China and Israel: On the Same Belt and Road?

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The Silk Road Economic Belt and the 21st-Century Maritime Silk Road (One Belt, One Road, OBOR) is a Chinese pan-continental initiative that aims to connect China to Western Europe while promoting the economic cooperation and prosperity of the regions and the countries along the respective land and sea routes (figure 1). This initiative is presumably one of the key issues that will be included in China's 13th Five-Year Plan of 2016-2020.[1] It may also represent the transformation of China's grand strategy from passive participation to active construction.

The OBOR initiative is estimated to involve over 60 countries, 63 percent (4.4 billion) of the global population, and 29 percent ($21 trillion) of global GDP.[2] The fact that Israel is not on either aforementioned route suggests that it is not a major target for the OBOR initiative. Nevertheless, Israel is of great importance to China's implementation of the project, primarily because of its location on the shores of the Mediterranean and its image as a member of the "US camp."

Origin and Development of OBOR

The idea of the Silk Road Economic Belt was first mentioned publicly on September 7, 2013 in a speech by Chinese President Xi Jinping at Nazarbayev University in Astana, Kazakhstan. Xi proposed then that China and Central Asia jointly construct the Silk Road Economic Belt to strengthen economic ties and foster regional cooperation.[3]

A month later, during his visit to Indonesia, Xi proposed the building of a 21st-Century Maritime Silk Road to promote the maritime cooperation

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with the Association of Southeast Asian Nations (ASEAN) and "to make good use of the China-ASEAN Maritime Cooperation Fund set up by the Chinese government." In addition, Xi proposed the establishment of the Asian Infrastructure Investment Bank (AIIB),[4] thereby putting both new Chinese initiatives, OBOR and the AIIB, on the map.

Implementation of the OBOR initiative began in 2014. On February 6, 2014, China and Russia agreed on connecting China's OBOR initiative with Russia's Euro-Asia Railways.[5] During the Asia-Pacific Economic Cooperation (APEC) summit in Beijing on November 8, 2014, Xi announced that China would contribute $40 billion to set up the Silk Road Fund to provide investment and financing support for infrastructure, resources, industrial cooperation, financial cooperation, and other projects in countries along the Belt and Road.[6] At the end of the year, at the Central Economic Work Conference, China's top level economic conference, the OBOR initiative was upgraded to one of China's priorities for 2015,[7] and indeed, 2015 saw the expansion of the project. In February 2015, a special group of five top profile Chinese Communist Party (CCP) officials led by Vice Premier Zhang Gaoli was established by the central government to oversee the OBOR implementation.[8] A month later, China unveiled its action plan, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," symbolizing the official confirmation of the initiative.[9]

Meanwhile, China launched the establishment of the AIIB. On June 29, 2015, fifty Prospective Founding Members (PFM) of AIIB, including Israel, signed the Bank's Articles of Agreement, which outlined the legal framework and management principles of the bank.[10] The AIIB will be formally established, provided that more than ten of the PFM with a total capital of no less than 50 percent complete their ratification procedures by the end of 2015. Though functioning independently of OBOR, the AIIB is a crucial financial source for implementation of Silk Road.

China's Rationale for OBOR

Economic Motivator

China's economic growth rate has begun to decline from its peak of recent years. According to the International Monetary Fund (IMF) forecast of October 2013, the growth rate from October 2013 to 2018 will be 7 percent, a 2.6 percent decline from the average growth rate from 1998 to 2013.[11] One major contributor to this decline is China's excess capacity. Nowadays, the

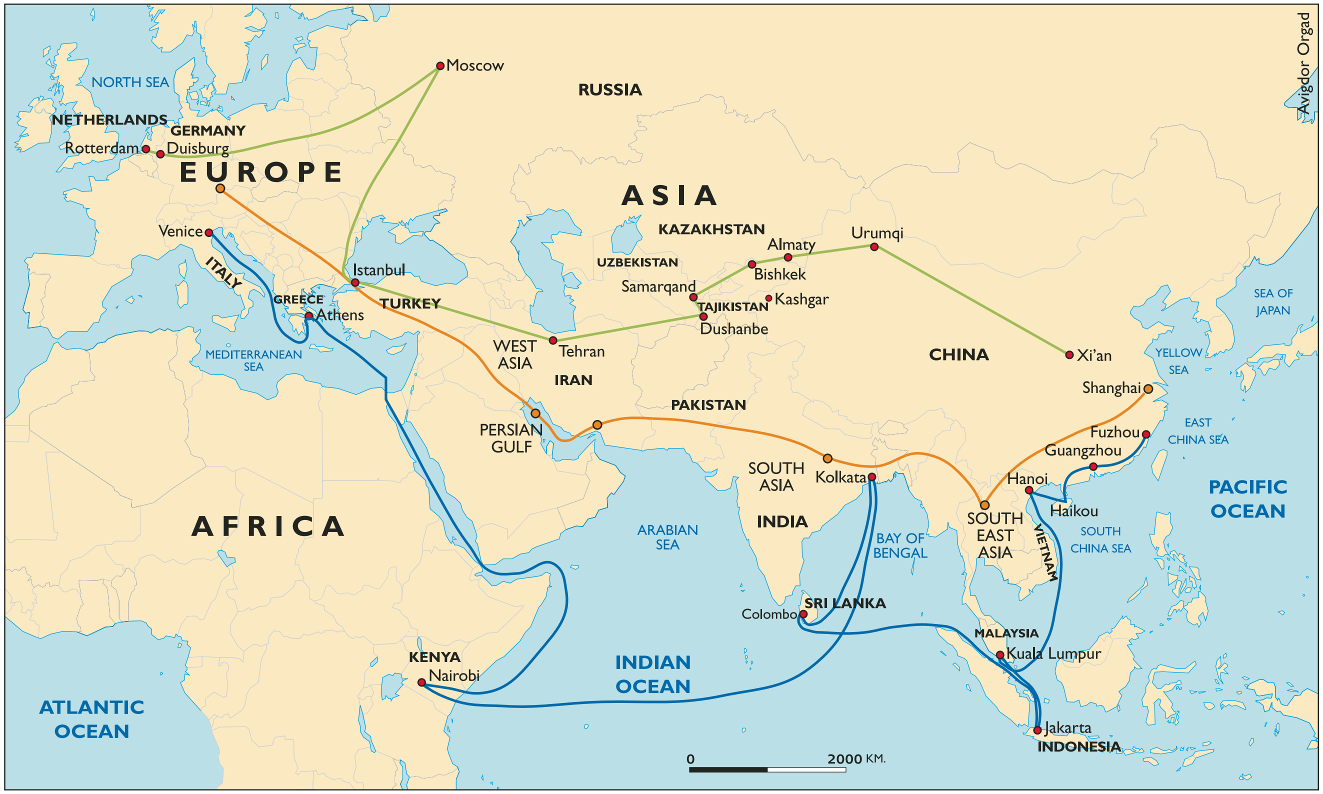

Figure 1. Land and Sea Routes of the OBOR Initiative

high rates of investment, stimulated by the Chinese government after the 2008 financial crisis, have been transferred to capacity, as consumption has shown no significant increase. Since China has been following an investment-led growth model, it is eager to refuel its economic growth through the pursuit of new global markets to absorb its excess capacity. This can be achieved through, among other means, the OBOR project.

Apart from exploring new global markets, OBOR will also enable China to diversify its inland and maritime transport network, thus better securing its existing export markets and energy and raw material supply line. Today the Middle East remains the largest source of China's oil imports. In 2014, oil imports from the Middle East to China amounted to 171.7 million tons, approximately three times more than those from Africa, China's second largest oil supplier.[12] This makes the Strait of Malacca, which is located on the shortest sea route between the Middle East and China, a vital chokepoint for China's energy and raw material import. Accordingly, Beijing has been increasingly concerned about the Malacca dilemma – whoever controls the Strait of Malacca controls China's energy supply route.[13] Under such circumstances, China's OBOR initiative will help alleviate its concern by building alternative routes for energy and raw material supplies.

Moreover, OBOR is an extension of the domestic economic development agenda. One of the top priorities over the coming years is to narrow the development discrepancy between the eastern and western parts of China and between cities and villages by transferring the excess capacity from the more developed areas to the less developed areas. In recent years, these development gaps became increasingly crucial in terms of China's internal security. This includes the mounting problems of terrorism and separatism, for instance in the Xinjiang Uighur Autonomous Region, where the extremist and separatist Uighur minorities have staged violent uprisings and terrorist activities as moves toward independence. Therefore, the CCP expects that OBOR will encourage its domestic agenda of bridging China's development gaps and securing China's domestic stability.

Another domestic strategy launched recently by China is "Internet+" (Internet Plus), meaning internet plus traditional sectors: a program to revitalize traditional sectors by associating them with internet platforms and information and communications technology. This strategy was announced by China's Prime Minister Li Keqiang during the third session of China's 12th National People's Congress (NPC) in March 2015.[14] Approximately three months later, a detailed action plan was released, whereby Internet

Plus is to become a new economic model for China by 2025. OBOR, and particularly its sub-concept of the Information Silk Road, which promotes more advanced communication connectivity among countries along the routes, will facilitate the Internet Plus strategy.

Geopolitical Motivator

China's geopolitical consideration is twofold. First, OBOR is a direct, albeit peaceful, response to Obama's Pivot to Asia strategy, a long term Asia-Pacific-oriented strategy that aims to preserve the US strategic position as a Pacific power by deterring China in the military, diplomatic, and economic dimensions.[15] A case in point is the US exclusion of China, the biggest economic entity in Asia, from the Trans-Pacific Strategic Economic Partnership Agreement (TPP).[16] In response to the US turning to the East, China opted for a strategy of turning to the West.[17] This allows China to avoid a direct confrontation with the US while strengthening its ties with countries from Asia to Europe.

Moreover, OBOR is the materialization of China's diplomatic guideline vis-à-vis its periphery, or the land and maritime regions adjacent to China: preservation of China's border stability and export of China's political influence through economic cooperation and amity. This guideline was first articulated by Xi Jinping during a Chinese Communist Party work forum on China's diplomacy toward its periphery in October 2013 and was referred to by Chinese government and academia as Planning and Controlling China's Peripheries (*Jing Lue Zhou Bian*).[18] Accordingly, OBOR will function as a crucial instrument to fulfill China's diplomatic guidelines toward neighboring countries.

Israel's Potential Contribution to the OBOR Initiative

The Israeli government encourages cooperation with China in a wide range of fields and has established a Special Economic Task Force headed by Prof. Eugene Kandel to promote economic ties with China. Former Economy Minister Naftali Bennett set cooperation with China as "top strategic goal" whereby "hundreds of Israeli companies will operate in the Chinese market as soon as possible."[19] The Chinese OBOR project creates a good opportunity for Israel to achieve this goal and advance its economy.

Israel has the potential to be one stop on the Chinese marine Silk Road connecting the Indian Ocean and the Mediterranean Sea through the Gulf of Suez, provided that the construction of a railway line from Eilat to Ashdod

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port is approved by the Israeli government. Though Israel seems to be a small and dispensable stop on the OBOR routes, its significance should not be underestimated. Statistics show Israel's rating in the investment index is 22 out of the 63 countries located along the silk routes,[20] and the operational risk to investment in Israel is considered to be lower than average among countries along the road.[21] These statistics are further validated by an intensification of Chinese investment in Israel. In the past two years, Chinese companies have completed more than $5 billion in acquisitions in various domains, including food (Tnuva), agriculture (Makhteshim Agan), healthcare (Shahal), hi-tech (Nextec), and infrastructure (construction of the new port in Ashdod).

Although China abounds in manpower and is the second largest economy in the world, it sorely needs innovation and technological enhancement for further economic development. As President Xi Jinping told China's leading scientific and engineering think tanks in 2014, "Science and technology are the foundations for national strength and prosperity, and innovation is the soul of national promotion."[22]

China's Prime Minister Li Keqiang stressed the same issue in July 2015 and said that innovation is a "golden key" to the development of China, and that the development of science and technology is essential for continued growth.[23] Science and technology are precisely the areas in which Israel, as a "start-up nation," can contribute to China's development. In fact, Sino-Israeli collaboration projects in both areas are already underway. For example the Chinese "city of water" Shaoxin has benefited from Israel's innovative water technologies for the development of municipal, agricultural, and industrial water infrastructure.[24] This kind of cooperation will be received favorably in northwestern China, for example in Xinjiang province. China has sought to encourage development in this province in order to reassure and encourage stability in the region, and to bridge the economic gap between eastern and western parts of the country. Implementation of Israeli inventions and technological solutions in agriculture, water, and renewable energy sources can promote the Chinese objective of turning the west of the country into the center of agricultural production in order to meet China's growing need for food.

The injection of Chinese-owned financial resources into the Israeli private sector and Israeli academic institutions is a welcome phenomenon against the background of an overall decline in foreign direct investment in Israel.

Israeli hi-tech companies have much to offer to China's "Internet+" program, which is designed to improve and develop the traditional industrial sector through computers and communications, as well as to expand its electronics infrastructure, from fiber optic networks to satellite communications, in order to improve the flow of information, especially in rural and remote areas. Israeli companies can help the development of the industrial sector in China by streamlining work procedures and improving performance in areas such as industrial robotics.

In addition to developing local industry and agriculture in China, the OBOR project aims to expand trade and transportation between countries. Along its routes, it will be necessary to establish sea ports and airports, construct railways, build warehouses, and develop a transport system. Israeli companies will be able to contribute to this complex project through cooperation in developing and integrating advanced technologies and related systems for trains, aircraft, and marine engineering. An example is measurement technology through laser and cameras for the automotive and aviation industry being developed by Nextec Technologies, which was acquired by a Chinese company in 2014.[25]

Other areas that suit the OBOR project are the medical services sector and the finance and insurance fields. In December 2014, China bought the company Natali, and in July 2015, it included the company Shahal in its shopping cart.[26] Both companies specialize in providing tele-medicine services and advanced emergency medicine. The insurance sector is also very interesting to the Chinese, who acquired the controlling stake in Phoenix in June 2015[27] and are currently negotiating to purchase Clal Insurance.

The Political Aspect of China-Israel Economic Relations

The combination of massive financial resources and assertive Chinese foreign policy ambitions and strategies has sent warning signs to many capitals. In Israel it sparked a lively public debate about whether there are strategic risks involved in the exposure to China. But more than just a public debate will soon be needed. The sale of a major part of the Israeli dairy food company Tnuva raises many questions that would not have been raised had a British company bought the same Israeli company. In part this is the fear of the unknown, and when ports, railways, and tunnels are constructed by one country's firms, questions arise about the wisdom of entrusting too many national infrastructure projects to firms of one nation, efficient and economical as it may be. Especially when this one country is

China, the questions become even more salient when they relate to massive investments in Israeli hi- tech firms or academic institutes that serve as greenhouses to many innovations, some of which are in cyber security.

There are no doubts about the political and economic benefits of formal governmental relations between China and Israel. The invitation to join the AIIB is certainly a political gain with economic potential. Israel's membership in the Asian Development Bank is opposed by the Asian states that belong to the Organization of Islamic Cooperation. Israeli firms are denied the business opportunities that membership in the ADB offers. Membership in the new AIIB can compensate for that loss and create a meeting point for representatives of Israeli and Muslim countries. The OBOR initiative has the potential of developing a major economic engine in central Asia, Turkey, and certain Middle East countries, which may enable Israel to leverage its relative economic advantages and improve its relations with these countries. The injection of Chinese-owned financial resources into the Israeli private sector and Israeli academic institutions is a welcome phenomenon against the background of an overall decline in foreign direct investment in Israel.

Yet these relations retain some thorny elements. China has not modified its pro-Arab stance. Its pattern of voting on resolutions dealing with the Israeli-Palestinian conflict has not changed since the establishment of full diplomatic relations in 1992. Its policy of selling weapons to Arab countries and Iran does not take into account Israel's concerns. China participated in the P5+1 talks over Iran's nuclear program, and while there is no evidence to show that it had a negative role, it may be expected to be among the first to remove sanctions, even earlier than stipulated in the Joint Comprehensive Plan of Action.

In and of themselves, the various business projects that Chinese firms have in Israel may not be a sufficient cause for alarm. Yet when juxtaposed with the ambitious OBOR, they can be viewed as part of a strategy to create a Chinese stronghold on the eastern flank of the Mediterranean.

In and of themselves the various construction projects that Chinese firms won in Israel may not be a sufficient cause for alarm. Yet when juxtaposed with the ambitious OBOR they can be viewed as part of a strategy to create a Chinese stronghold on the eastern flank of the Mediterranean. The Chinese investments in Israeli private hi-tech companies and academic institutions may be viewed as purely innocent economic decisions. Yet some Israeli firms are on the cutting edge in their fields, especially in cyber/counter-cyber warfare. Even indirect involvement may give China access that may unintentionally harm Israel's interests.

Israel-China cooperation may also be in conflict with Israel's reliance on the United States. Israel has been careful to avoid cooperation with China in military sales and production, yet there is a danger that Chinese investments in Israeli hi-tech firms may inadvertently produce know-how transfer. Upon receiving China's invitation to join the AIIB, Israel, like some other states, consulted the US, thereby exhibiting sensitivity to the views in Washington. The conclusion of the TPP in October 2015 requires Israel to consider reaching an early agreement with this major economic bloc. The TPP may have political ramifications in the context of the sensitive triangular China-US-Israel relationship, which ought to be examined by the relevant authorities in Israel.

Conclusion

An Israeli national assessment of China-Israel relations in their entirety, beyond individual sectors and deals, is urgently needed. China is already a leading global economic force, notwithstanding recent setbacks in its economy. The establishment of an Israeli governmental task force aimed at the expansion of economic relations and the opening of another Israeli consulate, in addition to Shanghai, are evidence of the Israeli government's recognition of the importance it attaches to these relations. Certain aspects of these relations must be assessed more carefully, and policies must be adopted in ordered, informed fashion rather than resulting from intuition or default options.

Notes

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