

## **The Rising Tension between China and Australia: Lessons for Israel**

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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.<sup>1</sup>

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,<sup>2</sup> 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.

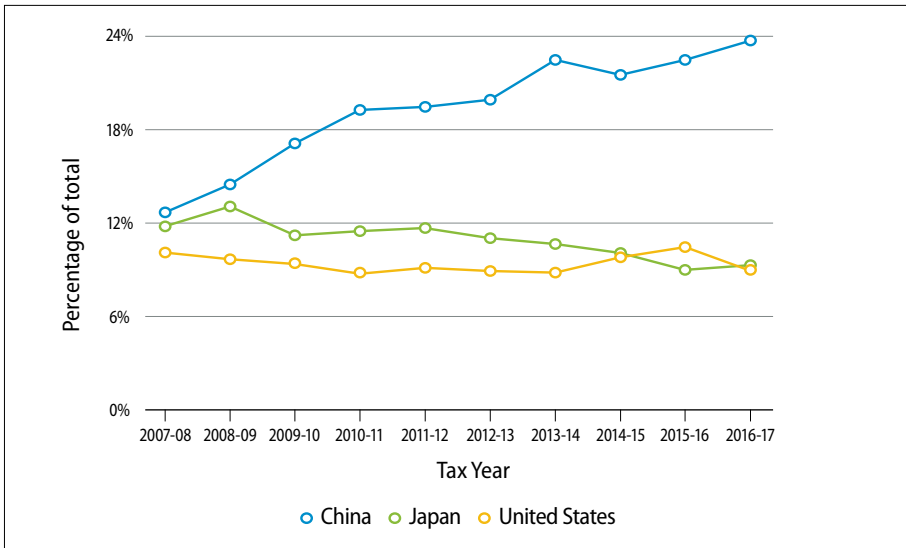
Yet despite the considerable differences between Israel and Australia, Israel can learn from the recent events on the distant continent. This article will examine three areas – economy, politics, and academia – in which China's influence has been evident in Australia, and consider these same areas in 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**

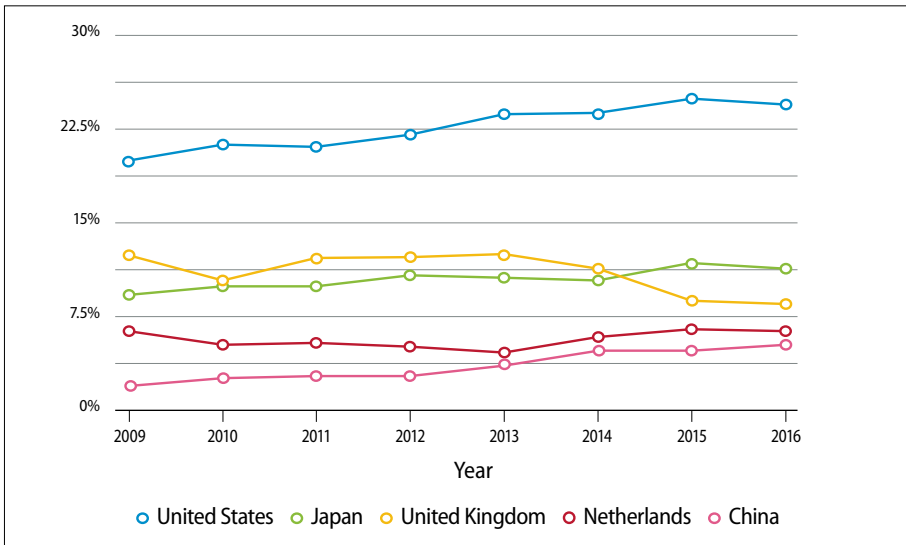
China and Australia maintain close commercial relations. China is Australia's largest trading partner, with trade in the 2016-17 tax year valued at \$135.6 billion, which constitutes some 24 percent of Australia's total trade. This trade volume far exceeds the next two largest trade partners (figure 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.<sup>3</sup>

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).<sup>4</sup> 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<sup>5</sup>



**Figure 2:** Five Main Sources of Foreign Direct Investment (FDI) in Australia, as Percentage of Total FDI<sup>6</sup>

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,<sup>7</sup> 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

	<b>Australia</b>	<b>Israel</b>
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.<sup>8</sup> 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,<sup>9</sup> 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.<sup>10</sup>

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.<sup>11</sup> 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,<sup>12</sup> 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,<sup>13</sup> and in 2016 the government blocked a deal to sell part of Ausgrid, a local electricity distribution company.<sup>14</sup> Also in 2016, the Australian government blocked a deal twice to sell an enormous farm to the Chinese company Shanghai CRED.<sup>15</sup> In response, the Chinese company had to create a partnership with an Australian company, owning 33 percent of the shares.<sup>16</sup>

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.<sup>17</sup>

## **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.<sup>18</sup> 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.<sup>19</sup> 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.<sup>20</sup>

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.”<sup>21</sup> 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.<sup>22</sup> 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.”<sup>23</sup> 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.<sup>24</sup>

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.<sup>25</sup>

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.<sup>26</sup> 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.<sup>27</sup> The Chinese students in Australia join the large community of Australian citizens of Chinese origin,<sup>28</sup> 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.<sup>29</sup>

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.”<sup>30</sup> As a result, Chinese nationalist students serve as agents of government influence who distribute “officially approved propaganda.”<sup>31</sup> 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.<sup>32</sup>

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.<sup>33</sup>

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.<sup>34</sup> 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.<sup>35</sup> 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.<sup>36</sup> 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.<sup>37</sup>

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.<sup>38</sup> 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.”<sup>39</sup> 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.<sup>40</sup> 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.<sup>41</sup> Tel Aviv University has also established a \$300 million joint initiative with Tsinghua University in Beijing, the XIN Institute for graduates of both universities.<sup>42</sup> 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.<sup>43</sup> 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.<sup>44</sup>

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).<sup>45</sup> 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.”<sup>46</sup> 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.<sup>47</sup>

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.

## Notes

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