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Foreign Involvement in Strategic Infrastructures Requires Clear Guidelines

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IDE Technologies, which specializes in water treatment solutions, won the bid for construction and operation of the Soreq 2 desalination plant. According to a May 24, 2020 Finance Ministry statement, the Israeli company was chosen over Hong Kong-based Hutchison on the basis of pricing considerations. The media, however, cast the decision as accession to a demand by the United States relayed during the recent visit to Israel by Secretary of State Mike Pompeo, who warned against Chinese involvement in infrastructures. Despite the sense of relief, the resolution of the Soreq 2 affair has postponed but not eliminated a crisis between Jerusalem and Washington. The Israeli government has therefore won a reprieve in which it can take action now so as to prevent a future crisis.

Chinese companies have been involved in Israeli infrastructure projects for over 15 years, including the Carmel Tunnels, the red line of the Tel Aviv Light Rail, the new Ashdod port, and the Bayport Terminal in Haifa. While Chinese involvement in building and operating such infrastructures is associated with inherent economic advantages, including shorter construction time and relatively low costs, it also presents distinct concerns. For example, the port in Haifa, whose 25-year operation under the Chinese firm SIPG commences in 2021, sparked consternation in Israel and the United States after former senior national security and naval officials, both Israeli and American, began warning in 2018 that a Chinese company wielding control of this strategic infrastructure poses risks to the national security of Israel and the United States. This opposition began only several years after the contract was signed in 2015; thus, canceling the contract today would incur high economic and political costs.

The Haifa port deal can serve as a case study for the tender process for infrastructure projects in Israel, and underscore the imperative to balance between economic and national security considerations. Current and future tenders can be expected to generate similar American pressure on the one hand, and pressure from China on the other. Indeed, complementing the American pressure is pressure from Beijing, inter alia by means of articles in the Israeli and Chinese media designed to remind Israel of the advantages in engaging the world's second-largest economy.

Indeed, Israel has a real need for advanced infrastructures and Chinese companies have proven abilities in these realms. At the same time, decision makers in Jerusalem must internalize the recent change in the US perspective, whereby in American eyes China has evolved from a competitor to a rival; this sentiment has been aggravated recently in light of the coronavirus crisis. Whereas in 2017 the US National Security Strategy deemed China a “strategic competitor,” the administration recently published the United States Strategic Approach to the People’s Republic of China, which adopts an even harder line against China and its ruling Communist Party. The document highlights the Belt and Road Initiative, which includes transport and energy infrastructure, and contends that the initiative is a Chinese tool to refashion international norms: “Beijing will attempt to convert OBOR projects into undue political influence and military access. Beijing uses a combination of threat and inducement to pressure governments, elites, corporations, think tanks, and others – often in an opaque manner – to toe the CCP line and censor free expression.”

This partially explains Washington's opposition to Chinese investments in Israeli infrastructure, which is not without basis. In the US view, all Chinese companies are linked to the Chinese government and are thus motivated not only by business considerations but also by the geostrategic considerations of the Chinese Communist Party, whose interests clash with those of the United States. Another aspect of the Chinese strategy is the interface between military and civilian drives, and the use of civilian infrastructures for military needs. Thus, for example, the state-owned company China Harbor Engineering Company (CHEC), a subsidiary of which is building the new Ashdod port, built a satellite station in Argentina that US intelligence suspects is an intelligence gathering station. Its parent company, China Communications Construction Co., is part of efforts to take over islands in the South China Sea. In Israel, the company was part of the group that bid successfully for the Alon Tavor power plant in 2019 and was among finalists in the tender for a power plant in Ramat Hovav, in which a decision is expected this month. According to reports in international media, there is concern that a high level of economic involvement in Israel is liable to give Beijing political leverage and increase potential Chinese influence over Jerusalem.

In addition, according to a leading US assessment, China will one day seek to protect its overseas economic assets militarily, which will limit American freedom of movement and maneuver, harm global trade and supply chains, and heighten the risk of confrontation between the great powers. In July 2019, this assessment was strengthened after the Chinese defense minister argued that the Belt and Road Initiative is tied to Beijing's aspiration to expand the Chinese military presence overseas, including in the Pacific Ocean and the Caribbean.

Contrary to other countries, the likelihood that China's involvement in infrastructures in Israel will lead to a Chinese military presence or foothold in the country appears slim. However, another concern is over a Chinese presence near security installations that are frequented by American forces – for example, the Haifa terminal port, a regular Sixth Fleet stop, and the Palmahim airbase. Furthermore, the building and operation of strategic infrastructures presents inherent cyber and security risks to Israel, and thus stirs fear in the United States about technologies that it shares with Israel being leaked due to Chinese espionage efforts in Israel.

For these reasons, Washington expects that Israel, like its other allies, will assess Chinese investments and ensure they do not pose a threat to its own national security or that of the United States. Israel has already taken some steps to secure control over strategic infrastructure. First, the government has enacted reforms in the water and electricity sectors that enable state control over the core aspects of the system alongside partial privatization and restructuring. In the water sector, for example, the transmission piping system has remained in the hands of the state-owned Mekorot Company while the production network is being privatized, as are the desalination facilities. In the electricity sector as well, a reform aims to keep the conductor system in the hands of the Israel Electric Corporation while up to 60 percent of electrical production capacity goes to private companies, each of which will control no more than 20 percent of overall production capacity. Yet even if the compartmentalization of the water and power sectors limits the ability of private companies, whether local or foreign, to wield influence, it is not a sufficient response to the unique influence of the Chinese government over Chinese companies, be they state-owned or private. Thus even if a certain Chinese company can meet the threshold conditions for bidding on electricity and water tenders, it is still possible that a market share surpassing what is permitted will end up in the hands of firms that are under the sway of a single foreign government.

Another important step addressing foreign investments in infrastructures was the Israeli October 2019 decision to create a screening mechanism for such investments. The mechanism began work in early 2020 with the aim of assessing the ramifications for national security of foreign investments, balanced against economic considerations. Yet the limitations of the mechanism leave significant gaps in Israel's management of direct risks. For example, the mechanism's actions are not anchored in legislation; the mechanism itself is voluntary and its recommendations are non-binding; the team staffing the mechanism is not exclusively dedicated to the matter; it does not discuss investments that do not perforce lead to control, or indirect investments (via venture capital funds, for example); and more importantly, it is not authorized to discuss technology investments, a realm that even more than the issue of infrastructures particularly troubles the United

States, which is competing with China for technological superiority. In Washington's eyes this is thus, at best, a preliminary measure that obligates additional work.

The strength of the mechanism will be tested soon by a slew of infrastructure projects. Among current major tenders are construction of the green and red lines of the Tel Aviv Light Rail, including the manufacturing and supply of rail cars; laying down the Haifa-Nazareth light rail line; purchase of the Ashdod desalination plant; construction of a desalination plant in Acre; and upgrades of the Haifa and Ashdod ports. Although these all fall within the purview of the mechanism, which include aspects of finance, communication, infrastructure, transport, and energy, it is not yet clear whether the relevant regulators will indeed turn to the mechanism, and if yes, whether they would implement its advice.

The new and future infrastructure tenders require that Israel improve the oversight and monitoring process already from the tender-drafting stage, in a way that reduces security risks and spares potential crises vis-à-vis the United States as well as additional embarrassments vis-à-vis China. Beyond the need to prevent a crisis with Washington, it is important that Israel sharpen and clarify, first and foremost for itself, its constraints regarding the involvement of foreign companies in the country's infrastructures. When the limitations are known and the considerations are clear and transparent, it will make it easier for Israel to preserve its independence on the one hand, while on the other hand, continue to cultivate its vital, although asymmetric ties, with both superpowers: the United States and China.