

Chinese investments in Sri Lanka: Implications for Israel

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This article addresses Chinese projects in Sri Lanka, some of which are within the Belt and Road Initiative, in order to draw insights to be applied to the Israeli sphere. Moreover, the article will try to answer whether, and to what extent, the Chinese Belt and Road Initiative “belongs to the world,” as is written on its official website, or whether this is an expression of the Chinese drive for influence that may lead to a new Chinese world order.¹ The article presents the Belt and Road Initiative alongside arguments against it. It then outlines Chinese-Sri Lankan relations and lists four Chinese projects on the island. The article then examines Israel-China relations in view of Chinese involvement in strategic projects in Israel and focuses on the Bay Port project in Haifa. In conclusion, the article presents insights for Israel as a direct result of the Belt and Road Initiative, while examining the likelihood of diplomatic damage, security risks, and the effect on Israeli politicians as a result of this initiative.

Keywords: China, Sri Lanka, Israel, strategy, projects, Chinese initiative, Belt and Road Initiative

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- 1 Mark Melton, “China’s Plan for a New World Order: Review of Macães’ Belt and Road,” *Providence*, September 12, 2019, <https://providencemag.com/2019/09/chinas-new-world-order-book-review-bruno-macaes-belt-road-initiative>.

Introduction

A short time after being chosen as president of China in 2013, Xi Jinping announced what seemed to be the largest economic project in history—the “Belt and Road Initiative” (BRI). The initiative is the Chinese president’s grand strategy to renew the ancient continental Silk Road by building a network of international fast train lines and roads that would join China with Africa and Europe, as well as by establishing a network of sea ports to create a maritime trading channel that would extend over a number of oceans.² As part of this strategy, China is also planning to expand existing aerial cargo agreements and to build a variety of facilities for energy, communications, manufacturing, and other needs.³

Significant progress in implementing this initiative was achieved in June 2015, when fifty-seven countries (excluding Japan and the United States) joined as founding members of a new bank in Beijing—“The Asian Infrastructure Investment Bank” (AIIB)—which had initial capital of \$100 billion.⁴ As of October 2019, China holds 31 percent of the bank’s total capital, which gives it 26.6 percent of the voting rights; in other words, it can veto any decision that requires a special majority (of at least 75 percent of voters).⁵ Israel also joined the AIIB as a founding country, assuming that this would help Israeli companies participate in the bank’s projects.⁶

The first forum of the BRI convened in 2017. The United States took part in the conference, although with the lower-level participation by the

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- 2 Mai Phan, “A Mixed Reality of The Belt and Road Initiative in Southeast Asia,” *Journal of International Relations*, July 22, 2019, <http://www.sirjournal.org/oped/2019/7/22/a-mixed-reality-of-the-belt-and-road-initiatives-in-southeast-asia>.
 - 3 Martin Hart-Landsberg, “A Critical Look at China’s One Belt, One Road Initiative,” *CADTM*, October 10, 2018, <http://www.cadtm.org/A-critical-look-at-China-s-One-Belt-One-Road-initiative>.
 - 4 “Founding 57 Members of China-led AIIB Investment Bank Sign Up in Great Hall Ceremony,” *Deutsche Welle*, June 29, 2015, <https://www.dw.com/en/founding-57-members-of-china-led-aiib-investment-bank-sign-up-in-great-hall-ceremony/a-18546332>.
 - 5 Jason Kirk, “China and the Asian Infrastructure Investment Bank,” *Observer Research Foundation*, November 1, 2019, <https://www.orfonline.org/expert-speak/china-and-the-asian-infrastructure-investment-bank-55693>.
 - 6 Hagai Shagrir, *Israel-China Relations: Innovative Comprehensive Partnership*, Memorandum no. 194 (Tel Aviv: INSS, 2019), 21.

National Security Council's senior director of Asia Affairs.⁷ In April 2019, the initiative's second forum took place, with thirty-six heads of state and government participating.⁸

The number of countries involved in the Chinese strategic initiative is impressive. As of March 2019, China had signed 173 cooperation agreements with 125 countries and twenty-nine international organizations. In addition, China had signed bilateral air traffic agreements with 126 countries and expanded existing air traffic agreements with various countries (including Israel). In the past five years, China has opened more than one thousand new international air routes.⁹ In April 2019, Italy signed a memorandum of understandings with China as part of the BRI, and Russia recently joined the initiative as well, giving a green light to the construction of an international autostrada with China.¹⁰ The World Bank estimates some \$575 billion worth of energy plants, railways, roads, ports, and other projects have been built or are in the works as part of the Chinese initiative.¹¹

In this context, it is worth mentioning other "silk roads" that China is currently building: The "Digital Silk Road," which is a network of undersea internet cables; the "Space Silk Road" (Beidou), which is a Chinese navigation system that is striving to replace the American GPS satellite network,¹² and the "Polar Silk Road," which aims to deal with shipping lanes, scientific research, climate change, and arctic resources.¹³

7 Matt Spetalnick and David Brunnstrom, "Trump Asia Expert to Become New Deputy National Security Adviser: Sources," *Reuters*, September 20, 2019, <https://www.reuters.com/article/us-usa-trump-adviser/trump-asia-expert-to-become-new-deputy-national-security-adviser-sources-idUSKBN1W523F>.

8 Shannon Tiezzi, "Who Is (and Who Isn't) Attending China's 2nd Belt and Road Forum?" *The Diplomat*, April 27, 2019, <https://thediplomat.com/2019/04/who-is-and-who-isnt-attending-chinas-2nd-belt-and-road-forum>.

9 "The Belt and Road Initiative Progress, Contributions and Prospects," *Belt and Road Portal*, April 22, 2019, <https://eng.yidaiyilu.gov.cn/zchj/qwfb/86739.htm>.

10 Alice Scarsi, "Russia and China Agree 5000-mile 'Moscow Bypass' Road to Strengthen Economic Ties," *Express*, July 10, 2019, <https://www.express.co.uk/news/world/1151662/russia-news-china-Russia-Western-China-highway-Belt-and-Road-Initiative-bri>.

11 "China's Belt and Road Gets a Reboot to Boost Its Image," *Bloomberg*, August 14, 2019, <https://www.bloomberg.com/news/articles/2019-08-14/china-s-belt-and-road-is-getting-a-reboot-here-s-why-quicktake>.

12 Matthew Johnson, "China's International Partnerships: Pakistan, CPEC and Central Asia," *Tibet Digest* (Foundation for Non-violent Alternatives) (August 2019), 98.

13 Qiyang Niu, "China's Evolving Arctic Policy: Two Geopolitical Threats," *Tibet Digest* (Foundation for Non-violent Alternatives) (August 2019), 116.

Challenges to the Belt and Road Initiative

The effects and the broad global implications of the Belt and Road Initiative also have drawn criticism and have exposed its shortcomings and weaknesses. China has promoted a narrative of “nonintervention,” which states that any intervention in the politics or policy of the initiative’s partner countries must be seen as if it was invited by their governments.¹⁴ Basically, Chinese projects are only narrowly open to international participation. As of 2018, out of all contractors participating in Chinese-funded projects across the Eurasian supercontinent and tracked by Center for Strategic and International Studies, 89 percent belong to Chinese companies, 7.6 percent belong to local companies (companies whose head offices are located in the country in which the project is taking place), and 3.4 percent belong to foreign companies. Among the many projects included in the BRI are those that began years before the initiative was launched.¹⁵

In the past year-and-a-half (as of October 2019), the growth in the scope of the initiative slowed drastically. In 2018, the value of new projects in the sixty-one countries that are involved in the initiative had decreased by 13 percent compared with 2017; by August 2019, it had dropped another 6.7 percent. In the first eight months of 2019, existing contracts had further declined by 4.2 percent. A few countries participating in the initiative lowered planned loans and even cancelled projects, partly for economic or political reasons.¹⁶ At least seven countries, including Pakistan, Myanmar, the Maldives, Kenya, and Sri Lanka, encountered problems with the initiative’s projects or asked to reconsider them.¹⁷ China’s investment in other countries, especially within the framework of the BRI, raises issues concerning debt, threats to sovereignty, land grabbing, uprooting, human rights abuses in

14 Nicholas Crawford, *China and Instability in Developing Countries* (International Institute for Strategic Studies, October 28, 2019), 3, <https://www.iiss.org/blogs/research-paper/2019/10/china-and-instability>.

15 Jonathan E. Hillman, *China’s Belt and Road Initiative: Five Years Later* (Center for Strategic and International Studies, January 25, 2018), <https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later-0>.

16 Cissy Zhou, “China Slimming Down Belt and Road Initiative as New Project Value Plunges in Last 18 Months, Report Shows,” *South China Morning Post*, October 10, 2019, <https://www.scmp.com/economy/global-economy/article/3032375/china-slimming-down-belt-and-road-initiative-new-project>.

17 “China’s Belt and Road Gets a Reboot to Boost its Image,” *Bloomberg*, August 14, 2019, <https://www.bloomberg.com/news/articles/2019-08-14/china-s-belt-and-road-is-getting-a-reboot-here-s-why-quicktake>.

areas of dispute, environmental impacts, concerns over public health, and breaches of employment conditions.¹⁸

Several arguments have been raised against the initiative. The first argument views it as more than just an economic initiative and rather as a main tool for promoting Chinese geopolitical ambitions. Some believe that it is a Chinese reaction against the refocusing of the United States on Asia (“Pivot to Asia”), which began in 2011 during the Obama administration, and which many in Beijing view as an attempt to hinder China’s influence by expanding US economic ties in southeast Asia. The United States and some of its allies have warned that the Chinese initiative may be really a “Trojan Horse” intended to promote Chinese regional hegemony and enable Chinese military and institutional expansionism.¹⁹ A second argument views the Chinese initiative as a type of “debt-trap diplomacy” against developing countries. According to this argument, China is mortgaging the resources and strategic assets of developing countries in exchange for financing and building infrastructure in those countries, and it is working toward gaining preferential access to their natural resources. In this way, China achieves both economic penetration and strategic leverage.²⁰ A third argument views the initiative as causing environmental damage on a global scale. This is a legitimate concern due to the environmental impact of the initiative, particularly given the paucity of experience in analyzing the environmental impact of massive infrastructure development on the scale of the Chinese initiative.²¹

In June 2019, the World Bank published a study that attempted to answer these three arguments. The authors do not reject the Chinese initiative out of hand but recommend a series of profound changes, writing that “China’s Belt and Road Initiative (BRI) could speed up economic development and reduce poverty for dozens of developing countries—but it must be accompanied by

18 GRAIN, *The Belt and Road Initiative: Chinese Agribusiness Going Global* (GRAIN, February 18, 2019), <https://www.grain.org/en/article/6133-the-belt-and-road-initiative-chinese-agribusiness-going-global>.

19 Andrew Chatzky and James McBride, “China’s Massive Belt and Road Initiative,” *Council on Foreign Relations*, May 21, 2019, <https://www.cfr.org/background/ chinass-massive-belt-and-road-initiative>.

20 Ronak Gopaldas, “Lessons from Sri Lanka on China’s ‘Debt-Trap Diplomacy’” *Institute for Security Studies*, February 2, 2018, <https://issafrica.org/amp/iss-today/ lessons-from-sri-lanka-on-chinas-debt-trap-diplomacy>.

21 Hoong Chen Teo and others, “Environmental Impacts of Infrastructure Development under the Belt and Road Initiative,” *Environments* 6, no. 6 (2019): 1.

deep policy reforms that increase transparency, improve debt sustainability, and mitigate environmental, social, and corruption risks.”²²

China-Sri Lanka Relations Vis-à-vis Sri Lanka's Political System

The Chinese interest in Sri Lanka is, to a large extent, due to its strategic position, having served for many years as a large maritime trading junction in the Euro-Asian space. Sri Lanka can provide a convenient and rapid gateway to developing markets in the Indian subcontinent, meeting Chinese interests.²³ China's strategic closeness to Sri Lanka began with the administration of Sri Lankan president Mahinda Rajapaksa, who served between 2005 and 2015, during which China became Sri Lanka's main weapons supplier. While the United States halted direct military assistance to Sri Lanka in 2007, China increased its assistance to the island by about \$1 billion and became the largest contributor to its economy and military. China provided sophisticated weapons to Sri Lanka, including six Chinese F-7 combat planes, and it encouraged Pakistan to sell weapons to Sri Lanka and train its pilots.

China also assisted Sri Lanka diplomatically and even cast a veto against the UN Security Council proposal to hold a discussion on Sri Lanka following the civil war on the island and perhaps to send UN observers there.²⁴ Economic relations between the two countries also strengthened to the point whereas in 2013, China became the greatest source of direct foreign investment in Sri Lanka.²⁵ President Rajapaksa relied increasingly on the Chinese in order

22 “Millions Could Be Lifted Out of Poverty, but Countries Face Significant Risks,” *World Bank*, June 18, 2019, <https://www.worldbank.org/en/news/press-release/2019/06/18/success-of-chinas-belt-road-initiative-depends-on-deep-policy-reforms-study-finds>.

23 Marcello Rossi, “Next Hambantota? Welcome to the Chinese-funded US \$1.4 billion Port City Colombo in Sri Lanka,” *South China Morning Post*, May 12, 2019, <https://www.scmp.com/week-asia/geopolitics/article/3009731/next-hambantota-welcome-chinese-funded-us14-billion-port-city>.

24 “How Beijing Won Sri Lanka's Civil War,” *The Independent*, May 23, 2010, <https://www.independent.co.uk/news/world/asia/how-beijing-won-sri-lankas-civil-war-1980492.html>.

25 N.P. Ravindra Deyshappriya, “China is Sri Lanka's Biggest Source of FDI, But There Is Room for More,” *London School of Economics*, September 12, 2017, <https://blogs.lse.ac.uk/southasia/2017/09/12/china-is-sri-lankas-biggest-source-of-fdi-but-there-is-room-for-more>.

to build projects following the end of the civil war, and Sri Lanka borrowed more than \$6 billion from China for that purpose.²⁶

Chinese involvement in Sri Lanka became an important issue during the island's presidential election campaign in 2015. Mahinda Rajapaksa lost the election to Maithripala Sirisena, who promised to establish "equal relations" with India, China, Pakistan, and Japan, and to completely change the island's foreign relations. Sirisena wanted to distance himself from China—the ally of his predecessor Rajapaksa—and to draw closer to India and the West, while re-examining the Chinese projects.²⁷ Basically, his government was mainly concerned with reducing the damage done by previous governments.

Until 2015, about 95 percent of the Sri Lankan government's revenue was diverted to paying off the debt to China, which led it to conduct debt negotiations with China.²⁸ The debt to China in 2016 totaled \$8 billion (close to 10 percent of Sri Lanka's GDP) and is mainly due to loans for building projects, most of which were approved during the Rajapaksa government.²⁹ The Sri Lankan government under Sirisena approved in that year to continue the projects, but they were subject to changes.³⁰ In 2017, it was reported that China had become the largest lender for building infrastructure projects in Sri Lanka (21.5 percent of total loans that Sri Lanka took out for building infrastructure projects), followed by Japan, the World Bank, and the Asian Development Bank (ADB).³¹ In May 2019, President Sirisena met with

26 "Moving Away from China, Sri Lanka Puts Chinese 'Mega-Projects' on Hold," *AsiaNews/Agencies*, January 20, 2015, <http://www.asianews.it/news-en/Moving-away-from-China,-Sri-Lanka-puts-Chinese-mega-projects-on-hold-33240.html>.

27 Heather Timmons, "Sri Lanka's Election Upset just Destroyed a Linchpin of China's Foreign Policy," *Quartz Daily Brief*, January 9, 2015, <https://qz.com/323718/how-sri-lankas-surprising-election-results-could-destroy-a-lynchpin-of-chinas-foreign-policy>.

28 Jonathan E. Hillman, "Game of Loans: How China Bought Hambantota," *Center for Strategic and International Studies*, April 2, 2018, <https://www.csis.org/analysis/game-loans-how-china-bought-hambantota>.

29 Karthik Sivaram, "'Locked-In' to China: The Colombo Port City Project," *Freeman Spogli Institute for International Studies*, Stanford University, <https://fsi.stanford.edu/publication/locked-china-colombo-port-city-project>.

30 Shihar Aneez and Ranga Sirilal, "Sri Lanka to Allow Chinese Port City Project After Delay," *Reuters*, January 12, 2016, <https://www.reuters.com/article/sri-lanka-china-portcity-idUSL3N14W42G20160112>.

31 Nilanthi Samaranyake, "China's Engagement with Smaller South Asian Countries," *United States Institute of Peace*, April 2019.

Chinese president Xi Jinping and Chinese premier Li Keqiang during an international conference.³²

In November 2019, an additional round of presidential elections was held in Sri Lanka. Outgoing president Sirisena did not stand for re-election, and Gotabaya Rajapaksa—the younger brother of former president Rajapaksa and who had served as defense minister in his brother’s government from 2005 to 2015—was elected president. The spokesperson of the Chinese Foreign Ministry was quick to congratulate him, adding that “We are prepared . . . to work with the new government and leadership to cooperate at high levels surrounding the Chinese initiative, together with greater progress in bilateral relations, in order to bring about more tangible and other profits for both countries and their people.”³³ Even during the election campaign, Gotabaya’s associates announced that he planned to “restore relations” with Chinese president Xi Jinping.³⁴ Moreover, upon his election as president, Gotabaya Rajapaksa was quick to appoint his brother, former president Mahinda Rajapaksa, as the new prime minister and minister of finance.³⁵ These steps may indicate a new strategic closeness between Sri Lanka and China, even if it may develop more cautiously than in the past.

China-Sri Lanka: Four Main Projects

As stated, most of the Chinese loans in the Sri Lankan projects were given during the term of President Mahinda Rajapaksa. The four main projects in the country that were carried out with Chinese financing are the Hambantota Port; the international cricket stadium; the international airport at Hambantota; and the Port City of Colombo. All these projects are based on Chinese financing and were built by Chinese contractors. At least two of them have

32 “Li Keqiang Meets with President Maithripala Sirisena of Sri Lanka,” *Ministry of Foreign Affairs of the People’s Republic of China*, May 19, 2019, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1664297.shtml.

33 “China Ready to Work with New Sri Lankan President,” *Ada Derana*, November 18, 2019, http://www.adaderana.lk/news_intensedebate.php?nid=59134.

34 Shihar Aneez and Ranga Sirilal, “Record Number of Candidates to Contest Sri Lanka’s Presidential Election,” *Reuters*, October 7, 2019, <https://www.reuters.com/article/us-sri-lanka-elections/record-number-of-candidates-to-contest-sri-lankas-presidential-election-idUSKBN1WM1FB>.

35 “Sri Lanka President Pledges Election at ‘Earliest Opportunity,’” *Al Jazeera*, November 22, 2019, <https://www.aljazeera.com/news/2019/11/sri-lanka-president-pledges-election-earliest-opportunity-191122084348262.html>.

long-term strategic implications for Sri Lanka (the Hambantota Port and the Port City of Colombo).

The Hambantota Port

The Hambantota Port is an example of Chinese “debt-trap diplomacy.” The port, which sits along one of the most crowded strategic shipping lanes in the world, was built with a Chinese loan of about \$1.3 billion—one of the largest initiatives built with Chinese government financing—and opened in 2010. However, despite that a large part of East-West trade passes through shipping lanes in the Indian Ocean, most ships bypass the Hambantota Port to anchor at the Colombo Port.³⁶ It quickly became clear that the new port was not profitable. Just thirty-four ships passed through it in 2012. Sri Lanka, which could not meet payments on the loan it received from China to build the port, asked for leniency in the terms of the loan but was turned down. In December 2017, the prolonged negotiations and the heavy financial pressure led the Sri Lankan government to accede to transfer the port to Chinese ownership and to agree to lease the sixty square kilometers of the project’s land to China for ninety-nine years. The lease enabled China to take over territory that is just a few hundred kilometers away from its rival India, giving China a strategic foothold along a commercial and military sea lane of decisive importance.³⁷

The international cricket stadium

In 2011, an international cricket stadium named after Mahinda Rajapaksa was opened near the town of Hambantota. It was built in order to host the Cricket World Cup, which took place that year in Sri Lanka. It is the second-largest stadium in Sri Lanka, holding 32,000 seats, and the cost of construction reached about \$3.8 billion. Not long after it opened, criticism was leveled against it, firstly, the high cost of its maintenance, followed by the fact that since its construction, only a few international competitions have

36 Lu-Hai Liang, “Sri Lanka Hands Over Port to China to Pay Off Debt,” *The National*, December 14, 2017, <https://www.thenational.ae/world/asia/sri-lanka-hands-over-port-to-china-to-pay-off-debt-1.684606>.

37 Maria Abi-Habib, “How China Got Sri Lanka to Cough Up a Port,” *New York Times*, June 25, 2018, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

been held there.³⁸ Since then, the stadium has become a “white elephant,” housing birds and migratory animals, and reports say that it also hosts private events, including weddings.³⁹ It should be noted, however, that the international cricket stadium is not a Chinese geopolitical interest, compared to the Chinese investment in the Hambantota Port, which gives China clear geopolitical advantages.

The Hambantota International Airport

In 2013, the Mahinda Rajapaksa International Airport in the town of Hambantota opened to commercial air traffic. The cost of constructing the airport was \$209 million, of which \$190 million was borrowed from China. The congestion at the Bandaranaike International Airport in Colombo and the desire to narrow the gaps with other areas in Sri Lanka were the main motivating factors in building another international airport on the island. However, Hambantota lacks significant population and the industrial infrastructure needed to attract foreigners. It was not long before the new airport became known as “the world’s emptiest international airport.”⁴⁰ It also became clear that the airport was causing damage to the environment, since it is located in the heart of a nature reserve. In one instance it was reported that hundreds of soldiers, police officers, and volunteers were working to move the animals out of the airport area, and an official source even confirmed that the animals were interfering with flights. Moreover, during the first ever landing at the new airport, a plane’s window was smashed when a bird hit it.

Like the cricket stadium, the Hambantota International Airport has become a “white elephant.” At one stage, it was being used to store rice.⁴¹ The situation changed in 2018, when India announced that it would operate the airport under a lease agreement for forty years and would invest \$225

38 Nirmala Kannangara, “Hambantota White Projects Eat Up Economy,” *Sunday Leader*, June 28, 2015, <http://www.thesundayleader.lk/2015/06/28/hambantota-white-projects-eat-up-economy>.

39 Hafsa Sabry, “Attempts To Revive Another ‘White Elephant’” *Sunday Leader*, October 16, 2016, <http://www.thesundayleader.lk/2016/10/16/attempts-to-revive-another-white-elephant>.

40 Wade Shepard, “The Story Behind The World’s Emptiest International Airport,” *Forbes*, May 28, 2016, <https://www.forbes.com/sites/wadeshepard/2016/05/28/the-story-behind-the-worlds-emptiest-international-airport-sri-lankas-mattala-rajapaksa/#3e385ee67cea>.

41 “Troops Clear Wild Animals from Sri Lanka’s White-Elephant Airport,” *Phuket News*, March 27, 2016, <https://www.thephuketnews.com/troops-clear-wild-animals-from-sri-lanka-white-elephant-airport-56780.php#fiXboQ2cffE7AXhv.97>.

million to renovate it. The investment amounted to 70 percent of the cost of the renovation, with Sri Lanka covering the remaining amount.⁴²

The Port City of Colombo

The foundations for the construction of the artificial port in Colombo were poured in 2014, and it was supposed to be built by pumping coastal sand from nearby beaches. The new port is expected to cover an area of 2.69 square kilometers alongside the Sri Lankan capital's main port.⁴³ The port represents the largest foreign direct investment in Sri Lankan history, which included a loan of \$1.4 billion from the Chinese government-owned construction giant CCCC. The project is expected to include residential towers, luxury hotels, prestigious shopping malls, spacious parks, and 80,000 apartments, as well as providing daily employment for about a quarter million Sri Lankans once the project is completed.⁴⁴

Since this is an additional strategic port being built under the Chinese initiative, there is a real concern that it too, like the Hambantota Port, will fall under Chinese influence. The statement by the Sri Lankan minister in charge of the project that the area from which the Chinese are pumping the sand will not threaten Sri Lanka's sovereignty and will not undermine India's interests,⁴⁵ did not calm the situation, particularly since Chinese warships and submarines have been anchored at the Colombo Port as early as 2014, despite Indian objections. Moreover, hundreds of warships from various countries anchor at the Colombo Port for refueling and refreshing. But the frequency of Chinese visits and the fact that Chinese submarines anchored at a port on the Indian Ocean as part of a Chinese military operation against pirates in

42 Meera Srinivasan, "'Mattala Project with India Is on,'" *The Hindu*, August 3, 2018, <https://www.thehindu.com/news/international/mattala-project-with-india-is-on/article24595483.ece>.

43 "Feature: Hearts Bound Together, City Built Together—China, Sri Lanka Co-Develop Colombo Port City," *Xinhua*, May 15, 2018, <http://www.portcitycolombo.lk/press/2018/05/23/hearts-bound-together-city-built-together-China-sri-lanka-co-develop-colombo-port-city.html>.

44 Rossi, "Next Hambantota? Welcome to the Chinese-Funded US\$1.4 billion Port City."

45 "Chinese Firm Completes US\$1.4 Billion Land Reclamation Works for Sri Lanka's Colombo Port City Project," *South China Morning Post*, January 17, 2019, <https://www.scmp.com/news/asia/south-asia/article/2182461/chinese-firm-completes-14-billion-land-reclamation-works-sri>.

the Gulf of Aden are not routine occurrences.⁴⁶ If that is not sufficient, the construction of the Port City of Colombo has brought with it environmental damage. The pumping of sand in order to build the artificial port has caused erosion and has interfered with the maritime ecological system, which, in turn, have damaged the fishing industry in the area.⁴⁷

Israel-China Relations: Economic Interests

Although Israel was the first country in the Middle East to recognize the People's Republic of China in January 1950, diplomatic relations between the two countries were only established in January 1992. Since then, cooperation has developed in a variety of areas, reaching new peaks in recent years. Israeli representatives in China are promoting Israel's image as a technologically innovative country, and the two countries are engaging in joint projects in research, scientific, academic, agricultural, and healthcare innovation.⁴⁸

In 2014, the main intergovernmental mechanism between Israel and China—the innovation conference—was established. This is an intergovernmental (G2G) platform established by Israel's Prime Minister Benjamin Netanyahu and China's Vice-Premier Liu Yandong during her visit to Israel that year. The conference convenes every other year alternating between Beijing and Jerusalem and is led by thirteen government ministries and agencies in Israel, alongside ministers from the Chinese government. The conference promotes cooperative ventures between governments in both countries, joint projects involving the private sector, joint scientific and industrial research, provides grants for students from both countries, and more.⁴⁹

46 Shihar Aneez and Ranga Sirilal, "Chinese Submarine Docks in Sri Lanka Despite Indian Concerns," *Reuters*, November 2, 2014, <https://www.reuters.com/article/sri-lanka-china-submarine/chinese-submarine-docks-in-sri-lanka-despite-indian-concerns-idINKBN0IM0LU20141102>.

47 Rossi, "Next Hambantota? Welcome to the Chinese-Funded US\$1.4 billion Port City."

48 "25 Years of Diplomatic Relations between Israel and China," *Ministry of Foreign Affairs*, January 23, 2017, <https://mfa.gov.il/MFAHEB/PressRoom/Spokesman/2017/Pages/25-years-Israel-China-diplomatic-relations-230117.aspx> [Hebrew].

49 "Visit by the Chinese Vice-President—The Fourth Meeting of the Israel-China Innovation Committee," *Ministry of Foreign Affairs*, October 18, 2018, https://mfa.gov.il/MFAHEB/PressRoom/Spokesman/2018/Pages/Visit_of_Vice_President_of_China_181018.aspx [Hebrew].

China has bought Israeli companies, such as Tnuva, Adama, and Ahava, and has invested in Israeli startups and venture capital funds.⁵⁰ In addition, China was involved in construction of the Carmel Tunnels, the Akko-Karmiel train line, the Tel Aviv Light Rail, the privatization of the Ashdod and Haifa ports, the Tel Aviv-Jerusalem train line, and the planned train line between Tel Aviv and Eilat.⁵¹

Relations between Israel and China were furthered when Prime Minister Netanyahu visited China in 2017, as well as by Chinese president Xi Jinping's rebranding of cooperation between the two countries as an "Innovative Comprehensive Partnership."⁵² The upgrading in relations was partly the result of the strengthening of the connection and dialogue between government entities as well as due to interests such as the desire to gain access to Israeli civilian technologies and the Israeli drive to access the Chinese market. This is in addition to strengthening academic and research contacts and encouraging the movement of people from both countries.⁵³

The trade ties that Israel currently has with China are among the largest and most important for Israel out of all other countries. In the past decade, the two countries have experienced a sharp increase in the volume of trade (although in an inequal manner). China is the largest source of imports to Israel, and the third largest destination for exports (if the European Union is considered a single entity). This is reflected in an increase in both exports and imports. In 2018, the volume of trade between Israel and China was about \$15.7 billion (an increase of about 30 percent compared with 2017). In 2018, exports to China totaled \$4.7 billion (a jump of about 50 percent compared with 2017), while imports from China totaled about \$11 billion (an increase of about 20 percent compared with 2017). The dominance of

50 Dan Catarivas, "Israel-China Relations: Ideal and Reality" in *Israel-China Relations: Opportunities and Challenges*, ed. Assaf Orion and Galia Lavi, Memorandum no. 194 (Tel Aviv: INSS, 2019), 30.

51 Yossi Melman, "Cause for Concern? Chinese Investment and Israel's National Security," *Jerusalem Post*, April 7, 2018, <https://www.jpost.com/Jerusalem-Report/Chinese-TAKEAWAY-546692>.

52 "Strengthening Israel-China Cooperation in Innovation and Technology," Ministry of Economy and Industry, August 19, 2018. <https://www.gov.il/he/departments/news/a-billion-chinese-are-not-mistaken> [Hebrew].

53 Shagrir, *Israel-China Relations: Innovative Comprehensive Partnership*, 14.

imports from China in the balance of trade between the two countries means that Israel has a continuing trade deficit with China.⁵⁴

Haifa Port

In 2004, Israel began the process of privatizing its three commercial ports—Ashdod, Eilat, and Haifa. At the end of the process, the Israel Ports Authority had been replaced by four government companies, with the aim of separating the ports' management and future development from their day-to-day operations. It was decided that the Israel Ports Company would provide the infrastructure and be responsible for its development, while the private companies would provide cargo shipping services, using their own facilities and equipment.⁵⁵

In 2014, the SIPG company (a subsidiary of “China Harbor,” itself a subsidiary of CCCC, which, as stated, is owned by the Chinese government) won the tender to build a new port in Ashdod over a seven-year duration at a cost of NIS 3.6 billion. In 2015, the SIPG Group also won a tender to operate the future port in Haifa for twenty-five years, in exchange for ongoing usage fees that it would pay to the State of Israel. The cost of building the port was estimated at \$2 billion, and it is expected to begin operating in 2021.⁵⁶ The Israel Ports Company says that the international operators will plan, finance, and build the operational areas, including completion of various infrastructure systems.⁵⁷

The new port in Haifa is an example of Chinese strategic-security involvement in Israeli infrastructure. This is one of the crown jewels in the pro-Chinese trend being led by Yisrael Katz, the former minister of transportation and road safety. As part of this trend, a Chinese news crew came to Israel in May 2017, and Minister Katz gave them a personal interview. The Chinese media also published a story that Katz took an active role, ever since

54 “Israel-China: A Review of Economic Trade,” Israel Export Institute—Economic Unit, 2018. <https://www.export.gov.il/economicreviews/article/israelchinacom2018> [Hebrew].

55 Oded Eran, “China Has Laid Anchor in Israel’s Ports,” *Strategic Assessment* 19, no. 1 (April 2016): 56.

56 “Haifa Container Terminal Deal with China’s SIPG Under Review,” *PortSEurope*, December 23, 2018, <https://www.portseurope.com/haifa-container-terminal-deal-with-chinas-sipg-under-review>.

57 Lior Gutman, “The Chinese SIPG Company Won the Tender to Operate the New Port in Haifa,” *Calcalist*, April 23, 2015. <https://www.calcalist.co.il/local/articles/0,7340,L-3655245,00.html> [Hebrew].

being appointed to the position, in infrastructure projects between the two countries, and that he was given more exposure due to Chinese involvement in the construction of the new port at Ashdod and the operation of the new port in Haifa Bay. As reported, Minister Katz referred to this involvement as “a strategically important step for Chinese companies.”⁵⁸

In June 2019, the Municipality of Haifa filed an administrative appeal with the Haifa District Court to prevent continued construction of the new port in the city, arguing that the municipal airport would be harmed and that construction of the port would prevent the extension of its runway. Haifa’s mayor, Einat Kalisch-Rotem, complained that no in-depth research had been done to understand the ramifications of the unilateral moves on the advancement of shipping and aviation in the city.⁵⁹ In August 2019, Kalisch-Rotem tweeted that she had reached agreements with the Ministry of Transportation to extend the runway at the Haifa airport to 2,100 meters, withdraw the appeals against the Haifa Port, and fix the coastal erosion.⁶⁰

The new Haifa Port, with its military and civilian infrastructure, is a strategic asset for Israel. Therefore, Chinese involvement in its construction and operation could in the future affect the continuous traffic of goods to and from the port and serve as a tool of influence on Israel.⁶¹ However, when examining Chinese involvement in the Haifa Port versus the Hambantota Port in Sri Lanka, significant difference between the two cases can be discerned. In the case of Israel, the expansion and operation of the Haifa Port is not dependent on a Chinese loan, while in the case of Sri Lanka, the construction of the Hambantota Port was based on a large Chinese loan with all that that entailed.

58 Dubi Ben-Gedalyahu, “Israeli Minister’s Chinese Romance Provokes US,” *Globes*, December 20, 2018, <https://en.globes.co.il/en/article-israeli-ministers-chinese-romance-provokes-us-1001265841>.

59 Michal Raz-Haimovitch and Daniel Shmil, “The Municipality of Haifa Opposes Continued Construction of the Port: ‘It Will Destroy Aviation in the City,’” *Globes*, June 16, 2019. <https://www.globes.co.il/news/article.aspx?did=1001289748> [Hebrew].

60 Einat Kalisch-Rotem, Twitter, August 14, 2019. https://twitter.com/EINATkalisch/status/1161648831894872064?ref_src=twsrc%5Etfw [Hebrew].

61 Galia Lavi and Rotem Nussem, “The Rising Tension between China and Australia: Lessons for Israel,” in *Israel-China Relations: Opportunities and Challenges*, ed. Assaf Orion and Galia Lavi, Memorandum no. 194 (Tel Aviv: INSS, 2019), 36–37.

Risks and Conclusion

Senior officials in the Israeli government estimate that Israel is the only country in which Chinese companies have invested in or gained access to projects worth about \$15 billion.⁶² One of the reasons is Israeli regulation, which is decentralized in terms of foreign investment and purchases in civilian areas, with each government entity or ministry independently operating its own regulator.⁶³ Member of Knesset Ofer Shelah said in this regard that an “inclusive policy” was necessary, particularly regarding China; otherwise, each government ministry would “determine policy on its own.”⁶⁴ The former head of Israel’s National Security Council, Jacob Nagel, proposed establishing an inter-ministerial regulatory committee with the participation of all involved parties, which would “have authority, and not just [be] something to provide recommendations.”⁶⁵

Israel’s cabinet recently decided to establish an advisory committee led by the Ministry of Finance to examine national security aspects of the process to approve foreign investments in Israel, as is customary in countries such as the United States, Canada, the United Kingdom, Germany, Australia, and others.⁶⁶ However, as opposed to committees working in those countries, the committee in Israel will be established on a voluntary basis and not as part of legislation dealing with foreign investments. It will consult with regulators, but not with senior political officials, and reporting to it will be voluntary and not obligatory. In addition, various technologies, which are a hot topic between the United States and Israel, will not require the committee’s supervision.⁶⁷

62 Yossi Melman, “Over U.S. Objections, Chinese Firms Step Up Their Involvement in Israel,” *Jerusalem Post*, July 13, 2019, <https://www.jpost.com/Jerusalem-Report/Over-US-objections-Chinese-firms-step-up-their-involvement-in-Israel-595325>.

63 Doron Ella, “Regulation of Foreign Investments and Acquisitions: China as a Case Study,” in *Israel-China Relations: Opportunities and Challenges*, ed. Assaf Orion and Galia Lavi, Memorandum no. 194 (Tel Aviv: INSS, 2019), 61.

64 Melman, “Cause for Concern? Chinese Investment and Israel’s National Security.”

65 Jacob Nagel, “Ex-National Security Advisor to ‘Post’: Israel Needs to Review China Deals,” *Jerusalem Post*, January 10, 2019, <https://www.jpost.com/Opinion/Ex-national-security-advisor-to-Post-Israel-needs-to-review-China-deals-576891>.

66 “Announcement by the Ministerial Committee on National Security,” Prime Minister’s Office, October 30, 2019. https://www.gov.il/he/departments/news/spoke_national_security301019.

67 Doron Ella, “A Regulatory Mechanism to Oversee Foreign Investment in Israel: Security Ramifications,” *INSS Insight* no. 1229, November 19, 2019, <https://www.inss.org.il/publication/a-regulatory-mechanism-to-oversee-foreign-investment-in-israel-security-ramifications>.

These disadvantages may be an opening for diplomatic damage, security risks, and influence on Israeli politicians.

Potential diplomatic damage as a result of Chinese involvement in strategic projects in Israel may also result from conflicts of interests between the United States and China, with Israel caught in the middle. The potential for harm to Israel's close relations with the United States due to Chinese involvement in Israel is reflected in a study by the Center for a New American Security (CNAS), which states that construction of the Haifa Port may pose geopolitical risks. In addition, John Bolton, former US national security advisor, expressed concern over future Chinese control of operations at Israeli ports, particularly emphasizing the fact that the Haifa Port hosts military maneuvers between Israel and the United States on a regular basis and also serves as an anchorage for the American Sixth Fleet, which operates in the Mediterranean.⁶⁸ In addition, US Deputy Energy Secretary Dan Brouillette sounded explicit warnings, saying that "if Israel deepens this cooperation, we may not share intelligence information with it."⁶⁹

Most of the security risks from close cooperation with China are due to Chinese investment in strategic Israeli infrastructure and Chinese penetration of that infrastructure and of various Israeli technology companies. In this context, Head of the Israel Security Agency Nadav Argaman warned that "Israeli law lags behind security needs in terms of supervision of investments by foreign countries," and even warned that "Chinese influence in Israel is dangerous, particularly in regard to strategic infrastructure and large corporations."⁷⁰ Former head of the Mossad Efraim Halevy also spoke in this regard, saying that despite the fact that he does not oppose commercial relations with China, he is opposed "to any action that would lead to Chinese control over a main strategic transport artery in Israel." Halevy also warned

68 Daniel Kliman, Rush Doshi, Kristine Lee, and Zack Cooper, *Grading China's Belt and Road*, (Center for a New American Security, April 8, 2019), 14, <https://www.cnas.org/publications/reports/beltandroad>.

69 Army Radio, Twitter, January 15, 2019. <https://twitter.com/glzradio/status/1085404578122776576>.

70 "Shin Bet Chief Said to Warn Chinese Investment in Israel Poses Security Threat," *Times of Israel*, January 10, 2019, <https://www.timesofisrael.com/shin-bet-chief-said-to-warn-chinese-investment-in-israel-poses-security-threat>.

that if China takes over the Ashdod-Eilat train line, it will gain control over a “point of political and economic control” within Israel.⁷¹

In addition to those who have reservations, others believe that the main risk of increasing Chinese investments in Israel is not due to the implications of investment in strategic infrastructure but from investment in Israeli technology companies. According to this argument, investment in such companies may allow China to develop technologies in the future that are based in Israel, damaging Israel’s relations with the United States and impairing Israel’s international economic competitiveness.⁷²

Another risk due to increasing investment is the potential influence on politicians. Such influence may take place, for instance, as a result of unregulated Chinese (or other) involvement. Even though the Parties Financing Law from 1973 and the Parties Law from 1992 prohibit Israeli parties from receiving contributions from entities that do not have the right to vote for the Knesset, there is nothing to prevent such contributions from being made directly to politicians.⁷³

In this regard, a CNAS study determined that China has bribed politicians and bureaucrats in the kleptocratic countries where it has invested its projects.⁷⁴ For instance, in 2016, the Sri Lankan minister of finance accused the Rajapaksa government of inflating the true cost of building the stadium in Hambantota and publishing a cost at the time that was four times the actual cost.⁷⁵ This was despite the stadium not having any strategic value to China. It was also reported that Chinese companies bribed the family of former Sri Lankan president Rajapaksa. Agreements were also reportedly signed in Malaysia with Chinese companies for inflated values, and some of the money was reportedly passed on to politicians. Bangladesh blacklisted

71 “Former Mossad Chief Efraim Halevy Warns Against China’s Role in Israeli Rail,” *Economic Times*, October 5, 2013, <https://economictimes.indiatimes.com/former-mossad-chief-efraim-halevy-warns-against-chinas-role-in-israeli-rail/articleshow/23579256.cms>.

72 Yoram Evron, “Chinese Investments in Israel: Opportunity or National Threat?,” *INSS Insight* no. 538, April 8, 2014, <https://www.inss.org.il/publication/chinese-investments-in-israel-opportunity-or-national-threat>.

73 Lavi and Nusem, “The Rising Tension between China and Australia: Lessons for Israel,” 39.

74 Kliman, Doshi, Lee, and Cooper, *Grading China’s Belt and Road*, 6.

75 “Ravi K Says Actual Cost of Hambantota Cricket Stadium Is Rs. 852 Million, And Not Rs. 4.5 Billion As Claimed By Rajapaksa,” *Colombo Telegraph*, July 23, 2016, <https://www.colombotelegraph.com/index.php/ravi-k-says-actual-cost-of-hambantota-cricket-stadium-is-rs-852-million-and-not-rs-4-5-billion-as-claimed-by-rajapaksa>.

the China Harbor company due to attempted bribery of a senior government politician. It was also reported that Chinese companies paid the son of the president of Equatorial Guinea and its vice president millions of dollars. Pakistan stopped projects of the Chinese Belt and Road Initiative out of concern for corruption, and the former vice president of Ecuador was under investigation due to reportedly having received bribes from China.

The Chinese willingness to pay politicians to make it easier to carry out projects and the latter's readiness to receive bribes harm democratic institutions and conflict with the public interest.⁷⁶ It arouses suspicion, particularly when the terms of transactions of these projects being carried out as part of the Chinese initiative are immersed in secrecy, which arouses concern that local politicians will profit from them more than their citizens do.⁷⁷

This situation may take place not only in kleptocratic democracies. It turns out that politicians in Australia also received contributions from Chinese businesspeople in exchange for support of Chinese policy.⁷⁸ Under the foregoing circumstances, we should not discount the possibility of future Chinese (and other) influence on Israeli politicians and bureaucrats who are involved in setting policy and decision making in the State of Israel.

76 Kliman, Doshi, Lee, and Cooper, *Grading China's Belt and Road*, 6–7.

77 "China's Belt-And-Road Plans Are to Be Welcomed—and Worried About," *Economist*, July 26, 2018, <https://www.economist.com/leaders/2018/07/26/chinas-belt-and-road-plans-are-to-be-welcomed-and-worried-about>.

78 A. Odysseus Patrick, "This Chinese Mogul Made Powerful Friends in Australia. Now He's a Case Study on Worries over Beijing's Influence," *Washington Post*, October 7, 2019, https://www.washingtonpost.com/world/asia_pacific/this-chinese-mogul-made-powerful-friends-in-australia-now-hes-a-case-study-on-worries-over-beijings-influence/2019/10/05/c5f7f1e6-dea9-11e9-be7f-4cc85017c36f_story.html.