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Chinese Investments in Israel: Developments and a Look to the Future

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China's economic involvement in Israel has expanded over the past decade, as Chinese companies have invested in a host of Israeli firms, primarily in high-tech fields. An in-depth and comprehensive examination of this topic shows that Chinese investments in Israel reached a peak in 2018, after which they began to wane. There are several reasons for this: changes in priorities in China, the consequences of the global coronavirus pandemic, and perhaps also a change in the investment climate in Israel with regard to Chinese companies due to American political pressure. This study shows that Chinese state-owned enterprises invest primarily in Israeli infrastructure, while private companies and venture capital funds are more focused on the high-tech sector. The issue of Chinese investments in Israel has raised potential security-related concerns in the US, yet Chinese investments account for less than 10 percent of foreign capital investments in Israel, way behind investments originating in the United States and Europe. The criticism is not aimed at the scope of those investments, but is rather based on concerns that they are in technological fields that are considered security-sensitive.

The world has seen an influx of Chinese foreign direct investment (FDI) in the past two decades, particularly following the global financial crisis in 2008. The Chinese invest both in developing and developed countries, albeit usually in different industry sectors: in developing countries Chinese investments are focused mainly on infrastructure, while in developed countries they tend to be in the technology and finance sectors, a trend that is growing in scope. The increase in Chinese investments around the world, and in Israel specifically, can be attributed to a number of factors: the accumulation of foreign currency by Chinese companies; the dominant positioning of these companies in the local Chinese market, and a government policy that encouraged Chinese companies to invest in foreign markets (known as the ["Go Global"](#) policy); the economic need of Chinese companies for innovative technologies and know-how; the desire of Chinese companies to position themselves as international brands; the need to enable the provision of services to Chinese companies operating overseas; and as a way to circumvent trade barriers.

According to data published by [UNCTAD](#), the growth in investments by Chinese companies around the world between 2007 and 2017 was 32 percent, compared to a global growth average of just 7 percent. This increase was promoted by the Chinese

regime following the announcement of the [“Made in China 2025”](#) plan, in which Chinese companies were called to purchase technologies abroad and bring them back to China in order to significantly and swiftly boost high-tech in China.

Israel has long been considered a [“Start-up Nation”](#) as a result of the success of its myriad start-up enterprises, many of which gained a name in the international arena as groundbreaking companies in a number of fields, including communications, internet, medical systems, agriculture, biotechnology, defense, desalination, and digital printing. High-quality human capital, technological capabilities, an entrepreneurial culture, and daring innovation, alongside government commitment to supporting groundbreaking research and development, have positioned Israel at the top of the entrepreneurial technology world. In 2016, Israel was in first place in the world in national expenditure on civil research and development (R&D), which stood at around 4.4 percent of gross domestic product. Furthermore, the weight of the business sector in R&D operations in Israel – around 86 percent – is the highest in the world among OECD nations and reflects the thriving innovation in the private sector. In recent years, over 300 international corporations active on the technology front have chosen to establish R&D centers in Israel, and some even operate several centers in different fields of development. Indeed, the thriving Israeli start-up scene has attracted investors from all over the world, including giant conglomerates at the forefront of global technology and, in the last decade in particular, investors from China as well.

However, since the entry of Donald Trump to the White House in 2017 the rivalry between China and the United States has been amplified and, accordingly, the American administration has pressured Israel to reconsider its economic relations with China. This pressure was reflected, inter alia, [in warnings](#) voiced by US Secretary of State Mike Pompeo to his Israeli colleagues during visits to Israel in the first half of 2020, especially with regard to Chinese investments in specific sectors. The pressure can be expected to continue once Joe Biden takes up office in the White House. This is an issue that receives special attention by the US administration, and it is considered most important in the context of China-Israel-US trilateral relations. It is against this background that the state of China’s investment and mergers and acquisitions in Israel and their ramifications was examined in the present study.

According to the findings of the study, Chinese investments, especially in the high-tech sector, did indeed show progressive growth both in number and scale, especially between 2014 and their peak in 2018. However, in 2019 and 2020 the pendulum swung again, as China slowed its penetration into the Israeli economy, just as it did elsewhere in the world (see Graph 11 in the Appendix). The reasons for this were a combination of changes in domestic Chinese priorities regarding [the export](#) of capital out of the country and external causes, such as the [coronavirus pandemic](#) and a less inviting climate for Chinese investments due to American pressure. The main Chinese investors in high-tech in Israel are private companies and venture capital funds – some of which serve as the investment arms of giant corporations. On the other hand, Chinese investments in

non-high-tech sectors come mainly from state-owned enterprises (SOEs) that focus primarily on investment in infrastructure. At the present time, then, Chinese investments do not constitute a particularly large share of foreign investments in Israel. In fact, they are relatively low compared to investments from the US and the European Union (EU), making up less than 10 percent of foreign capital invested in Israel.

A database of Chinese investments in Israel

The present study included construction of a database containing information regarding 463 investments and mergers and acquisitions (FDI, M&As) by Chinese companies (including from Hong Kong) in Israel from 2002 to December 2020. The data are based on the figures of [IVC](#), data available on [Crunchbase](#) and on press releases published in the Israeli and foreign media. Every deal documented noted the name of the company or fund investing, the company receiving the investment, the year the deal was made, the total value of the deal in millions of dollars (if reported),¹ the type of sector or subsector in which the deal was conducted, and the type of ownership of the investing company.² Drawing on these data, we were able to analyze the kind of investments made by China in Israeli companies and assets, with the aim of presenting an up-to-date and detailed picture of Chinese involvement in the Israeli economy and to examine the validity of the claim that China is becoming a major player in Israel.

In this article, I will, first, present an overall view of trade between Israel and China in the past two decades. I then analyze Chinese investments in Israel from 2002 to December 2020 according to the number of deals, their size, the identity of the Chinese investors, and the economic sectors in which China invests in Israel. Finally, I present conclusions and policy recommendations.

Israel-China trade: Key trends

Data on the volume of trade in goods between China and Israel between 2001 and October 2020 reflect a period of significant growth (see Graph 1). According to the Israeli Central Bureau of Statistics (CBS), trade in goods between China and Israel has grown progressively over the past two decades, resulting in China becoming Israel's second largest trading partner, after the US,³ ahead of every individual European country (but not the EU as a whole). In 2001, the volume of Israel-China trade stood at \$1.07 billion, and by 2018 it had reached \$11.6 billion, dipping slightly in 2019 to \$11.21 billion. Despite the effects of COVID-19 on the global economy, trade between the two countries in 2020 remained stable at \$9.71 billion from January to October. If this trend continues, then the scale of trade in 2020 will be similar to the previous year. However, it

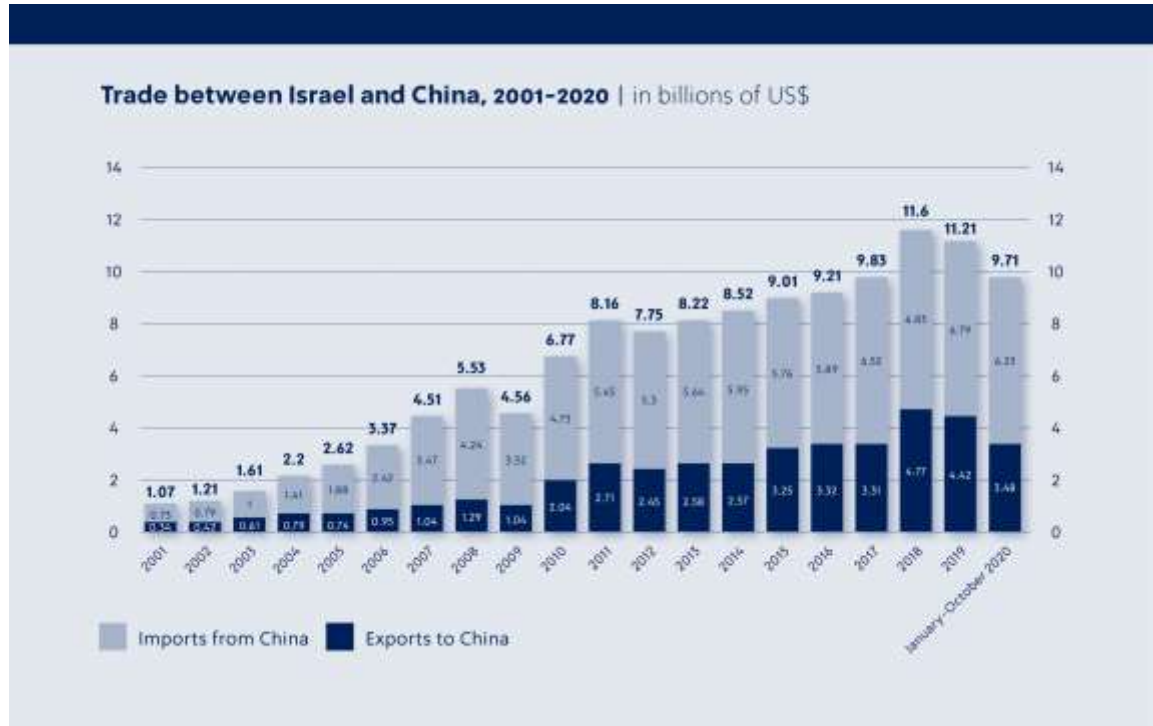
¹It should be noted that in many deals, all of them in the technology sector, the financial aspects of the deal were not reported and therefore they do not appear in the database.

²According to US assessments, all Chinese companies are connected in one way or another with the Chinese government, the Communist Party, the military or senior Party members, indicating that the state has influence, at least at some level, on the activities of Chinese companies, irrespective of type of ownership.

³ China is Israel's second largest trade partner in terms of bilateral trade between countries, not taking into account economic blocs such as the EU.

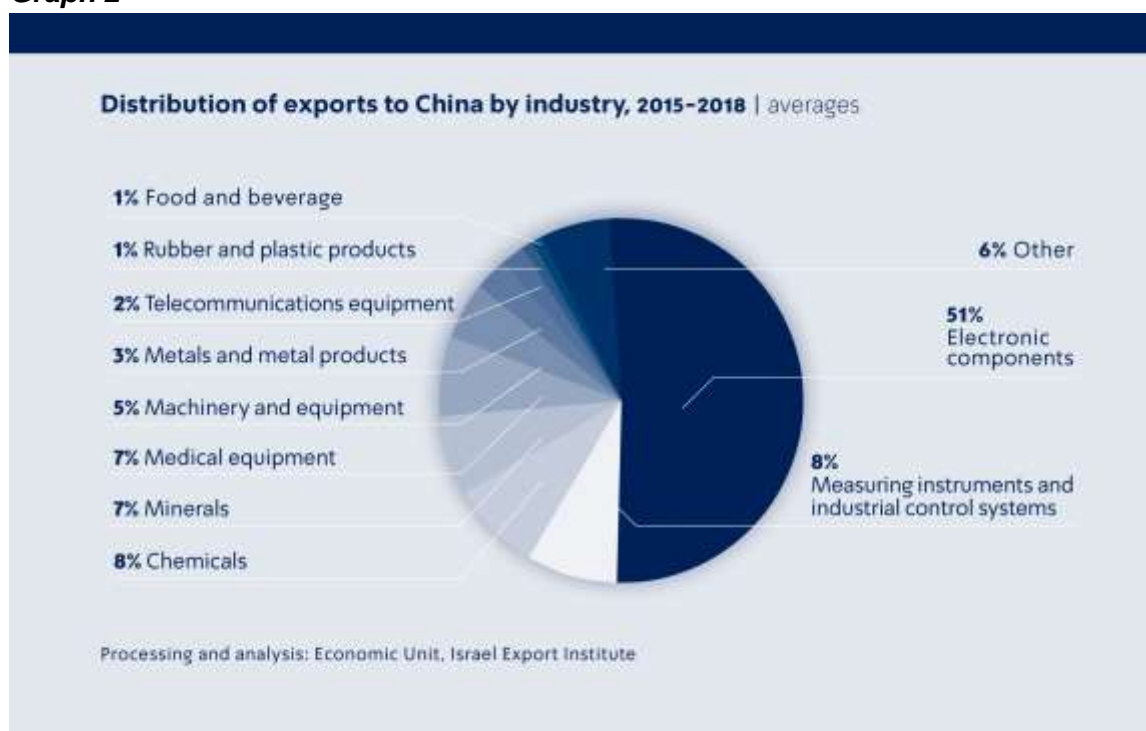
should be noted that throughout the 2001 to 2020 period, Israel's trade balance with China has been negative, in the latter's favor.

Graph 1



Data: CBS; processing and analysis: INSS

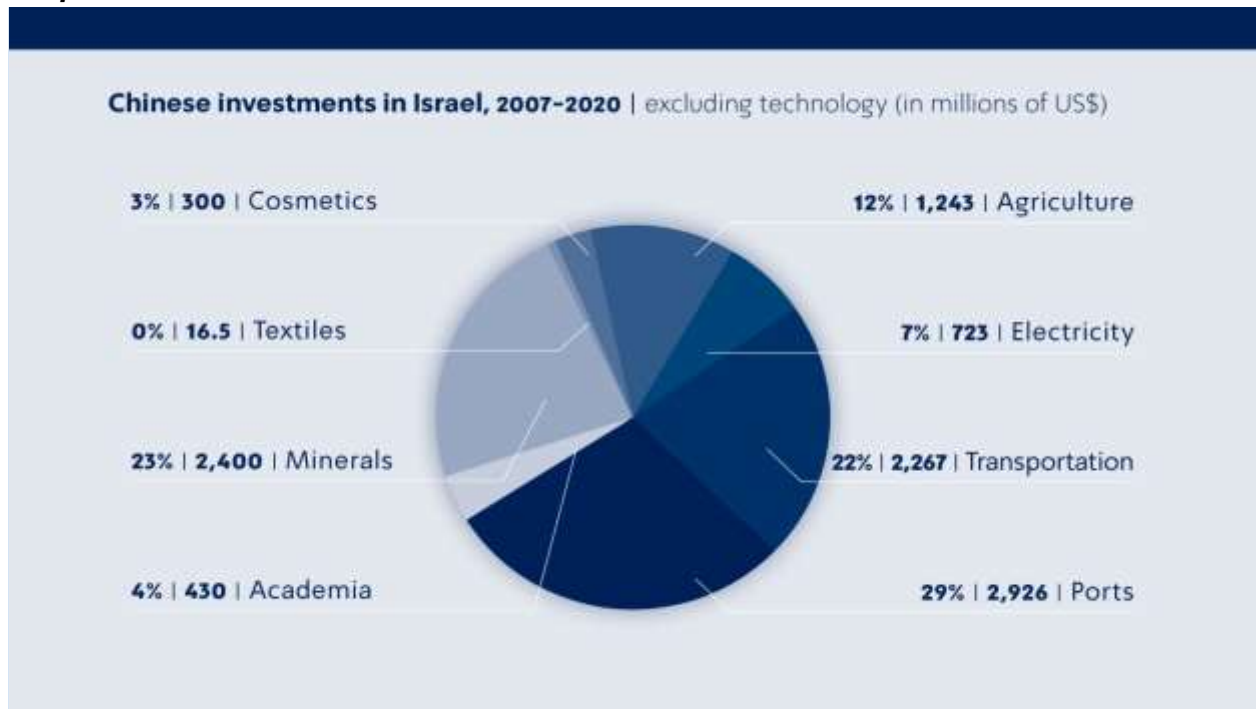
Graph 2 shows the distribution of Israeli exports by industry, according to the average for 2015-2018 and data from the [Israel Export Institute](#). The picture that emerges is that the electronics sector is Israel's main export sector to China, with electronic components constituting 51 percent of Israeli exports to China on average for these years. Intel is responsible for over 80 percent of the export of components of electronic parts to China, chiefly chips manufactured at its plants in Israel and sent for QA and assembly in China. Three additional key and growing industries for Israeli exports to China are measuring instruments and industrial control systems (8 percent), chemicals (8 percent), and medical equipment (7 percent).

Graph 2

How much is invested and where?

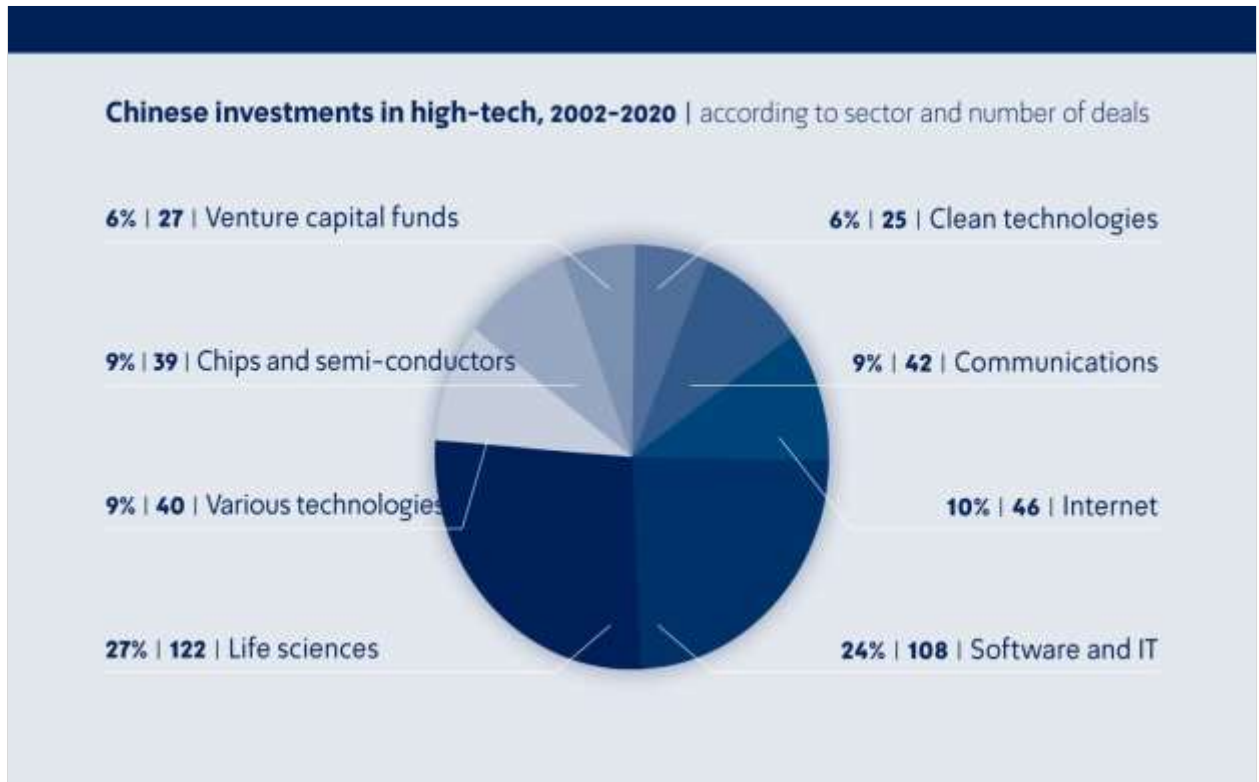
Similar to trade, there was also an incremental increase in investment deals (both in the number of deals and their value) over the past two decades, especially from 2014 onward. Graph 3 shows Chinese investments in Israel from 2002 to 2020, excluding deals in the technology sector. And yet, according to the data collected, the vast majority of China's investments and M&As in Israel were in the technology sector (449 deals with a reported value of approximately \$9.138 billion out of a total 463 deals worth \$19.444 billion); there were eight deals in the infrastructure sector with a total value of \$5.916 billion (including four deals in the transportation sector, two in the ports sector, and two in the electricity sector – all by companies owned by the Chinese government); one deal in agriculture and real estate (the acquisition of Tnuva); one in the minerals sector (the acquisition of Adama);⁴ two investment deals in academic institutions (the Technion and Tel Aviv University); and two additional deals, one in cosmetics (the acquisition of Ahava) and one in the textile sector (the acquisition of Bagir).

⁴formerly Makhteshim-Agan

Graph 3

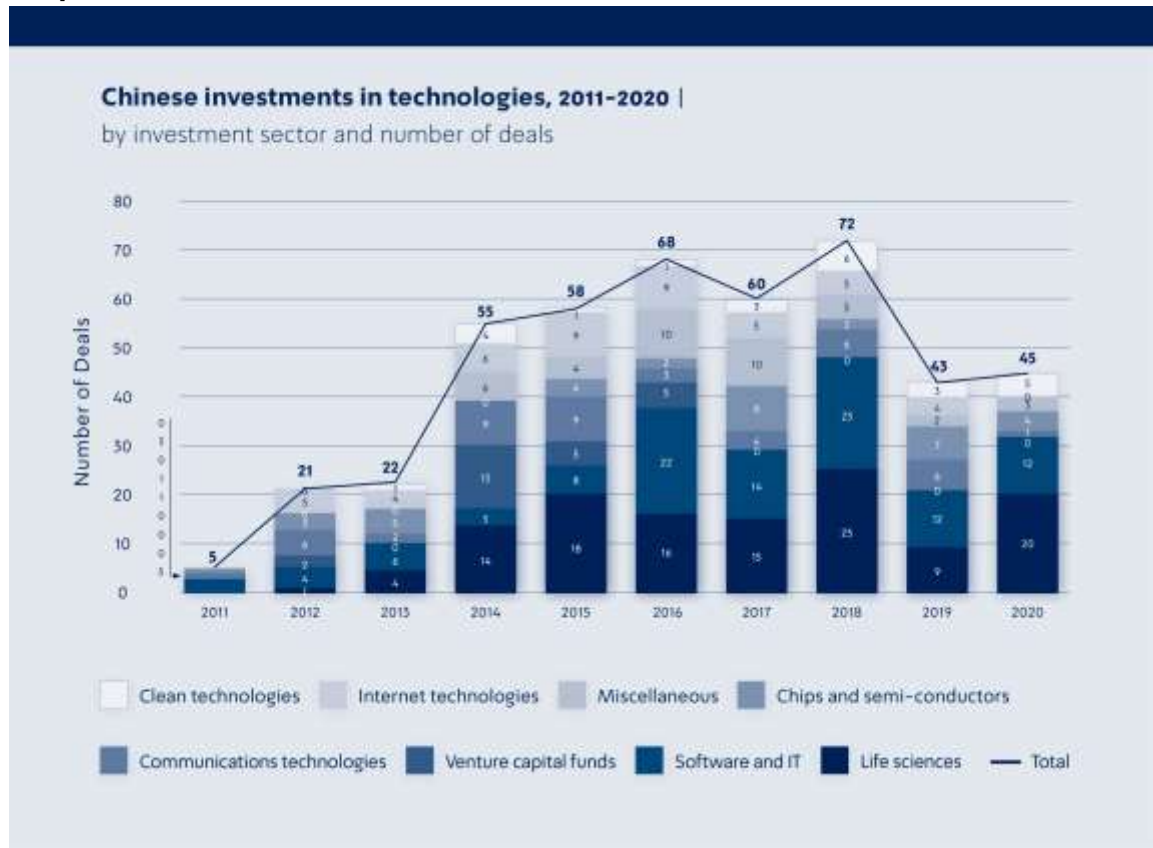
Data: INSS

China's investments in the technology sector in Israel are relatively diverse. The largest number of investments is in companies in the life sciences sector (these include medical technologies, biotechnology, biochemistry, and pharmaceuticals – 122 deals in all), followed by investments in software development and IT companies (108 deals); China also invests in companies in the internet sector (46), communications (42), and chips and semiconductors (39); finally, investments were made in Israeli venture capital funds (27) and in 25 companies in the clean-tech sector (these include water technologies and green technologies) (see Graph 4).

Graph 4

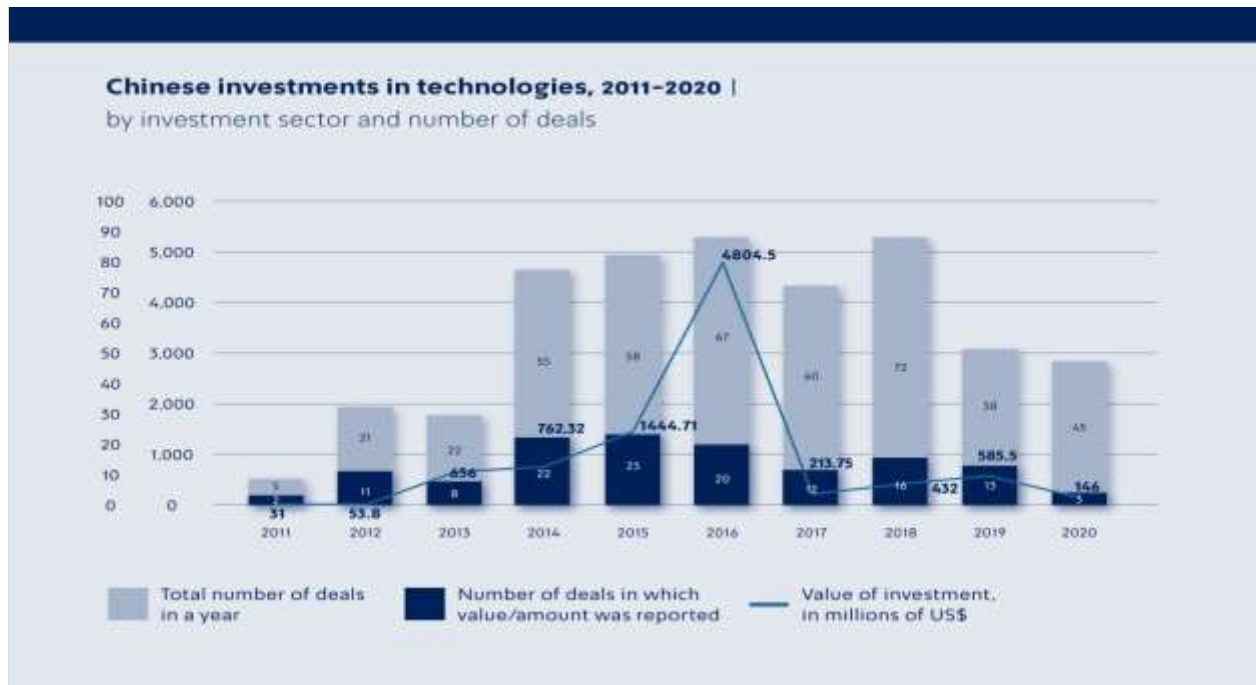
Data: INSS

In parallel with the increase in the number of Chinese investments in Israeli technology, a change in the technology sectors in which China chose to invest has also been evident over the last 10 years. From 2014 there was a noticeable rise in investment deals in Israeli companies in the life sciences sector, in software development and in IT, with the number of deals peaking in 2018, following which there was a significant decline. Moreover, after three years in which Chinese entities made a significant number of deals with well-known venture capital funds in the Israeli high-tech sector, such as JVP, Carmel Ventures, Catalyst, and Singulariteam, in 2017 these investments came to a complete stop (see Graph 5).

Graph 5

Data: INSS

Graph 6 shows the number of Chinese investment deals in Israeli high-tech alongside the scope of investments, as reported in the period 2011-2020. Unlike data on foreign investments in Israel in non-technological sectors, the amounts invested in high-tech companies are not always visible and reported, and are often integrated in the total sum of investments made by several different investors in a single round, making it difficult to create a complete and accurate picture of Chinese investments in Israeli high-tech. Out of 449 investments in Israeli technologies, information exists regarding only 131 deals worth a total of \$9.138 from 2002 to December 2020. For example, while in the communications sub-sector the amount invested was reported for 43 percent of deals made, in the computer chips, semi-conductor, and clean tech sub-sectors, the investment price tag was reported in only 18 percent of deals. Therefore, the assumption is that the amount of investment in Israeli high-tech is significantly higher than the figures documented in the database. It is important to emphasize that included in the framework of this sum is the purchase of the mobile gaming company Playtika by Alpha Frontier for \$4.4 billion in 2016.

Graph 6

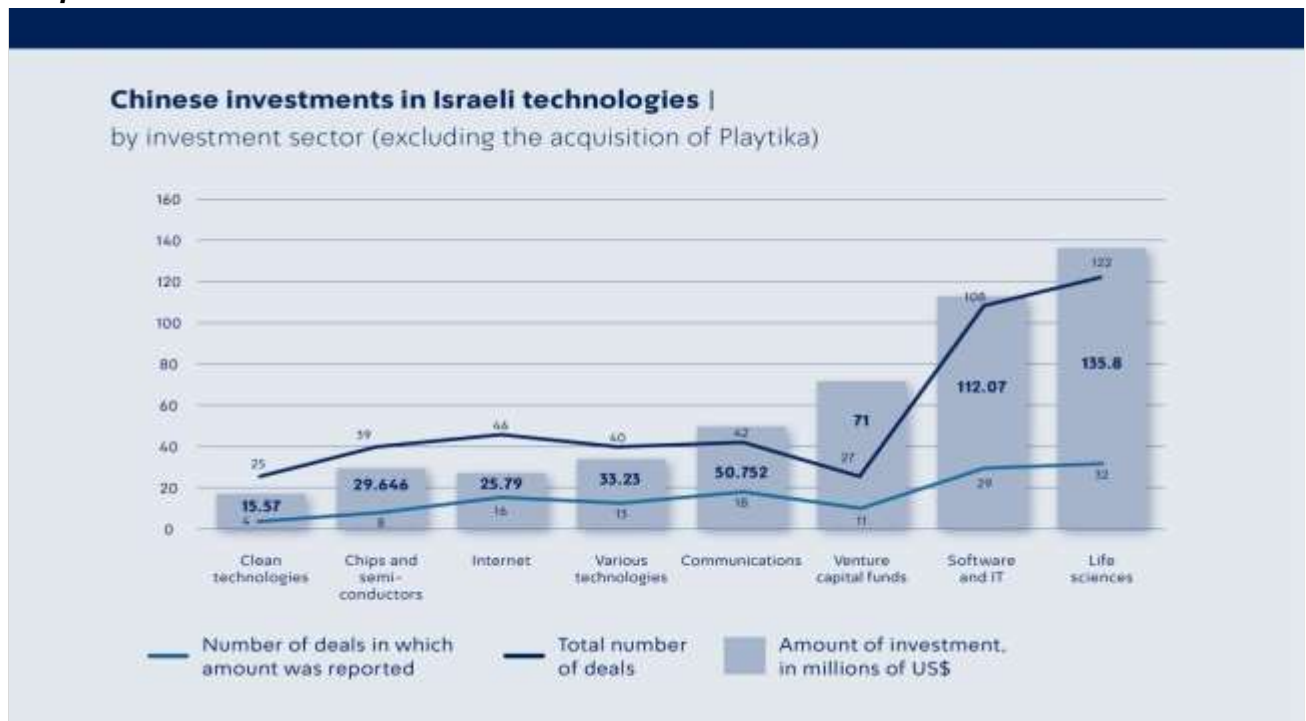
Data: INSS

The available data point to the fact that without the acquisition of Playtika, the two sectors in which the Chinese invested the most were software development and IT (a total of \$1.120 billion) and life sciences (a total of \$1.358 billion). These were also the two fields which saw the greatest number of transactions over the years (see Graph 7). That is not surprising given that China is investing growing sums in the life sciences sector, inter alia, to gain technological knowledge that will solve some of China's existing or future problems in the medical and pharma sectors, such as an aging population and geriatric illnesses. Furthermore, with the spread of the coronavirus, many countries have a growing need for innovative technological solutions in the realm of life sciences, in which Israel is at the forefront. It should be noted that many countries, among them the US, Canada and some European countries, today consider investments in life sciences to be sensitive as the sector, which is directly connected to public health, has in the wake of the COVID-19 pandemic become an integral component of national security. China's growing investment in software development and IT, as well as in chips and semi-conductors, is not surprising either, as Beijing wishes to encourage investment in these industries as part of the "Made in China 2025" program, which aims to lead China to technological independence in these fields and to ultimately become a global technological leader.

However, of late, and in particular since 2018, reported deals suggest a drop in the number and size of deals with China, which could indicate that Chinese companies are taking a cautious approach to investing abroad. This is due to new government

restrictions imposed by Beijing on taking capital out of China and increased Communist Party supervision on investments and acquisitions overseas, as well as a reduction in capital liquidity that had previously been available in the Chinese financial sector which, in turn, limits access to possible sources of financing for investments abroad. Special emphasis is placed on deals that the Party defines as “[irrational](#),” in industries such as sports, entertainment, and hotels/hospitality – areas in which China does not invest in Israel in any event. In addition, it is possible that China has cooled its investment rush in Israel out of the understanding that there is growing American pressure to critically assess investments from China, and in view of the decision to establish [a regulatory mechanism to overseas foreign investments in Israel](#) from mid-2019.

Graph 7



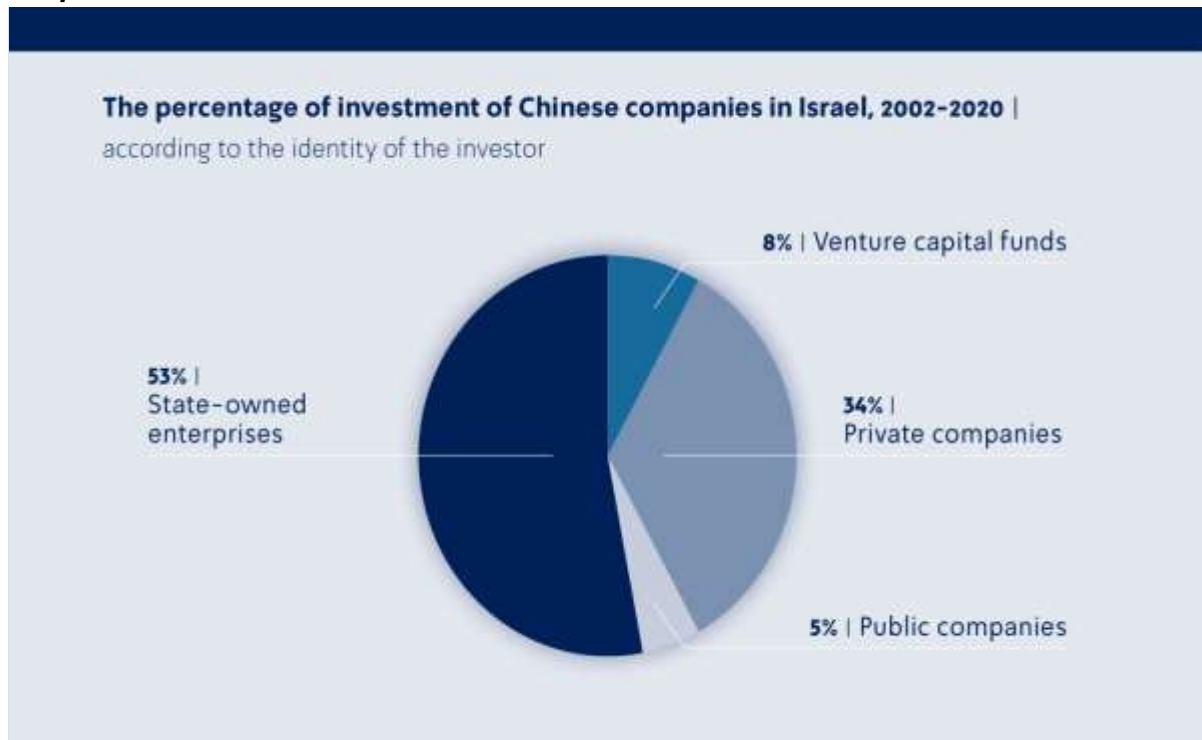
Data: INSS

Who invests?

For the purposes of the database, investments from China were divided into four categories (see Graph 8):

1. **State-owned enterprises (SOEs):** These are firms under the authority of the State-owned Assets Supervision and Administration Commission of the State Council; they are owned by the central government in Beijing or by local governments. This category also includes Sovereign Wealth Funds and venture capital managing state funds (such as the Shenzhen Capital Group). State-owned enterprises, it has [been claimed](#), will sometimes take investment decisions based on sociopolitical considerations, rather than pure economic considerations and thus investments made by such companies can be considered as strategic investments.

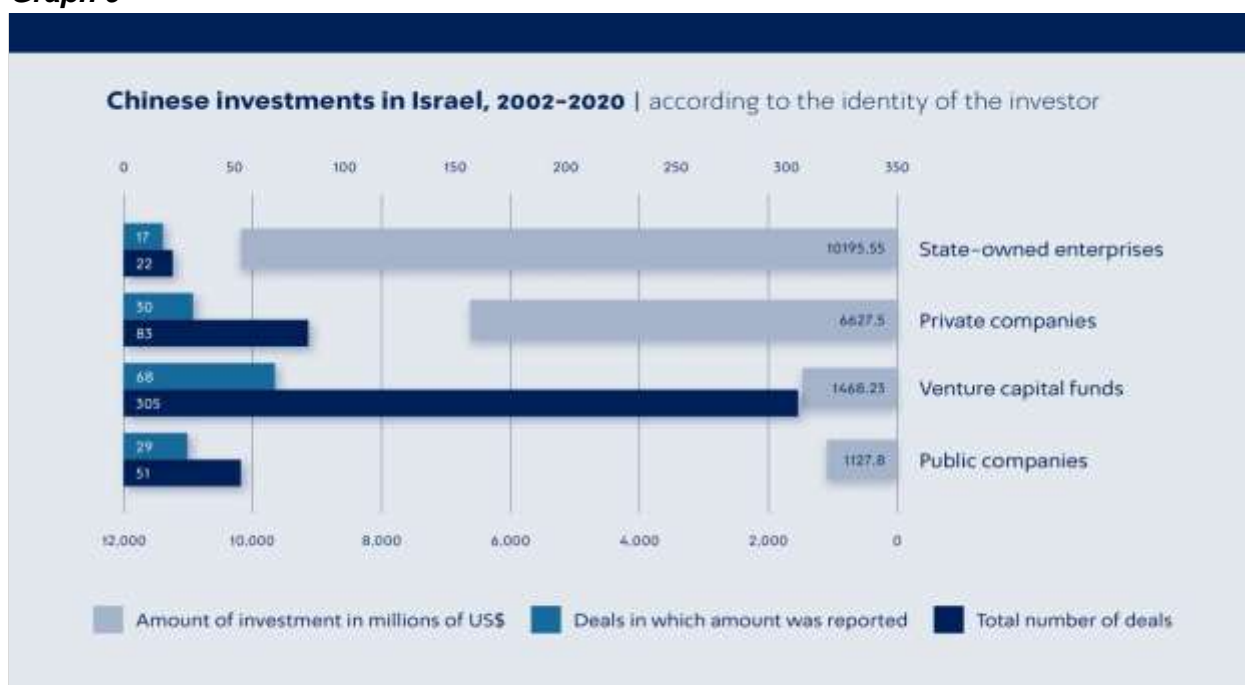
2. **Public companies:** Companies traded on stock exchanges in China or overseas. Sometimes the government will hold shares in these companies, [and it has been claimed](#) that even a small holding on the part of the Chinese government gives it a certain clout in a company. However, the database did not examine the ownership structures of affiliated public companies; it is worth noting that in China the ownership structures deviate from the definitions of corporate governance and ownership of shares familiar in the West.
3. **Private companies:** Privately owned businesses whose shares are not traded on the stock exchange and that are not part of a joint venture. According to the National Bureau of Statistics of China, in 2018 over 84 percent of Chinese companies fell under this category. However, it should be noted that in China companies that are privately owned can also be subject to [guidance](#) by the Party and the government, for example, pertaining to the five-year plan or to uphold the spirit of declarations made by the President. Furthermore, large private companies in China are required to have at least one Party member on the board of directors and/or in a senior management position, and a branch of the Party also operates within the companies.
4. **Venture capital funds:** Private investment funds (unlike investment funds that manage government funds) that own capital raised from various sources (companies or individuals), their purpose is to invest in start-ups or early-stage companies that show potential for growth and future profit. [It has been claimed](#) that venture capital funds of this nature often become limited partners in companies in which they invest; these, in turn, later invest in other companies, thus enabling Chinese money that sometimes comes with a certain influence to flow to sensitive economic sectors that otherwise could be blocked to Chinese investment.

Graph 8

Data: INSS

According to the data, some 53 percent (\$10.195 billion) of total Chinese investments in Israel in the period 2002-2020 were carried out by Chinese SOEs, while these constituted only 5 percent of the number of deals. This figure results from the fact that Chinese SOEs invest primarily in large infrastructure projects in which deals require investments of billions of dollars. Next are private companies, which invest in Israel primarily in the high-tech sector, accounting for 34 percent of total deals (around \$6.627 billion).⁵ The relatively low total investment of Chinese venture capital funds in Israeli companies (about \$1.468 billion) is understandable, as these funds tend to invest in early-stage start-ups, which require relatively small capital injections that are usually obtained in fundraising rounds involving additional investors; this creates a situation in which VC funds make a large number of investments but involving small amounts that are often not reported (see Graph 9).

⁵This refers only to deals for which financial details were reported.

Graph 9

Data: INSS

Summary and recommendations

This study shows that China views Israel as an attractive location for investment, regarding both technology and infrastructure. Over the last decade in particular, China has invested more in Israel than previously, with a gradual increase recorded in the sums invested and the number of transactions involving Chinese companies. However, after 2016 a steady decline was seen in the investment amounts reported, and since 2019 this decline has extended to the number of China-Israel business deals as well. This corresponds to trends in Europe and the US, where Chinese investments peaked in 2016 and have since fallen, reaching a slump in 2019, and continuing to dip in 2020 (see Graph 11 in the Appendix). Chinese investments in Israeli infrastructure come solely from SOEs that have the know-how, technology, experience, and capital required to compete successfully for infrastructure tenders in Israel. At the same time, Chinese investments in Israeli high-tech come primarily from private companies and venture capital funds involved in many fundraising rounds of Israeli start-up companies. Two sub-sectors that stand out in this context are life sciences and software and IT. Israel is considered a global leader in both these fields, while China sees them as top priority for the technological and economic development goals it has set for itself and hopes to attain in the near future. Thus, it can be concluded that relative to Israel's small market size (compared to American or European markets), China's investments in Israel, both in monetary terms and scope, are significant, but compared to American or European investments in Israel, China is still considered a minor player in terms of capital invested. For example, according to data from the Israeli Ministry of Economy and Industry, Chinese investment in Israel in 2017 stood at \$3.5 billion, while American companies invested \$21.1 billion, Dutch companies invested some \$13.5 billion and Canadians

about \$4.7 billion (see Graph 10 in the Appendix). Still, it should be noted, China's investments in Israel – and around the world – have declined over the past two years, whether as a result of stricter regulations on the export of capital from China for foreign investment or as a result of tighter regulatory mechanisms on foreign investments, especially Chinese investments, by many Western countries.

Furthermore, China is no doubt aware that Israel is under American pressure to reduce the involvement of Chinese companies in its economy. Therefore, it is possible that China decided not to submit bids for certain tenders, or refrained from making deals, that from its perspective could be thwarted by US opposition. For example, in May 2020, a few days before a decision was made on the Sorek 2 desalination plant, US Secretary of State Mike Pompeo arrived in Israel [and warned](#) against Chinese investments in critical infrastructure. In the end, a non-Chinese competitor won the tender, due to price considerations according to government sources.⁶

The nature and scale of Chinese investments in Israel has indeed raised concerns in the US, as they are often in technological sectors the US views as critical to its national security – e.g., computer chips and semi-conductors, IT and software, life sciences (especially medical technologies), internet and communications technologies; these all have the potential to contribute to China's future development, including in the military sphere, and to strengthen it in terms of technological competition against the US. Even with the decline in the total number of Chinese investment deals in Israel, some 40 to 45 deals are struck per year, including 12 in the software and IT sectors and between four and seven in chips and semiconductors, which the US sees more broadly in the context of national security than does Israel. Furthermore, the American establishment recognizes that Israel's recently established foreign investment oversight committee is not authorized to examine deals in the technology sector, thereby paving the way for Chinese companies to penetrate the Israeli high-tech sector more easily. In addition, in the infrastructure sector, China has won large transportation infrastructure tenders in Israel and has begun applying for tenders in the water and electricity sectors as well, so far with partial success. America's concern in this context is the translation of China's investments into influence and strategic access, and the creation of growing Israeli dependence on Chinese companies building, upgrading, and operating Israeli infrastructure facilities, some of which are in security-sensitive areas.

In conclusion, the database of Chinese investments in Israel provides a solid picture of the level, scope, and trends of China's involvement in the Israeli economy, and in the high-tech sector in particular. While a gradual increase was previously registered in the number of Chinese investment deals in Israel, especially between 2014 and 2018, at the

⁶The Finance Ministry announced that IDE Technologies, which specializes in water treatment, won the tender for the Sorek 2 desalination plant over the Hong Kong company Hutchinson due to pricing considerations. However, the decision was presented in the media as a capitulation to US demands made during Pompeo's visit, during which he warned against Chinese involvement in Israeli infrastructure projects.

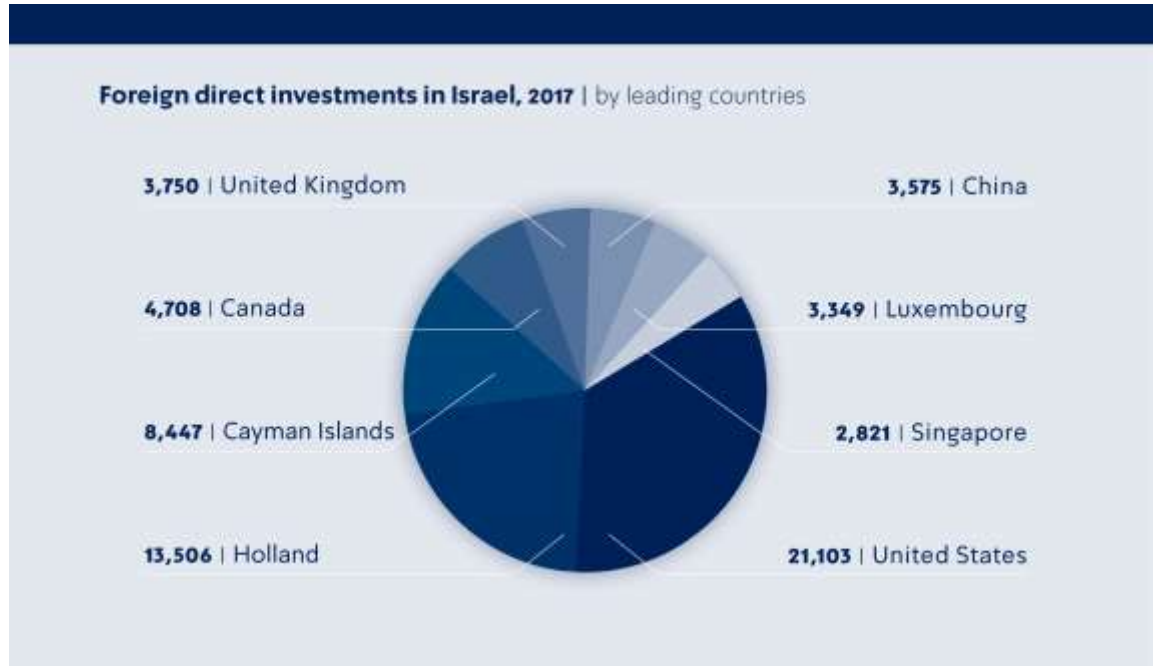
present time it appears that the peak is behind us and we are now witnessing a decline in the number and size of deals and investments. However, it is important to note that due to the absence of reporting on investment amounts, especially in high-tech, it is difficult to accurately point to long-term trends or discuss the scope of overall Chinese investment in Israel. It is also difficult to draw any long-term conclusions just by looking at a two-year period; a longer time frame is required in order to determine that China's investments in Israel have stalled.

Therefore, Israel must examine foreign investment in the country thoroughly and reliably, and ensure, with the help of the foreign investment oversight mechanism established in 2019, that China, or any other foreign government, does not acquire control of strategic Israeli infrastructure, especially in the electricity and water sectors. Furthermore, Israel must update and strengthen the sectors covered by the foreign investment oversight mechanism, and examine the possible addition of certain high-tech sub-sectors, such as chips and semi-conductors, and certain sub-sectors in life sciences and software and IT. This would contribute to trust building with the Americans who have a sophisticated oversight mechanism (the Committee on Foreign Investment in the United States, or CFIUS) and wish to see a general strengthening of oversight mechanisms in other developed countries too.

Finally, the picture presented here, while based on a wealth of data, is only part of a bigger picture: investment constitutes just one aspect of economic ties, which go beyond financial values and are tightly connected to technology, information, and strategic power. In order to maneuver in a complex space between its strategic ally and an important trade partner, Israel must, first of all, construct a full and credible picture of its own economy and the role of the world's powers in it.

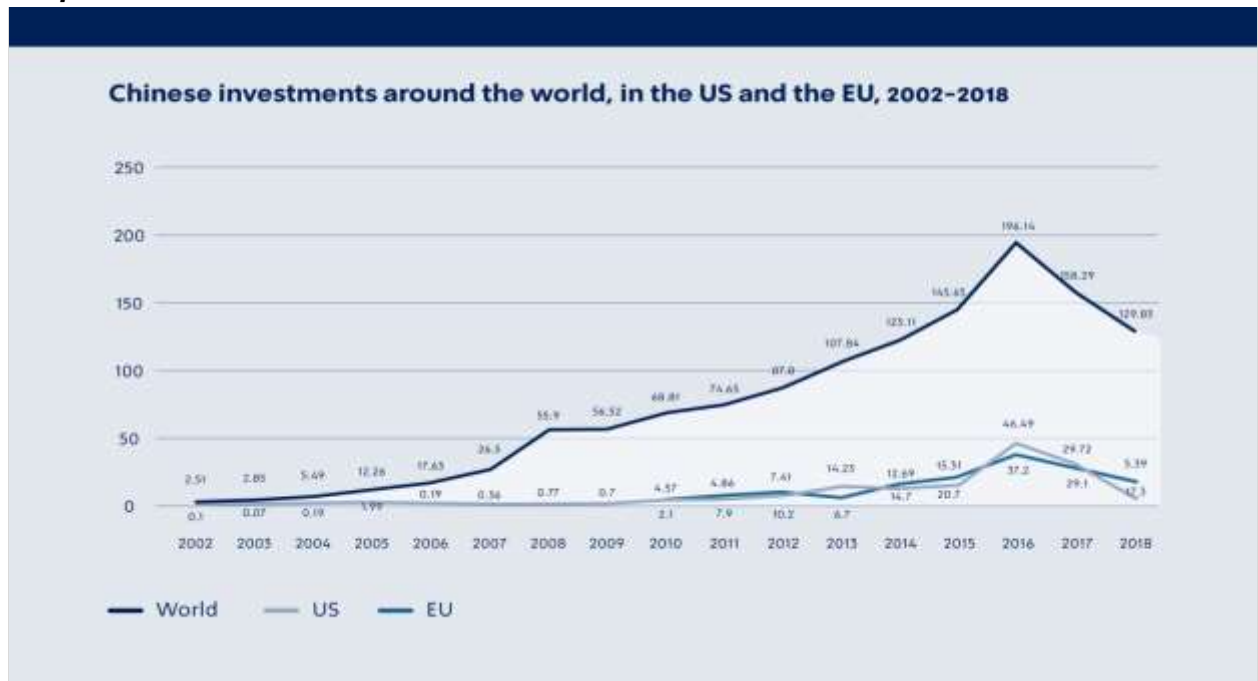
Appendix

Graph 10



Data: Economy and Industry Ministry

Graph 11



Data: UNCTAD and Rhodium Group