the part of China, as a long term economic challenge, through possible harm to their competitiveness in the global economy and in their domestic economies. In addition, this activity constitutes a political and defense challenge – through the accumulation of economic-political leverage on the one hand, and possible Chinese takeover of strategic assets with the potential to contribute to military buildup on the other hand. In order to address this challenge, these countries operate special regulatory agencies that are responsible for supervising and monitoring foreign acquisitions and weighing economic benefits against other security and national interests (table 1).

Table 1: Chinese Acquisitions and Investments outside of China Blocked by Local Regulation (2016-2017 sample)[41]

Year	Chinese Company	Local Company	Estimated amount ($ millions)	Country / Sector
2016	Dakang Australia Holdings	S. Kidman & Co Ltd.	280	Australia / Farming lands
2016	State Grid Corp. of China	Ausgrid	7600 (50.4%)	Australia / Electricity grid
2016	Tsinghua Unigroup	ChipMOS Technologies Inc.	373	Taiwan / Microchips
2016	Tsinghua Unigroup	Siliconware Precision Industries Co.	1760	Taiwan / Microchips
2016	China's Fujian Grand Chip Investment	Aixtron	670	Germany and United States / Microchips
2016	Tsinghua Unigroup	Western Digital	3800	United States / Data Storage
2017	Tsinghua Unigroup	PowerTech Technology Inc.	600 (25%)	Taiwan / Microchips

Against this background, it is worth examining how Israel addresses the challenge of Chinese acquisitions and investments within its territory and considerable Chinese penetration of its economy.

Israeli Regulation

China and Israel established diplomatic relations in 1992, and signed a trade agreement in which China granted Israel a "most favored nation" (MFN) status. Subsequently, standardization, shipping, and aviation agreements were also signed. In 1995, Israel and China signed a mutual agreement for advancing and protecting investments, in which they agreed to create favorable conditions for individuals, companies, or corporations interested in investing in them.[42] The agreement enables Chinese companies to receive long term loans from Chinese government banks when doing business with Israeli exporters in the fields of capital products and infrastructure construction, and provides Israeli companies with the possibility of participating in projects and transactions with Chinese governmental bodies and companies. This agreement was renewed and expanded in 2004 and 2010. In addition, in 2010 a research and development agreement was signed between the Israeli Ministry of Industry, Trade, and Labor and the Chinese Ministry of Science and Technology, which was intended to assist in diversifying cooperation with China and advance partnership based on knowledge and innovation.

In recent years, many Chinese companies have invested and acquired Israeli tech companies – a kind of acquisition that has become more complicated in other developed countries, especially in the West.[43] According to figures by Deloitte, the total sum of Chinese investments in venture capital funds in the Israeli tech sector in 2016 was approximately $1 billion, while it was $700 million in 2015 and $500 million in 2014.[44] But despite increased acquisitions and investments and in contrast to Australia, the United States, Canada, and Germany, in which there are integrative agencies for reviewing foreign investments, in Israel there is no central regulatory agency for this, and Israeli regulation on foreign investments and acquisitions in civilian fields is decentralized, with each government ministry or body operating an independent regulator in its field.

In Israel there are three central supervisory bodies that regulate domestic and foreign investments: the Commissioner for Capital Markets, who is also responsible for insurance and savings, which operates within the Ministry of Finance and supervises insurance companies and investment firms, among others;[45] the Israel Securities Authority, which operates under the authority of the Securities Law and also supervises mutual funds and investments in the stock market;[46] and the Bank of Israel, which includes the Banking Supervisor, who sets and operates regulation regarding investments in commercial banks in Israel.[47] Each regulator has its own procedures and regulations that are determined in accordance with its needs and with the nature of the bodies that it supervises.

In the field of investments or the acquisition of stocks by government companies (as opposed to private and public companies, regarding which there is no similar legislation), the State of Israel is authorized to enforce the Government Companies Law,[48] which is the main directive that regulates various issues related to the privatization of government companies. The law and its various provisions are meant to balance "between the desire to allow government companies flexibility to achieve their business objectives and the desire to supervise these companies, in view of their involvement in national and economic issues, and in view of the monetary resources invested in them."[49] According to this law, any significant investment in a government company by a foreign or Israeli entity requires the approval of the government and of the Government Companies Authority (GCA) within the Ministry of Finance. Section 59h in chapter H2 of the law relates to protecting essential national interests. The Ministerial Committee on Privatization, in consultation with GCA and with the minister responsible for the government company's affairs, has the authority to declare that Israel has vital interests regarding the government company that is about to be privatized, whether by merging with a private company or its shares being acquired by a private entity, Israeli or foreign. "Vital interest" is defined thus by the law:

a. Ensuring the continued existence of activities that are vital to Israeli security or foreign relations, or ensuring the continuity of the adequate supply of vital services to the public;
b. Maintaining the character of the company as an Israeli company, whose affairs and management are in Israel, as determined by the ministers;
c. Supervising the control of quarries or natural resources, their use, and development;
d. Encouraging competition or preventing economic monopolization;
e. Preventing the development of a position of influence over the company on the part of hostile entities or entities that could harm national security or foreign affairs;
f. Preventing the exposure or discovery of confidential information, due to considerations of national security or foreign affairs.

For the purpose of protecting any of these vital interests, the government has the authority to issue an order restricting external control through various means over the government company being privatized.[50]

In addition to these bodies and to the Government Companies Law, foreign acquisitions in the field of military and defense technology is supervised and controlled by the Defense Export Controls Agency (DECA) in the Ministry of Defense, which began its activity in 2007 based on the lessons from the 2001 Phalcon crisis.[51] According to the Defense Export Control Law, "Authorization of defense exports is a two-stage process, which requires receiving a marketing license for activities for promoting defense exports as defined by law, and afterwards, prior to exporting the equipment, knowledge or service, requires receiving an export license." The law further stipulates that "registration in the defense export registry constitutes a condition for receiving a marketing license or export license." Lists of equipment, knowledge, and services that are supervised by law were defined and published as orders, divided into combat equipment, ballistic equipment, and dual-use equipment.[52] However, in Israel there is no central agency for supervision of the export of civilian technology, or one entrusted with examining investments in and acquisitions of Israeli companies by various foreign bodies, and in particular companies that deal with civilian technology – a central field that constitutes a prominent and growing segment of Israel's economy. Moreover, the distinction between civilian technology and its military applications is less sharp than in the past.

One example of activity by an independent regulator in Israel can be seen in the case of the Commissioner of Capital Markets, Insurance, and Savings, Dorit Salinger. In recent years Chinese government companies have sought to acquire Israeli insurance companies, such as Phoenix and Clal Insurance, but these deals were blocked (table 2). The Chinese Macrolink group was willing to pay a sum 50 percent higher than the market value of Clal Insurance, but ultimately the deal was voided by the Commissioner in the wake of an examination of corporate governance in the acquiring company.

The best known example for distributed regulatory activity in Israel relates to the attempt to acquire the Israeli insurance company Phoenix. The principal debate took place in the office of the Insurance Commissioner. This acquisition, like the attempt acquisition of Clal, was blocked by the Insurance Commissioner based on claims relating to the financial abilities of the acquiring companies and their corporate structure. During the proceedings for the acquisition of the Phoenix, a hearing was held with Knesset members from across the political spectrum in the Finance Committee, where the MKs demanded that Salinger not approve the deal, stating that a Chinese corporation would not act on behalf of the interests of those investing their savings, and that such a sale could endanger the pensions of the Israeli public.[53] Such claims indeed clearly demonstrate public concern regarding damage to the national interest of Israel and its citizens.

The sale of Tnuva to the Chinese Bright Food company is another example of a deal that generated public criticism due to its possible consequences for the Israeli public. In March 2015 the deal for the acquisition of Tnuva (which since 2008 was partially held by the British Apex Fund) was completed by Bright Food, which is controlled entirely by the Chinese government, for a sum of 8.6 billion NIS. After the deal was signed, former senior officials in the Israel defense establishment, Knesset members, and officeholders voiced their opposition to the deal. For example, former Mossad chief Efraim Halevy claimed that "the fact that the largest food company in

Israel is owned by the government of China will create a situation where the policy that determines this company's economic conduct will be the policy that serves China," and that "today food is one of the fields included in the framework of national security." Furthermore, Halevy claimed that companies whose holdings include national lands should not be sold to companies controlled by foreign governments.[54] Then-Chairman of the Knesset Finance Committee MK Avishay Braverman opposed the deal, and claimed that the ministerial committee on legislation rejected a bill that he introduced and was supposed to "create a ministerial committee like that in the United States, which would forbid the sale of large companies to foreign parties." Braverman's opposition stemmed from the concern that in a future political-security crisis, foreign companies that hold strategic Israeli knowledge and assets will transfer their capital, research, and development to another location, or prefer to promote their interests with enemy states such as Iran, while transferring Israeli knowledge to them.[55]

Table 2: Chinese Acquisitions and Investments in Israel Blocked by Israeli Regulation (2015-2017)[56]

Year	Chinese Company	Israeli Company	Estimated Amount ($ million)	Reason for Cancellation
2015	Macrolink Group (privately owned)	Clal Insurance	678 (55%)	Regulatory barrier (insurance)
2016	Fosun Ltd. (state owned)	Phoenix Insurance	462	Regulatory barrier (insurance)
2017	Luxembourg Space Telecommunications (backed by Beijing Xinwei Technology) (privately owned)	Spacecom	285	Regulatory barrier (security)
2017	XIO (40% owned by Chinese)	Meitav-Dash	1600	Bureaucracy / non-compliance with deal terms (insurance)

Another noteworthy example of substantial Chinese investment in Israel is the concession to operate the container terminal at the Haifa Port for 25 years, granted to Shanghai International Port Group (SIPG), which in practice belongs to the Chinese government. In 2015, SIPG won the international tender held by the government of Israel for operating the port, after joining at the last moment and being the sole contender. The company is expected to invest some 1 billion NIS in developing the port infrastructure and purchasing operational equipment by 2021, when the port is expected to begin operation. Furthermore, in 2014, China Harbour Engineering, a subsidiary of the Chinese infrastructure giant CCCC, also owned by the Chinese government, won a tender to build a private port in Ashdod, after submitting a significantly cheaper offer than that of its European competitors. It is claimed that China Harbour has extensive ties with Iran, and that it owns a large agency there. The company provides consulting services to various Iranian entities and large commercial centers in Iran in the framework of funding agreements between China and Iran. Israel's ports are of supreme importance to it, since most of Israel's foreign trade passes through seaports, which transport 99 percent of export and import cargo. Thus, a prior regulatory discussion should take place in order to assess the strategic implications of operating or building a private port in Israel by a foreign company, while assessing the risks in the case of a war or large scale military operation.

Furthermore, despite the extensive investigations underway against Huawei in the United States, some that pertain to prohibited relations with Iran and others that pertain to its involvement in technological espionage, in Israel the implications of the investigation are not discussed. The Israeli company Toga Networks, which develops innovative communications microchips, was secretly acquired by Huawei in 2010 – a year after it was established,[57] but the company only admitted this six years later. According to Huawei, the secrecy stemmed from its desire to maintain its good relations with customers in Arab countries.[58] Huawei turned Toga Networks into its development center in Israel, and to this end recruited dozens of talented engineers and especially experienced software architects, who receive especially good conditions, even by the standards of the tech industry, which is known for its generous benefits. The company currently employs over 200 Israeli and Chinese at its offices in Hod Hasharon. Indeed, various Israeli tech companies have claimed that Toga Networks focuses on hunting senior architects and engineers from among experienced engineers at Israeli companies, thus harming their competitive advantage for developing intellectual property, which in the end is received by China and developed there by local engineers. This is in contrast with Western companies that often commit to their development centers remaining in Israel.[59] In addition, in the past concerns have been raised that at tech companies such as Toga Networks, many employees formerly served in army intelligence units and were exposed to the IDF's technological tools during their service, and now are adapting the knowledge they acquired to the civilian sector.[60]

The issue of cyber regulation has likewise arisen in this context. In recent years, the Defense Export Control Agency at the Ministry of Defense began to focus on the possible consequences of cyber companies being sold to foreign entities. A draft written in January 2016 by an inter-ministerial committee headed by DECA stated that cyber products could include technologies that if in the wrong hands could severely threaten Israel's security political and defense interests, and thus it was suggested that a directive be promoted for special supervision of acquisitions of companies in the cyber industry in Israel.[61] The exposure of this draft sparked a storm among Israeli cyber companies, and as a result, Prime Minister Benjamin Netanyahu created a committee to examine aspects of the draft directive and its impact on the Israeli cyber industry. The committee was led by the head of the National Cyber Bureau, Dr. Eviatar Matania, and included members from the Ministries of Defense, Economy and Industry, and Foreign Affairs, and the National Cyber Bureau. Netanyahu decided to adopt the committee's recommendations, to cancel the process of the directive, and maintain the Wassenaar Agreement, which regulates the export of dual use technologies. Thus, it was decided that DECA would supervise the export of cyber systems for military use, while supervision of the export of cyber systems of a civilian nature would be through a new mechanism developed by the Ministry of Economy and Industry.[62] Currently, the Ministry of Economy and Industry's existing mechanism deals with the export of dual use goods, services, and technologies, and regulates their supervision in accordance with the Wassenaar Agreement. The Ministry of Economy cooperates with the Ministry of Foreign Affairs, which presents political aspects, including Israel's relations with the target countries, as well as the Ministry of Defense, which presents technical aspects related to the equipment and its operation, and intelligence information to enable alerts regarding export to certain destinations, especially regarding entities operating in those countries, and checks on the end user.[63] In contrast, when it comes to acquisitions or investment in cyber companies or goods and technologies that are civilian or potentially dual use, Israel has no designated policy or supervisory body.

Conclusion and Policy Recommendations

The regulatory challenges that the United States, Australia, Canada, and Germany confront are partly similar to those facing the State of Israel. The supervision and monitoring processes examined in this article are the response by these economies – which are considered the strongest in the developed world – to the economic, strategic, and security challenges posed by China with its penetration of their markets, while in the background it continues to develop as an economic-political superpower in the fields of investment in infrastructure and technology. The differences in dimensions between the Western economies examined in this article and the Israeli economy emphasize Israel's need for Chinese funding of public projects and private investment, and thus place Israel in a more fragile position relative to these countries. In addition, the countries examined are not directly threatened by the leakage of Chinese information and technologies, or that acquired by Chinese companies, to countries like Iran and its proxies, though the economic risks of such leakage are similar. Israeli government policy, as seen in government decisions and their implementation, places a central emphasis on promoting economic relations with China. However, risk management is limited to reference to the responsibility of the Ministry of Defense in the field of supervising military exports regarding military and dual use products, services, and technologies.[64]

In view of the complexities of foreign investments and acquisitions in general and on the part of China in particular, and in light of the steps taken by other developed countries, the absence of an integrative regulatory process in Israel is significant. Such a process would enable comprehensive assessment of economic benefit considerations vis-à-vis the extent of possible risks. This raises concern that Israel's national security and national interest are not taken into consideration when monitoring foreign acquisitions and investments in assets that are vital to the State of Israel, its security, and its economy. Therefore, in light of the free trade agreement between Israel and China, it is necessary to ensure that a number of areas remain under supervision of relevant Israeli governmental bodies, due to their relative sensitivity in terms of state security and Israel's national and economic interests.

Creating such a body or committee in Israel could, however, raise concerns among foreign companies and especially Chinese companies about investing or acquiring commercial entities in various industries in Israel. Blocking deals that private or government Chinese companies were involved in has led to harsh responses by the Chinese government, and on more than one occasion it has accused the blocking countries of having a protectionist policy or of discriminating against Chinese companies,[65] which led to tense relations. Therefore, in order to avoid harming diplomatic relations with China, if and when it is decided to create such a body, it is important that it operate in the same manner toward all countries and place conditions and criteria that are as clear and transparent as possible, while minimizing such companies' concerns about Israel's liberal investment policy. In this way Israel can reduce uncertainty that could harm the desire of Chinese companies, who are known for preferring to invest in politically and economically stable countries,[66] from launching in Israel. The Israeli government must make clear that it is interested in continued investment in various areas of the economy, while defining areas in which foreign companies will have to undergo careful scrutiny according to predefined criteria, before receiving the relevant approvals for carrying out transactions in Israel, as is the case in other advanced countries.

Defining the criteria to be reviewed by an Israeli government body or committee is of central importance, as foreign companies will decide on this basis whether to invest or acquire Israeli companies or assets. The Israeli government can present criteria that define the scope of the transaction (setting a minimum amount for requiring review), the nature of the investing company (private, public, government, or a combination), the percentage of the investment in the given sector (in order to prevent the development of monopolies), and the percentage of control of the foreign company in additional sectors of the Israeli economy. As part of this process, it would be best at present to use the definition of the Government Companies Authority, which determines which interests are vital to the State of Israel, and to update it accordingly.

Israeli regulation of foreign investments and acquisitions does not necessarily require creating a central body similar to CFIUS. Rather, it is possible to create an inter-ministerial discussion committee with a mandate based on a government decision. Its decision would not necessarily be legally binding, and it would be received by the regulator at the relevant ministry. Another possibility that pertains mainly to assets that belong to the Israeli government is to include the relevant security considerations and special conditions in tenders in investment areas defined as important to national security that are offered to foreign companies, thus preventing companies with a problematic profile from competing. Whether a central body or an ad hoc inter-ministerial committee is established, security considerations must be presented alongside economic and commercial ones, thus creating a system of checks and balances enshrined in legislation.

Israel's relations with the United States must also be included in the framework of strategic considerations that relate to investments and acquisitions in various areas by Chinese companies in Israel. In order to prevent diplomatic incidents with the United States and/or with China, Israel must formulate a policy document or create a committee – as it did in creating DECA after the Phalcon crisis – that would review the consequences of selling Israeli companies to China for relations with the United States. The United States is still Israel's most important trade partner, and is an unparalleled strategic ally. Therefore, Israel must act carefully and responsibly when allowing foreign companies, especially those from China – which is in direct competition with the United States – to acquire Israeli companies that are involved in advanced and dual use technologies, such as cyber technologies and the semiconductor industry. Potential harm to American interests must be included in the considerations that Israel weighs when allowing Chinese companies to make acquisitions in Israel. Nonetheless, Israel must not close off its markets to China, but assess more comprehensively the consequences of penetration into certain areas of Israel's economy.

In conclusion, the Israeli government should consider creating a mechanism for reviewing foreign investments in Israel with a broad and integrative perspective, which could reduce foreign government influence in sensitive areas and maintain strategic assets in the hands of the state. The mechanisms of other countries can serve as a model. In addition, the government must consider how to manage sensitive areas vis-à-vis the United States in the fields of technology exports, including dual use goods, and monitor US relations with China as a sign of possible sensitivity in this area.

Appendix. Investments and Acquisitions by Chinese Companies in Israel, 2007-2017[67]

Year	Chinese Company	Israeli Company	Investment ($ million	Field
2007	China Civil Engineering Construction Corporation (CCECC) (state owned)	Carmel Tunnels	104 (400 NIS) (Partnership)	Infrastructure
2010	ChemChina (state owned)	Makhteshim-Agan (Adama)	2400 (60%)	Agriculture and Natural Resources
2011	Horizons Ventures Ltd. (privately owned)	Waze	30	Technology (GPS Mapping)
2011-2012	Horizons Ventures Ltd. (privately owned)	Magisto	21 (two rounds)	Technology (Video Creative)
2011-2012	Horizons Ventures Ltd. (privately owned)	Desti	2 (two rounds)	Technology (Online Travel Apps)
2012	Horizons Ventures Ltd. (privately owned)	Onavo	10	Technology (Mobile Applications)
2012	Horizons Ventures Ltd. (privately owned)	Wibbitz	2.3	Technology (Text-to-Video)
2012	Horizons Ventures Ltd. (privately owned)	Ginger Software	5.4	Technology (Mobile Keyboards)
2012	Horizons Ventures Ltd. (privately owned)	Shine	3.3	Technology (Mobile)
2012	Horizons Ventures Ltd. (privately owned)	Preen.me	0.8	Technology (Marketing)
2012	Horizons Ventures Ltd. (privately owned)	Invi	3	Technology (Messaging)
2012	Horizons Ventures Ltd. (privately owned)	Stevie	1.5	Technology (Social)
2012	Tencent Holdings (privately owned)	Contacts+	1	Technology (mobile apps)
2012-2013	Horizons Ventures Ltd. (privately owned)	EverythingMe	28.5 (two rounds)	Technology (Mobile Applications)
2012-2014	Horizons Ventures Ltd. (privately owned)	Cortica	33.4 (three rounds)	Technology (Visual Search)
2013	Horizons Ventures Ltd. (privately owned)	Nipendo	8	Technology (Cloud computing)
2013	Horizons Ventures Ltd. (privately owned)	Kaiima	65	Agro-Biotech
2013	Horizons Ventures Ltd. (privately owned)	Meteo-Logic	3	Technology (Data Analytics)
2013	Fosun International Ltd. (hybrid)	Alma Lasers Ltd.	240 (96.6%)	Medical Tech (semiconductors)

Year	Chinese Company	Israeli Company	Investment ($ million	Field
2013	Xiaomi (privately owned)	Pebbles Interfaces	11	Technology (hardware and software)
2013-2015	Horizons Ventures Ltd. (privately owned)	Core Photonics	23 (two rounds)	Technology (Phone Cameras)
2014	Horizons Ventures Ltd. (privately owned)	Tipa	10	Industrial (biodegradable packaging)
2014	Horizons Ventures Ltd. (privately owned)	FeeX	6.5	Technology (Finance)
2014	Horizons Ventures Ltd. (privately owned)	Meekan	0.870	Technology (Digital Calendars)
2014	Ping-An Insurance (public)	eToro	27	Technology (Forex)
2014	Lenovo (public)	Canaan Partners Israel	10	Venture Capital Fund
2014	Baidu, Ping-An, Qihoo (privately owned / public)	Carmel Ventures	194 (total sum, including other investors)	Venture Capital Fund
2014	Baidu (privately owned)	Pixellot	3	Technology (Video Capturing)
2014	China Communications Construction Co. (CCCC) (state owned)	Eilat rail project	950 (estimated)	Infrastructure
2014	Yongjin Group (privately owned)	Pitango Venture Capital	20	Venture Capital Fund
2014	Yuanda Group (privately owned)	AutoAgronom	(undisclosed) 54%	Agro-Tech
2014	HTIT (privately owned / public)	Oramed	50	Pharmaceutical
2014	Sunpower (privately owned)	Nataly	70	Medical Services
2014-2015	Horizons Ventures Ltd. (privately owned)	Crosswise	5 (two rounds)	Technology (Cross-Device Identification Mapping)
2014-2015	Ping-An Insurance (public)	Payoneer	50+ (two rounds)	Technology (e-commerce)
2015	Bright Food (state owned)	Tnuva	1243 (76%)	Agriculture (dairy)
2015	China CNR Corporation Ltd. (state owned)	Tel Aviv Light Railway (Red Line)	2000 (estimated)	Infrastructure
2015	Baidu (privately owned)	Tonara	5	Technology (Mobile Applications)

Year	Chinese Company	Israeli Company	Investment ($ million	Field
2015	Baidu (privately owned)	Taboola	20-30	Technology (Internet Advertising)
2015	Li Ka Shing Foundation (privately owned)	Technion	130	Academy
2015	Horizons Ventures Ltd. (privately owned)	Windward	10.8	Technology (maritime data and analytics)
2015	Alibaba (privately owned)	Visualead	5	Technology (QR Codes)
2015	Alibaba (privately owned)	Quixey	60	Technology (mobile apps)
2015	Alibaba (privately owned)	Thetaray	15	Technology (threat detection solutions)
2015	Alibaba (privately owned)	JVP (owns Cyberark and CyActive)	Undisclosed	Venture Capital Fund
2015	ZTE, Ping-An (public)	Rainbow Medical	25	Med-Tech
2015	Xizang Haisco Pharmaceutical Group Co. (privately owned)	Endospan	10	Pharma-Tech
2015	GoCapital (privately owned)	Cnoga Medical	12	Med-Tech
2015	Tencent Holdings, RenRen (privately owned)	Singulariteam	102	Technology (AI and robotics)
2015	Shanghai International Port Group (state owned)	Haifa Port	1990	Infrastructure (deep water port)
2015	China Harbour (state owned)	Ashdod Port	936 (estimated)	Infrastructure (port expanding)
2015	XIO Group (privately owned)	Lumenis	510	Medical Laser Equipment
2015	Ctrip (privately owned)	TravelFusion	160	Technology (online travel service)
2015	Hefei Tianhui Incubator of Technologies (HTIT)	Oramed Pharmaceuticals Inc.	50	Pharmaceutical
2015	Hebang Group (privately owned)	Stockton	90 (51%)	Agro-Chem
2015-2016	Pando Group (privately owned)	Brighttonix Medical	Undisclosed	Med-Tech
2015-2016	Pando Group (privately owned)	InnoGen	Undisclosed	Medi-Aesthetic

Year	Chinese Company	Israeli Company	Investment ($ million	Field
2016	Pando Group (privately owned)	The Floor	2	Tech Incubator
2016	Fosun Ltd. (state owned)	Ahava	300	Cosmetics
2016	China Broadband Capital Partners (CBC) (privately owned)	IronSource Ltd.	85 (total amount)	Technology (Adware)
2016	Shengjing 360 (privately owned)	Carmel Ventures	Undisclosed	Venture Capital Fund
2016	Shengjing 360 (privately owned)	JVP	Undisclosed	Venture Capital Fund
2016	Alibaba (privately owned)	Twiggle	5-10	Technology (e-commerce)
2016	Baidu (privately owned)	Dynamic Yield	22	Technology (personalization)
2016	Lenovo (public)	Neura	11	Technology (IOT)
2016	Huawei (hybrid)	Toga Networks	Undisclosed	Technology (IT and Telecom)
2016	Huawei (hybrid)	HexaTier	42 (terms undisclosed)	Technology (database security)
2016	Giant Interactive Group (privately owned)	Playtika	4500 (estimated)	Technology (mobile gaming)
2016	Zhejiang Crystal-Optech Co.	Lumus	15	Technology (LOE wearable display)
2016	Huawei (hybrid)	Elastifile	Undisclosed	Technology (data storage)
2017	Alibaba (privately owned)	Lumus	6	Technology (LOE wearable display)
2017	Vincent Medical	Inovytec	3	Med-Tech
2017	MIDEA	Servotronix Motion Control	170	Technology (motion electronics)
2017	Zhejiang Drore Technology	Acoustiguide	4	Technology (Multimedia)

Notes

1 “Directives for Exposure in Agreements to Acquire Assets,” Section 36a of the Securities Law, 1968.

2 “World Innovation Index: Israel Climbed to 21st Place; China Squeezed into the Top 25,” *The Marker*, August 15, 2016, https://www.themarker.com/wallstreet/1.3039899 [Hebrew].

3 Soumitra Dutta, Bruno Lanvin, and Sacha Wunsch-Vincent, eds., *Global Innovation Index 2018: Energizing the World with Innovation*, https://www.globalinnovationindex.org/.

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Not a Flood, but a Rising Current: Chinese Weapons Sales to the Middle East

Hiddai Segev and Ofek Riemer

China is a superpower growing politically, economically, and militarily, and has an international vision and global map of interests. Along with its political and economic programs, its security and military needs have also grown. Thus, there has been an increase in China's military budget in recent years, along with groundbreaking steps such as building its first independently produced aircraft carrier and establishing its first military base outside of China.[1] In October 2017, at the 19th Congress of the Chinese Communist Party, Chinese President Xi Jinping declared that by 2035 China would have a "modern" army and military sector, and would reach the level of "global superpower" by 2049 – the 100th anniversary of the establishment of the People's Republic of China.[2] As of 2018, China was ranked as the world's fifth largest arms exporter, although it is a distant fifth behind Russia and the United States. During the years 2014-2018, Chinese arms exports made up some 5.2 percent of total global arms exports, constituting an increase of 2.7 percent over the previous five years.[3]

Chinese military exports to the Middle East began in the mid-1970s, and peaked in the 1980s. Subsequently in decline, today they are negligible in comparison with arms transfers to the region from the United States, Russia, and Western countries. However, a change seems to be emerging, due to converging trends – the expansion of China's interests and its deepening economic relations in the Middle East, its military-industrial buildup, and the growing attraction of Chinese-made military technology. Noteworthy, for example, is the export of singular low cost products of sufficient quality such as unmanned attack aircraft, which are offered for sale to countries in the region without the policy restrictions imposed by other superpowers.

For Israel, this apparent trend is a challenge on a number of levels: the potential that advanced weapon systems will fall into the hands of Israel's enemies, particularly Iran and its proxies; the appearance in the "neighborhood" of weapon systems where the technological familiarity with them is low and therefore it is more difficult to build a response to them; the lack of a commitment on the part of China (unlike the United States) to maintain Israel's qualitative military edge and the lack of communication channels with it on this issue; and increasing competition by China in the field of military exports, where Israel has enjoyed a relative advantage. All these issues warrant increased attention from Israel's defense establishment to China's military industries in general and to the Middle East in particular, the establishment of suitable channels of communication with the Chinese government on the issue, and clarification of the issue in discussions with the US administration.

In light of these developments, China's military exports to the Middle East and their potential influence on Israel's strategic environment are highly important, and are analyzed here through case studies of China's five key regional importers: Egypt, Iraq, Iran, Turkey, and Saudi Arabia. The chapter first surveys briefly the history of China's military exports to these countries and the Chinese weapons that are present in the region. It then describes current and future trends in the production of weapons in China and their potential supply to customers in the Middle East. Finally, it estimates the penetration of Chinese weapons in the coming years into the Iranian, Saudi, and Egypt militaries, under the influence of political, military, economic, and technological factors.

Most of the figures regarding arms acquisitions and the costs of arms deals is from the SIPRI (Stockholm International Peace Research Institute) database and from additional publicly available sources. Not included is the export of light weapons such as assault rifles, machine guns, and ammunition, as well as cybernetic warfare, which is very difficult to track. For the purpose of this article, the Middle East is defined as bordered by Iran in the east, Egypt in the west, Turkey in the north, and Yemen in the south.

Military Exports from China to the Middle East, 1975-2018

Chinese military exports to the Middle East began in 1975, and from then until 2018 the total sum, according to SIPRI, reached $13 billion (figure 1). The majority of sales – $8.8 billion – took place in the 1980s, when China exported considerable amounts of weapons to both sides in the Iran-Iraq War. During the 1990s, after the end of the Cold War, Chinese military exports to the Middle East declined to only $1.8 billion, most of it to Iran. The decline continued in the first decade of the 21st century, with exports of $1.4 billion, primarily to Iran and Egypt.

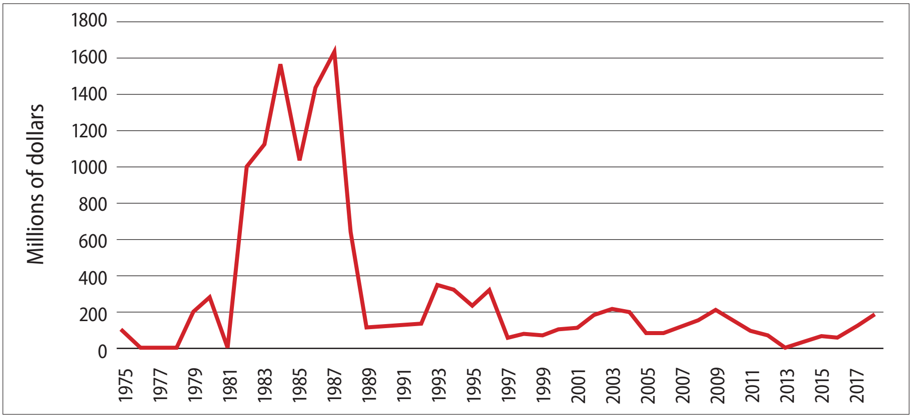

Figure 1: Chinese Military Exports to the Middle East, 1970-2018

Source: SIPRI 2019

Despite China's accelerated development in recent years, the decline in its weapons sales to the Middle East has continued in the current decade. From 2010 to 2018, Chinese military exports to the Middle East totaled $760 million – around 5.4 percent of China's total military exports during those years, which amounted to $13.9 billion (figure 2). To put this figure in a greater context, according to SIPRI, Russia's military exports to the Middle East during those years are estimated at $8.6 billion, 11 times as much as China's, while US military exports to the Middle East (not including Israel) are estimated at $35.2 billion, 46 times as much as China's (figure 3).

Egypt

Following Egypt's heavy losses in the Yom Kippur War, and against the background of Egypt's distancing from the Soviet Union, China signed its

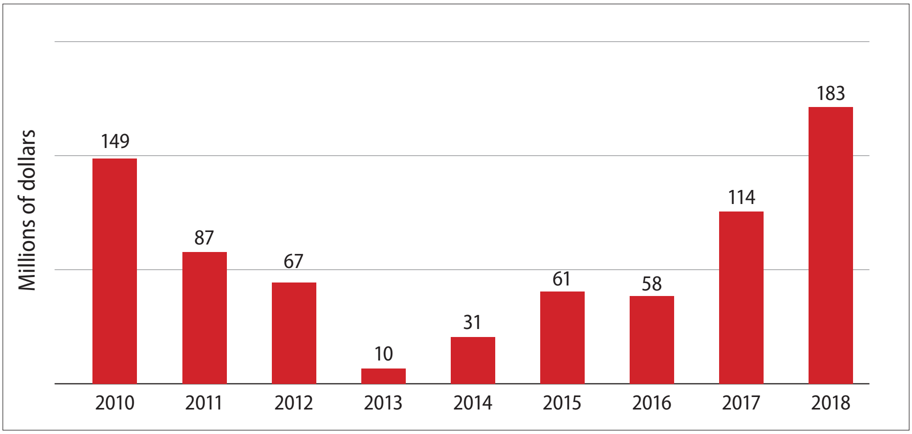

Figure 2: Chinese Military Exports to the Middle East, 2010-2018

Source: SIPRI 2019

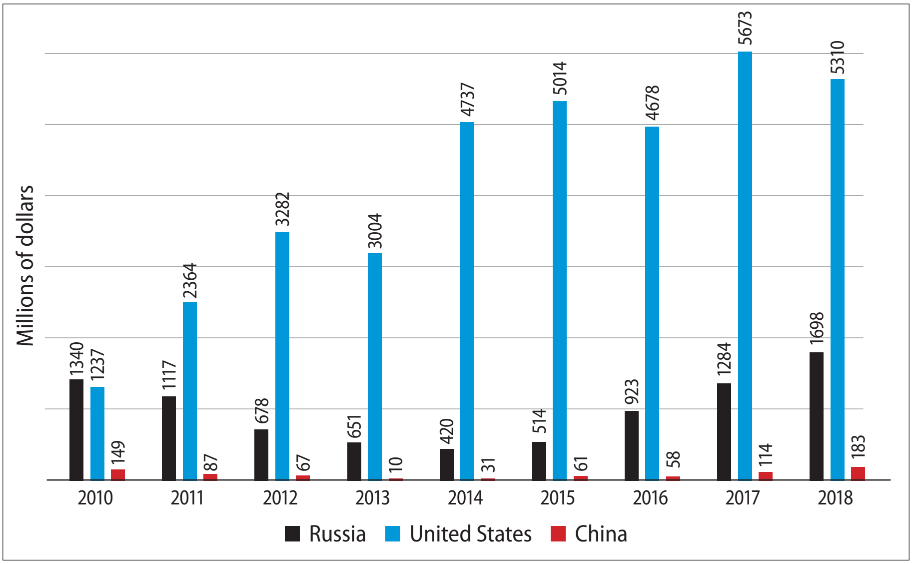

Figure 3: US, Russia, and Chinese Military Exports to the Middle East, 2010-2018

Source: SIPRI 2019

first weapons deal with Egypt in 1975; this was China's first weapons deal in the Middle East.[4] This deal, which centered on the acquisition of Xi'an H-6 bombers, was the beginning of a series of arms deals between China and Egypt. In the 1980s, Egypt purchased extensively from China, including vessels such as submarines, destroyers, and missile boats, as well as aircraft, including F-7B and J-6 jet fighters (China permitted Egypt to assemble the latter on its territory).

From the 2000s to date, Egyptian purchases from China have focused mainly on aircraft. For example, in the framework of the campaign against the Islamic State in the Sinai Peninsula, Egypt began to purchase various kinds of advanced unmanned aerial vehicles (UAV), including the CH-4B and Wing Loong 1. As part of an agreement signed with the Chinese company Xi'an Aisheng Technology regarding the transfer of technologies for strengthening the capabilities of Egypt's unmanned aerial vehicle industry, Egypt began producing the ASN-209 reconnaissance UAV within its territory.[5] In addition, it purchased 120 K-8 Karakorum training aircraft, 110 of which were assembled in Egypt. Another expression of the technological cooperation is a space agreement on launching Egypt's second earth observation satellite, MisrSAT2, which includes training Egyptian personnel in the field of remote sensing.[6] The value of Egypt's arms deals with China from the first deal in the 1970s until today is estimated at approximately $3 billion. However, from 2010 to 2018, China's military exports to Egypt amounted to only 7 percent of China's military exports to the Middle East during those years.

Iraq

Military relations between China and Iraq began in the 1980s, at the height of the Iran-Iraq War. According to SIPRI, Iraqi acquisitions were mainly aerial, and included J-6 and F-7B fighter jets, Xi'an H-6 bombers, and HN-5A anti-aircraft missiles. In terms of land forces, Iraq primarily acquired Type-59 and Type-69A1 main battle tanks and additional armored fighting vehicles such as Type-63. As to naval power, Iraq acquired 200 HY-2 anti-ship missiles. Iraqi acquisitions from China reached over $4.2 billion during this period. From the end of the war until the first decade of the 21st century, acquisitions from China ceased and only renewed in 2015, when, as part of a $17 million deal, Iraq acquired four CH-4B unmanned aerial attack vehicles, along with 20 FT-9 bombs and 20 AR-1 air-to-air missiles. In March 2018 it was reported that China offered Iraq HJ-10A anti-tank guided missile systems mounted on Chinese VN-1 APCs.[7]

Iran

Military relations between China and Iran also began early in the 1980s, during the Iran-Iraq War. Following the Islamic Revolution and the severing of relations between the United States and Iran, China became one of Tehran's main weapons suppliers. Iranian interest in Chinese military products was mainly in the field of missiles. Iran acquired knowledge and production infrastructure that it needed from China, or a negligible amount of weapons for reverse engineering toward self-production. Thus, in time Iranian industries produced Iranian versions of Chinese weapons. From the early 1990s until the mid-2000s, Iran produced hundreds of Noor and Tondar anti-ship missiles based on the Chinese missiles C-802 and C-801 respectively, as well as Kowsar missiles based on the C-701 and C-704 missiles, and Nasr missiles based on the Chinese C-705.[8] Some of the Iranian-developed missiles based on Chinese technologies were transferred to Hezbollah and Hamas, and used in clashes against Israel. For example, in the Second Lebanon War in the summer of 2006, Israel's missile ship *Hanit* was damaged by what was apparently an Iranian version of the Chinese C-802, which was fired from the Beirut coast; Hezbollah also fired 122mm Chinese cluster rockets at civilian targets in northern Israel.[9] In 2011, IDF forces captured six Iranian missiles from the ship *Victoria* based on the C-704 that were intended for Hamas in Gaza,[10] thus preventing serious risks to the gas rigs and naval forces. Between 2010 and 2018, China's military exports to Iran amounted to 28 percent of China's total military exports to the Middle East.

Aside from missiles, China has also assisted Iran in developing unconventional weapons. According to the CIA, China was one of Iran's main suppliers of knowledge in the field of chemical warfare, and mainly helped Iran with producing and assembling chemical warheads on ballistic missiles. In the nuclear realm, China supplied Iran with a number of civilian research reactors for the purpose of training nuclear engineers, and helped develop uranium resources "for civilian purposes." A report by the US Department of Defense claimed that China also assisted Iran with its military nuclear program, but the amount and nature of this assistance are unknown.[11] According to a US Treasury Department report published in July 2017, Iran received electronic components for its nuclear program through the Chinese electronics company Emily Liu and companies affiliated with it, as early as 2014.[12]

Turkey

According to SIPRI, Turkish acquisitions from China began in 1998 with the purchase of WS-1B rocket launchers. From 2002 to 2012, Turkey acquired 200 B-611 short range ballistic missiles. Even though Turkey's membership in NATO is a significant anchor in Turkey's foreign and defense policy, it has continued to consider expanding its military cooperation with China. Thus, in September 2013, the Chinese corporation CPMIEC won a tender for the acquisition of missile defense systems. From Turkey's perspective, the option of collaboration with the Chinese corporation at the production stage was a central consideration. From China's perspective, the fact that a NATO member was interested in acquiring advanced systems from China enabled it to present itself as a supplier of advanced weapons, a kind of "quality assurance."[13] The deal sparked considerable indignation at NATO, and was presented by Turkey's Western allies as a potential "Trojan horse." The Americans vehemently opposed the deal, and after numerous delays Turkey announced the complete cancellation of the tender in November 2015.[14] Since this incident, no additional weapons deals with China have been reported.

Saudi Arabia

According to SIPRI, Saudi acquisitions from China began in the 1980s, with the purchase of DF-3A (CSS2) ballistic missiles, with a range of thousands of kilometers, for $450 million. The deal was carried out secretly and only made public in 2014, when Saudi Arabia first presented the missiles. In 2007, DF-21 ballistic missiles and PLZ-45 self-propelled guns (SPGs) were also acquired. Since 2010, Saudi Arabia has mainly acquired unmanned aerial vehicles from China, such as the Wing Loong 1 and CH-4B, which in the future will be produced in Saudi Arabia.[15] In 2017, five Wing Loong 2 UAVs were transferred to Saudi Arabia in a $20 million deal, seemingly as part of a wider transaction.

Current Trends in the Production of Chinese Weapons

Since the 1990s, China's military industry has undergone reforms, with the aim of providing for the growing defense needs of the developing superpower. Chinese defense industries have streamlined business practices, reduced internal bureaucracy, shortened development processes and modernized production processes, improved quality control, and advanced military-civilian synergy in the development of systems, from the earliest theoretical stage to the supply stage. These changes were designed to help China compensate for technological gaps versus its competitors in the global weapons market.[16] China's military industries are currently improving the quality of products in all fields, as well as overall production capacity, and are gradually reaching the level of Russia and even Western countries in certain fields.[17]

China's five-year plans, which define the political-military, economic and social challenges and responses for the next five years,[18] are an important tool to identify directions and trends in Chinese weapons exports, as are the weapons exhibitions that China holds or attends. These plans, which propound key national objectives, indicate that at the current time, China's military industries are advancing (in order of priority) the development of missile and space systems, aircraft, naval systems, and ground forces equipment. These weapons, even though they are not at the level of corresponding weapons produced by the West or Russia, aim to bridge the technological gaps with competitors, and transform the Chinese army into a modern military that can handle the complex challenges at the republic's long borders and far beyond them.[19]

Missiles

According to a US Department of Defense report, Chinese production of ballistic missiles, cruise missiles, surface-to-air missiles, and air-to-air missiles – for China's military and for export – has significantly improved in recent years, mainly thanks to upgrading the initial assembly stages and the production facilities of rocket engines. The performance of most of China's ballistic missiles and cruise missiles is close to that of corresponding products produced by the Western countries and Russia, and some of them are even intended for export. In December 2017, a pair of mobile launchers carrying Chinese SY-400 short range ballistic missiles was observed at a military parade in Qatar,[20] thus making Qatar the third country in the Middle East that has acquired Chinese-made ballistic missiles, alongside Saudi Arabia and Turkey. At the same time, Chinese surface-to-air missile systems based on Russian models are still far behind,[21] demonstrated by the fact that Russia recently supplied China with new S-400 air defense systems.[22] In addition, the Chinese company CPMIEC exports the FD-2000 advanced air defense system – an export version of the HQ-9 system that is in operational use in the artificial islands in the South China Sea, among other places. The system is based on the Russian S-300 air defense system, but its interception range is lower than that of the Russian system, reaching only 125 km.[23]

Air

China's commercial and military aviation industry has advanced in recent years to the production of large transport aircraft, fourth and fifth generation fighter jets, modern UAVs with reconnaissance and attack capabilities, and helicopters. The 13th five-year plan (2016-2020) involves focus on research, development, and innovation issues, including the development of helicopters, UAVs, aircraft, and even satellites.[24]

China's commercial aviation industry has invested considerably in technologies for producing integrated circuits, avionics, and other components that contribute to the military aircraft industry. However, China still depends on external sources, for example in the field of reliable high performance engines. China's infrastructure and experience at producing civilian aircraft are improving, as evidenced by China's development of transport aircraft for both the military sector and the civilian sector. Noteworthy here is the C-919 civilian passenger plane, produced by COMAC, which is expected to compete with Boeing and Airbus in the coming decade.[25] Another achievement for China's aviation industry occurred in December 2017 with the maiden flight of the largest amphibian aircraft in the world, the AG-600 Kunlong, which is developed and produced entirely by the Chinese corporation AVIC, and is also intended for export.[26]

One of the most advanced Chinese military products intended for export is the Gyrfalcon J-31 stealth fighter jet. This aircraft, also known as the FC-31, was developed as a response to the fifth generation of American fighter jets, which have stealth capabilities. The aircraft that the Shenyang Aircraft Corporation is developing has limited stealth capability, and its development is expected to be completed in 2019.[27] According to reports, its price was to be $70 million, and it was claimed that many potential customers expressed interest in it, even though it has not entered the production stage.[28]

Chinese exports in the field of UAVs focus on two main families of models: the Cai Hong (CH) and the Wing Loong, which is also known as the Pterodactyl.

One of China's most advanced UAVs is the CH-5. According to a senior official involved in the development of this vehicle, it is able to remain at an altitude of 10 km for some 60 hours and carry a payload of some 1,000 kg. It is said to be more advanced than the United States flagship UAV model, the MQ-9, and a few countries have expressed interest in acquiring the UAV, which has been approved for export. Unlike Western countries, the military corporation CASC, which produces the UAV, announced that it is also prepared to sell the vehicle's technologies to foreign countries.[29] According to a Chinese government document disclosed in February 2018, over the last few years China has exported over 30 UAVs of the previous model, the CH-4, to various countries, including Iraq, Saudi Arabia, Jordan, and Egypt.[30]

Another UAV that was first revealed in November 2016 is the Wing Loong 2, which conducted its maiden flight in February 2017. This is an upgraded version of the previous model, the Wing Loong 1, which has been sold in large quantities to countries such as Egypt, Saudi Arabia, Nigeria, Uzbekistan, Kazakhstan, and Indonesia. The length of the UAV is 11 meters, its wingspan is 20.5 meters, and its height is 4.1 meters. It is equipped with a large dedicated payload weighing 400 kg, and is able to carry armaments such as air-to-surface missiles, precision guided missiles, bombs, and air-to-air missiles.[31] In February 2017, it was revealed that CAIG – a subsidiary of the Chinese military corporation AVIC – will provide a customer in the Middle East with 300 units of this model. Despite various reports that identified Saudi Arabia as the customer, in January 2018 three UAVs of this model were observed at a United Arab Emirates military base.[32] In April 2018, it was reported that a Houthi leader was assassinated by UAE using an armed Chinese UAV of this model, as part of the ongoing war against the Houthi rebels in Yemen.[33] According to SIPRI, in 2018 15 UAVs were transferred to Saudi Arabia and 15 to the Emirates.

In addition, many Chinese companies are active in the field of UAVs and drones for the use in the civilian sector. These vehicles, which are considered popular in the global civilian UAV market, are accessible to all and inexpensive compared to military aircraft (only a few hundred or thousand dollars). These companies include DJI and Skywalker Technologies, which produce and market the Phantom family of drones and civilian UAVs such as the X-8, respectively. They have also been observed to be in use by terrorist organizations such as the Islamic State for the purposes of surveillance, intelligence gathering, and even attack.[34]

Sea

China is improving its ability to produce submarines, missile boats, destroyers, naval aviation, and additional naval capabilities by upgrading and expanding its shipyards. The two ship production companies in China – China State

Shipbuilding Corporation and China Shipbuilding Industry Corporation – collaborate on ship design and information on construction methods in order to increase efficiency in the field of naval production. China continues to depend on foreign suppliers to acquire drive units, but it is becoming more and more independent in ship production.[35] In June 2017, a senior official in the Chinese navy claimed that China is the world leader in development of integrated electric propulsion systems (IEPS).[36] China has set a target of developing silent submarines, advanced electronics systems for use by naval vessels, and naval warfare systems based on artificial intelligence.[37]

According to the US Department of Defense, China is the world's largest ship producer, and it arms its battleships with advanced air defense and underwater defense systems as well as attack capabilities.[38] In 2017, China launched its first ever domestically-produced aircraft carrier, after it acquired and renovated a Soviet model aircraft carrier from the Ukraine following the fall of the Soviet Union. China has reportedly signed a major deal with Thailand for the sale of three submarines, which demonstrates China's willingness to export strategic watercraft to countries with which it has an interest in strengthening relations.[39] In addition, at the Defense & Security 2017 exhibition held in November 2017, China announced a variety of new submarine models. According to the Chinese company CSOC, Middle East countries that have expressed an interest in these vessels include Saudi Arabia, UAE, and Egypt.[40]

Land

According to the US Department of Defense, China's production capacity continues to advance in almost every field of ground forces systems, including up-to-date tanks, armored vehicles, and artillery, though sometimes at the cost of quality.[41] In addition, China is developing a variety of advanced armored vehicles for export.[42] Furthermore, in August 2017, China first revealed the domestically produced GL-5 active protection system for armored vehicles, which in trials succeeded in intercepting anti-tank munitions. This system, which is also intended for export, operates in a similar manner to the Israeli Iron Fist system produced by IMI Systems.[43]

Future Trends in Middle East Acquisitions of Chinese Military Products

The penetration of Chinese military products into Middle East militaries in the coming years will be affected by factors originating in China itself and the Middle East, relations between superpowers and the region, and dominant trends in the global military export market.

Catalysts

Expanding political and economic interests: China has an increasing interest in the Middle East, from energy supply to terrorism distanced from its borders to additional economic interests. The Middle East is a central energy source for China, whose main oil suppliers are Saudi Arabia and Iran.[44] Moreover, countries in the region, in particular Iran and the Gulf states, are located at a junction of land and sea routes between East Asia and Europe and Africa. In the coming years, China will invest billions in developing infrastructure connected to its Belt and Road Initiative, including railroads, ports, roads, pipelines for energy products, electrical and communications networks, and more.[45] The deepened Chinese interests in the Middle East, despite its basic instability, will gradually compel China to develop the ability to protect its interests (supply lines, infrastructure, investments, assets, projects, and workers) and carefully increase its involvement in the region, as can be learned from its activity in Africa.

China's deep need for energy and minerals from Africa and its extensive and long term investment in infrastructure on the continent have led in recent years to increasing Chinese involvement in the continent's affairs and conflicts. Thus, China took upon itself the role of mediator in the civil war in South Sudan, from the outbreak of war in 2013 and in the following years.[46] At the same time, most of the economic and military aid granted by China to crisis regions in Africa has been through multilateral frameworks. In this manner, China has created regional frameworks for resolving conflicts and for increasing regional cooperation, such as the Initiative on China-Africa Cooperative Partnership for Peace and Security (ICACPPS), which was established in 2012 and has granted economic aid to similar local initiatives, and the African Capacity for Immediate Response to Crises, which was established in 2013. China has also sent its forces on four UN peacekeeping missions throughout Africa.[47] It seems that China has directly supported military buildup efforts by African regimes facing political and military challenges only marginally and to a limited extent, and as far as is known without supplying weapons and munitions on a large scale or of advanced quality.[48]

The conflicts in the Middle East following the regional upheaval and the deep rivalry between Iran and the Shia axis versus the various Sunni camps have increased the demand for military imports to the region. Since 2011, almost every country in the region has found itself involved in one sense or another in exerting military force over time, whether within its territory or beyond its borders. Iran is involved in wars in Iraq, Syria, Yemen, and Afghanistan; in 2015 Saudi Arabia began a campaign against the Shiite Houthis in Yemen; Egypt is waging a campaign against the Islamic State on two fronts, in the Sinai Peninsula in the East and in Libya in the West; and UAE is involved in Saudi Arabia's combat in Yemen and Egypt's combat in Sinai and Libya.

At the same time, the map of global superpower involvement in the Middle East is changing. The United States, in a trend that began during the Obama administration and continues under Trump's leadership, seeks to reduce its involvement and direct investment in local conflicts. In contrast, Russia has deepened its political and military involvement in the region through its intervention in the crisis in Syria, and is expected to remain and deepen its power base in the area, expanding its political and military relations with countries in the region. This means that countries in the Middle East that have active military campaigns against terrorism and insurrection are now in greater need of political and military support, including the steady and reliable supply of weapons, and the superpowers see this demand as potential for increasing their influence and their revenue. Weapons and the establishment of nuclear reactors are major export areas for superpower trade with countries in the region.

This situation could enhance China's standing in two possible ways. The first, and more likely and relevant for most countries in the Middle East, is that the volume of military exports from China to the Middle East will continue to grow in accordance with the volume of its trade and investments in the region, and in certain particular fields could compete with exports from the United States, Russia, and the Western countries, but without threatening their dominance. The second way, which to some extent is a competing explanation but also complements the first scenario, is that the option of military trade with China (and even more so, with Russia) could serve as a bargaining chip for the region's countries with respect to the United States as the world's leading weapons exporter, in order to pressure it to approve the sale of weapons that may be subject to restrictions. It is more likely that countries such as Saudi Arabia, the United Arab Emirates, and Egypt will go down this path, as they are closely bound to the United States, and their military aid and military trade with the US are sometimes subject to fluctuation due to various policy considerations.

Relatively few restrictions on exports: Western countries often place diplomatic and political limitations on the sale of advanced weapon systems that are sought by some countries in the Middle East, out of human rights and strategic considerations (alliances, international sanctions). For example, in the United States there are still restrictions on the sale of attack UAVs even to some of its allies in the Middle East, mainly due to compliance with the Missile Technology Control Regime (MTCR). Only recently was there a discussion in Congress on the possibility of Jordan and the United Arab Emirates acquiring attack UAVs from the United States, in light of concerns that they would acquire similar capabilities from China.[49] China for its part has declared that it adheres to the principle of the sovereignty of countries and their governments, opposes external intervention in internal issues such as human and civil rights, and maintains simultaneous relations with many parties in the Middle East. For example, China maintains extensive political relations, which include significant military components, with both Iran and Saudi Arabia, though the latter are bitter rivals. Furthermore, China is willing to sell attack UAVs to Saudi Arabia, engaged in a campaign against the Houthis in Yemen, despite the fact that the Saudi attacks involve extensive noncombatant casualties. While this fact arouses considerable indignation in the West and civilian and diplomatic pressure on Western governments to block the sale of weapons to Saudi Arabia, China's hands are not tied by such considerations.[50]

At the same time, it seems that China – like all countries – places certain limitations on the sale of technological weapon systems out of defense and economic considerations. According to China's Ministry of State Security, there are three declared principles of military exports: assistance in strengthening the legitimate self-defense capabilities of the customer; non-intervention in the internal affairs of the customer; and guarantees that the weapons do not threaten regional and global peace and security.[51] In addition, eager to maintain its military-technological advantages, China refrains from exporting certain weapon systems. For example, it has never declared the J-20 stealth jet intended for export, and it is likely that there are classified military products whose existence China has never confirmed, in order to maintain strategic advantages over its rivals. However, it tends to carry out technological collaborations with its allies. For example, in July 2017, China established a center for military technology collaboration in Pakistan, for the purpose of joint development of military products. In November 2017, it was reported that the Chinese corporation NORINCO will expand its collaboration with the Myanmar army.[52] This is part of a trend of establishing additional such centers for strengthening domestic industries in Southern Asia – a region that China sees as being of the utmost military-strategic importance, in view of its long time rivalry with India.[53]

Attractiveness over competitors: as with other products, Chinese military products are considerably cheaper than those of their competitors in the West. For example, the price of a single unit of the American UAV MQ-9 Reaper is around $15 million.[54] In contrast, the price of the Chinese UAV CH-4, with similar capabilities to the American model, is only around $4 million. An American Predator-model UAV costs around $4 million; the Chinese Wing Loong 1 costs around $1 million.[55] In both cases, the Chinese price tag is four times less expensive than the American one. Even though the technical performance of the American military products is still greater than that of their Chinese counterparts, the price advantage can play a very important role for customers in the Middle East. In addition to the price tag, China has shown that it is flexible in the form of payment that it requires for military products. For example, China exported armored vehicles to Thailand in return for dried food, and exported FD-2000 air defense systems to Turkmenistan and Uzbekistan in return for natural gas.[56]

Impediments

The nature of the demand: the Middle East is a "conquered market," but one that has a growing appetite. In a "conquered market," the armies are relatively homogenous, such that the various branches of the military and the different systems they operate are compatible with one another; the military doctrines are based on the combat systems and their capabilities; and the logistical support system is also dependent on the source countries for spare parts, advisors, training, and so on. In addition, as is natural with military buildup processes, they bind the supplier and the customer with deep, long term economic and military commitments. Thus, military trade relations are often the generators and expressions of political and strategic relations between the trading countries. In this way, over the past few decades, the world's leading weapons exporters, including the United States, Russia, the UK, France, and Germany have controlled the Middle East military products market. For example, from 2014 to 2018, some 52 percent of US weapons exports were to the Middle East – a 134 percent increase over the previous five years. Russia's weapons exports declined by 17 percent during 2014-2018 in comparison to the previous five-year period.[57]

At the same time, the demand for military products in the Middle East has only increased since the outbreak of the regional upheaval in 2011 and the emergence of active conflicts in many locations in the area. In the five years from 2014, demand for weapons in the Middle East increased by 87 percent over the previous five years. Demand from Saudi Arabia alone – the largest weapons importer during those years – increased by 192 percent. Aside from Saudi Arabia, demand for military products in Qatar increased by 225 percent, in Iraq by 139 percent, in Oman by 212 percent, in the United Arab Emirates it decreased by 6 percent, and in Egypt there was a significant increase of 205 percent. However, even under these circumstances, the leading exporters in the regional weapons market maintained their tight grip. The United States has continued to be the principal exporter to Saudi Arabia, with over 68 percent of total imports. The United States and France lead in Egypt with a similar percentage.[58] Thus, when competing in the Middle Eastern market, China faces strong and well-established competitors, and long term competition combined with significant civilian economic leverage will be required.

The nature of the supply: Chinese technology, production capacity, and performance are adequate but not yet competitive. According to the US Department of Defense, the quality of Chinese military products is still inferior to that of corresponding American and Russian products. However, the development trends of Chinese military industries alongside the massive investment in research and development may lead to narrowing and even closing the gap in the future. In addition, Chinese products have only been tested in operational considerations to a limited degree, and their effectiveness has only received initial proof on the battlefield. Seemingly this would impede the penetration of Chinese military products into the Middle East market, which enjoys advanced Western and Russian products

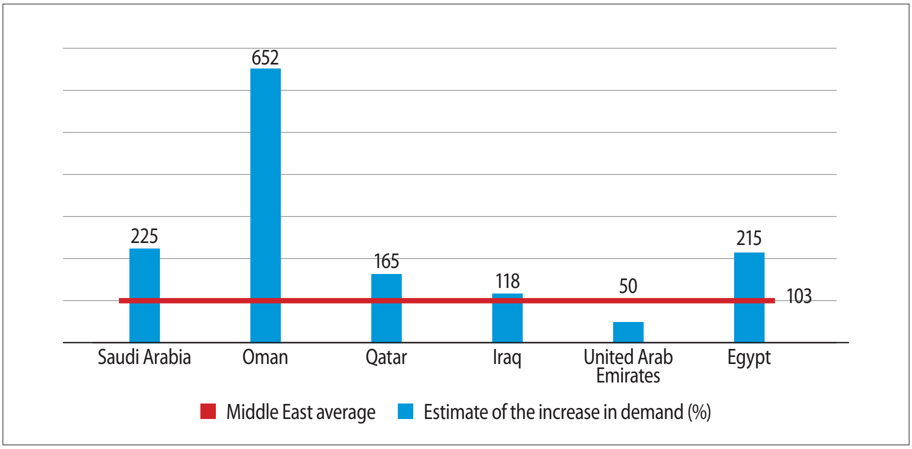

Figure 4: Increase in the Demand for Weapons in the Middle East, 2014-2018

Source: SIPRI 2018

that have been tested on the battlefield in Iraq, Afghanistan, Ukraine, and Syria. However, this could also be an opportunity for China, if it is able to take advantage of the many active conflicts in the region in order to assess the operational capability of military products and market them, as Russia, for example, has done since the beginning of its open military involvement in Syria in 2015. This line of thinking in China is expressed in the words of Song Zhongping, a former senior figure in the Chinese army, who said that due to the lack of operational activity of the Chinese army, China is selling military products to countries in order for those armies to test their operational capabilities.[59]

Conclusion

China's accelerated development in general and that of its military in particular bring accelerated development of its military industries, and increasing penetration into the global military export market. However, in assessing the potential penetration of Chinese military products into the Middle East, there are opportunities for China, along with significant challenges and barriers. The major impediments include gaps in the quality of Chinese weapons and operational reputation on the battlefield versus the products of competitors, which also enjoy the standing of preferred weapons suppliers as part of broader strategic relations. The factors accelerating the penetration of Chinese weapons into the Middle East are based on increasing demand due to the spread of war in the region, the increasing supply of Chinese industries, comparative advantages in cost, the specific fields where competitors impose trade restrictions on themselves (such as surface-to-surface missiles and UAVs), and China's ability to integrate military exports as part of broader and more comprehensive trade and economic relations. Thus, while the Middle East weapons market is expected to continue to be dominated by the major suppliers from the Western countries and Russia, the penetration of China into specific areas is expected to expand gradually, along with the expansion of its interests and economic activity in the region.

The expansion of Chinese military exports to the Middle East will gradually pose an increasing challenge to Israel and the IDF. First, China supplies weapons to Iran, which in turn transfers them or their Iranian derivatives to proxies that fight against Israel – Hezbollah, Hamas, Palestinian Islamic Jihad, and the Shiite militias active on its behalf in the region. Second, the majority of Chinese military products that will enter the region are mainly used in the Chinese army and less common worldwide, and thus there is a challenge in recognizing their technical capabilities and technological performance, and in developing a response to them. Third, unlike the United States framework for weapons supply to the region, China does not have legislation committed to maintain Israel's qualitative military edge, and the two countries do not have an established channel of communication on this critical issue. Fourth, increased Chinese exports in fields where Israel has a comparative advantage, such as unmanned aerial vehicles, increase the competition with potential Israeli exports in general and to the pragmatic Sunni countries in particular.

Despite the limited amounts and types of Chinese military exports to the Middle East at present, the trends in China's military production and trade indicate the potential for change here too, and require that Israel follow these trends more closely. The Israeli government must seek to establish channels of communication with the Chinese government on the issue of military exports to the Middle East, and through them express its concerns on the issue and try to reduce risks. At the same time, the Israeli government and security establishment must include this topic in the strategic dialogue with the United States, and reach shared understandings regarding the development of trends, their potential impact on the interests of the two countries, and the coordination of their policies on the issue.

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Israel, the United States, China, and India: Partnerships with Conflicting Interests

Oded Eran

Since the 1990s, there has been a significant improvement in Israel's international relations, especially on the economic level. The collapse of the Communist bloc, the establishment of relations with India and China, and the upgraded relations with the European Union have enabled Israel to enter new markets, while leveraging its innovation capabilities in a variety of fields, from development and production of weapon systems to desalination, water recycling, and irrigation technologies.

The international arena, which until the fall of the Soviet regime in Russia was characterized by bipolar blocs, and then, for the next two decades, saw the undisputed dominance of the United States, has changed drastically. United States technological-military dominance remains, but deep cultural-political changes, especially in the West – such as the need for the political leadership to explain the use of military force to its voters, public opposition to military operations that are difficult to explain in terms of "defending the homeland," and harsh criticism of the "disproportionate" use of military force – narrow the gap created by technological dominance.

Along with the development of processes that lowered United States ability or desire to express its technological-military superiority, economic superpowers have arisen such as the European Union and China; in the not-too-distant future they will perhaps be joined by India and others. In addition to the traditional international economic bodies such as the World Bank and the International Monetary Fund, since World War II dominated by the United States, new organizations based on geography or economic power have been created, in which the United States is not a member or its membership does not provide it with superiority. The ability of a country to join such organizations is an important component of its economic and even political power (for example, regional banks or the G20).

For these reasons the political-military-economic strategic realm in which Israel maneuvered in 1990 has changed dramatically, and the map of economic-political interests in 2019 has transformed considerably. Israel's political and military anchor 30 years ago was the United States and it remains so today, while Europe remains Israel's main trade partner, followed by the United States. But this picture is overly simplistic, as it does not portray the rise of Asia in Israel's trade relations (both civilian and military) and the potential rise of industries such as innovation in various fields or energy.

Israel-China-United States

Like other countries, Israel too gained an understanding of China's enormous economic potential, and it has focused its efforts on developing strong bilateral economic relations. China's interest stemmed from a number of Israel's assets, including innovation in various fields, such as in the development of weapon systems, agriculture and irrigation systems, and food production – an issue of supreme importance in a centralized state such as China, which places a high priority on food security.

As long as Israel-China efforts focused on developing relations in clearly civilian fields, there was no conflict of interest between the United States and Israel. The problem arose in full force in 1999 when Israel and China reached an agreement on the sale of the Phalcon radar plane. Even though the aircraft did not have American parts or technologies, the US administration forced Israel to cancel the deal, threatening to cut military aid significantly (by $250 million). The deal was canceled, and a special department was established at the Ministry of Defense to supervise exports. In at least one other instance, the United States intervened to prevent an Israeli military export deal with China.

In 1999-2000, China was not yet seen as a threat to the United States or its allies, and one of the explanations given for the US pressure was China's threat to Taiwan and against this background, the danger of a conflict between China and the United States. Within a decade the situation had changed, such that the arena of contention between the United States expanded to include extensive areas of the Pacific Ocean. The speech by Chinese President Xi Jinping at the Communist Party Congress indicates the deep change in

China's conduct in its near and distant strategic environment, which it sees as vital for advancing its military and economic interests, as well as the United States perception of this change.[1] The Chinese President emphasized the reforms carried out during the past five years in the Chinese army, the improvement in training and readiness for war, and "major missions related to the protection of maritime rights, countering terrorism, maintaining stability…[and] escort services in the Gulf of Aden…We have stepped up weapons and equipment development, and made major progress in enhancing military preparedness. The people's armed forces have taken solid strides on the path of building a powerful military with Chinese characteristics."[2] As with other issues, the President of China set objectives: mechanizing the army by 2020, completing the full modernization of all branches by 2035, and making the armed forces into "world-class forces" toward the middle of the 21st century.[3]

In addition to military tools, China is developing economic power that makes it a leading superpower in a number of fields and provides it with enormous financial power. In order to fulfill the Chinese President's vision, political-economic tools have also been put in place in the form of the Belt and Road Initiative (BRI), along with a financial arm – the Asian Bank for Investment and Infrastructure (AIIB).

Meanwhile, since early in the 21st century, the United States has increased its interest in the western part of the Pacific Ocean. Of the many who have spoken about this change, prominent among them is Hillary Clinton, Secretary of State during Obama's first term, who emphasized the rising importance of the Asia region, the Pacific Ocean, and the Indian Ocean, and the United States need to allocate diplomatic, economic, and strategic resources to this part of the world.[4] This strategic outlook became even clearer in the annual "National Security Strategy" document from December 2017:

> The United States will respond to the growing political, economic, and military competitions we face around the world. China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence.…China and Russia want to shape a world antithetical to U.S. values and interests.

> China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor.[5]

In a document on the National Defense Strategy from January 2018, the US Department of Defense uses the same words, and adds: “Long-term strategic competitions with China and Russia are the principal priorities for the Department, and require both increased and sustained investment.”[6]

Despite the reciprocal visits by the Presidents of China and the United States in 2017, relations between the two superpowers are tense, and the points of conflict encompass the fields of trade, innovation, investments, policy toward Iran and North Korea, and China’s policy in the South China Sea. In the middle of 2018, the trade war between the two countries intensified. The administration’s decision in July 2018 to implement Section 301 of the Trade Act, which provides it with the authority to impose tariffs unilaterally and increase the tariff rate on the import of iron, aluminum, and electronics products from China, brought about a harsh and equivalent Chinese response – raising tariffs on imports from the United States valued at $34 billion (after China first attempted to calm the situation). At the time of this writing, the two are still engaged in negotiations, though it is clear that regardless of the results, China and the US are bound to collide again in the future, whether economically or over spheres of strartegic significance.

The process that began with President Trump’s meeting with North Korean leader Kim Jong Un on June 12, 2018 in Singapore and continued with a second and third meeting, is still underway, and its final results are not yet known. China’s role is also controversial: on the one hand, China is interested in resolving the conflict, but on the other hand, it is not interested in providing the United States President with an international achievement. The US allies in the region, which clearly want to disarm North Korea of its nuclear power, may be disappointed by the immediate result before a tangible agreement on a disarmament process has been achieved, that is, the weakening of US military presence and activity in the region. Such a result could strengthen China’s standing vis-à-vis Japan and South Korea.

Against the backdrop of the hostile competition intensifying between the United States and China, Israel has a developing relationship with China, particularly economically. The Israeli Prime Minister’s visit to China in March 2017 included the signing of over ten agreements on a range of issues. The agreements reflect only part of the set of economic connections between the two countries, and they join Israel's membership in the AIIB, its interest in China's flagship BRI project, and the involvement of Chinese companies in a several large infrastructure projects, mainly in the fields of sea and land transportation in Israel. However, China's main economic interest in Israel is in the realm of innovation. In a shared announcement during the visit, the two countries agreed to upgrade their relations to Innovative Comprehensive Partnership. This broad and undefined field is an opportunity for Israel to connect to a financial and economic engine, but is also a risk that cannot be ignored on two levels. The first relates to protecting the assets and the advantages of the products of Israeli innovation, and its ability to successfully compete in the international arena with countries that have similar capabilities. Aside from the Israeli investor-innovator's interest in maintaining his capabilities as much as possible in the long run, it is also important that the State of Israel has ways and mechanisms to monitor, and in sensitive fields also approve, collaborations with external entities. Late in 2018 the Israeli government indeed began an intra-governmenal process to esablish ways and means of protecting national assets against foreign takeovers. The American context likewise touches on this issue. The White House's "National Security Strategy" states:

> Every year, competitors such as China steal U.S. intellectual property valued at hundreds of billions of dollars….Over the years, rivals have used sophisticated means to weaken our businesses and our economy…We must defend our National Security Innovation Base against competitors.[7]

The existing partnerships and those that might be created in the future between Chinese (and other) economic organizations and Israel could spill over into fields or topics where there could be tension with American considerations towards China. The monitoring system that the United States has developed on the export of equipment, software, and technology that is highly sensitive for national security provides it with a broad range of information on business connections and dealings, including with businesses outside of the country. It underscores the need of countries like Israel – whose business community has considerable military-technological capabilities and broad connections with the United States – for a similar system of legislation, licensing, and enforcement that would prevent political and economic damage.

Chinese activity in the field of infrastructure in Israel contributes to important improvements that have occurred in recent years, especially the development of Israel's two main ports, Haifa and Ashdod, and Israel's railways. In advancing development programs in these areas, such as laying railways from the Mediterranean coast to the Red Sea, it will be necessary to consider Israel's relations with neighboring countries and other countries that are active in the field of infrastructure, and to take into account political, economic, and legal considerations. US concerns arose in late 2018 and early 2019 in the context of the US Navy port call in Israel (and port calls elsewhere), as the issue of US naval visits at ports where Chinese companies are engaged has yet to be precisely defined, as Chinese companies are present and active in some US ports and in Mediterranean ports frequented by the US Sixth Fleet.

India-Israel-China

Despite their geographic proximity, India is entirely different from its neighbor China, including in various aspects of its relations with Israel. While India voted against the Partition Plan in 1947, it recognized the State of Israel in 1950 and agreed to the presence of an Israeli representative – not in the capital Delhi, but in Mumbai. A breakthrough occurred in 1992, at the same time as with China, and the two countries established full diplomatic relations. Until the election of Narendra Modi as Prime Minister of India in 2014, India's votes at international organizations on issues related to the Israeli-Palestinian conflict were no different than those of China. Since then, a certain change has occurred, in which India has moved from automatic support of the Palestinian side to abstention, and in July 2017, Modi became the first Indian prime minister to visit Israel.

The published figures on trade between India and Israel (around one billion dollars in each direction in 2017) do not reflect the full picture, as they do not include military exports. In this field, the United States is not a political impediment. It was the Bush administration that approved the sale of the Phalcon from Israel to India in 2004, which the Clinton administration blocked to China in 2000.[8] This is just one example of the military relationship, which has expanded over the past two decades and made Israel the second largest exporter of weapons to India, one of the largest importer of weapons in the world. However, the fact that the American weapons industry also sees India as its primary target for exports causes latent competition with the potential for tension.[9]

Along with the reciprocal visits – President Rivlin in November 2016, India's Prime Minister Modi in Israel in July 2017, and Prime Minister Netanyahu in India in January 2018 – economic relations between India and Israel are developing, and the two countries are discussing the establishment of a free trade area between them. An Israel Export Institute review stated that "India's development processes make it a country with enormous economic potential…it is a first-rate strategic objective for Israeli exports."[10]

Even though on the official level of relations with China the question of Israel's military relations with India has not been raised, there is no doubt that the warming of these relations has been noticed in Beijing, in part due to increased tension between India and China. Border conflicts between the two continued in 2017, as did the issue of the Dalai Lama and his visit to the disputed area of Arunachal Pradesh. Tensions rose especially against the background of China's attempt to pave a road in the Doklam border region, which is disputed between China and Bhutan and has strategic importance for India. In recent years, suspicions and hostility have increased against the background of China's activity to advance the Belt and Road Initiative, which India sees as contrary to its security, especially its maritime branch. India has refrained from participating in China's activity surrounding the plan, and instead decided to join the four-way military dialogue that was renewed between the United States, Japan, India, and Australia. China for its part expressed its displeasure with this forum, and especially its maritime component. The importance that the Trump administration places on activity in the Indo-Pacific region only strengthens China's sense that this is the United States guided response to its activity in the South China Sea.[11] India's response to China's increasing influence in this region was expressed at a summit meeting of ten leaders of the Association of Southeast Asian Nations (ASEAN) with India in January 2018, which ended with the Delhi Declaration. Without mentioning China, the Declaration emphasizes freedom of navigation and aviation in the region.[12] The concluding declaration reflects large scale joint activity and discontent among the ASEAN countries toward China's increasingly aggressive approach in the region from their perspective.[13]

The establishment and management of these delicate and complex relationships within the Israel-China-India-United States quartet is an impressive achievement of Israel's foreign policy and of the capabilities that have developed in Israel in a variety of fields, from the defense industry to irrigation and food production technologies. These relationships contribute to Israel's diplomatic-military and economic strength, yet they also contain contradictions and dilemmas. Not all sides of this quartet are equal. It is clear that the American side is the strongest and cerainly more influential when it comes to Israel, and despite the increase in the importance of India and China globally and in the Israeli context, there is no replacement in the near future for the United States, and certainly no diplomatic-military replacement. There is no other member of the UN Security Council that will veto anti-Israel draft resolutions, and there is no other country with which Israel can reach the level of security cooperation that it has with the United States.

Unlike relations with the United States, Israel's relations with China and India are on a different level in part because they lack the Jewish dimension, the historical dimension, and the cultural dimension. There is and will be no replacement for these. Even if India dramatically changes its patterns of behavior at international organizations and China uses its veto power at the Security Council when issues related to the Israeli-Palestinian conflict are discussed, Israel's relations with them will not be as close as those it has with the United States.

The United States, China, and India have close relations with Arab countries. The two latter countries depend on energy imports from the Gulf states that produce oil and natural gas, and this dependence will only increase with demographic expansion and accelerated growth of the industrial sector. The desire to reduce the use of coal will also lead to maintained and even increased import of energy from the Middle East. In the case of India, the factor of remittances from Indians working in Arab countries is also significant.[14] Both countries have a large Muslim population, and the governments of India and China are understandably sensitive to the undercurrents in these minority communities. There are no signs, however, of anti-Israel activity within India and China, nor is there proof that the domestic Muslim communities affect the actions of India and China within international bodies with respect to Israel's relations with its neighbors. Neither India nor China has shown a desire to be politically involved in the region's issues, although China has appointed emissaries for the Syrian issue and for the Israeli-Palestinian conflict.

China has joined the group of countries that provide weapons to countries in the Middle East, and even though it is not the main supplier, the question that arises – as it does with respect to some of the other suppliers – is the desire and ability to control the leakage of weapons supplied to secondary users. Chinese-produced C-701, C-704, and C-705 anti-ship missiles supplied to Iran or produced there under Chinese license have found their way to the Houthi rebels.[15] The types of Chinese-produced missiles that the Houthis have are also in the hands of Hezbollah in Lebanon, and Chinese assistance to the arsenal of missiles in the hands of Iran since the middle of the 1980s – and afterwards to the production of missiles by Iran itself – is well-documented.[16]

The Israel-India-China relations triangle is therefore complicated, delicate, and requires a kind of "agreement not to agree" on many issues. Many countries maintain simultaneous close relations with both China and India, but few of them have the type of "sensitivities" that Israel has, whether because of its Arab neighborhood or its special relations with the United States. China provides military aid to Pakistan, which India sees as the main threat, and for this reason it arms itself with weapons from Israel, as well as from other suppliers. China also provides military aid to Iran, some of which is received by Hezbollah – an axis that Israel sees as the primary threat to its security. Israel is one of the largest weapons suppliers of India, a country that challenges the vision of the Chinese President, which seeks to make China a global superpower. This vision contains elements that Israel has an interest in and can benefit from, such as the maritime and land Belt and Road Initiative. Israel is interested in being involved economically in making the vision a reality, as well as in the Asian bank AIIB, even if these initiatives have met with American suspicion and resentment. But Israel cannot or will not want to ignore United States considerations, if at some point in the future a conflict emerges between China and the United States that requires reexamining the nature of the three-way relationship of the United States-China-Israel.

Even though it is difficult to foresee a significant change in the political stances of China and India toward Israel when it comes to the Israeli-Palestinian conflict, and the economic and military cooperation with them should not be conditioned or dependent on improving their voting patterns at international organizations, it is important to continue the political dialogue with them.

At this stage, the dialogue has brought about modest achievements, but it could expand with changes that occur in the political reality of the Middle East, e.g., the long term implications of the "Arab Spring," or with the increased interest of China or India in the political aspects of the different conflicts in the Middle East.

Thus, managing relations with the two Asian superpowers requires multi-departmental coordination within the government, and between the government and the private sector. Managing these relations also requires considering the American outlook and conduct toward China and India, and toward other countries such as Australia, Japan, or Singapore with which Israel has extensive relations.

Globalization and the economic empowerment of new countries and societies, that until a few years ago were not a significant part of the international arena, also create the need for countries large and small to be part of this arena as well as the need to defend their human, technological, and natural resources. Israel is just at the beginning of the process of preparing these defensive mechanisms, and it can certainly benefit from the experience of other countries in order to complete it. With the help of these mechanisms, it can manage the opportunities and the risks inherent in these relationships.

Notes

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4 Hillary Clinton, "America's Pacific Century," Foreign Policy, October 21, 2011, https://foreignpolicy.com/2011/10/11/americas-pacific-century/.

5 White House, "National Security Strategy of the United States of America," December 2017, pp. 2, 25, https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf.

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8 Louise Tillin, "US-India-Israel: Strategic Axis?" *BBC*, September 9, 2003, http://news.bbc.co.uk/2/hi/south_asia/3092726.stm; "Israel and India Seal Radar Deal," *BBC*, March 5, 2004, http://news.bbc.co.uk/2/hi/south_asia/3536901.stm.

9 During Netanyahu's visit, a $500 million dollar deal to supply anti-tank missiles produced by Rafael was discussed. Netanyahu announced that following his intervention, the deal is still on the table. See Joshua Davidovich, "Netanyahu Says $500m Israel-India Arms Deal Back on the Table," *Times of Israel*, January 17, 2018, https://www.timesofisrael.com/netanyahu-says-500m-israel-india-arms-deal-back-on-the-table/.

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12 India's Ministry of External Affairs, "Delhi Declaration of the ASEAN-India Commemorative Summit to Mark the 25th Anniversary of ASEAN-India Dialogue Relations," January 25, 2018, https://bit.ly/2EiM9QK.

13 C. Uday Bhaskar, "How India and Asean are Working Together Without Pushing China Away," *South China Morning Post*, January 31, 2018, https://bit.ly/2EhRHuK.

14 $16.1 billion for the first quarter of the 2017-18 budget year. See Reserve Bank of India, Press Release, September 15, 2017, https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41684.

15 Minnie Chan, "China Battles Fierce Competition and Quality Issues in Fight for Weapons Sales," *South China Morning Post*, October 31, 2016, https://bit.ly/2EhVxEk.

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Challenges to Israel's Policy on China

Assaf Orion

With its dramatic growth over the last three decades, China has catapulted to become a global economic superpower, second only to the United States. Concurrently, it has established itself as a political power, and it is likewise seeking to expand in the military-security realms. These decades also saw the development of China's relations with Israel, which began in 1992 and grew particularly rapidly over the last decade, mostly in economic terms.

China already possesses significant markets, capital surpluses, and excess production, some of which it turns abroad. At this point, it seeks to ensure its continued growth and stability by developing a domestic market and domestic services, improving the quality of life and the environment, and seeking a global leadership role in innovation and technologies. China's needs in areas of technology, innovation, food, water, medicine, and the environment, match Israel's relative advantages in these fields, and indeed, both sides have identified the potential for a "win-win" situation, to use famous Chinese diplomatic language. However, the symmetry of the expression is misleading, because clearly this is not a partnership between equals, but rather relations between an enormous global powerhouse and a small nation, even if extremely innovative and powerful for its size, at the western edge of western Asia. Managing these complex relations to promote Israel's interests is a main challenge of Israel's China policy. The policy issues that the Israeli government generally faces with regard to every other nation are compounded by challenges stemming from China's uniqueness.

The combined opportunities, challenges, and risks in Israel's relations with China on all levels renders these relations strategically significant for Israel's national security in the broad sense of the term. This complex blend demands that Israel conduct a responsible, prudent and balanced policy that is revised and updated regularly so as to maximize opportunities and minimize potential risks. Such a policy requires Israel to articulate clear goals for its relations with China in the immediate, interim, and long terms, and formulate orderly mechanisms, processes, tools, and channels to achieve them.

This essay analyzes the challenges the Israeli government faces as it tries to consolidate its policy toward the People's Republic of China and realize it over time. These challenges stem from China's characteristics and its relations with third nations ("know the other"), but equally from Israel's own attributes ("know thyself"), as well as the unique features of the encounter between the two and its systemic, practical, and cultural dimensions. Based on analyses of the challenges and divides, possible directions to confront the situation are proposed. The essay, which draws from insights derived by studies at the Israel-China Program in Israel's Institute for National Security Studies (INSS), attempts to articulate some significant, integrated, balanced, and practical statements on the subject.

The essay begins by establishing a "compass" for policymaking in the form of a strategic purpose; it surveys the policy goals and challenges related to the economy and foreign affairs; describes the constraints and risks in relations with China, first and foremost the necessity for avoiding damage to Israel's special, strategic, and irreplaceable relationship with the United States; outlines some additional features of Israel's strategic environment in which China operates, including the Middle East and defense exports; maps the state of knowledge in Israel necessary to support the formulation of a China policy; and concludes with recommendations to enhance Israel's success in promoting its strategic purpose vis-à-vis China, maximizing the important opportunities and confronting the challenges, difficulties, and risks of this important and pregnant relationship.

The Strategic Purpose

A strategic purpose defines the link between a desired future reality and the actions needed to achieve it. A comprehensive view of a strategic purpose should include its positive goals (what we would like to happen) as well as the constraints and limitations (what we would like not to happen), which mandate the need to reduce risks; every purpose must balance various goals and resolve the tensions inherent in any policy.

The purpose of the Israeli government's policy in Israel-China relations is to maximize the potential China bears to advance Israel's economy. As is evidenced by government resolutions and actions, this is currently the core of Israel's strategic purpose in its China policy, and is based on reasonable logic and justification. Another positive goal would be to promote Israel's political interests insofar as these relate to China, although there are some inherent difficulties in achieving this.

Alongside the positive goals of the strategic purpose of Israel-China relations, possible risks and undesirable components must be recognized, stemming from the power differences between the two nations; the network of relations between each of the nations and other nations, especially the United States; and relations with regional nations and actors. It is also important to identify additional risks, some of which are common to Israel's relations with other nations and some of which are unique to Israel and China, and map ways to contain them.

Promoting Economic Ties

The rise of Asia as a core of the global economy, with China's unprecedented growth at its midst, is a key factor in Israel's export dependent economic development. The great and still developing power of China's economy represents significant potential for the growth of Israel's economy and that of other nations around the world – as a source of capital and investments, as an important market for Israeli goods, and as a target for competitive manufacturing capabilities. Asia's importance, with emphasis on China, is most prominent given the relative slowdown in the growth of Western economies in recent years. Furthermore, threats of political boycotts occasionally lurk over Israel's trade with Europe, raising questions about its future, even if to date the BDS movement has had little practical impact on Israel's economy.

Promoting the positive goal of expanding Israel-China trade relations faces several challenges, most of which are shared by China's other trade partners. Despite the impressive growth in the overall scope of Israel-China trade ($15.67 billion in 2018, according to the Israel Export Institute) – with most of that, some $10.97 billion in Israeli imports of Chinese goods (figure 1) – most of Israel's exports to China consist of goods manufactured by a mere handful of companies (figure 2).[1] The scope of Israel's exports to China will possibly near the goal Israel's government set in 2014 – doubling it to $5 billion by 2019, as it reached $4.7 billion in 2018.[2] Israeli manufacturers complain of the difficulty in penetrating Chinese markets, working with them over the long term, and withdrawing capital from China. Explanations include differences in language and culture, outsiders' difficulty in gaining a deep understanding of the Chinese market, the market structure, and the close ties of the Chinese Communist Party and government with business activity. While the Chinese President stated that his nation would work to make market conditions more open than they are, this was in response to the many complaints by China's trade partners about unfair competitive practices that favor Chinese players and discriminate against foreign ones. Improving China's market conditions for foreigners is presented as a goal of the trade struggle ("war") the Trump administration has waged against the Chinese government since early 2018.

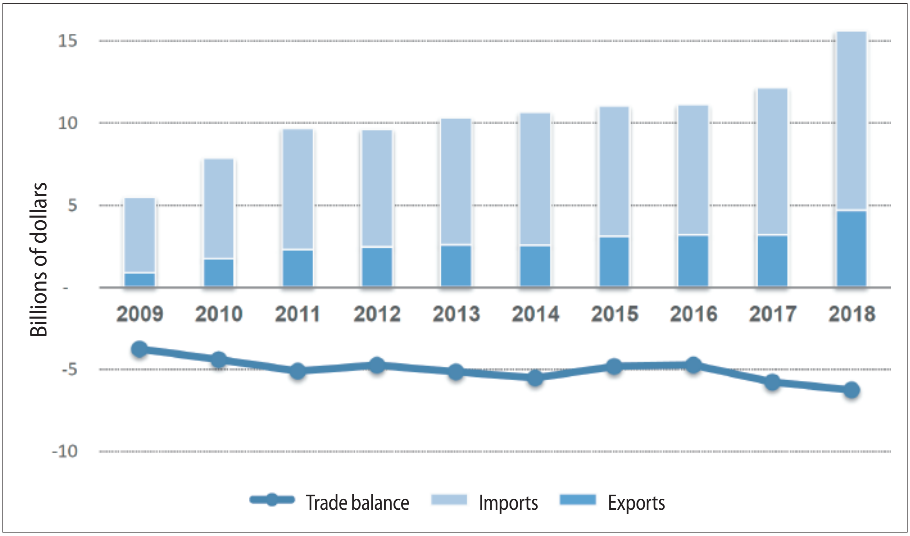

Figure 1. Trade with China: Imports and Exports, excluding Diamonds, 2009-2018

Source: Economic Unit of the Israel Export Institute, 2019[3]

Accordingly, the first challenge to Israel's policy and relations with China is how to advance trade relations so that the tremendous potential that China offers can be maximized and benefit Israel's economy over the long term. This is primarily a challenge to the business sector, and at first glance a challenge every exporting company must address. But given the cumulative lateral ramifications for the stability of the entire Israeli economy and the importance the Israeli government ascribes to the economy in its overall policies, the challenge is also the state's. In practice, it is necessary to combine the state's efforts and capabilities with the work of the business sector, e.g., in establishing agreements (such as trade agreements), formulating an enabling and encouraging policy , and improving the tools and capabilities available to the private sector to safely promote business activity in China. There is considerable work to be done in these fields, but overcoming the challenges is a key to success in the long term.

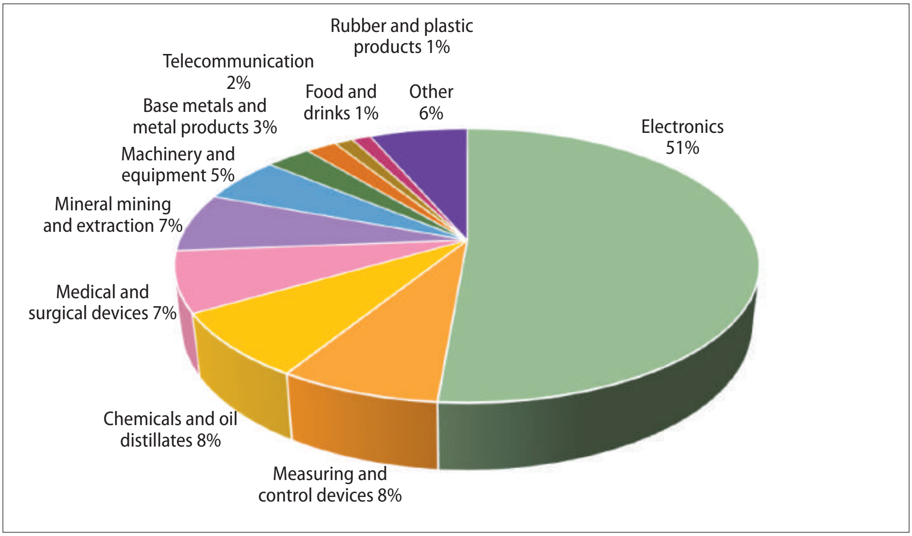

Figure 2: Breakdown of Exports to China, by Category, 2015-2018 (average)

Source: Economic Unit of the Israel Export Institute, 2019[4]

Promoting Israel's Political Goals

Like every other nation, China's policy in the international theater and international institutions is based on self-interest, worldview, strategic considerations, and organizational concerns. For a long time, China operated within the bloc of nonaligned nations, which differentiated themselves from the Cold War blocs of the United States and the Soviet Union. In fact, China led the developing nations as they faced the developed nations, and somewhat still views itself as their leader; at the same time, it positions itself creatively as simultaneously both a developed and developing nation, the former based on gross product size, and the latter on per capita average. For years, China favored close relations with the Soviet Union rather than the United States, a trend that was reversed in the early 1970s when China began forging closer relations with Washington at Moscow's expense. In recent years, and in the context of its remarkable growth, China has striven, together with other actors, to shape a world order more conducive to its own ends over the current order that China sees as a reflection of Western dominance and Chinese weakness, which it considers a vestige of the past. This ambition is also meant to generate a new and more convenient power balance that would reflect China's rise and the alleged US decline.

China's voting patterns in international institutions generally oppose Israel's interests. Often, China votes as Russia does (previously like the USSR), adopting resolutions that are problematic for Israel. The reason seems to stem from a combination of realpolitik and an organizational tradition. In terms of its realistic considerations, China stands with the large regional nations wielding political and economic weight and with which it already has relations, especially Muslim states, the Arab world, and Africa, as well as Russia – as opposed to the United States. In terms of its organizational tradition, the Chinese Foreign Ministry – like many other foreign ministries around the globe – clings to traditional positions despite a reality that has fundamentally changed. A striking example is China's position on the Palestinian issue, which Israel considers to be closer to the Palestinians' own stance; in reality, it reflects a rather broad international consensus on concepts that have lost much of their validity, given both cumulative experience and regional changes.

China and Israel have opted to manage their rapidly growing ties in an "economic bubble," amidst and to some degree insulated from their political differences in other spheres. At the official level, the relations were defined in early 2017 as "an Innovative Comprehensive Partnership," with a mutually significant and convenient agreement to avoid defining the partnership as "strategic," an adjective used fairly commonly to describe China's relations with other nations. At the organizational level, those charged with relations with Israel tend to be Chinese government bodies responsible for economic issues. Like the Israeli Ministry of the Economy, Israel's Ministry of Foreign Affairs also sees its principal mission here to develop economic ties, with no real expectation of improvements in China's international policy. In other words, both nations deem that it is possible, even appropriate, to continue to promote economic ties in isolation from the political dimension. China, as is its wont, does this while still engaging in international political activity that is unfavorable to Israel, while Israel believes it is getting the most possible out of the economic dimension; regarding the political dimension, the guiding principle is "few expectations, few disappointments."

Given that the channels of communication are dictated by the Chinese government, Israel finds it challenging to hold an official ongoing dialogue at the most senior levels. While the Israeli Prime Minister is granted meetings with the Chinese President, Vice President, and Prime Minister, diplomatic and economic envoys from Israel meet mostly with Chinese representatives at the executive level, and routine dialogue is conducted with position holders who are generally not at the decision making level, i.e., members of the Permanent Committee, the Political Council (Politburo) of the Chinese Communist Party, or its Central Committee. Limited access is sometimes overcome by prominent international businessmen, some of whom are Jewish,[5] who can serve as unofficial backchannels to the halls of power in Beijing. Israel must use the full range of its contacts from all over the world, especially its US and Asian partners, Jewish leaders and businessmen, and others, to pave a way to where political diplomacy proves insufficient.

Risk Management and Reduction

The way to realize the opportunities China offers is not free of challenges and risks, which is likewise true for other nations in their relations with China. Among the challenges in promoting trade relations are language difficulties, cultural differences, divergent strategies, lack of transparency, difficulties in making inroads into Chinese markets, unfair trade practices that favor local companies, and difficulties in withdrawing capital from China. Information and complaints from around the world indicate that other significant challenges include the high level of involvement of the Chinese government and Communist Party in ostensibly private companies, the risk of industrial espionage, especially cyber espionage, violations of trademarks and intellectual property rights, obstacles to competitiveness, the use of economic pressure to promote Chinese government policy goals,[6] corruption, and other challenges to typical free market features.

The Chinese government is not indifferent to these claims, not only because of what they say but also because of what they might mean for China's economy and growth. Indeed, there are already some signs of change and improvement in terms of encouraging investment and business activities by foreign companies, improved law enforcement on intellectual property matters, and massive clean-up of party members' involvement in bribes and corruption, steps motivated primarily by domestic considerations.

Yet these welcome developments are not a full response to the challenges and risks to China's trade and investment partners. Therefore, many governments around the world conduct risk management processes, especially over foreign investments and acquisitions and especially regarding the sale of advanced technologies, which may play a key role in China's future economy and military-technological power. Transactions defined as strategic from a national perspective – those involving land, national infrastructures, data, and unique knowledge assets – also earn special attention. Several nations have control and regulatory mechanisms for foreign investments designed to find an appropriate balance between the need to accelerate economic growth with the help of foreign resources and the need to preserve national security and the sturdiness of the national economy over time. Australia, Canada, and Germany, for example, have had regulated mechanisms of this kind in place for years; the European Union is carrying out processes to establish something similar, and the US administration is working constantly to enhance the Committee for Foreign Investments in the United States (CFIUS). The Office of Investment Security has issued a new pilot program under the legislative framework of the Foreign Investment Risk Review Modernization Act (FIRRMA), which broadens CFIUS authority in a considerable manner. First, the pilot program expands the scope of transactions subject to review by CFIUS to include certain investments involving foreign persons and critical technologies. Second, the pilot program makes effective FIRRMA's mandatory declarations provision for all transactions that fall within the specific scope of the pilot program.[7]

In recent years, Chinese entities have invested, completed acquisitions, and carried out significant national infrastructure and technological projects in Israel. In the same period, several attempted acquisitions in insurance and financing have been blocked by the regulatory bodies charged with that field. However, other than defense exports, government decisions on relations with China were for a long period mostly opportunity driven, while the risk management considerations and processes have had a belated start. Therefore, like other nations, Israel is still working on an orderly mechanism for balanced and integrated risk management that would allow it to maximize the benefits of the Chinese potential while preserving its strategic independence, national security, and economic competitiveness over time.

The Israel-United States-China Triangle

In addition to the problems all nations experience in trading with China, Israel must consider its own unique risks and challenges, first and foremost possible ramifications of closer ties with China for its strategic relations with the United States.[8] In recent years, the two great powers have had an increasingly complicated competitive/contentious relationship, alongside deep and extensive economic and trade connections. These only heighten the complexity of the challenge Israel faces in formulating relevant policy.

The potential for damage should Israel be caught in a clash between the powers was made manifestly clear in crises of the previous decade[9] that erupted over Israeli defense exports to China and that caused lasting damage to Israel's relations with both China and the United States. Consequently, Israel established an orderly mechanism to oversee defense exports (the Defense Export Controls Act, or DECA). In practice, defense exports to China have all but stopped and stringent restrictions also apply to the export of dual use technologies. Ostensibly the risk has been identified, contained, and managed in order to prevent similar crises in the future.

In practice, this challenge is still policy-relevant in the context under discussion here, given the multidimensional change in the systems affecting the triangle of relationships. Relations between the two powers have deteriorated into fierce strategic competition, when as China's star is rising, it increasingly challenges the US posture in East Asia and hegemony in the international theater. While the competition is rife with political elements and, increasingly, military and defense components, the rivalry is first and foremost in the economic domain where the two vie for supremacy in innovation and technologies, which are emerging as the keys to overall future dominance. Already, the United States is highly sensitive to Chinese acquisitions in the fields of artificial intelligence, robotics, autonomics, semiconductors, and so on, not all of which are directly military/defense-related or even dual use. But the lines between civilian and military applications of these technologies are not steadfast, and the potential of such acquisitions in the development of economic, political, and military advantages is fairly obvious. Continued and increasing superpower competition over technological leadership results in heightened sensitivity in the United States (for strategic but also for business, economic, and thereafter political reasons) over China's technological progress, compared to the United States or even at the expense of the United States. This also raises the potential for tensions in Israeli-US relations over civilian trade with China in certain technological areas, requiring Israel to formulate a response above and beyond DECA, sooner rather than later.

Other Triangles

The complexity of the risks in Israel-China relations and their management are not limited to the most important triangle, where the United States stands at the apex; they extend to other geostrategic realms as well. In Asia, China sees India – a key customer of Israeli defense exports and Pakistan's enemy – as a strategic rival, complicated by the fact that Pakistan, an Islamic state that embodies the joint threat of terrorism and nuclear capabilities, is a Chinese protectorate. India and China often appear together in Israeli government resolutions, but this does not ease the tensions between them. This was evident in the 2017 Sino-Indian border crisis, when the Chinese questioned why Israel sold weapons to China's enemy,[10] and if Israel was in fact a friend of China. When formulating its policy on developing relations with both nations, Israel must address this complexity and reduce its risks.

In Israel's close environment, China has extensive and multi-branched relationships with regional nations, especially Iran, whose obsessive commitment to Israel's destruction is flagrantly well known. Over the years, China has been involved in the proliferation of weapons used to attack Israel,[11] as well as nuclear technologies to Iran. Along with its contribution in attaining the nuclear agreement with Iran (JCPOA), China actively circumvented sanctions imposed on the Islamic Republic because of its nuclear program. Following the reimposition of US secondary sanctions, China officially told its oil companies to avoid purchasing Iranian oil. However, according to some reports, Chinese oil tankers continue to transfer oil from Iran, using deceptive methods.[12] At the same time, China maintains parallel relations with Turkey, Saudi Arabia, and Egypt, and has shown some token signs of activity in Syria, Lebanon, and the Palestinian theater. China's habit of managing concurrent relationships with sworn enemies is well reflected both in word and in high profile visits: in early 2016, the Chinese President visited Saudi Arabia, Egypt, and Iran during the same trip, even though Iran and Saudi Arabia are bitter enemies. China announced its friendship with both and signed a range of agreements with each. At that time, China issued two separate presidential letters for the different stops on the itinerary: one addressed to the "Arab world,"[13] which was greeted with gestures of appreciation in his visit to the Arab League headquarters, the other addressed to Iran.[14] China is successfully resolving the tensions in its overall policy on the conflict riddled, divided Middle East by maintaining separate channels, avoiding taking sides, and focusing on areas in which the conflict is more tempered, chiefly economically.

Similarly, as in the advancement of their political goals, both China and Israel keep their economic ties separate from their relationships with other regional nations and avoid highlighting their differences of opinion. This makes a certain amount of sense, as it allows progress in a mutual comfort zone, but it also means forfeiting the potential contribution China could make to regional stability, e.g., by massively advancing economic infrastructure development in the region, especially the Palestinian theater, an interest that is a long term Israeli objective.

Defense Exports

Traditionally, most of the Middle East arms market depends on the usual providers, primarily the United States, Russia, and the West. China's main defense exports focus on its nearest neighbors in East and South Asia; China's weapons industries are meant for its own needs, and export arms of competitively priced, and relatively low quality. While Israel has from time to time encountered Chinese weapons in enemy hands, these have not posed a particular challenge, either qualitatively or quantitatively, compared to Soviet or Russian systems, which represent the bulk of the arsenals of Israel's enemies.

In all likelihood, the nature of China's defense exports will gradually change. China's economic growth of the last few decades has provided it with significant resources, and there has been parallel growth in its defense and security budgets (figure 3), which today are second only to those of the United States.[15] At the same time, the Chinese military is undergoing major processes of change, reform, and modernization to arm itself with advanced weapons and use high quality, self-manufactured systems. Manufacturing excesses typical of China can also be expected in its military industries, which will expand the scope of defense exports of newly improved weapon systems. The Middle East of the future is sure to have a full complement of buyers bidding for Chinese arms. The first signs of this are already evident in Chinese exports of ships, surface-to-surface and surface-to-air missiles, and especially UAVs to the Gulf states, and the possible export of manufacturing infrastructures for UAVs and SSMs to Saudi Arabia.

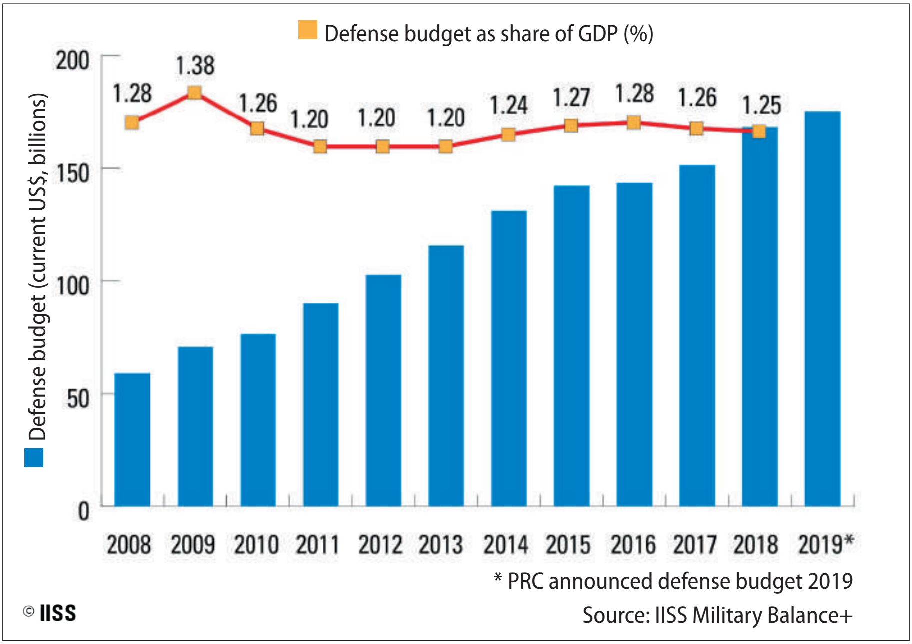

Figure 3: China's Defense Budget 2008-2019[16]

This direction poses a layered challenge for Israel: the appearance of advanced Chinese weapon systems in the hands of regional actors, both friends and enemies; the lack of a Chinese commitment – unlike that of the US – to preserve Israel's qualitative military edge over the other nations in the region; the absence of mechanisms and a tradition of defense dialogue, which it has with Russia; and the fact that China is a serious competitor to Israel's defense exports in areas in which Israel has to date enjoyed an enormous advantage, such as UAVs.

Policy Mechanism

As with other non-security fields in Israel, there are significant gaps between policy formulation and implementation over time when it comes to management of Israel-China relations. Already in his 2009 government, Israeli Prime Minister Benjamin Netanyahu named China a key target in terms of the development of economic relations, but the government's current policy rests mainly on three key resolutions, the last of which (No. 1687) was taken in June 2014. Despite many efforts on relations development, it is not clear whether there is an ongoing process of overall updating all aspects of policy in light of developments that have occurred in the intervening years, for good or for bad. The goals defined in the resolution were the product of insufficient staff work and were riddled by both overestimates (of expanding exports) and underestimates (of tourism). The policy resolutions lacked reference to risks and how to reduce them; therefore, the mechanisms in this field are still catching up with the comprehension of the challenge throughout the world. Policy oversight and control mechanisms and their implementation operated, if at all, for a short time at the ministerial level, and not continuously at the senior echelon of officials. Despite weighty opportunities and risks hanging in the balance, Israel has not managed to generate system-wide, continuous, balanced processes to maximize the Chinese "Gold Mountain" while providing an appropriate response to reduce the risks of the dragon perched on its peak.

When one adds the differences of governing systems and perceptions of time to this picture, what emerges is another dimension of policy challenges. The Chinese government and the Community Party lead a planned economy, while Israel is a free market economy. The Chinese government defines long term goals for the next several decades, sets in motion fairly detailed five-year plans, and enjoys 70 years of governing stability of the Communist Party, with individuals and collectives enjoying long terms in office, resulting in continuity of the leadership and the system. In 2018, the party-controlled National People's Congress passed a set of constitutional amendments that include the removal of the ten-year presidential and vice presidential term limits in place since Mao's time. General Secretary of the Communist Party of China and President Xi Jinping and his Vice President are now expected to head the government for the foreseeable future. Israel, by contrast, even without the 2019 election crisis, has several governments in a single Chinese presidential term, and its publicly elected leaders often tend to improvisation rather than planning. In the encounter between China's long term mechanisms and Israel's short term and disjointed measures lie further challenges to the formulation and implementation of policy.

Knowledge Bases and Decision Making Expertise

Formulating policy for Israel's relations with foreign nations requires understanding Israel's characteristics, goals, needs, strengths, and weaknesses, and a similar understanding of the other side. Clearly, China poses a significant challenge in terms of studying and understanding it as a unique, multifaceted, large, and profound civilization, as well as an authoritarian state where more happens behind the scenes than on the stage and where strategic control of information and knowledge is a central regime tool to ensure governance and the realization of policy. For geographical and historical reasons, the encounter with China is, for Israel, a special challenge. Israel is reasonably knowledgeable about the Middle East, where it is located, and about the West, with which it identifies itself. By contrast, China lies outside Israel's traditional strategic environment and beyond its "system borders"; China had little contact with Israel for decades, it has no large Jewish communities, and there is no Chinese-Jewish newcomers' community in Israel. Consequently, Israel's familiarity with China is quite circumscribed, and significantly more limited than its knowledge of America, Europe, and Russia.

For these and other reasons, Israel's government and its decision makers lack sufficient knowledge about China. Government ministries employ only a few experts on modern China, and as a result, the government's ability to reach an independent, high quality situation assessment based on in-depth knowledge of China is severely limited. The situation at Israel's universities is similar, and there are only a handful of modern China professors (fewer than five in all of Israel), despite the hundreds of students studying Chinese at the undergraduate level (figure 4). As such, Israeli universities are currently limited in their ability to provide professional backing and a expert support for the Israeli government. Furthermore, the experts at hand are not systematically integrated into policy formulation processes. Under these circumstances, Israel has no solid base of knowledge on China it can use, thus increasing the difficulties in formulating a realistic policy and successfully implementing it.

Figure 4: Students Studying Chinese at Israeli Universities[17]

Conclusion and Recommendations

Given Israel's interests and the potential of opportunities and challenges inherent in China, Israel's strategic purpose vis-à-vis its China relationship should include the following components: maximizing Chinese potential for Israeli economic development for years to come; preventing any harm to the special strategic relationship with the United States, Israel's irreplaceable ally; preserving Israel's strategic independence; and promoting Israel's political goals in the region and global theater. The unique features of the Israeli-Chinese encounter pose serious challenges in achieving each component, both in terms of the positive goals, economic and political, and in terms of the constraints and risks. The great and growing importance of China to the global economy, to the international theater, and slowly but surely also to Israel's strategic environment, oblige the Israeli government to formulate and realize a professional, responsible, prudent, and balanced policy to promote goals and reduce risks.

As an enabling condition, it is necessary to generate a rapid, in-depth change in the national system of learning and action and give it a significant "China boost" by establishing a broad and deep knowledge infrastructure about contemporary China, and recruiting China experts in policy formulation and implementation processes. Such a change should be realized with integrated government, academic, and business efforts: expanding the scope of academic research on modern China to support policy, decision making, and economic advancement; integrating modern China experts in these processes in the Israeli government and in the business sector; increasing the number of modern China experts in the relevant state mechanisms; and deepening the knowledge of China-related officeholders and practitioners by investing in advanced training of civil service personnel and business people in these areas. To undertake such a strategic change, it would be wise to look to the experience of other nations; in this sense, the United States is again a relevant model.

In tandem with this effort, it is necessary to establish a permanent, inter-ministerial apparatus (headed, for example, by the Director General of the Prime Minister's Office) within the Israeli government dedicated to the relations with China, which would hold ongoing, orderly integrative work processes over the long term with joint leadership and permanent ministerial supervision, oversight, and control. Such an apparatus, whose general outline was already drafted in government decisions that were never implemented, would generate a continuously updated situation assessment of relations with China, perform system-wide, professional staff work, formulate current policy, define realistic, attainable goals, track their realization, and update them based on developments in practice in a feedback loop going from action to policy.

As a derivative of this policy apparatus, it is necessary also to establish a corollary risk management mechanism, specifically aimed at foreign trade and foreign investments in strategic assets, in order to strike the right balance between economic development, national security needs and the need for strategic independence. Here, the experience of other nations where such mechanisms are already in operation and undergo periodic revisions based on emerging challenges and lessons is highly important. Just as every nation formulates the control mechanism best suited to it, Israel must also formulate a mechanism that is most appropriate to its unique needs, structures, and context.

In terms of risk management, special attention must be paid to Israel's strategic relations with the United States. In tandem with rapid progress in Israel-China relations, the contentious competition between the United States and China is growing worse, despite their partnership and mutual dependence in the global economy. In this complex triangle of relations, in which Israel is at most a very small vertex, Israel must find the right balance that will allow it to maximize China's economic potential and reduce possible tensions with the United States, stemming from strategic, security, economic, or – more likely – political reasons. To do this, it would be appropriate not only to hold multi-channel dialogues to prevent misunderstandings and crises, but to bolster the US-Israel alliance by forging a Strategic Alliance for Innovation.

Based on China's growing importance in the international and regional systems in economic, political, and security terms, Israel must engage in a profound study of China and its activities in Israel's strategic environment, especially China's relations and activities in regional nations and its relations with the other great powers. To this end, it is necessary to devote sufficient organizational attention (in the form of job openings and processes) in the intelligence community and security establishment, and universities and research institutions, while integrating the work of East Asia experts with that of Middle East scholars. In the stiff competition over resources, it may be difficult to compare the urgent regional challenges of the moment with the challenges of understanding long term processes of vast scope, such as the rise of China. However, precisely this imperative mandates conscious government intervention to ensure that Israel thoroughly understands China in its strategic environment and its influence as a world power, or, in the words of one China scholar, the power that hides in plain sight.

Notes

1 As figure 2 demonstrates, electronic components constitute Israel's main export branch to China, and the field is largely dominated by Intel. In 2018, the total export of electronic components came to about $2.5 billion, which is similar to 2017, and represented more than half of the scope of exports by Israeli companies to China – about 51 percent. Another important branch of exports to China consists of chemicals, which represent 8 percent of Israel's exports to China.

2 A breakdown of Government Resolution No. 1687 at the Israel Government Services and Information website, https://www.gov.il/he/departments/policies/2014_dec1687 [Hebrew].

3 The Economic Unit of the Israel Export Institute for 2019. See https://www.export.gov.il/api//Media/Default/Files/Economy/IsraelChinaCom18.pdf [Hebrew].

4 Ibid.

5 For example, the role that billionaire Shaul Eisenberg played in well known, when he headed Israel's first defense delegation to China in the 1970s with the blessing of the US administration. It seems that Sheldon Adelson, close to Prime Minister Netanyahu, also has ties to the Chinese government.

6 Prominent examples here can be found in Chinese involvement in financing politicians in Australia, on the one hand, and on the other hand, changes in political positions of foreign governments, such as Greece, to favor China, in exchange for significant Chinese investments.

7 *Federal Register* 83, No. 197, October 11, 2018 https://home.treasury.gov/system/files/206/FR-2018-22182_1786904.pdf.

8 Strategic relations between Israel and the United States, based on extensive political, defense, and economic aid of many years on the part of the United States, should be viewed as a case unique to Israel and of special sensitivity when it comes to managing them. At the same time, other close US partners (the United Kingdom, Australia, and in contrast, Singapore) have extensive ties with China; Israel must find the right balance in this context.

9 The Phalcon crisis of 2000, when Israel was forced to cancel a large contract selling aerial early warning aircraft made by Elta to China, and the 2005 Harpy attack drone crisis over loitering munitions sold earlier to China, which ended several senior Defense Ministry careers. See Ze'ev Schiff, "Selling Arms to China, or Not," *Haaretz*, December 22, 2004, https://www.haaretz.com/1.4840708.

10 "The Border War Is on the Verge! But This Country Has Sold More Than 8,000 Missiles to India," *Sina*, July 7, 2017, https://bit.ly/2DZIaYD.
11 Such as the C802 missile Hezbollah fired at the Israeli navy corvette *Hanit* and Chinese cluster rockets that fell in Israel, both during the Second Lebanon War.
12 Saket Sundria and Dan Murtaugh, "China Is Buying Iranian LPG Despite Sanctions, Ship-Tracking Shows," *Bloomberg*, June 19, 2019, https://bloom.bg/2XAf90E.
13 The full text of the position paper as it appears on the Chinese government website: "Full Text of China's Arab Policy Paper," January 13, 2016, https://bit.ly/2VZ2rbc.
14 H. E. Xi Jinping, "Work Together for a Bright Future of China-Iran Relations," Ministry of Foreign Affairs of the People's Republic of China, January 21, 2016, https://bit.ly/2HicjU6.
15 In 2017, China's defense budget was double that of 2008, based both on official declarations (close to $150 billion) and on estimates of external research institutions (more than $200 billion).
16 Meia Nouwens, "China's Defence Spending: a Question of Perspective?" IISS, 2019, https://www.iiss.org/blogs/military-balance/2019/05/china-defence-spending.
17 The graph is based on figures supplied by universities in Israel.

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INSS Memoranda, August 2018–Present

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No. 180, August 2018, Gabi Siboni and Ido Sivan Sevilla, *Cyber Regulation* [Hebrew].

Following more than a quarter century of diplomatic relations with China, Israel faces fascinating policy challenges, and at their core, maximizing the mutual benefits of the bilateral relationship while managing its complexity and minimizing its risks. Israel's relationship with China is special, but not unique. Worldwide, many countries and corporations face similar challenges, having long earned much experience, rich knowledge, and important lessons that Israel can use to formulate its own solution for "the China riddle."

Israel's quest to realize the sparkling economic opportunity in China's markets, capital, products, and competitive services is fraught with challenges. First, generating profit from business with China and in China is not easy, even if only due to differences in language, culture, and market conditions. Second, essential and strategic assets must be kept under domestic control, while hedging against external policy and political influences that rely on economic leverage, when China's ruling party is deeply involved in its business sector. Third, and most important, Israel must be especially sensitive to relations between the superpowers, as tension rises between the United States, Israel's irreplaceable strategic ally, and China, its growing economic partner – particularly as the "trade war" intensifies and the struggle escalates over the rules of the global market and over spheres of influence and strategic supremacy. Israel's China policy, therefore, requires creative, sophisticated, and informed approaches, led by the drive to develop mutually beneficial relations with China, without in any way harming relations with the US.

The articles compiled here explore various aspects of Israel's policy and its relationship with China. Authored by researchers in the INSS Israel-China program and current and former Foreign Ministry practitioners, the articles look directly at Israel's China policy challenges and at other countries' relations with China, which serve as a knowledge base and inspiration as Israel manages its relations with the People's Republic of China.

This publication is one modest step in a long but essential journey to develop policy-supporting knowledge on China in the State of Israel. The field requires a broad, concentrated, and accelerated effort in anticipation of the policy challenges that lie ahead in this domain.

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