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Study

China's Growing Influence in Israel: Benefits and Risks

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Introduction

In recent months, Israel has witnessed a steady escalation of talk about relations with China, especially the latter's investment increase in heavy infrastructure projects, such as ports, airports and technology; and the latest of which is China's attempt to obtain a bid to develop the largest desalination plant in the world, despite American pressures to prevent it.

Meanwhile, Israeli debate and discussions over the increasing Chinese influence in Israel between supporters and opponents have not stopped or died down, especially following Beijing owning investments and firms operating in Israel, supervising the construction of new ports, and the restoration of old ones, and it also has come after China had years-long rights to work in these facilities, as the map of Chinese interests began with selling Israeli consumers the Chinese mobile phones from Huawei, Tnuva's white cheese, and recently the construction of transportation tunnels in Carmel.

This study discusses the increasing Chinese influence in Israel, the prospects for China-Israel relations, especially the economic ones, whether immediate or strategic, the volume of bilateral trade, mutual deals, and political aspirations based on their own relations. Besides, this study explains how far Israeli parties agree or disagree with these relations, and why the US is upset with them; and it presents a future perspective for these relations.

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First: AREAS OF COOPERATION

Although, China initiated its diplomatic relations with Israel in 1992, economic relations between the two countries began practically, and gradually, with the beginning of the third millennium, by focusing on investments, and encouraging tourism and business activities.

The Israelis see China as the world's economic giant and the second largest economy on earth, as its markets attract Israeli industrialists and businessmen, despite the great difficulties faced in terms of distance, time-difference, language, and foreign cultural affairs.

Nevertheless, out of 42 Israeli economic attaches around the world, 6 are in China, to help Israeli businessmen bridge the gaps with their Chinese counterparts. Former prime minister Benjamin Netanyahu's visit to Beijing in 2017, resulted in the signing of 25 contracts of joint cooperation worth two billion dollars.

Previously, the Chinese ambassador to Israel, "Du Fei", announced that "our Jewish friends will choose a path that serves their interests," rejecting American warnings of security concerns about cooperation with Israel, claiming that their cooperation is a win-win for all. The Israelis can invest in China, and "our Jewish friends will succeed in choosing the path " that best serves their interests" says Due Fei.

Some major areas of cooperation that witnessed making key business deals between China and Israel can be monitored as follows:

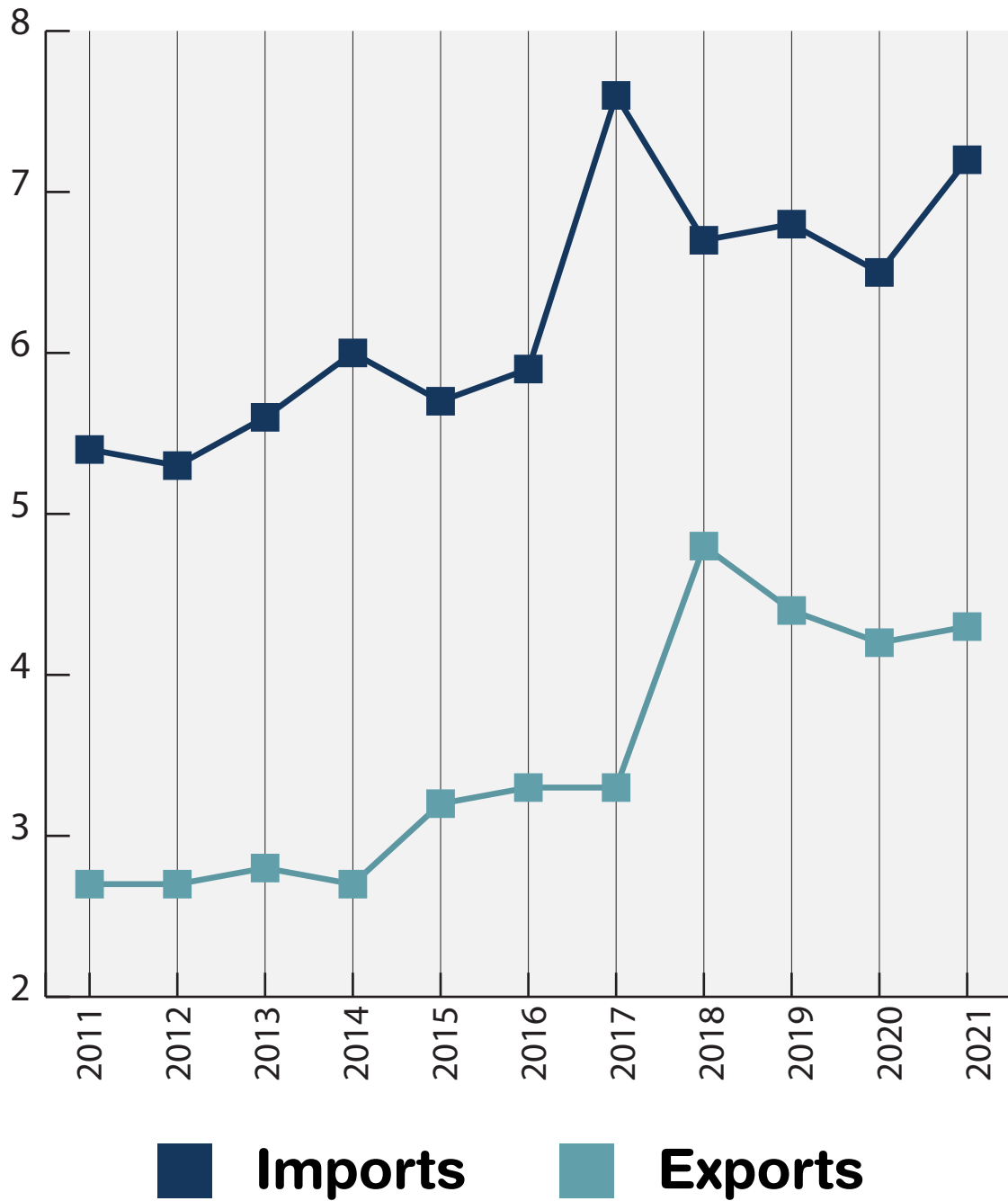


1. Two-way trade

Recently, Israeli statistical data have revealed that 463 investment deals, mergers and acquisitions (M&As) were documented in Israel by Chinese companies between 2020-2001, and China became Israel's second largest trading partner after the United States, and before every European country separately, but not the European Union as a whole. In 2001, the volume of trade between Israel and China amounted to 1.07\$ billion, and in 2018 it reached 11.6\$ billion; but it decreased slightly in 2019 to 11.2\$ billion.

Bilateral trade has grown at a rate of ten percent every year. China is the third largest destination for Israeli exports after the United States and Britain, with a value of 4.7\$ billion. Israel exports to China cars, electronics, chemical and medical products, and optical equipment. In importing products from China, Israel comes in second place after the United States with imports of 11.4\$ billion in the area of industries, including electronics, textiles, toys, furniture, metals, chemicals, and consumer goods.

On the other hand, concerning industries, it seems that Israel just like "an ant on the back of the dragon (China)" as the latter is Israel's second largest trading partner, while Israel ranks 48th in relation to China's foreign partnerships. However, Israel is very interested in China because of Israel's technological capabilities. According to the Israeli Statistics Authority, Israeli exports to China in the first half of 2018 amounted to 2.8\$ billion, an increase of %73 compared to 2017.

**Figure: 1****Israeli trade with China (billion dollars) 2011 to 2021**



2. Infrastructure

The Chinese company SIPG has won a bid to expand the port of Haifa in northern Israel in 2018, and another bid to establish a new port in Ashdod to the south of it. These bids were made by the Ministry of Transportation and the Israeli Ports Authority without the interference of the Israeli National Security Council or the Navy.

Although Chinese investments have not yet exceeded %10 of the total foreign direct investment (FDI) in Israel, they have won major bids for its transportation infrastructure, and started bidding for water and electricity infrastructure, while the former Israeli ambassador to Beijing, Matan Vilnai, opened a branch of a Chinese university in Israel to provide teaching the Chinese language, and receive study delegations in Israel.

3. Water desalination

The Chinese company, Hat Shi Sun, participated in the in the bidding to construct the (Sorek²) facility, which is the largest desalination plant in the world, on the Mediterranean coast in southern Israel; and it will produce 200 million cubic meters of drinking water annually, raising the total water treated by Israeli desalination plants to 786 million cubic meters annually, %85 of its total annual domestic consumption.

The bid amounted to 1.5\$ billion, and the bidder would run the facility for 25 years, though Israeli security experts were alarmed, because the site of the desalination facility is adjacent to the “Palmachim” air base, where the American forces are stationed, and near the “Nahal Sorek” nuclear research center, knowing that China has been following the Israeli water market for ten years, and its delegations come to learn more about Israel’s water desalination technologies, which is believed to be one of the world's advanced countries in this field.



4. Technologies and innovation

The joint projects of China and Israel are based on supply and demand, especially in the high-tech field, which is witnessing cooperation between the two sides. Previously, the Israeli government sent a delegation to visit Beijing in March 2017. The relationship continued at different levels between the two governmental levels: universities, unions, and private companies that send tens of thousands of participants annually to learn about and be influenced by Israeli innovation.

Israel's technological capabilities attract China's interest, especially software, health, cars, water, and manufacturing, knowing that China is the third investing country in Israeli high-tech companies. In addition to agricultural research; it has advanced expertise worldwide, and can provide aid to provide global food through the use of contemporary technology.

The main Israeli exports to China were electronic components by %51, and Intel is responsible for %80 of the export of electronic components, which are chips made in Israel and sent for inspection and assembly there, along with three major and growing industries, which are industrial measurement and control equipment, chemicals, and medical equipment. China considers Israel an attractive investment destination, whether in technology or infrastructure, and its investment in Israeli infrastructure comes due to its knowledge, techniques, experience and capital required to compete successfully in its bids.

Israeli startups raised 325\$ million from Chinese investors in the first three quarters of 2018, compared to 76\$ million in 2013, as Chinese investments aim to tap Israeli knowledge in the areas of artificial intelligence, advanced computing, autonomous vehicles, robotics, and data science.

This Chinese expansion comes as part of Chinese President Xi Jinping's plan called "The New Silk Road", according to which China is investing billions of dollars in commercial and economic projects, such as expanding the Israeli ports of "Haifa" and "Asdod", and digging tunnels in the "Carmel" mountains in the city of Haifa", the light rail line in Tel Aviv, and the construction of housing and apartment towers.



5. Tourism

The recent Israeli economic trends have focused on attracting more Chinese tourists, to the extent that the Israeli Ministry of Tourism opened a second office in the city of "Shanghai", after the first representation in Beijing, and they are working on marketing Israeli tourist sites to the Chinese, where tens of thousands of them arrive in Israel to participate in exhibitions of sales and purchases that enjoy prior advertising marketing, which makes the Israeli economic circles place China among one of its most important tourism targets as an important strategic market, which generates large financial incomes for Israel.

In 4 ,2018 million tourists arrived in Israel, of whom 105,000 were Chinese, and in 2019, the number reached 150,000, an increase of nearly %50. Also, the duration of their stay in Israel ranges between 13-5 days only, most of them come as tourist groups, specifically from Beijing, Shanghai and Chengdu, the three largest Chinese cities, and they are under the age of 40, and each of them spends a daily average of \$ 230, which makes the Israeli economy look with high hope to Chinese tourism. Chinese tourists buy Dead Sea products, jewelry, and wine.



Figure: 2

Major Chinese investments in Israel

Project name	Investments in the company of Tnuva
Project Type	Agricultural technology and natural resources
Investor	Bright Food
Type of the Company	Government-owned companies of China
Project value	1.4\$ billion

Project name	Building new platforms in Haifa port with 25 years' operating rights (in partnership with Israeli companies)
Project Type	Infrastructure Construction
Investor	Two China's Railway Companies
Type of the Company	Government-owned companies of China
Project value	1.7\$ billion

Project name	Construction of the port of Ashdod and the construction of the Eilat railway
Project Type	Infrastructure Construction
Investor	Catersea Company
Type of the Company	Government-owned companies of China
Project value	Almost 3\$ billion

Project name	Participation in the Tel Aviv metro project
Project Type	Infrastructure Construction
Investor	The Two China's Railway companies and Metro Corporation
Type of the Company	Government-owned companies of China
Project value	3.4\$ billion (total project value)

Project name	ADMA Agricultural Technologies - Makhteshim- Agan
Project Type	Agricultural technology and natural resources
Investor	Chem China
Type of the Company	Government-owned companies of China
Project value	3.4\$ billion

Project name	Merging and acquisition of Playtika
Project Type	Games and Technology
Investor	A Giant Interactive Group-led Chinese group of companies
Type of the Company	Shareholding company
Project value	4.4\$ billion



Second: THE OBJECTIONS OF ISRAELI INTELLIGENCE

In conjunction with the increase in Chinese influence in Israel, especially the economic one, the Israeli security establishment has increased its reservations on the growth of this engagement, for fear of being exposed to Chinese espionage operations and cyber-attacks. In this regard, it is possible to evoke a number of instances of security concerns regarding the Chinese influence as follows:

■ The head of the Shin Bet security service, Nadav Argaman, warned of China's economic investments, because "they may have negative effects on Israeli security" says. Although the Israeli commercial companies seek business activities only, their Chinese counterparts have other goals that go beyond money and business, which may force Israel to reconsider the way, under which it would be able to conclude its trade deals with China.

■ The former head of the Mossad, Ephraim Halevy, said: "Israel is obligated to establish trade relations with China, but there is no clear control mechanism that prevents us from selling China advanced economic capabilities and expensive technological systems, which calls for warning that Chinese control over strategic areas such as national infrastructure sector, or food companies may weaken Israeli sovereignty, and weaken in turn it could do nothing with the escalation of the conflict against Iran.

■ Adm. (Ret.) Shabtai Levy stressed that building ports is a key strategic infrastructure component for Israel, and it should not allow foreign entities to seize such a sector. "The Navy should be purely Israeli, China does not take care of Israeli affairs, it is here to take technology, it is trying to use the Jewish mind, there is a need for legislation to supervise these investments, as it is a matter of real concern," Levy adds.



■ Admiral (Ret.) Shaul Chorev, former Head of the Israel Atomic Energy Commission for Nuclear Energy of Israel, pointed out that “the increase in Chinese investments on the shores of the Mediterranean, and on the Israeli shores, requires Israel to establish a precise system to ensure that its security and military interests are not jeopardized by the actions of Chinese companies, although that the actions of these companies have security and military effects on Israel.”

Accordingly, the Israeli security concerns regarding the significant increase in Chinese interference in the Israeli infrastructure projects has reached the point that the security and military levels may consider stopping China's engagement, given its strategic repercussions. It is true that this influence gives China leverage on the key infrastructure facilities in Israel on the one hand, but on the other hand- and more importantly- give it a clear view of the Israeli military capabilities, which in the future may make it have leverage on Israel if Beijing's interests are threatened in the region.

The Israeli fear is that China will continue to control the Israeli shores under the eyes of the security services; and after it has seized the railways and the Carmel tunnels' investments- as it seems that it is on the verge of supervising the operation of the sea port in the city of Haifa- Chinese companies can, as such, watch clearly the Israeli military capabilities.

In fact, such fears are likely to legitimize the warnings of the heads of the Israeli intelligence services, as they got shocked because of the growing Chinese influence in the Israeli economy, especially some of these projects are related to sensitive security affairs, particularly with the Israeli government agreeing to sell some advanced technological capabilities to China, without taking security approval, which raises fears that this increasing influence inside Israel will give China the ability to spy operations, and here the economic and political dimensions mingle with the security and the military in Israel leading to a conflict that does not seem to end soon!



Israeli security officials believe that the Chinese supervision of the port of "Haifa" in northern Israel constitutes a strategic and security threat to the state. Because it is expected in the near future to reopen again; and despite the advantages that this development brings, it has many disadvantages, the most important of which are of a security and strategic nature that are greater than the expected economic gains for Israel.

By controlling the port of Haifa, China is able to gain more strategic influence, relying on a base for providing logistics. However, since the Israeli naval forces' headquarters is a short distance from the Chinese-administered port, this will enable SIPG to track their operations accurately and on time, even if they are secret; and it means that the Chinese administration will jeopardize the military operations of the naval forces; because it will be able to collect information about their combat equipment, training, and field movements at sea; and as such, there is a risk that the company will transfer this information to hostile parties, not for ideological and political reasons, but to sell it for exorbitant sums.

Since the beginning of the first decade of the 21st century, Israeli military exports to China have stopped at the request of Washington, although Israel considers China top trading partner. Its investment funds, markets, production capacity, and infrastructure construction make a significant contribution to the economy of Israel, which has realized this potential as an opportunity, and is working to exploit it.



Third: ADDITIONAL RESERVATIONS

In addition to the significant Israeli security considerations, there are factors raised by those who refuse to strengthen relations with China, the most important of which are:

- China's hostile attitudes towards Israel, as evidenced by its refusal to establish diplomatic relations with it until 1992. After some students were killed in Tiananmen Square in the late 1980s, it thought that establishing these relationships would help improve its image in the West.
- China's systematic vote against Israel at the United Nations, despite the diplomatic relations between them, and their relations have witnessed gradual tension, specifically since the last Gaza war in May 2021, when China took advantage of its position in the United Nations to lead anti-Israel initiatives, and the issuance of Chinese diplomatic statements that took the war as an opportunity to engage the United States through Israel as its partner, and it called for an investigation against the latter.
- The Chinese Central Bank was accused of transferring large sums of money to fund the operations of Palestinian factions, during the years of the second intifada.
- The Chinese diplomacy has been active in condemning the aggressive Israeli practices; especially in the "Sheikh Jarrah" neighborhood, as barbaric, and expressed its sympathy for the suffering of the Palestinians.
- In the face of its increasing influence in Israel, China, in return, does not offer better dynamics.



■ The Chinese cyber-attacks on Israel, including attacking targets in the Middle East and Israel since 2019, and infiltrating a variety of entities in Israel in order to collect commercial and technical information.

The Israeli behavior did not stop at expressing reservations about the growing influence of China; The Israeli cabinet decided, rather, to form a “National Security and Foreign Investment Advisory Committee” in October 2019, as a necessary step to prevent China from opening more investments in Israel.

Fourth: THE U.S. POSITION

The American negative assessment of the increasing Chinese influence in Israel does not stem from the latter's relationship with the United States only, especially during the eras of Trump and Biden administrations, which took extreme policies against Beijing, not only due to the trade wars between them and the tension in the China Sea, but for other reasons, it may not expand space to mention it in these lines.

Most importantly, Israel is keen to have relations with the great powers, as it is linked to the United States by an unprecedented alliance, and it has no alternatives, and at the same time it is linked to China by an escalating economic partnership, and the problem facing Israel is that these two superpowers are engaged in a trade war, whether because of their disagreement over the general rules of the global market, or on the level of the growing China's influence and impact on the world, which may give it a strategic advantage, with which the United States is not satisfied.



Therefore, the former head of the US Naval Military Command, General Gary Rafhad, emphasized that “China’s ability to obtain security and military information should be a cause for concern to Israel and the United States; because China has the ability to see the military and intelligence systems used by Israel, which should constitute a good cause for concern and fear in Tel Aviv and Washington alike.”

The American security and military systems believe that “the increasing Chinese control over the port of Haifa means that the American Sixth Fleet will no longer be able to feel that this port is its own, and in light of the fact that the Americans are directing most of their abilities and potential towards the South China Sea and the Arabian Gulf at the expense of the eastern Mediterranean, which requires Israel to maintain its strategic base.

“Israel went crazy when it gave China the keys to the port of Haifa, because the Israeli naval forces may not continue to close relations with the American Sixth Fleet at the moment when China comes to the region,” American military researchers, working at the conservative “Hudson Institute” in Washington, stated.

Furthermore, former US Secretary of State, Mike Pompeo, then his successor Anthony Blinken, and US intelligence chief William Burns, all visited Israel on various occasions, to warn it against China’s participation in the establishment of a desalination plant, which may turn into the largest seawater desalination plant in the world, which means Israel's little involvement in the growing clash between Washington and Beijing infuriates it.

Also, the signals sent by Washington to Tel Aviv were decisive in this regard, which means that the Americans are very concerned about China's efforts to expand its foothold by investing in the Israeli strategic infrastructure, and consider it a threat to their national security, and this matter is not limited to the whims of former President, Donald Trump, although his rejection may be greater than his predecessors', i.e., Biden, the newcomer to the White House, also holds the same views.



More than that, the United States is pressuring its allies - including Israel - not to involve Chinese companies in the deployment of the fifth generation of mobile networks, and while Israel has responded in practice to this request, it has not yet announced the exclusion of China from supply deals, despite the military establishment's decision not to allow the intervention of Chinese companies in the infrastructure of the communications system, although the launch of 5G in Israel on the basis of Western infrastructure is a practical expression of a strategic choice in the struggle of the American and Chinese forces within the country.

However, U.S. position, which rejects the increasing Chinese influence in Israel, stems from its view of China as a top-down threat to the United States, and likens their current conflict to the Cold War against the Soviet Union, even worse, which may require Israel, according to the American vision, to study on its own the direct challenge coming from its relations with China, and it absorbs the extreme sensitivity of its strategic ally towards the issue, and learns from its lessons.

While the lessons learned from the United States' position regarding Israel's relations with China bear warning signs of remarkable challenges and dangers, and the need not to ignore them; this requires Israel to formulate a strategy to deal with China and increase the intelligence resources allocated to the state, while listening to what is emanating from Washington on the relationship of Tel Aviv and Beijing, which means reducing the Israeli margin for maneuvering in its relations with Beijing; because it has a high risk for Washington.

Conclusion


Multiple conclusions can be deduced regarding the future of Chinese influence in Israel; the most important of which are:

- China is interested in making a breakthrough in Israel through its infrastructure sector, which would enable the Chinese superpower to exploit Israeli resources by obtaining highly dangerous technological information.
- China has a long-term strategic plan entitled "China 2050", which includes gradual control of the global communications market, which makes Chinese interference in infrastructure projects a danger to Israel, which may include targeting these systems and using them as platforms to carry out attacks against Israel.
- The continuous Chinese presence in Israel may contribute to tying the latter's hands from attacking Iran, as China has investments in the local Iranian economy, especially in the energy industry; because Iran is China's top trading partner in the world; and therefore any attack on Iran may cast a negative shadow on Chinese positions there.



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