



The Evolving Israel-China Relationship

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Preface

Since the early 2000s, relations between China and Israel have expanded rapidly in numerous areas, including diplomacy, trade, investment, construction, educational partnerships, scientific cooperation, and tourism. China's prime interests in Israel are advanced technology and its location as part of the Belt and Road Initiative. Israel seeks to expand its diplomatic, economic, and strategic ties with the world's fastest growing major economy and diversify its export markets and investments from the United States and Europe.

Although evolving relations with China present Israel with important opportunities, they also pose a variety of challenges. This report discusses the growing relationship and the challenges it poses for Israel and for Israel's most important ally, the United States. It concludes with two recommendations for Israel and one for the United States. Israel would benefit by (1) gaining a better understanding of the opportunities and challenges deeper ties with China could bring, including developing better knowledge of China; and (2) using the experience of other countries to develop policies toward China that account for these challenges and opportunities. The United States, in turn, would benefit by working more closely with Israel to deconflict, shape, and advance a mutually agreed upon China-related agenda and by helping Israel build its knowledge base and understanding of China.

This report examines the nature of Israel-China relations with a greater emphasis on the Israeli perspective and implications for the United States. It should be of interest to policymakers, analysts, and academic researchers studying Israel, U.S.-Israel relations, and China and China's international relations.

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Summary

Israel and the People's Republic of China (PRC) have expanded and transformed the nature of their relationship in recent years. Both have much to gain. China seeks Israeli advanced technology and would like to learn from Israel's success in innovation, among other interests. Israel, on the other hand, can benefit from diversifying its relationships and expanding its diplomatic and economic ties with the world's fastest growing major economy.

But there are several challenges to the relationship. For example, Israel relies on the United States for security, economic ties, and geopolitical assistance, while the China-U.S. relationship has grown increasingly tense. In addition to long-running U.S. security concerns regarding China, the United States is particularly concerned about transfers of U.S. technology and about any technologies that give China a military edge. Additionally, Israel has relied on its technology sector for economic growth, but China has a record of pilfering technology and not respecting intellectual property.

This research discusses Israeli-Chinese relations. The authors draw on various data sources; academic literature; original reporting in Hebrew, Chinese, and English; and conversations with dozens of subject-matter experts to elucidate the nature of Israeli-Chinese ties. We discuss the opportunities and various challenges of the relationship and propose recommendations for Israeli and U.S. policymakers.

The Development of Israel-China Ties

Israel-China relations began in 1979 when businessman Saul Eisenberg helped arrange a secret meeting between the two sides that resulted in the first of many deals to transfer defense technology from Israel to China. Over the next two decades, military technology transfers between Israel and China totaled between \$1 billion and \$2 billion in more than 60 transactions. Ties were formalized in 1992.

The defense relationship experienced two major setbacks in the late 1990s and early 2000s, both involving U.S. technology. In the first, Israel yielded to U.S. pressure and canceled a deal to install the PHALCON advanced airborne radar system on surveillance planes for the People's Liberation Army Air Force. The United States contended that the system contained restricted U.S.-origin technology that could not be transferred, and was concerned about China's growing military strength. The second setback took place in 2005 and involved upgrades to HARPY unmanned aerial vehicles. This disagreement resulted in the severance of defense relations between Israel and China as well as major changes in the structure of Israel's export control regime.

Despite these disagreements, the United States and Israel managed to keep trouble stemming from Israel's defense relationship with China from affecting other dimensions of the U.S.-Israel relationship. But it was clear that the nature of the Israel-China relationship would need to change. Accordingly, and largely because of the evolution of both economies and the policy priorities of each government, the relationship developed in several other dimensions, including trade, investment, and educational exchange.

There are pragmatic reasons for the PRC's engagement with Israel. The Chinese view Israel as a country that can help them spur innovation and research and development. This is especially important as China attempts to shift from an investment- and export-led economy to an innovation- and consumption-led economy. They look to Israeli policies and technology in defense, security, and counterterrorism as a

means of addressing China's needs in military and domestic security capabilities. Israel's achievements in agricultural technology, medical technology, water technology, and other fields of technology are also relevant to China's domestic agenda. There is a geopolitical dimension as well: China views Israel as a partner in China's overall Middle East policy and has sought to maintain good relations with all countries in the region. Within this geostrategic context might lie an effort on the part of China to make inroads with a key U.S. ally in the region with the intent to undermine global U.S. alliance and partner networks. There is also a geo-economic reason: Israel can serve as a useful node in the Belt and Road Initiative, China's grand vision for linking Eurasia, Africa, and Europe by land and sea.

For Israel, there are also many potential benefits. Israel has been working to diversify its economic relations from its traditional trade and investment partners—the United States and Europe—because of economic and diplomatic considerations. The European market has been stagnating and Europe is a difficult diplomatic front for Israel, with substantial pressure coming from the pro-Palestinian Boycott, Divestment, and Sanctions movement. Although the United States does not pose the same diplomatic challenges for Israel, a substantial expansion of Israeli-Chinese bilateral ties took off in 2013–2014, when relations between the United States and Israel were less cordial than those to which Israel was accustomed. In addition, China can serve as a source of investment for Israel, as it does for other countries.

The Nature of Israel-China Ties

These mutual interests have resulted in a growing relationship across several dimensions, some of which are stronger than others. The strongest areas have been economic. In the realm of trade, Chinese goods exports to Israel, as reported by China, hit the \$8 billion range in 2016, up from only \$12.8 million in 1992. Chinese goods imports from Israel

have grown from only \$38.7 million in 1992 to more than \$3 billion in 2016. Services trade also is likely active, although data are sparser than those for goods trade. One marker of services trade is patenting because the use of intellectual property is a service. In 2015, Israeli-origin patent applications in China hit 700, up from none in 1992, and China granted 365 patents to Israeli-origin innovators that year. Chinese patenting in Israel, in contrast, remains low, with fewer than 50 applications and grants.

As with trade, investment and Chinese construction activity in Israel have been growing rapidly since the early 2000s. Official bilateral data on investments and construction are sparse, so we used alternate sources to identify such transactions. Between 2007 and 2017 there were at least 69 investments and construction projects involving Chinese entities in Israel and involving 34 Chinese companies. Reported investment totaled \$12.9 billion, while contracts for the construction and operation of infrastructure projects totaled more than \$4 billion. The agriculture and technology sectors were the biggest targets of Chinese investment, with reported investment at more than \$5 billion each. Construction projects focused on transportation infrastructure, including ports, tunnels, and railway lines.

Academic ties are also growing. Although the numbers of student exchanges are small, as of April 2016, Israel had four campuses or institutions in China, and educational exchanges were active on both the governmental and unofficial levels. For example, in January 2015, Israeli Foreign Minister Avigdor Lieberman and Chinese Vice Premier Liu Yandong signed the “China-Israel Innovation Cooperation Three-Year Action Plan,” which proposed the founding of the China-Israel 7+7 Research-Based University Alliance to promote research and academic cooperation between research universities in Israel and China. This effort included the establishment of the \$300 million XIN Center, a joint research center for Tel Aviv University and Beijing’s Tsinghua University, which was designed to concentrate on cooperation in the

area of nanotechnology; a joint laboratory building for the University of Haifa and East China Normal University on the campus of the latter, specializing in ecology, big data, biomedicine, and neurobiology; and a joint center for entrepreneurship and innovation for Ben-Gurion University of the Negev and Jilin University. Likewise, there were at least ten exchanges between Israeli and Chinese university leaders between May 2016 and June 2017.

Chinese tourism to Israel also is growing rapidly. According to Israel's Central Bureau of Statistics, the number of tourists from China, including day visitors, was 32,400 in 2014. By the end of 2017, this number had risen to 123,900, including day visitors, or an increase of almost 400 percent in just three years' time. As of late 2018, with the rise of business and tourism travel, Israel had direct flights to four Chinese cities, with a route to a fifth city planned.

However, there are dimensions of the relationship that are not as strong. Political relations as measured by senior-leader visits have stayed relatively constant from 1992 to 2017, whereas, by the same measure, China's relations with Israel's main Middle East adversary—Iran—have strengthened somewhat. Likewise, the defense relationship has stayed cool. Indeed, despite growing Israel-China ties, China has been developing defense relationships with Iran on several dimensions beyond arms sales, and Israel has a growing arms-sales relationship with India, a rival to China in the Indo-Pacific region. Although China has mitigated its public criticism of Israel, China regularly votes against Israel in multilateral forums, and Israeli officials say behind closed doors that China would never support Israel's position in the United Nations.

Concerns Raised by the Relationship

As long as the defense relationship remains limited, the main concerns about the Israel-China relationship involve investment, related tech-

nology and intellectual property issues, and construction projects. This is not only true for Israel and its security and economic interests, but also for the United States, which is primarily concerned with the transfer of U.S. defense-related technology to China and other technologies and capabilities that could strengthen China's military edge.

One concern is the nature of the ties that Chinese companies investing or building major infrastructure projects in Israel have with the Chinese government, armed forces, or military entities. Any substantially sized company originating in China likely has links, either formal or informal, to the government and is expected to cooperate with its security and intelligence apparatus. Ties to military intelligence or to Chinese operations in the South China Sea would be particularly concerning to the United States. Cyber risks and the potential for the transfer of sensitive technologies are the primary issues for military and government connections of companies engaging in investment. Such risks from the U.S. point of view also extend to collaboration that enhances Chinese military technologies or capabilities. In addition, commercial risk is present with technology transfers, raising the need for Israel to safeguard its own technological edge. Ties to objectionable Chinese military activity are the main concern related to construction. Surveillance could be a concern for some investments, especially in the telecommunications sector, and for contracts to operate such major infrastructure as rail and ports.

Several of the Chinese technology companies investing in Israel have received attention related to security vulnerabilities in their products or are known to participate in Chinese censorship efforts. Whether these security vulnerabilities are simply the result of sloppiness, are included as standard practice for such technology companies, or are intentionally included to enable government surveillance is unknown. Chinese internet companies are required to comply with censorship directives and must turn over user data to the government upon request if the data are stored on Chinese servers. Such require-

ments give rise to potential political concerns over these companies' investments in Israel.

Infrastructure investments present a separate set of concerns. For example, a state-owned Chinese company won a 25-year contract to operate a new container terminal in the port in Haifa, beginning in 2021. Although this might be economically beneficial for Israel, it is also next to the strategically important government-owned naval port. Haifa is a frequent port of call for the U.S. Sixth Fleet and serves as the base for Israel's submarines, making some experts question the trade-off between economic value and security risks raised by potential Chinese surveillance of the naval port. In September 2018, Rear Admiral (Ret.) Shaul Horev, the director of the University of Haifa's Research Center for Maritime Policy and Strategy and former Deputy Chief of Naval Operations, noted that the Israeli Navy was putting its relationship with the Sixth Fleet in jeopardy by letting a Chinese company operate the port.

Former U.S. officials have echoed these concerns. According to a summary of a conference hosted by Horev, Admiral (Ret.) Gary Roughead, former chief of U.S. Naval Operations, said that the Chinese port operators could monitor U.S. ship movements and maintenance activity and might have access to information systems, increasing the likelihood of threats to U.S. information and cybersecurity. Former U.S. ambassador to Israel Dan Shapiro told the *Times of Israel* that having a Chinese company operating the port poses risks to U.S. Navy operations.

At Israel's other Mediterranean port and naval base, Ashdod, another state-owned Chinese company is developing a new port that will be near Israel's national electricity company and refineries. Such proximity could lead to intelligence-gathering, and even to sharing that intelligence with Israel's adversaries.

There are additional fears that high levels of both Chinese investment and construction could provide political or social leverage over

Israel, as demonstrated in 2013 when the Chinese government conditioned Prime Minister Benjamin Netanyahu's visit on Israel ending a federal court trial in New York against the state-owned Bank of China. In that case, the Bank of China was accused of laundering Iranian money for terror activity by Hamas and Palestinian Islamic Jihad. The case ended without Israel's participation.

Implications and Policy Recommendations

Despite rapidly evolving relations with China, Israeli understanding of the country and its foreign and economic policies is limited. Israeli security and diplomacy experts have traditionally focused on the Middle East, Israel's immediate environment, while business experts mostly have been geared toward the United States and Europe. However, there are several steps that both Israel and the United States can take to ensure that Israel can continue to develop its relationship with China while safeguarding its vital interests.

Israel can strengthen its policy approach in two broad areas: (1) gaining better understanding of what opportunities and challenges deeper ties with China could bring and of how to shape those opportunities and challenges; and (2) using the experience of other countries to develop policies vis-à-vis the PRC that account for these challenges and opportunities. The United States, in turn, can work with Israel to deconflict, shape, and advance a mutually agreed-upon agenda on China and help Israel build its knowledge base and understanding of the PRC.

In the area of shaping and understanding opportunities and challenges, Israel would benefit from instituting a formal government interagency coordination mechanism to manage policy toward China, which could be run out of the Prime Minister's Office. Different ministries treat China differently (for example, in their receptiveness to Chinese investment) and sometimes do not have a say in important

issues. A coordination mechanism also would help the government assess the costs and benefits of specific Chinese opportunities. Finally, Israel will need to build expertise on China through specialists who speak the language and understand trends in Chinese society, politics, foreign policy, economics, military development, and strategic goals. Israel should ensure that these specialists have access to policy circles and government offices. As a start, Israel could draw on Israeli defense experts who were active during the era of deep defense collaboration between the countries, contemporary China experts in academia, and private-sector actors who engage with Chinese counterparts regularly and who, in some cases, have significant knowledge of Chinese politics and foreign policy.

Learning the lessons of other countries' experiences with China could help in developing a more formal process to screen foreign investments, as least for security implications; considering the regulation of investments in major infrastructure projects; and increasing the monitoring of companies with poor track records in safeguarding technology or involvement in espionage or cyber breaches. There are numerous models for screening, from the U.S. model with a focus on national security, to the Australian model of review for national interest and the Canadian model of review for net benefit. Israel would not be alone in considering the development of such a screening mechanism: Major European countries, faced with rising technology investment from China, also are moving toward greater screening activities.

As of early 2019, leading security experts in Israel have voiced concerns over deepening Chinese involvement in Israel's infrastructure and technology sector, including Nadav Argaman, the head of Shin Bet, Israel's internal security service, who called for instituting a mechanism for screening foreign investments. Reportedly, mostly in response to fears over U.S. pressure, the Israeli National Economic Council and the National Security Council have been working on a plan to screen foreign investments. A policy shift seems in the making

as Israel is reportedly planning to bar Chinese and Turkish companies from competing in a tender process for the establishment of a new international airport because of Chinese espionage concerns and diplomatic tensions with Turkey. Although China was not targeted specifically, the tender was limited to companies from member countries of the North Atlantic Treaty Organization. In March 2019, press reported that the Israeli government intends to announce the establishment of a committee to screen foreign investments. However, following protest by different government ministries, the screening process may only be voluntary. Either way, such a committee has not yet been established.

Given the close partnership between the United States and Israel, the United States might be willing and able to help Israel to manage its growing relations with China. An enhanced U.S.-Israel dialogue on China could forestall future problems, especially those related to transfer of technologies that are dual use (i.e., of value to both the civilian economy and military capabilities). Advice on developing China expertise, as the United States did starting in the 1970s, also could be of value.

Moving the Israel-China Relationship Forward

Although Israel might need to take a more reserved approach toward Chinese investment, it should ensure that doing so does not damage its relations with China. According to reports from the Israeli TV Channel 13, Chinese officials, including those from the Chinese Foreign Ministry, have been seeking clarification from Israel regarding statements cautioning against warming ties with China.

Israel should first and foremost not jeopardize its special relations with the United States, but it also should ensure that it does not damage its important interests with China. Both countries have much to gain, and the United States is sympathetic to Israel seeking economic gains from China—most U.S. allies are doing so, as are most nations

in the world. Better trade relations, for example, can help diversify Israel's exports and provide more resilience to Israel's economy, especially because China is expected to grow far more quickly than Israel's other major export markets: Europe and the United States. But there is reason for Israel to be careful about the relationship. The United States, Israel's main security partner, views China warily—both as a trade partner and as a global competitor and potential adversary—and wants to ensure that China does not gain a military edge. Furthermore, Israel will need to safeguard its own technology edge. Accordingly, the smartest steps for Israel would be to build its own capacity to evaluate costs and benefits and to create a system for coordination within the government to develop the policies it needs to gain from its relationships with the world's two leading economic powers.

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Abbreviations

AI	artificial intelligence
BDS	Boycott, Divestment, and Sanctions
BRI	Belt and Road Initiative
CCCC	China Communications Construction Company
CCP	Chinese Communist Party
CCTV	China Central Television
CEO	chief executive officer
CFIUS	Committee on Foreign Investment in the United States
CHEC	China Harbour Engineering Company
CMC	Central Military Commission
CSYD	China Statistical Yearbook Database
CT	counterterrorism
IDF	Israel Defense Forces

IP	intellectual property
IPR	intellectual property rights
IRIN	Islamic Republic of Iran Navy
IT	information technology
JVP	Jerusalem Venture Partners
MOD	Ministry of Defense
NPC	National People's Congress
NSC	U.S. National Security Council
PBSC	Politburo Standing Committee
PLA	People's Liberation Army
PLO	Palestine Liberation Organization
PRC	People's Republic of China
R&D	research and development
SIPRI	Stockholm International Peace Research Institute
TIV	trend-indicator value
UAV	unmanned aerial vehicle
UIS	United Nations Educational, Scientific and Cultural Organization Institute for Statistics
UN	United Nations
UN Comtrade	United Nations Commodity Trade Statistics Database

Introduction

The People's Republic of China (PRC) and Israel seem like an odd couple on the global stage. China's population is 1.4 billion; Israel's is 8.4 million. Geographically, Israel can fit 434 times in China's territory. Israel is a small country marking the western border of the Middle East; China is among the largest countries in the world and sits at the eastern end of the Eurasian landmass. Despite the vast differences between them, or perhaps because of those differences, Israel and China have found common ground. Many in Israel and China have commented on the complementarity of the two economies. China, as a developing country, is keen to acquire advanced technology and Israel is an advanced developer of certain technologies. China also would like to learn from Israel's success in innovation. After returning home from a visit to China in 2013, Israeli Prime Minister Benjamin Netanyahu claimed that China was interested in "three things: Israeli technology, Israeli technology, and Israeli technology."¹

Israel, on the other hand, can benefit from expanding its diplomatic and economic ties with the world's fastest growing major econo-

¹ Prime Minister's Office, "PM Netanyahu's Remarks at the Israeli Presidential Conference," Jerusalem, June 20, 2013.

my.² Israel has been working to diversify its export markets and foreign investments from its traditional partners, the United States and Europe, a diversification motivated by both economic and diplomatic considerations. The European market has been stagnating and Europe presents a difficult diplomatic front for Israel, with substantial pressure coming from the pro-Palestinian Boycott, Divestment, and Sanctions (BDS) movement. Although the United States does not pose the same diplomatic challenges for Israel, the substantial expansion of Israeli-Chinese bilateral ties took off in 2013–2014, when relations between Netanyahu's government and the administration of former President Barack Obama soured.³

This research describes Israeli-Chinese relations. We provide a greater emphasis on the Israeli perspective and analyze the benefits, risks, and riskminimization strategies that Israel should be alert to in its relations with China, and present implications for the United States. We also provide a contribution on Chinese views based directly on Chinese sources. With that foundation, the authors discuss the opportunities and various challenges in the relationship with a focus on Israel and propose recommendations for Israeli and U.S. policymakers.

Although informal ties between Israel and China date back to 1979, the two countries have expanded and transformed the nature of their relationship to include collaboration on science and technology, Chinese investment in Israeli infrastructure, and academic cooperation. China has become Israel's third-largest trading partner, after the United States and the European Union, with more than \$11 billion

² Gregory Noddin Poulin, "Sino-Israeli Economic Ties Blossoming," *The Diplomat*, December 1, 2014; Liu Zhen, "Free Trade and Top Tech: What China Wants from Israel," *South China Morning Post*, March 22, 2017a.

³ Telephone conversation with a former senior official with Israel's Ministry of Labor, May 2018.

in bilateral trade in 2017.⁴ In 2014, Israel imported more goods from China than it did from the United States. The two nations also are negotiating a free trade agreement. In 2015, over U.S. objections, Israel became one of the founding members of the Asian Infrastructure Investment Bank (AIIB), another Chinese initiative.⁵ Chinese investment in Israeli technology companies has flourished and, in 2015, 40 percent of all venture capital flowing into Israel came from China. The broader business relationship also has flourished and, in March 2017, during Netanyahu's visit to China, the two countries signed ten bilateral and business agreements at a total value of \$25 billion.⁶

Challenges Associated with Israeli-Chinese Ties

As this report shows, although Israel could benefit from closer relations with China, these ties might come with strings attached, including their implications for Israeli-U.S. relations in light of U.S. concerns about China as a potential adversary.⁷ There are several challenges for Israel. The first is trade in defense articles and goods and services that can be used for civilian or military purposes, or dual-use items.

Chinese interest in Israeli defense technology led to a serious strain in U.S.-Israel relations and in Israel-China relations in the early

⁴ Elliott Abrams, "What's Behind Israel's Growing Ties with China?" Expert Brief, Council on Foreign Relations, June 21, 2018.

⁵ Dan Steinbock, "American Exceptionalism and the AIIB Debacle," China-US Focus, April 13, 2015. Reports indicate that the United States had lobbied allies not to join the AIIB. See, for example, Geoff Dyer and George Parker, "U.S. Attacks UK's 'Constant Accommodation' with China," *Financial Times*, March 12, 2015.

⁶ Ariella Berger, "The Rising Strategic Value of Global Technology Assets and Its Impact on Sino-Israel Relations," *Sino-Israel Global Network & Academic Leadership Perspectives*, June 27, 2017.

⁷ The White House, *National Security Strategy of the United States of America*, Washington, D.C., December 2017.

2000s. In the wake of agreeing to abort such defense connections with China, Israel recognized that U.S. support limits its freedom of action in the defense realm vis-à-vis China.⁸ Recently, however, China has increased its engagement with the Israeli technology sector, including on cybersecurity. Some Israeli officials, particularly in the Prime Minister's Office and the Foreign Ministry, have implicitly suggested that they might be willing to ease the restrictions on dual-use and defense technology exports to China that were established in the mid-2000s.⁹ Notably, the Israeli Ministry of Defense (MOD) has resisted these calls, reportedly because of the Israeli defense relationship with the United States.¹⁰ Regardless, closer Israel-China ties mean that the issue of dual-use and defense technology exports will likely resurface. This development represents an area where Israel's interests might again diverge from those of the United States, especially in light of escalating tensions and the growing trade war between the United States and China.

A second challenge is incompatibility between some Chinese and Israeli interests in the Middle East. China's interests in the region are motivated primarily by its energy dependence, which demands good relations with both Saudi Arabia and Iran, the latter of which has been Israel's prime enemy since 1979. As a result, China's political and strategic positions, efforts, and objectives in the region, as well as in such international organizations as the United Nations (UN),

⁸ Notably, both the deep disagreement and the limits to action stayed largely in the defense realm (telephone conversation with a former U.S. official with extensive experience in U.S.-Israel relations, August 2017; and in-person conversation with a former U.S. official with Middle East-related experience in several branches of government, August 2017).

⁹ Restrictions were placed after what has become known as the "HARPY incident," which involved Israel's plans to sell spare parts to China for armed drones (HARPY) it had previously supplied. See Scott Wilson, "Israel Set to End China Arms Deal Under U.S. Pressure," *Washington Post*, June 27, 2005. Regarding calls to ease restrictions, see Ora Coren, "Washington Obstructing Israeli High-Tech Exports to China," *Haaretz*, January 22, 2014.

¹⁰ Coren, 2014.

often do not match Israeli interests. Israeli officials say behind closed doors that China would never support Israel's position in the UN.¹¹ Disagreements are not limited to the issue of Iran but also concern the Israeli-Palestinian conflict, on which China has consistently supported pro-Palestinian positions. A recent example was China's negative response to the U.S. recognition of Jerusalem as Israel's capital in 2017. Chinese Foreign Ministry spokesperson Geng Shuang said, "We support the just cause of the Palestinian people to restore their legitimate national rights and stand behind Palestine in building an independent, full sovereignty state along the 1967 borders with East Jerusalem as its capital."¹²

The third challenge to the recent expansion of the Israel-China relationship is due, in part, to the evolution of Chinese strategic thinking about the Middle East and its own role in the international order.¹³ The Middle East is a key part of China's Belt and Road Initiative (BRI; known in China as "One Belt One Road"), and closer ties with Israel fit into China's larger regional aspirations while helping to advance China's technology sector. Although Chinese President Xi Jinping formally announced the BRI in 2013, the initiative builds on a longer-term Chinese effort that stretches back to the early 1990s to internationalize into developing regions, including the Middle East. These efforts, which even extended into Europe before the BRI announcements, included a large infrastructure development component.¹⁴ Since

¹¹ Conversation with a senior official at Israel's Ministry of Foreign Affairs, Jerusalem, July 2017.

¹² Charlotte Gao, "What's China's Stance on Trump's Jerusalem Decision?" *The Diplomat*, December 7, 2017.

¹³ Yoram Evron, "The Economic Dimension of China-Israel Relations: Political Implications, Roles, and Limitations," *Israel Affairs*, Vol. 3, No. 5, 2017, pp. 828–847.

¹⁴ Andrew Scobell et al., *At the Dawn of Belt and Road: China in the Developing World*, Santa Monica, Calif.: RAND Corporation, RR-2273-A, 2018; Pamela Luică, "China Expands Through Rail Infrastructure Investment in Asia and Europe," *Railway Pro*, November 17,

the late 2000s, Chinese companies have been involved in building and operating major infrastructure projects in Israel. These projects include sites at the country's only two ports in the Mediterranean Sea, which are also home to the Israeli Navy;¹⁵ parts of Tel Aviv's light-rail project; the excavation of the Carmel Tunnels in Haifa; the excavation of the tunnels on the Akko-Karmiel train line; and the not-yet-approved Eilat-Ashdod train construction project, also known as the "Red-Med railway."¹⁶ Ports, rail, and roads fit in with the general concept of "critical infrastructure," which could require special consideration from policymakers. But although Israel's MOD prevents companies affiliated with foreign governments from bidding on tenders, this limitation does not exist when it comes to tenders issued by the Ministries of Transportation, Energy, and others. This has enabled Chinese companies, including those with clear ties to the PRC government, to compete and win tenders for construction and operation of major infrastructure projects, arguably without sufficient scrutiny.¹⁷ China's repeated attempts to purchase Israeli assets, such as the Phoenix and Clal insur-

2010; George Ofori, "Chinese Contractors and International Construction: Tentative Analytical Models and Research Agenda," The Chinese Research Institute of Construction Management (CRIOCM) International Symposium on "Advancement of Construction Management and Real Estate," Beijing, November 3–5, 2006; Centre for Chinese Studies, *China's Interest and Activity in Africa's Construction and Infrastructure Sectors*, Stellenbosch, South Africa: Stellenbosch University, November 2006.

¹⁵ As we discuss further in Chapter Five, a Chinese entity is building the new port in Ashdod and another entity will be operating the new deep-sea Haifa port for 25 years, starting in 2021. See Dubi Ben-Gedalyahu, "China to Be Israel's Biggest Infrastructure Partner," *Globes*, April 29, 2015.

¹⁶ Ben-Gedalyahu, 2015. The Red-Med railway is a BRI-related project meant to connect the ports of Eilat and Ashdod to ensure reliable access for Chinese shipping from the Red Sea to the Mediterranean, complementing the Suez Canal, which China uses for shipments to Europe (Mordechai Chaziza, "The Red-Med Railway: New Opportunities for China, Israel, and the Middle East," Ramat Gan, Israel: Begin-Sadat Center for Strategic Studies Perspectives Paper No. 385, December 11, 2016).

¹⁷ Authors' correspondence with an Israeli expert on China, September 2018.

ance companies, have been blocked by Israeli regulators who fear transferring the control of Israeli public savings to a foreign company. However, Chinese construction and operation of major infrastructure projects, which involve the installation of and access to cameras, radio, fiber optics, and cellular networks, raise concerns, as we explain in more detail in Chapter Five.

A fourth challenge associated with the expansion of Israeli-Chinese ties rests on the security of Israel's technology and future prospects for the Israeli economy. Based on the experience of other countries, China's policies and practices on matters related to intellectual property rights (IPR) raise red flags in Israel. Furthermore, the acquisition of Israeli companies and knowledge generated through academic cooperation might enable China to funnel crucial technologies and resources from Israel to China, with insufficient returns. This has become even more prominent with the 2015 introduction of the "Made in China 2025" document, a ten-year plan, to be followed by two more plans, to "transform China into a leading manufacturing power by the year 2049," the 100th anniversary of the founding of the PRC.¹⁸ Through this process, China could reduce Israel's ability to gain returns from its research and development (R&D) and innovation by making Israeli intellectual property (IP) indigenous to China without payment, impairing Israel's future growth and prosperity.

Moreover, China's unchecked investment and access to Israeli technology exposes the Israeli economy to cyber risks. This concern is grounded in other countries' experience. In late 2015, Chinese cyber espionage targeting U.S. companies was estimated at \$360 billion per year.¹⁹ This risk is elevated when it comes to defense technologies. In 2014, CyberESI reported that Chinese People's Liberation Army

¹⁸ "Made in China 2025' Plan Unveiled," Xinhua, May 19, 2015.

¹⁹ Chris Strohm, "No Sign China Has Stopped Hacking U.S. Companies, Official Says," Bloomberg, November 18, 2015.

(PLA) hackers targeted and stole sensitive information about the Iron Dome missile defense technology. In addition to Iron Dome, the hackers targeted three major defense industry companies, Elisra Group, Israel Aerospace Industries, and Rafael Advanced Defense Systems, stealing mostly “intellectual property pertaining to Arrow III missiles, Unmanned Aerial Vehicles (UAVs), ballistic rockets, and other technical documents in the same fields of study.”²⁰

A final challenge is that high levels of Chinese investment and construction in Israel could provide the PRC with political leverage over Israel. For example, in 2013, China conditioned Netanyahu’s visit on Israel ending a New York federal court case against the state-owned Bank of China, which was accused of laundering Iranian money for terror activity by Hamas and Palestinian Islamic Jihad. Any substantially sized company originating in China likely has links, either formal or informal, to the government and is expected to cooperate with its security and intelligence apparatus.

Data and Methods

We used a mixed-methods approach throughout the research effort. To review the evolution of Chinese-Israeli ties, we drew on academic literature and original reporting in Hebrew, Chinese, and English. We explain official and non-official PRC views on Israel using mostly Chinese sources. To capture the state of political, defense, economic, and academic cooperation between Israel and the PRC, we relied on a wide range of sources, including counts of high-level visits, the value of arms transfers, the value of trade, foreign patenting by Chinese and Israeli citizens, counts of Confucius Institutes in Israel, the numbers of Israeli students in China and of Chinese students in Israel, and data

²⁰ Zachary Keck, “Chinese Hackers Target Israel’s Iron Dome,” *The Diplomat*, August 2, 2014.

on academic exchanges. To examine Chinese investment and activity in Israeli technology and infrastructure projects, we used open source materials that reported on 92 such investments and construction deals between 2007 and 2018. Finally, we drew on in-depth discussions with more than a dozen current and former Israeli and U.S. officials and subject-matter experts to gain a better understanding of the relationship and the points of view of each country. We used these conversations as a basis for our discussion of the implications of Israeli-Chinese ties and policy recommendations. We provide more detail on data and methods in Appendix A.

The Plan for This Report

The remainder of this report proceeds as follows. Chapter Two reviews the history of Israel-China relations from 1979 to the present. In Chapter Three, we discuss Chinese perceptions of Israel. In Chapter Four, we use quantitative and qualitative measures to describe trends in political and diplomatic; defense; economic; and academic, scientific, and cultural relations between the two countries. We build on this in Chapter Five with an analysis of Chinese investments and construction activities in Israel, examining their scope and the potential risks faced by Israel. Lastly, in Chapter Six we discuss policy implications for Israel and the United States and offer recommendations for U.S. and Israeli policymakers so that Israel can fully utilize its expanding relations with China while minimizing the risks associated with these ties.

We provide more information about data collection and methods in Appendix A and discuss trade data in Appendix B.

History of Israel-China Relations

Israel was the first country in the Middle East to recognize the PRC, which it did in January 1950. After this, the two sides took some tentative steps to establish formal diplomatic relations. However, these attempts faltered for more than four decades, as the two countries found themselves on opposing sides of the Cold War and facing pressure by third parties—the United States from Israel’s side and the Arab countries in the case of China—which hindered the establishment of formal ties until 1992.¹ In the 1980s and 1990s, Israel and the PRC maintained secret contacts related to the transfer of defense technology from Israel to China. Two incidents in the late 1990s and early 2000s related to U.S. opposition to such deals resulted in the suspension of defense technology transfers and the cooling of ties. Chinese interest in Israeli non-defense technology has been a driving force in the relationship to the present day, and the two countries have expanded their economic ties rapidly despite obstacles in the defense and political realms.

¹ Yitzhak Shichor, “Hide and Seek: Sino-Israeli Relations in Perspective,” *Israel Affairs*, Vol. 1, No. 2, 1994.

The Early Years: The Path to Normalization

Israel was one of only several nonsocialist countries to first recognize the PRC and it has consistently supported the One China policy, which was appreciated by the PRC.² What was then the Republic of China was sympathetic to the State of Israel when it was newly established.³ Despite a positive start, Israeli-Chinese ties were subject to the negative influences of third parties that hindered the establishment of formal ties for more than 40 years. In 1951, the United States pressured Israel to freeze ties with China and endorse the U.S. position on the Korean War at the UN. Meanwhile, relations between the Soviet Union and Israel underwent a dramatic downturn in 1953, after Jewish doctors in the Kremlin were accused of attempting to assassinate Joseph Stalin—a conflict in which China followed the Soviet Union’s lead. Although an Israeli commercial delegation visited China in 1955, China prioritized relations with the Arab states as part of its foreign policy focus on what was then known as the “Third World” and rejected Israel’s request to participate in the 1955 Bandung Conference of Asian and African nations.⁴ Both Israel and China set aside the development of bilateral ties from 1956 to the early 1970s, prioritizing relations with other countries. China continued to advance relations with the Arab world, and in the 1960s, Chinese attitudes toward Israel turned quite hostile. Beijing invited the new Palestine Liberation Organization (PLO) to open a semidiplomatic mission, its first in a non-Arab country.⁵ China advocated for solving the Israeli-Palestinian conflict

² Chinese leader Deng Xiaoping reportedly cited Israel’s support for the One China policy as a justification for Chinese diplomatic recognition of Israel (Shichor, 1994, p. 203).

³ Shichor, 1994.

⁴ Xia Liping [夏莉萍], “Sino-Israeli Relations in the 1950s as Seen from Declassified Files of the Ministry of Foreign Affairs [从外交部开放档案看20世纪50年代中以接触始末],” *Contemporary China History Studies* [当代中国史研究], Vol. 12, No. 3, May 2005, p. 82.

⁵ Shichor, 1994.

through armed resistance and provided various Palestinian factions with military training and weapons.⁶

Following the reconciliation between Beijing and Washington and the admission of the PRC to the UN as a permanent member of the Security Council in the early 1970s, China expanded its foreign ties. Israel, which supported the PRC's UN bid, has had an honorary consul in Hong Kong since 1961 and upgraded it to a full-time consulate in 1972 or 1973 as a pathway for greater communications with China. Budgetary pressures resulted in the return to honorary representation in 1975.⁷ During the 1970s, although China toned down its criticism of Israel and several meetings took place between Chinese and Israeli representatives, China avoided establishing diplomatic ties with Israel, conditioning such a development on settlement of the Arab-Israeli conflict.⁸

The death of Chairman Mao Zedong and the rise of a reformist Chinese leadership, coupled with the 1977–1978 Israeli-Egyptian peace process, led to a slight modification of Chinese attitudes toward Israel. Israelis holding foreign passports and third-party mediators helped provide cover for informal ties between Israel and the PRC, which was wary of Arab criticism.⁹ At the same time, China continued to condition formal ties on solving the Arab-Israeli conflict, and in 1979, China posed a new requirement—the establishment of a Palestinian state.¹⁰

⁶ Mohammed Turki Al-Sudairi, "Among Old Friends: A History of the Palestinian Community in China," Washington, D.C.: Middle East Institute, Center for Research and Islamic Studies, March 27, 2015.

⁷ Shichor, 1994; Jonathan Goldstein, ed., *China and Israel, 1948–1998: A Fifty Year Retrospective*, Westport, Conn.: Praeger Publishers, 1999.

⁸ Shichor, 1994.

⁹ Shichor, 1994.

¹⁰ Hua Guofeng, "Report on the Work of the Government (Delivered at the Second Session of the Fifth National People's Congress, June 18, 1979)," *Beijing Review*, No. 27, July 6, 1979.

Nonetheless, since 1979, and more so since the mid-1980s, senior Israeli-Chinese exchanges became more frequent. These exchanges took place through the UN, other international organizations, and academic and cultural associations. The peace process between Egypt and Israel made China realize the importance of external mediation in the Arab-Israeli conflict and, in 1984, China proposed holding an international peace conference under the auspices of the five permanent members of the UN Security Council to resolve the Arab-Israeli conflict.¹¹ The idea of such a conference required that the PRC adopt a more balanced position, paving the way for more-extensive Israeli-Chinese engagements.

In the summer of 1985, Israel reopened its consulate general in Hong Kong, in part to reach out to China, and public meetings between foreign policy officials, including UN Israeli and Chinese delegations, began to take place more frequently. In late 1987, a high-level meeting took place between then-Foreign Minister Shimon Peres and his counterpart Wu Xueqian, and by 1988, Israeli tourists were flocking to China. That year, China recognized the State of Palestine and upgraded its ties with the PLO, but that did not affect the course of Israeli-Chinese ties.¹²

The Western nations isolated the PRC after the Tiananmen Square incident in 1989, and sanctions on China opened the door for closer ties with Israel for arms sales. Other ties also started advancing. That year, China International Travel Service opened an office in Tel Aviv and a delegation of Chinese journalists visited Israel. Subsequently, Israel opened an academic center in Beijing.¹³ In 1990, China

¹¹ Michael Dillon, "The Middle East and China," in Hannah Carter and Anoushiravan Ehteshami, eds., *The Middle East's Relations with Asia and Russia*, London: Routledge Curzon, 2004.

¹² An Guozhang, "Palestine: Factions Unite, State is Born," *Beijing Review*, Vol. 31, No. 48, November 28–December 4, 1988, pp. 10–11.

¹³ Shichor, 1994.

essentially removed its preconditions of solving the Palestinian question when then-President Yang Shangkun said that the PRC would consider establishing ties with Israel “if it changes its hardline stance and contributes to the peace efforts.”¹⁴

Following the first Gulf War, during which China aligned itself with the West by supporting sanctions against Iraq, and the disintegration of the Soviet Union, China paved its way back into the international community. After the 1991 Madrid peace conference on the Arab-Israeli conflict, and as preparations were taking place for the January 1992 multilateral peace conference in Moscow, the PRC and Israel established formal ties.¹⁵

Since then, China’s stated policy on the Israeli-Palestinian conflict has not fundamentally changed, and like most of the international community, China supports the establishment of an independent Palestinian state alongside Israel, as it regularly makes clear in international forums. In practice, however, this position has not prevented the PRC from strengthening its relations with Israel.¹⁶ Israel, on the other hand, has continued to face challenges stemming from the need to balance its close ties with the United States with its efforts to build a relationship with China.

Defense Technology Transfers Were the Bedrock of Ties Until 2005

One of the key catalysts for Israeli-Chinese relations came in 1979, when businessman Saul Eisenberg helped arrange a secret meeting

¹⁴ Quoted in Shichor, 1994, p. 202.

¹⁵ Avi Luvton, “An Economic Powerhouse and a Rising Hi-Tech Superpower—25 Years of Diplomatic Relations Between China and Israel,” *Times of Israel*, March 23, 2017.

¹⁶ Telephone conversation with an expert on Israeli-Chinese ties, February 2018.

between the two sides that resulted in the first of many deals to transfer defense technology from Israel to China. The 1979 Israeli delegation to China, which used Eisenberg's private jet, included such defense industry officials as Gabriel Gidor, the chief executive officer (CEO) of Israel Aerospace Industries, and senior officials from the Israeli foreign and defense ministries.¹⁷ China was interested in developing the relationship for several reasons. First, it was impressed with Israeli military technology and China was intent on upgrading its military, especially in the wake of the Sino-Vietnamese War. Second, partly via its wars in the Middle East, Israel had access to Soviet military technology and was familiar with Soviet military doctrine. As a result, Israel could help China upgrade its Soviet-made equipment.¹⁸

Over the following two decades, military technology transfers between Israel and China totaled between \$1 billion and \$2 billion in more than 60 transactions, all of which were conducted in secrecy. These transactions allegedly included technology to upgrade Chinese tanks, night vision systems, electronic warfare systems, Python-3 air-to-air missiles, fighter aircraft technology, and unmanned aerial vehicle (UAV) technology.¹⁹ Although Israeli officials visited China frequently, sometimes carrying foreign passports or assisted by third-party mediators, Chinese officials did not visit Israel until ties were formalized in 1992.²⁰ In 1985, China issued formal visas to nine Israeli agricul-

¹⁷ Yaakov Katz and Amir Bohbot, "How Israel Used Weapons and Technology to Become an Ally of China," *Newsweek*, May 11, 2017.

¹⁸ Islam Ayyadi and Mohammed Kamal, "China-Israel Arms Trade and Co-Operation: History and Policy Implications," *Asian Affairs*, Vol. 47, No. 2, 2016; Aron Shai, *Sino-Israel Relations: Current Reality and Future Prospects*, Memorandum No. 100, Institute for National Security Studies, Tel Aviv, September 2009.

¹⁹ Yoram Evron, "Between Beijing and Washington: Israel's Technology Transfers to China," *Journal of East Asian Studies*, Vol. 13, No. 3, 2013.

²⁰ Shichor, 1994.

tural experts, including a governmental official.²¹ Still, notwithstanding some deals in agriculture and other industries, and although the establishment of diplomatic relations in 1992 opened up the Chinese market to other Israeli companies, most business between China and Israel during this period centered on military technology.²²

In the late 1990s and early 2000s, the defense relationship experienced two major setbacks that had a lasting effect on Israel-China relations and resulted in changes to Israel's export control system. The first major crisis occurred in 2000 when Israel yielded to U.S. pressure and canceled a deal to install the PHALCON advanced airborne radar system on surveillance planes for the PLA Air Force. The United States had been aware of the transaction since the mid-1990s, when the agreement was signed, but growing worries about China contributed to U.S. objections in 1999.²³ As reported in one analysis, the United States was concerned that such early warning capabilities would enable China to gain greater control of airspace and tip the balance of power in a U.S.-China conflict, particularly in the Taiwan Strait.²⁴ However, although there is agreement regarding the issue of control of airspace, the United States was actually concerned about conflict with China more generally.²⁵ Furthermore, despite Israeli claims to the contrary, the United States contended that the PHALCON was a U.S.-originated technology.²⁶

²¹ Katz and Bohbot, 2017.

²² Evron, 2013.

²³ P. R. Kumaraswamy, "Israel-China Relations and the Phalcon Controversy," *Middle East Policy*, Vol. 12, No. 2, 2005.

²⁴ Suzanne Goldenberg, "Israel and U.S. Clash over Spy Plane Sale to China," *The Guardian*, April 9, 2000.

²⁵ Telephone conversation with a former U.S. official who worked on defense issues related to Israel in the late 1990s and early 2000s, August 2017.

²⁶ Telephone conversation with a former U.S. official who worked on defense issues related to Israel in the late 1990s and early 2000s, August 2017.

Israel's significant error with the PHALCON was to lobby Congress directly for permission to export the technology to China. In accordance with the U.S. administration, Congress had no desire for China to gain the technology embedded in the PHALCON. Israel's supporters from both parties were deeply unhappy with this behavior, and Israel pulled back.²⁷ The damage to U.S.-Israel ties was compartmentalized and the incident reportedly did not affect the overall relationship. It did, however, lead to greater scrutiny and suspicion about third-party transfers.²⁸

When Israel canceled the PHALCON deal, it compensated China \$350 million in damages, including repayment of \$190 million that the PRC had paid in advance.²⁹ Although it was embarrassing to Israel, this incident did not significantly affect relations, as China chose primarily to blame the United States.³⁰

The second incident took place in 2005 and involved upgrades—or maintenance, according to Israeli sources—to HARPY UAVs. This disagreement resulted in the severance of defense relations between Israel and China and in major changes to the structure of Israel's export control regime. Israel originally sold the UAVs to China in the 1990s and was later contracted to do maintenance on them. However, a crisis erupted in 2005 when the United States discovered that the maintenance would include upgrades and accused Israel of deceiving the United States about the nature of the work.³¹ According to a former

²⁷ Telephone conversation with a former U.S. official with Middle East–related experience in several branches of government, August 2017.

²⁸ Telephone conversation with a former U.S. official with Middle East–related experience in several branches of government, August 2017.

²⁹ Amnon Barzilai, "Israel, China Agree on Compensation for Canceled Phalcon Deal," *Haaretz*, March 13, 2002.

³⁰ Kumaraswamy, 2005.

³¹ Yitzhak Shichor, "The U.S. Factor in Israel's Military Relations with China," *China Brief*, Vol. 5, No. 12, May 24, 2005.

senior official at the U.S. National Security Council (NSC), “this incident almost ruined the special relationship with Israel.”³² A former senior official with Israel’s MOD recalled that members of Congress warned him at the time that Israel was seen as a “threat to U.S. national security.”³³ During the HARPY incident, the United States stopped cooperation with Israel on the F-35 Joint Strike Fighter program, and U.S. pressure resulted in lasting changes to Israel’s relationship with China.³⁴

The United States insisted that Israel cut off the HARPY deal. In addition, it demanded the resignation of senior MOD officials and an agreement—or “understandings,” according to Israelis—that all defense transfers and dual-use exports to China be subject to U.S. approval. These additional consultation mechanisms between the U.S. Department of State and the Israeli MOD “put an end to China-Israel defense technology relations.”³⁵ The HARPY incident gave rise to Israel’s 2007 Export Control Law, which expanded the requirements for export licenses and placed restrictions on arms sales and the export of dual-use technology.³⁶ According to former Israeli officials, this compromise was needed, although unprecedented in the way it undermined Israel’s independent decisionmaking vis-à-vis senior personnel (appointments within the MOD) and foreign and economic relations with a third country.³⁷

³² Conversation with a former senior official at the NSC, Washington, D.C., May 2017.

³³ Conversation with a former senior official at Israel’s MOD, Tel Aviv, December 2017.

³⁴ Ran Dagoni, “Harpy UAV Compromise with U.S.: No Upgrades for China,” *Globes*, May 25, 2005.

³⁵ Yoram Evron, “Israel’s Response to China’s Rise: A Dependent State’s Dilemma,” *Asian Survey*, Vol. 56, No. 2, March/April 2016; Evron, 2013.

³⁶ Evron, 2013.

³⁷ Conversation with a former senior official at Israel’s MOD, Tel Aviv, December 2017.

These incidents highlight the influence of the United States in Israeli foreign affairs and the balancing act Israel continues to play between great powers as it navigates its relations with China. Israel could benefit economically and strategically from a closer relationship with China, but its dependence on the United States for military equipment, aid, and international support gives Israel little room to maneuver because Washington views Beijing as a potential adversary.

The Shift from Defense Cooperation to Economic Cooperation

Although defense relations were severed after the HARPY incident and the frequency of high-level official visits dropped, the economic relationship between China and Israel was well established in other areas by 2005 and continued to grow. As subsequent chapters show, the Israel-China relationship is driven primarily by economic considerations, although political relations have been steadily improving and some limited military connections have been restored. The catalyst for these bilateral ties remains Chinese interest in Israeli advanced technology and Israeli pursuit of access to the large Chinese market.³⁸

Prime Minister Netanyahu prioritized relations with the PRC in 2013, shortly after he began his third premiership. His first trip to China was associated with another clash with authorities in the United States, although in a very different way than the HARPY and PHALCON issues. The Chinese government conditioned Netanyahu's visit on Israel ending a court case that it had originally pressed forward. Specifically, the Chinese asked that Netanyahu guarantee that senior defense officials would refrain from testifying in a federal court trial in New York against the state-owned Bank of China, which was accused of laundering Iranian money for terror activity by Hamas and

³⁸ Poulin, 2014; Liu Zhen, 2017a.

Palestinian Islamic Jihad. Netanyahu agreed.³⁹ Israeli Ambassador to the United States Michael Oren returned to Israel to convey the message he had received from the administration and Congress, which was that to them, Israel's actions were a betrayal regarding both the fight against terrorism and geopolitical competition between China and the United States. Furthermore, the message conveyed shock that Netanyahu, known as "Mr. Terror" for his approach to counterterrorism, would take such an action.⁴⁰ In 2015, after nine years of proceedings, what had been described as "the most significant and contentious terrorism financing case ever filed in New York" was dismissed. The formal reason was the lack of expert witnesses.⁴¹

Netanyahu's decision in 2013 to heed the PRC's threats and prioritize his planned visit to China over a historic terrorism court case, even at the price of clashes with the United States, was a turning point in modern Israeli-Chinese ties. Upon his return from China, Netanyahu passed Government Resolution 251, which directs the expansion

³⁹ In 2008, the family of Daniel Wultz—a 16-year old (and a relative of Rep. Eric Cantor, former House Majority Leader) who died in a suicide terror attack in Tel Aviv in 2006—launched legal action against the Bank of China. The case represented the families of 20 American victims of terror attacks that took place in Israel from 2003 to 2008. They sued the Bank of China's branch in Guangzhou for funneling Iranian money to Palestinian terrorist organizations that backed the attacks that killed Daniel Wultz and the other victims. Israel reportedly urged the family to start legal proceedings and promised to provide them with evidence, including expert witnesses. One of these witnesses was a former counterterrorism official named Uzi Shaya, who had tracked the Bank of China case and pressed it to close the problematic accounts, to no avail. In 2013, however, as Netanyahu's visit to China was approaching, Shaya told the Wultz family he was threatened by Israeli officials not to testify in the case. The Wultz lawyers subpoenaed him to force the testimony, but Israel answered on his behalf "by filing a petition against the Wultz family . . . arguing that any testimony could harm Israeli security by revealing state secrets." More details are available in Roger Cohen, "Did Israel Put Money over Justice?" *New York Times*, February 28, 2015.

⁴⁰ Shimon Shiffer, "U.S. Outraged After Israel Backs Out of Terror Suit," *Ynet News*, July 15, 2013.

⁴¹ Yonah Jeremy Bob, "Exclusive: Historic Case Against Bank of China for Millions in Terror Financing Dismissed," *Jerusalem Post*, August 11, 2015.

of all nonsensitive aspects of Israeli-Chinese cooperation.⁴² The Resolution was followed by additional government directives, including the appointment of the head of the National Economic Council to lead the expansion of ties with China; the creation of different working teams; and specific incentives for different ministries to cooperate with Chinese companies.⁴³ Ministers of Finance and Housing promoted deals to bring Chinese construction workers and, for the first time, Chinese construction companies to Israel. In 2013, the Ministry of Economy began closing economic attaché offices in the United States and Europe and instead opened offices in China.⁴⁴ The Minister of Transportation continued promoting tenders to Chinese companies.

Conclusion

As subsequent chapters will show, the shift to economic cooperation has led to a major expansion of bilateral ties, including significant Chinese investment and construction activity in Israel. According to a former senior Israeli official, this shift and the subsequent expansion of economic ties were widely supported and not accompanied by a discussion about the possible implications to Israel of expanding Israeli-Chinese ties.⁴⁵ As noted in Chapter One, some Israeli officials have even suggested that they are open to easing the restrictions on dual-use

⁴² Prime Minister's Office, "Tochnit le'kidum ve'harchavat ha'ksharim ha'kalkaliyim bein Israel v'Sin" ["A Plan to Promote and Expand the Economic Relations Between Israel and China"], Jerusalem, June 5, 2014.

⁴³ Prime Minister's Office, 2014.

⁴⁴ Yuval Azulay, "Rotsim La'avod Be'chul: 2,200 Muamadim al 12 Misrot Nispachim Mis-chariyim" ["Want to Work Abroad: 2,200 Candidates for 12 Commercial Attaché Positions"], *Globes*, December 2, 2013.

⁴⁵ Telephone conversation with a former official at the Ministry of Economy, April 2018.

and defense technology exports. However, the MOD has resisted.⁴⁶ As Israeli-Chinese economic and other ties deepen, more points of contention between the United States and Israel could arise, including the issue of dual-use and defense technology exports, which would place Washington firmly in the middle of Israel-China relations.

In part, this is because of Chinese investment in Israeli technology companies and venture capital firms that invest in dual-use technology.⁴⁷ In addition, defense relations have been warming. High-level military visits resumed in 2011, when Defense Minister Ehud Barak—who had earlier canceled the PHALCON deal as prime minister—visited China.⁴⁸ Two months later, the chief of the PLA General Staff Department visited Israel, and the two parties vowed to strengthen military ties.⁴⁹ However, Israel is still cautious about Washington's reaction to such ties, so military cooperation is limited to areas that will not be sensitive to the United States, such as providing counter-terrorism (CT) training to Chinese troops.⁵⁰ Such training could have other implications for Israel's international standing, however, if it were being used in ongoing Chinese repression in Xinjiang.

Beyond the U.S. defense connection, several former and current Israeli Knesset members and officials started raising PRC-related concerns in 2017, such as China's cyber espionage record; corruption allegations; the links between Chinese companies and China's government; and the issue of having a foreign entity control major infrastruc-

⁴⁶ Coren, 2014.

⁴⁷ "Israel's Ties with China Are Raising Security Concerns," *The Economist*, October 11, 2018.

⁴⁸ Evron, 2016.

⁴⁹ "China, Israel Vow to Improve Military Ties," Xinhua, August 15, 2011.

⁵⁰ Agence France-Presse, "China Seeking Israeli Counter-Terror Experts," *Times of Israel*, July 10, 2014; Mercy A. Kuo and Angelica O. Tang, "The U.S.-China-Israel Defense Dynamic: Strategic Common Ground," *The Diplomat*, May 11, 2015.

ture, including infrastructure that might be integral to Israeli security.⁵¹ China's support for the Palestinians in the UN and its strong ties with Israel's regional adversaries, especially Iran, continue to pose other challenges.⁵² We expand on these issues in subsequent chapters.

⁵¹ Such concerns are reported in Yossi Melman, "Cause for Concern? Chinese Investment and Israel's National Security," *Jerusalem Post*, April 7, 2018.

⁵² One official explained that Israel does not anticipate that China will vote in its favor in the UN anytime soon (conversation with an official in Israel's Ministry of Foreign Affairs, Jerusalem, July 19, 2017).

Chinese Perceptions of and Interests in Israel

China has pragmatic reasons for its abiding interest in Israel. A review of recent Chinese writings and trends in bilateral relations between the two countries indicates that China sees Israel as a particularly useful partner in achieving four broad policy goals. First, and most important, Chinese analysts and officials tend to view Israel as a country that can help China spur indigenous innovation and R&D as the country continues its economic and military modernization. Second, China looks to Israeli policies, experience, and technology in defense, security, cyber, and CT as a means of promoting China's own needs in military and domestic security capabilities. Third, China views Israel as an important player in China's overall Middle East policy and seeks to balance its historically close relations with other countries in the region with increasing ties with Israel. Within this geostrategic context might lie an effort on the part of China to make inroads with a key U.S. ally in the region with the intent to undermine global U.S. alliance and partner networks. Finally, China sees Israel as an important component of the BRI.

Beyond these interests, an analysis of Chinese *attitudes* toward Israel reveals a mixed picture. As of the mid-2010s, in most areas of trade, investment, security, and diplomacy, Chinese policymakers and academics communicated a highly favorable perception of Israel. This positive image begins with an officially professed Chinese admiration

for Jewish culture and traditions.¹ In addition, many ordinary Chinese citizens feel a certain affinity for what they believe to be a kindred civilization and culture that values the importance of family, hard work, and education. At the same time, PRC officials occasionally criticize Israeli policies, especially concerning the Palestinians, and the general positive feeling toward Israel does not necessarily reflect the public Chinese sentiment as reflected in polls. In this chapter, we discuss each of China's broad goals with respect to its bilateral relationship with Israel, provide insight into Chinese attitudes toward Israel, and conclude with what Chinese views and posture toward Israel mean for China's policy toward the region.

A Model for High-Tech Innovation

In his March 2017 visit with Chinese President Xi, Israeli Prime Minister Netanyahu announced the establishment of a “comprehensive partnership for innovation” between Israel and China.² This initiative was developed after Netanyahu's May 2013 visit to China, in which the two governments created five task forces in the fields of “high technology, environmental protection, energy, agriculture and financing.”³ The two sides would reportedly “put priority on strengthening cooperation

¹ Benjamin Ivry, “Why Are the Chinese So Obsessed with the Jews?” *Forward*, July 20, 2016.

² Although the term *partnership* was used in this context, experts explain that China sees Israel as a U.S. ally that will choose Washington if it faces a choice between Beijing and Washington. In addition, China sees the Arab states and Iran as its natural partners in the Middle East, and this excludes the option of partnership with Israel (authors' correspondence with an Israeli expert on China, September 2018).

³ Gao Yanping, “China-Israel Relations Are Bound to Blossom,” *Jerusalem Post*, April 3, 2014.

in the fields of scientific and technological innovation, water resources, agriculture, medical care and public health, and clean energy.”⁴

China’s Vice President, Wang Qishan, a close confidant of President Xi, visited Israel in October 2018 to take part in the China-Israel Joint Committee on Innovation Cooperation. He was accompanied by representatives of 13 ministries.⁵ During his visit, Wang praised Israel, saying that “Israel leads the world in electronics, information technology, modern medicine, and agriculture. China is still striving to achieve modernization.”⁶ His statement illustrates what China seeks most from Israel: to learn from policies and practices that Israel has put in place regarding innovation and entrepreneurship as China attempts to shift its economy from one that is investment- and export-led to one that is consumption- and innovation-led.

From China’s perspective, Israel represents a success story of how a “start-up nation” with a small population can innovate at a high level and produce large multinational technology companies that are competitive in the global economy.⁷ Israel’s success story contributes to existing stereotypes in China of Jews as smart, entrepreneurial, resourceful, and wealthy.⁸ In this context, the Chinese see the Israeli economy in general and its science and technology industry in particular as especially useful. As China goes about restructuring its own

⁴ Liu Hua, “Xi Jinping Meets with Israeli Prime Minister Netanyahu,” Xinhua, March 21, 2017.

⁵ Lilach Baumer, “Chinese Vice President Wang Qishan Lands in Israel for Official Visit,” Calcalist Tech, October 22, 2018.

⁶ Baumer, 2018.

⁷ The term *start-up nation* comes from Dan Senor and Saul Singer, *Start-Up Nation: The Story of Israel’s Economic Miracle*, New York: Hachette Book Group, 2009.

⁸ James R. Ross and Song Lihong, eds., *The Image of Jews in Contemporary China*, Boston, Mass.: Academic Studies Press, January 2016; Chu Ke [褚兢], *16 Reasons Why Jews Get Wealthy* [犹太人:16个致富法则], Bai Hua Zhou Wen Yi Publishing House [百花洲文艺出版社], 2018.

economy, it seeks to learn from the Israeli model of innovation, especially given Israel's natural resource constraints.⁹

One of the ways that China tries to benefit from Israel is through investment to gain access to technology and learn from Israeli innovation practices. For about a decade through the middle of the 2010s, China's investments into Israel were largely in agriculture and the food industry, although they were tilted toward the technology side of that industry. These included China National Chemical Company's (ChemChina's) acquisition of Israeli agrochemical and crop protection company Adama (formerly Macteshim Agan Industries) in 2011 and China Bright Food Group's takeover of Israel's Tnuva Food Industries in 2015. These transactions helped improve Chinese productivity and gain a foothold in the bio-agriculture market.

Since the mid-2010s, however, China has focused on investments in technology start-ups in Israel, from Chinese telecom powerhouse Huawei's bid for Israeli cybersecurity firm HexaTier to venture capital investments by China's PingAn Ventures and China Broadband Capital into IronSource, an Israeli telecom company that offers digital content and technology for software developers and mobile carriers.¹⁰ Data are regrettably spotty, but one recent report noted that the number of Chinese companies investing in Israeli high-tech entities rose from 18 in 2013 to 34 in 2017 and that annual Chinese investment in start-ups from 2015 to 2017 was in the range of \$500 million to \$600 million, 12 percent of all capital raised by Israeli start-ups during that period.¹¹

⁹ Fan Jida [樊继达], "How Israel Became an Innovation-Driven Nation" [以色列如何成为创新驱动型国家], *Journal of Theory Guidance* [理论导报], December 2016.

¹⁰ Julie Zhu and Tova Cohen, "China's Tech Money Heads for Israel as U.S. Welcome Wanes," Reuters, May 10, 2017.

¹¹ Gil Press, "China and Israel: A Perfect Match, Growing Steady," *Forbes*, February 26, 2018.

We discuss some of these technology investments in more depth in Chapter Five.

In addition to information technology (IT), China looks to Israel as a model in green technology and agricultural development. Several articles in Chinese newspapers and journals highlight Israel's innovative practices in agriculture and biotechnology, especially given that Israel is not endowed with large amounts of arable land and contends with the problem of desertification.¹² Chinese scholars highlight Israeli technology in solar energy, sustainable transport, electric cars, desalination, osmosis, water and waste treatment, and irrigation practices as particularly useful for Chinese needs.¹³

Finally, the two countries have stepped up partnerships in R&D, venture capital, and people-to-people exchanges. As of June 2015, China announced that it would invest \$500 million in venture capital funds into Israel over the following few years.¹⁴ In October 2017, Chinese e-technioncommerce giant Alibaba announced that it was opening an R&D lab in Tel Aviv to cultivate IT talent in Israel and abroad.¹⁵ All of this activity comes on the heels of expanded academic and people-to-people exchanges and increased visa programs for foreign exchange students visiting both countries. Israel's leading high-tech university, the Technion-Israel Institute of Technology, announced in 2013 that it would open a campus at Shantou University in Guangdong Province.¹⁶ In 2015, the Israeli Council for Higher Education and the Chi-

¹² Yang Zhuang [杨状], "The Inspiration Behind Israel's Innovation" [以色列创新的启迪], *Economic Observer* [经济观察报], March 21, 2014.

¹³ Li Xiaoxi [李晓西], "Israel's 'Green Congress' Project and Others" [以色列"绿色国会"项目考察及其它], *Globalization* [全球化], Vol. 6, 2015.

¹⁴ Idan Rabi, "China VC to Invest \$500m in Israel in 2015," *Globes*, June 3, 2015.

¹⁵ "Alibaba to Open Israel R&D Center," *Globes*, October 11, 2017.

¹⁶ Aryeh Tepper, "China's Deepening Interest in Israel," *The Tower*, No. 30, September 2015.

nese Ministry of Education agreed to establish the Israel-China 7+7 Research University Alliance to promote research and academic cooperation between research universities in Israel and China.¹⁷ We elaborate on scientific academic collaboration between Israel and China in Chapter Four.

Defense, Security, and Counterterrorism

Israel's experiences waging wars and combating terrorism offer a unique base of knowledge from which Chinese policymakers and strategists can study and learn. Since 1948, Israel has been party to multiple military conflicts with several Arab countries in the region and has engaged in CT campaigns against various groups, such as the PLO, Hezbollah, and Hamas. As a result of these challenges and experiences, Israel has developed a formidable military force and renowned CT expertise. Chinese writings highlight Israeli conventional military capabilities, CT policies, and information security as three areas that Chinese civilian and military planners can incorporate into China's own capabilities. Given Chinese reports of terrorist activities and unrest in the western province of Xinjiang—home to the Uighurs, an ethnic Turkic, Muslim population—and in other minority areas within China's borders, China is eager to glean best practices from the Israeli experience.

First, although China has made great strides in modernizing its military, it lacks actual military experience, and thus looks to other, more experienced actors after which to model its development. Chinese access to Israeli military technology has been limited, but China still looks to Israel for other inputs into military modernization. Articles in Chinese defense journals highlight Israeli defense leadership;

¹⁷ Carice Witte and Yehuda Sunshine, "Israel & the Belt & Road Initiative Blue Book Essay," *Sino-Israel Global Network & Academic Leadership Perspectives*, April 26, 2017, p. 10; XIN Center, "China-Israel 7+7 Research Universities Alliance," webpage, undated.

command and control; combat effectiveness; defense mobilization; and the defense industrial base, including arms sales and UAVs, as skills and capabilities from which China can learn.¹⁸ On the whole, Israeli defense modernization draws universal praise from Chinese military academic circles as worthy of emulation.

Second, Chinese analysts highlight Israeli CT policies as being particularly effective. One article praises Israel's "advanced techniques for detecting and thwarting terrorist attacks on Israeli soil."¹⁹ "As a victim of Eastern Turkistan Islamic Movement activities in Xinjiang," the author claims, China can "use Israel's counter-terrorism experience as a reference in its own operations." Another article, written by an officer at the China Criminal Police College, takes a historical look at Israel's CT experiences and assesses that "China and Israel are two states that have long suffered from terrorism and non-traditional security threats" and that these challenges "provide the basis for increased

¹⁸ Zheng Zhen [郑贞], "Israel's Defense Leadership System" [以色列国防军领导体制], *International Research Observer* [国际研究参考], Vol. 5, 2014; Zhang Linfei [章林飞], "Combat Spirit Education within the Israeli Military" [以色列军民的战斗精神培育], *Political Workers* [政工导刊], Vol. 5, 2015; Yan Zhonglin and Hao Jianying [闫忠林, 郝建英], "The Impetus and Characteristics Behind Israeli Arms Sales" [以色列军火贸易的动因与特点], *Social Science Review* [社科纵横], Vol. 30, No. 8, August 2015; Chu Kuolin [初阔林], "Israeli Defense Mobilization and Its Lessons for Chinese Defense Education" [以色列国防动员对我国国防教育的启示], *Science and Technology Information* [科技信息], Vol. 21, 2011; "Israel's Military Emphasizes Its Top Position Among Operators of Unmanned Aerial Vehicles" [以色列军队强调人在操控自主无人机中的首要地位], *Commilit* [现代军事], Vol. 11, 2016; and Li Mei [李梅], "A National Army—Israel's Military Power" [兵之国——以色列的军事力量], *Ordnance Knowledge* [兵器知识], Vol. 6, 2014.

¹⁹ Guliazhati Tuerxun, "Israel's Anti-Terrorism Mechanisms and Its Enlightenment to China" [以色列反恐机制及其对我国的启示], *Journal of Xinjiang Police College* [新疆警察学院学报], Vol. 35, No. 4, November 2015.

counter-terrorism training and exercises amongst the police and military forces of each country.”²⁰

Finally, Chinese commentators emphasize Israeli capabilities in network and information security related to terrorism and defense. Chinese analysts highlight how Israeli private and government entities have developed an array of advanced cyber capabilities, such as offensive and defensive electronic warfare, data encryption, and social media-monitoring techniques to locate persons of interest.²¹ One article analyzes the role of the Israeli government in promoting cyber defense. The author claims that Israel confronts a large number of cyberattacks and has fashioned various national cyber initiatives to combat the threat, such as the 2010 National Cyber Initiative and the Israeli government’s Resolution No. 3611.²² The author assesses that Israel’s unique approach to R&D and the integration of private industry, academia, and military establishments make its cyber defense policy particularly notable for a Chinese context.²³

The Geostrategic Importance of the Middle East

Chinese analysts view Israel as an important actor within China’s overall Middle East policy. China has taken steps to raise its profile in the

²⁰ Lu Peng [芦鹏], “Feasibility of Anti-Terrorism Cooperation Between China and Israel” [中国与以色列加强反恐合作的可行性分析], *Journal of Jiangnan Society University* [江南社会学院学报], Vol. 17, No. 3, September 2015.

²¹ “From a ‘Newly-Established Country’ to a ‘Cyber Security Country’—What Israel Is Doing Right” [从“初创国家”到“网络安全国家” 以色列做对了什么], *China Economic Observer* [中国经济周刊], July 19, 2016; and Xu Meng and Yang Lei [许萌, 杨蕾], “Pre-emption: A Study of Israeli Network Operations” [先发制人, 以色列网络作战问题研究], *Military Digest* [军事文摘], Vol. 7, 2017.

²² Ai Rengui [艾仁贵], “Cybersecurity in Israel and Its Governance” [以色列的网络安全问题及其治理], *Journal of International Security Studies* [国际安全研究], Vol. 2, 2017.

²³ Ai Rengui, 2017.

Middle East in search of greater influence in a region of great geo-strategic importance. From Beijing's perspective, all great powers in the modern era have been prominent players in the Middle East, and it seeks to be seen as a true great power.²⁴ It remains one of the only outside major powers that maintains cordial relations with every government in the Middle East, including those of Iran, Saudi Arabia, the Palestinian Authority, and Israel. The PRC has largely succeeded in sustaining friendships with all countries by staying aloof from regional politics.²⁵ Thus, China has not issued a white paper on the Middle East as it has done for Africa and other issues of major importance to China. Instead, the Ministry of Foreign Affairs issued *China's Arab Policy Paper* in January 2016, which was mostly full of platitudes. That paper did not address Israel at all, except for in one specific policy position: "China supports the Middle East peace process and establishment of an independent state of Palestine with full sovereignty, based on the pre-1967 borders, with East Jerusalem as its capital."²⁶

Keeping a low-key relationship with Israel has been part of China's Middle East strategy to ensure the ongoing flow of energy from the region and to continue to reap economic benefits with numerous Arab states and Iran. For that reason, China has sought to portray itself as a champion of the Palestinians and a good friend of the Arab world. Moreover, China seeks to portray itself as a good friend of Islam, which stands at odds with the restrictive and harsh treatment of Muslims within China's borders. The objective of this effort is to protect Beijing

²⁴ Andrew Scobell and Alireza Nader, *China in the Middle East: The Wary Dragon*, Santa Monica, Calif.: RAND Corporation, RR-1229-A, 2016, pp. 15–19.

²⁵ Scobell and Nader, 2016, pp. 5–6.

²⁶ Ministry of Foreign Affairs of the People's Republic of China [中华人民共和国外交部], *China's Arab Policy Paper* [中国对阿拉伯国家政策文件], Beijing, January 2016.

from criticism from Muslim countries.²⁷ And indeed, thus far it has been successful at preventing such criticism.

Despite the geostrategic importance of the Middle East, PRC President Xi was slow to visit the Middle East, making his first trip to the region in 2016, almost three years after taking office. This visit coincided with the release of *China's Arab Policy Paper* and included visits to Egypt, Saudi Arabia, and Iran, but not to Israel. In Cairo, Xi delivered a formal address at the headquarters of the Arab League, while in Tehran and Riyadh, he worked to strengthen Beijing's enduring relations with each of these Middle East powers and expand economic cooperation.²⁸ However, despite other senior visits, including one in October 2018 by Vice President Wang, Xi has yet to visit Israel.

There are two clear areas of divergence between Chinese and Israeli interests in the Middle East. These concern the Palestinians and Iran. First, China has been a longtime supporter of the Palestinian cause and has sought to bolster its soft-power status with many Arab states that feel disenfranchised from the Middle East peace process and disrespected by the West in general. China was one of the first nations to recognize the Palestinian state in the UN and does not consider Hamas a terrorist organization.²⁹ In 2002, Beijing appointed a "special envoy" to the Middle East and has since released various proposals for conflict resolution in the region.³⁰ The most recent manifestation of China's position toward the Israeli-Palestinian conflict was evident in

²⁷ Scobell and Nader, 2016, pp. 13–15.

²⁸ See, for example, Ting Shi, "How China Is Building Bridges with the Middle East," Bloomberg News, January 26, 2016.

²⁹ Scobell and Nader, 2016.

³⁰ Matt Schiavenza, "What Is China's Plan for the Middle East?" *The Atlantic*, May 10, 2013. This issue is handled comprehensively in Degang Sun and Yahia Zoubir, "China's Participation in Conflict Resolution in the Middle East and North Africa: A Case of Quasi-Mediation Diplomacy?" *Journal of Contemporary China*, Vol. 27, No. 110, 2018, pp. 224–243.

December 2017, when China denounced the U.S. recognition of Jerusalem as Israel's capital and voted in favor of a UN General Assembly resolution rejecting the U.S. announcement.³¹ Reportedly, Chinese Ambassador to the UN Liu Jieyi said that China "supports the cause of the Palestinian people," adding that "this will never change."³²

China's declarations about solving the Israeli-Palestinian conflict are seen as symbolic gestures aimed at projecting its image as a great power accepting its responsibilities and playing a significant role in the Middle East rather than as serious proposals. Indeed, one Israeli analyst has assessed China's involvement in the Middle East peace process as "merely diplomatic rhetoric," and China's impact has been assessed as having "hardly been felt."³³ Israeli officials agree that official PRC actions regarding the Palestinians do not reflect their stated policies, which are seen more as lip service.³⁴

China has frequently opposed any military actions against Iran and does not consider the Tehran-backed Lebanese Hezbollah as a terrorist organization.³⁵ China also has supplied hundreds of millions of dollars of weapons to Iran since 2000. In fact, Beijing is second only to Moscow in terms of the value of armaments sold to Tehran during the 2000s.³⁶ Beijing has a long history of cooperation with Tehran's missile and nuclear programs and has provided Iran with hundreds of anti-

³¹ Gao, 2017.

³² Noa Landau, "In Blow to Trump and Netanyahu, UN Rejects U.S. Recognition of Jerusalem as Israel's Capital," *Haaretz*, December 21, 2017.

³³ Mordechai Chaziza, "China's Policy in the Middle East Peace Process After the Cold War," *China Report*, Vol. 49, No. 1, 2013, pp. 161–199.

³⁴ Discussion with an Israeli Ministry of Foreign Affairs official, Santa Monica, California, October 2018.

³⁵ Scobell and Nader, 2016.

³⁶ Scobell and Nader, 2016.

ship and anti-aircraft cruise missiles.³⁷ This relationship has at times undermined China's efforts in cultivating closer relations with Israel.³⁸

Finally, some policymakers in China might view China's relationship with Israel as an opportunity to make inroads with a key U.S. ally in the Middle East as part of a broader strategy by China to undermine U.S. diplomacy and global alliance and partner networks. China clearly understands the close alliance that exists between Israel and the United States, to include closely monitoring U.S. arms sales to Israel and their implications for China.³⁹ China also perceives U.S. alliances in Asia, but also in other parts of the world, as inherently antithetical to Chinese interests and in some cases seeks to actively undermine their value and utility.⁴⁰ Chinese scholars have devoted attention to the

³⁷ See, for example, John Garver, "China-Iran Relations: Cautious Friendship with America's Nemesis," *China Report*, Vol. 49, No. 1, 2013, p. 84.

³⁸ China has a close relationship with Pakistan, another potential Israeli adversary. In fact, in 2016, Pakistan obliquely threatened a nuclear attack on Israel following a false report in an obscure news outlet that Israel issued a conditional threat against Pakistan (Oded Yaron, "Pakistan Threatens Israel with Nuclear War Because of Fake News Article," *Haaretz*, December 26, 2016). However, Israel and Pakistan have maintained clandestine contacts almost since the founding of both countries. Although risk is always present and both have at times acted against the other's interests, they have also reassured each other that neither would take hostile actions against the other (Moshe Yegar, "Pakistan and Israel," *Jewish Political Studies Review*, Vol. 19, No. 3/4, Fall 2007; and Shimon Arad, "How Israel and Pakistan Can Avoid a Nuclear Showdown," *The National Interest*, February 19, 2018). In addition, each has far bigger challenges. We assess, therefore, that the China-Pakistan and Pakistan-Israel relationships will have little effect on or be little affected by the China-Israel relationship.

³⁹ Liu Jun and Zhang Xuepeng [刘军, 张雪鹏], "A Preliminary Assessment of American Arms Sales to Israel" [美国对以色列援助初探], *Southwest Asia Studies* [西亚非洲], Vol. 4, 2007. See also "U.S. Sells Huge \$38 Billion Military Aid Package to Israel" [美国以色列达成巨额军事援助: 10年380亿美元], *Tencent QQ News, World Affairs* [国际时事], September 15, 2016.

⁴⁰ Adam P. Liff, "China and the U.S. Alliance System," *The China Quarterly*, Vol. 233, March 2018.

history and value of the U.S.-Israeli alliance over time, for example.⁴¹ Therefore, in all likelihood, China views its relationship with Israel as an extension of a larger effort to undermine key alliance relationships with the United States and might look for opportunities to forge closer ties with Israel at Washington's expense.

There are limitations to Chinese influence in this regard. Given China's desire to be perceived as a nonaligned and noninterventionist partner in the region, and considering China's strong trade and military ties with certain countries in the Middle East—some of which have contentious relations with both the West and Israel—China could encounter roadblocks that will limit closer relations with Israel. Although China seeks to deepen its ties with Israel, it is also aware of its limitations vis-à-vis supplanting the role of the United States within Israeli foreign policy.⁴² Despite this recognition of its limitations, the Chinese reportedly have hinted to Israelis that the geostrategic situation might well be different over the longer term—in 50 years, for example—and might turn more in China's favor.⁴³ It is too early to say whether this statement reflects Chinese intentions in the region in the long run or pushes Israel to change its policies.

China's BRI, however, offers one pathway to bringing Arab and Israeli interests closer in alignment with China's.

⁴¹ Zhang Yanfei [张彦飞], "Research on the Formation of the Relationship Between the United States and Israel (1953–1968)," [美国与以色列“准联盟”关系形成研究 (1953–1968)], Shanxi Normal University [陕西师范大学], 2008; and Bingchi Jinping, "The United States' Influence Behind Israel's Powerful Military," [以色列强大军事力量背后, 折射出美国影子, 直接运来先进装备], Sina Blog of Bingchi Jinping, November 29, 2017.

⁴² Telephone conversation with a former U.S. official with extensive experience in Israel-U.S. relations, August 2017.

⁴³ Telephone conversation with a former U.S. official with extensive experience in Israel-U.S. relations, August 2017.

The Belt and Road Initiative

Since President Xi unveiled in 2013 what was first referred to as “One Belt One Road,” China has embarked on an ambitious program to advance its engagement across Asia, Africa, Europe, and the Middle East. The effort is envisioned to build a vast web of infrastructure—roads, railways, ports, and pipelines—to link China to its neighborhood and the wider world. Now known in English as the “Belt and Road Initiative” (BRI), it includes an overland “Silk Road Economic Belt” and an overwater “21st Century Maritime Silk Road” component. The former consists of infrastructure linking China to Central Asia, South Asia, the Middle East, and onward to Africa and Europe; the latter envisions shipping routes through the South China Sea and the Indian Ocean toward South Asia, the Middle East, Africa, and Europe, with a spur to Oceania.

Although little attention has been paid to the role of Israel in the BRI, Chinese policymakers clearly have their eyes on the country as an important node within the BRI architecture. During Netanyahu’s March 2017 visit to China, President Xi said that the two countries would “steadily advance major cooperative projects within the framework of jointly building the Silk Road Economic Belt and the 21st Century Maritime Silk Road.”⁴⁴ Prime Minister Netanyahu also brought up the BRI in his remarks, saying, “the Israeli side is ready to actively participate in infrastructure and other cooperation under the framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road.”⁴⁵

Israel has the potential to be a small but important stop on the 21st Century Maritime Silk Road, connecting the Indian Ocean and the Mediterranean Sea through the Gulf of Aqaba and the Suez Canal.

⁴⁴ Liu Hua, 2017.

⁴⁵ Liu Hua, 2017.

As we discuss further in Chapter Five, Chinese construction companies have been increasingly involved in Israel's transportation and other infrastructure projects. The possible construction of a railway line from Eilat to Ashdod—which is awaiting approval by the Israeli government—and the construction of a new port in Ashdod, both of which are being negotiated by Chinese engineering firms, serve as prime examples of such an architecture.⁴⁶ BRI routes require not only sea ports, but also railways, logistic centers, warehouses, airports, and transport system hardware and software. Israeli companies could contribute to BRI projects by developing and integrating transportation and logistics technologies and related systems for trains, aircraft, and marine engineering, for example. One such Israeli company, Nextec Technologies, which developed measurement technology for the automotive and aviation industries, was acquired by a Chinese company in 2014.⁴⁷

Chinese writings on the BRI highlight the latent potential of Israel as a hub of China's future BRI endeavors. In particular, Chinese academics point out that Israel's "well-endowed human capital," "developed economy and high technology base," and "stable society and government business environment" make the country a particularly valuable asset for China's BRI program in the long term.⁴⁸ The geostrategic significance of Israel within the BRI is also an important factor mentioned by some Chinese authors, who view Israel's location near the Arab states as a "balancer" that can "lend credibility to Chi-

⁴⁶ Dubi Ben-Gedalyahu, 2015; and Niv Elis, "Private Ashdod Port Building Ahead of Schedule, Says Ports Company," *Jerusalem Post*, April 12, 2016.

⁴⁷ Galia Lavi, Jingjie He, and Oded Eran, "China and Israel: On the Same Belt and Road?" *Strategic Assessment*, Vol. 18, No. 3, October 2015.

⁴⁸ Xiao Xian [肖宪], "The Role of 'One Belt One Road' within Sino-Israeli Relations" ['一带一路' 视角下的中国与以色列关系], *Journal of Southwest Asia and Africa* [西亚非洲], Vol. 2, 2016.

nese soft power in the region.”⁴⁹ Statistics appear to support such Chinese assessments. According to one Chinese government investment index, Israel is rated 22 out of 63 countries located along the 21st Century Maritime Silk Road, and operational risk to Chinese investment in Israel is considered to be lower than average among countries along the route.⁵⁰ At the same time however, Israel’s role in the BRI is likely to be limited by its small size, limited transportation connectivity with countries in its region, and lack of experience in large-scale projects.⁵¹

Mixed Attitudes Toward Israel

In addition to pragmatic reasons for expanding ties with Israel, Chinese policymakers and academics have stated highly favorable perceptions of Israel, which begin with an officially professed Chinese admiration for Jewish culture and traditions.⁵² Much has been written about Chinese affinity for Judaism and the similarities between Confucian and Jewish culture. In short, in China, Judaism is believed to be a kindred civilization that values the importance of family, hard work, and education.⁵³ In addition, among Chinese leaders, there is a certain respect and admiration for Israel as an ancient civilization. In an April

⁴⁹ Xiao Xian, 2016.

⁵⁰ Lavi et al., 2015. The statistics were based on Pu Zhuhua and Zhong Feiteng, *The Blue Ocean for Going Abroad: Investment Attractiveness Evaluation of One Belt One Road Countries for Chinese Enterprises*, Beijing: Social Science Academic Press, 2015, p. 125.

⁵¹ Yoram Evron, “OBOR’s Impact on Sino-Israeli Relations,” in Anoushiravan Ehteshami and Niv Horesh, eds., *China’s Presence in the Middle East: The Implications of the One Belt One Road Initiative*, Abingdon, UK: Routledge, 2018.

⁵² Ivry, 2016.

⁵³ See for example Ivry, 2016; Chris Buckley, “Jewish and Chinese: Explaining a Shared Identity,” *New York Times*, September 25, 2016; and Michael Goldfarb, “What Jews and the Chinese Have in Common,” BBC News, February 8, 2014.

2010 interview given to the newspaper *China Business News*, China's then-Special Envoy on the Middle East Issue, Wu Sike, described China and Israel as two ancient civilizations that respect and admire one another.⁵⁴

However, this attitude is by no means unique to the case of Israel. For example, in 2016, ahead of his visit to Egypt, Xi Jinping penned an editorial in the Egyptian newspaper *Al-Ahram* in which he wrote, "China and Egypt are both ancient civilizations, with friendly exchanges between their peoples extending far into the past."⁵⁵ In May 2018, during a speech at a cultural reception, Chinese Ambassador to Greece Zou Xiaoli praised Greece as an "ancient European civilization with a long history and a magnificent culture."⁵⁶ In 2017, China was one of the founding members of the "Ancient Civilizations Forum" alongside Bolivia, Egypt, Greece, Iran, Iraq, Italy, and Peru, with the aim of using the forum as a platform for dialogue and cultural cooperation.⁵⁷

Furthermore, despite Chinese affinity for Jewish values and culture, anti-Semitism exists in China. According to a 2014 poll by the Anti-Defamation League, 20 percent of adults in China harbor anti-Semitic views. In terms of specific questions, 41 percent of respondents answered "probably true" to the assertion that "Jews are more loyal to

⁵⁴ Chen Xiaochen and Sun Wenzu [陈晓晨, 孙文竹], "China's Special Envoy on the Middle East Issue Wu Sike: the Middle East's 'Persuader'" [中国中东问题特使吴思科 - 中东“劝架人”], *China Business News* [第一财经日报], April 27, 2010.

⁵⁵ Xi Jinping [习近平], "Let the Friendship Between China and the Arabs Surge Forward like the Nile" [让中阿友谊如尼罗河水奔涌向前], Beijing: Ministry of Foreign Affairs of the People's Republic of China [中华人民共和国外交部], January 20, 2016.

⁵⁶ Zou Xiaoli, "Thank You, Hellas!" Embassy of the People's Republic of China in the Hellenic Republic, May 22, 2018

⁵⁷ Ministry of Foreign Affairs of the People's Republic of China [中华人民共和国外交部], "Athens Declaration on the Establishment of the 'Ancient Civilizations Forum'" [关于建立“文明古国论坛”的雅典宣言], April 28, 2017.

Israel than to [this country/to the countries they live in],” while 42 percent of respondents answered the same to the assertion that “Jews think they are better than other people.” At the lower end of the spectrum, 15 percent responded “probably true” to the assertion that “Jews have too much control over the United States government,” while 18 percent responded the same to the assertion that “Jews are responsible for most of the world’s wars.”⁵⁸

In addition, despite official Chinese rhetoric stressing respect for and admiration of Israel for its various achievements, which have helped propel bilateral ties, there have been times when Chinese officials have taken a harder line, especially with regard to Israel’s policies toward the Palestinians. In 2001, Zhang Qiyue, the spokesperson of the Chinese Foreign Ministry, criticized Israel’s forcible seizure of Orient House, the headquarters of Palestinian representatives in East Jerusalem, and argued that such an action exacerbated the already tense regional situation.⁵⁹ In 2006, Wang Guangya, the Chinese Permanent Representative to the UN, condemned an “Israeli attack on [a] UN observer position in Lebanon that killed four UN observers.”⁶⁰ In 2010, in response to Israel’s raid on an aid flotilla to Gaza, Chinese Foreign Ministry spokesman Ma Zhaoxu issued a statement expressing shock over the attack and condemning it.⁶¹ As discussed earlier and illustrated fur-

⁵⁸ Anti-Defamation League, “The ADL Global 100: China,” webpage, 2014.

⁵⁹ Ministry of Foreign Affairs of the People’s Republic of China [中华人民共和国外交部], “Foreign Ministry Spokesperson Zhang Qiyue Speaks on Israel’s Forcible Seizure and Shutting of ‘Orient House,’ Site of Palestinian Representative Organization in East Jerusalem” [外交部发言人章启月就以色列强行占领并关闭巴勒斯坦驻东耶路撒冷代表机构驻地“东方大厦”发表谈话], August 14, 2001.

⁶⁰ “China Condemns Israeli Attack on UN Observer Post in Lebanon,” Xinhua, July 27, 2006.

⁶¹ “China Condemns Israel’s Attack on Gaza Aid Flotilla,” China Radio International English, May 31, 2010.

ther in Chapter Four, Chinese statements in the UN have consistently espoused anti-Israeli positions.

Outside of government, too, there have been criticisms of Israel in various media. In April 2002, a deeply critical piece appeared in the *Life Times* that was reposted on the website of the *People's Daily*. The author of the piece argued that

Israel has not only occupied several times what Palestine has in land, but in terms of water resources, Israel has 2 billion cubic meters, while Palestine only has 232 million cubic meters [S]o long as Israel does not cease its occupation and oppression of Palestine, the people of Palestine will never cease to resist.⁶²

In August 2018, the Xinhua-owned *Global Journal* published an article on the recently passed “Jewish nation-state law.” The article, citing analysts, argued that the passage of the law was a clear indication that the influence of populist movements in Europe and other regions had led to a rise in the influence of extreme nationalists within the Israeli government and a “rightward shift” for the Israeli government as a whole.⁶³ A May 2018 story by China Central Television (CCTV) reporting on protests against the shifting of the U.S. embassy to Jerusalem stated that, “During the thirty years [following 1917] of British ‘mandatory rule,’ Jerusalem underwent major upheaval. Large numbers of Jewish people flooded into Palestine, squeezing the living space of the original primary inhabitants, the Arabs.”⁶⁴ Chinese academics often use the terms *forcible seizure* (强占) or *grabbing* (抢占) instead of

⁶² Peng Hui [彭慧], “The Middle East Conflict: An Inextricable Dead Knot” [中东冲突——解不开的死结], *Life Times* [生活时报], April 2, 2002.

⁶³ “Israel’s Passage of ‘Jewish Nation-State’ Law Causes Controversy” [以色列通过“犹太民族国家”法案引争议], *Global Journal* [环球杂志], August 16, 2018.

⁶⁴ “Palestinian, Syrian Crowds on the Streets, Protest Moving of U.S. Embassy in Israel to Jerusalem” [巴叙民众上街 抗议美驻以使馆迁往耶路撒冷], China Central Television, May 14, 2018.

the somewhat more neutral term of *occupation* (占领) when discussing the land issue between the Israelis and the Palestinians.⁶⁵

Furthermore, the generally positive official view of Israel does not appear to be shared among the Chinese public. For example, in multiple polls conducted for the BBC World Service that gauge global public opinion as to whether various countries have a mainly positive or mainly negative influence in the world, surveyed members of the Chinese public consistently hold negative opinions of Israel (Table 3.1). Available reports show that, in 2006, the percentage of the Chinese public that held a mainly positive view of Israel's influence was just 15 percent, in contrast to the 57 percent that held a mainly negative view. Positive views of Israel reached their high point in 2013, when 32 percent of the Chinese public held a positive view of Israel's influence against 33 percent with a mainly negative view. However, in the most recent poll, taken in 2017, while positive views stood at 34 percent, negative views worsened, climbing back to 57 percent. The Chinese general public has never held a majority or even plurality positive view of Israel.

Conclusion

Overall, Chinese leaders at an official level generally express positive views of Israel. However, this approach is somewhat more nuanced in practice, as indicated by the fact that Chinese diplomatic representatives do not hesitate to criticize Israeli actions. Chinese official media at times use critical language vis-à-vis Israel, and academics invariably do

⁶⁵ Wang Nan [王楠], "Analyzing the Israel Factor in Palestine's Economic Development" [巴勒斯坦经济发展中的以色列因素分析], *Arab World Studies* [阿拉伯世界研究], No. 3, May 2008; and Li Rongjian [李荣建], "The Causes of and Developments in the Conflict Between Syria and Israel" [叙利亚与以色列冲突的由来和发展], *Wuhan University Journal (Philosophy & Social Sciences)* [武汉大学学报(哲学社会科学版)], Vol. 57, No. 5, September 2004.

Table 3.1
Chinese Public Opinion of Israel's Influence, 2006–2017

Year	Mainly Positive (%)	Mainly Negative (%)
2006	15	57
2007	23	49
2010	22	40
2011	32	48
2012	23	45
2013	32	33
2014	13	49
2017	34	57

SOURCES: "Israel and Iran Share Most Negative Ratings in Global Poll," BBC World Service, March 6, 2007; "Global Views of USA Improve," BBC World Service, April 2008; "Global Views of United States Improve While Other Countries Decline," BBC World Service, April 18, 2010; "Positive Views of Brazil on the Rise in 2011 BBC Country Rating Poll," BBC World Service, March 7, 2011; "Views of Europe Slide Sharply in Global Poll, While Views of China Improve," BBC World Service, May 10, 2012; "Views of China and India Slide While UK's Ratings Climb: Global Poll," BBC World Service, May 22, 2013; "Negative Views of Russia on the Rise: Global Poll," BBC World Service, June 3, 2014; "Sharp Drop in World Views of U.S., UK: Global Poll," BBC World Service, July 4, 2017.

so. The general Chinese public also consistently expresses highly negative opinions about Israel.

This gap between official discourse and actual sentiment suggests that China has adopted a keenly pragmatic approach to its relations with Israel, rooted first and foremost in economic development with a focus on innovation and high-technology joint ventures. Israel's location makes it a potential important node in BRI transportation networks linking the rest of the Middle East and Europe. Israel's stable political, economic, and social order and advanced technological base offer a relatively safe environment from which China can operate and promote its soft power image.

Given the historically close alliance between Israel and the United States and China's solidarity with the Palestinian cause and close relationship with Iran, there are limitations to a China-Israel partnership. However, China clearly sees Israel's accomplishments in innovation, cybersecurity, bioagriculture, green technology, and CT as areas ripe for cooperation and has chosen to promote positive relations with Israel that will be viewed as politically neutral in the eyes of the region.

Measuring Israel-China Relations

China and Israel have growing diplomatic and political, economic, defense, education, and cultural ties. In this chapter, we draw on a wide range of sources to provide a qualitative and quantitative overview of these ties since 1992, the year the countries established formal diplomatic relations (see Appendix A for more detail on data collection and methods). The first two sections put this information within the broader regional context by comparing China's relations with Iran and Saudi Arabia as well as Israel's relations with India, the Philippines, Taiwan, and Vietnam. Iran and Saudi Arabia both have strong economic relations with China and are China's main partners in the Middle East. Furthermore, they have had historically difficult relations with Israel and with each other, although ties between Israel and Saudi Arabia are improving, while Israel and Iran have escalated tensions in Syria.¹ India has long been one of China's major rivals in Asia and has a growing defense relationship with Israel. We include the Philippines, Taiwan, and Vietnam because, like India, they have either territorial disputes or an adversarial relationship with China.

¹ See for example, Kersten Knipp, "Israel and Saudi Arabia: New Best Friends in the Middle East?" *Deutsche Welle*, November 28, 2017; and Courtney Kube, "Israel Seems to Be Preparing for War with Iran, U.S. Officials Say," *NBC News*, May 1, 2018.

Diplomatic Relations

One measure of the strength of political relations between two countries is the frequency of high-level visits by leaders to each country.² By this measure, Israel-China political relations have stayed relatively constant from 1992 to 2018, whereas China-Iran and China–Saudi Arabia relations have strengthened.

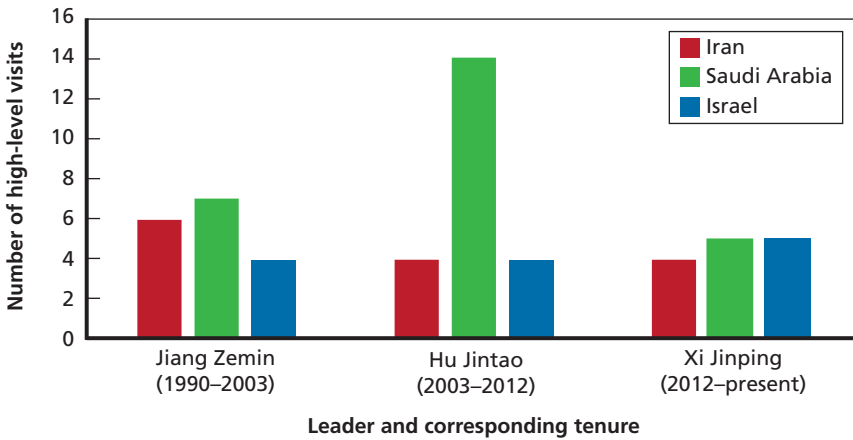
By *high-level visits*, we mean visits by individuals at the top of each country's political, foreign-policy, and military decisionmaking hierarchies. For China, these include the president of the PRC; the vice president of the PRC; the premier of the State Council; other members of the Communist Party's Politburo Standing Committee (PBSC); the foreign minister; the state councilor responsible for foreign affairs, who usually has greater authority than the foreign minister; the defense minister and active-duty vice chairmen of the Central Military Commission (CMC); and other members of the CMC.³ For Israel, Saudi Arabia, and Iran, the counterparts to these individuals are the head of state; the leader-in-waiting, such as the crown prince or deputy crown prince of Saudi Arabia; the head of government; the foreign minister; the defense minister; and the chief of staff of the defense forces.

During the period from 1992 to 2018, senior Chinese leaders made a total of 13 visits to Israel, 26 to Saudi Arabia, and 14 to Iran (Figure 4.1). For Israel, a plurality of these visits was at the level of foreign minister, with five visits from 1992 to 2013. By contrast, only one visit was at the level of head of state: then-President Jiang Zemin's visit in 2000. The second-most-senior visit was by Vice President Wang in October 2018. For Saudi Arabia, the highest number of visits

² Although this measure is imperfect, it has proved useful in capturing the extent of the PRC's diplomatic ties, not only with Israel but also with several other countries, as shown in Scobell et al., 2018.

³ Future analyses could include the Chairman of the National People's Congress, one of the highest-ranked officials in the Chinese Communist Party.

Figure 4.1
High-Level Chinese Visits Under Each Chinese Leader, 1992–2018



SOURCES: Data are from the Ministry of Foreign Affairs of the PRC website; websites of various Chinese diplomatic missions; and such official Chinese news sources as Xinhua, *People's Daily*, and CCTV.

was at the head-of-state level, with five in all. For Iran, the highest number of visits—four—was at the foreign-minister level. It is worth noting, however, that Iran received three visits from successive Chinese presidents (heads of state), including Hu Jintao when he was still vice president and leader-in-waiting, as well as three separate visits by other members of the PBSC. In terms of the number and level of prestige of visits, China has prioritized Saudi Arabia and Iran over Israel, although the 2018 visit by Wang could indicate a growing emphasis on Israel. Since President Xi took office in 2012, ties between China and Iran have grown, and in 2016, Xi visited Tehran, marking the first visit to Iran by a Chinese president in 14 years.⁴ On this visit, Xi met with

⁴ For a more detailed discussion of China and Iran, see Scott W. Harold and Alireza Nader, *China and Iran: Economic, Political, and Military Relations*, Santa Monica, Calif.: RAND

Supreme Leader Ali Khamenei and Iranian President Hassan Rouhani and signed 17 multi-billion-dollar agreements as part of the BRI.⁵ At the same time, Chinese leaders have been careful to maintain a semblance of balance between Saudi Arabia and Iran. Indeed, on the same trip to Tehran, Xi made sure to visit both countries to demonstrate China's balanced approach to the region.⁶ On this trip, Xi visited other Middle Eastern countries but skipped Israel.

This record contrasts with the number of high-level visits made by leaders of Israel, Saudi Arabia, and Iran to China (Figure 4.2). From 1992 to 2018, senior Israeli leaders made 19 visits to China—six at the level of foreign minister and five each at the head-of-state and head-of-government levels. During the same period, Iranian senior leaders made 15 visits to China, seven of which were by the head of government (the president of Iran) and another seven by the foreign minister. Saudi leaders had the least number of visits—seven in all, with two each by the king, the crown prince, and the foreign minister, and one joint visit by the deputy crown prince and the foreign minister.

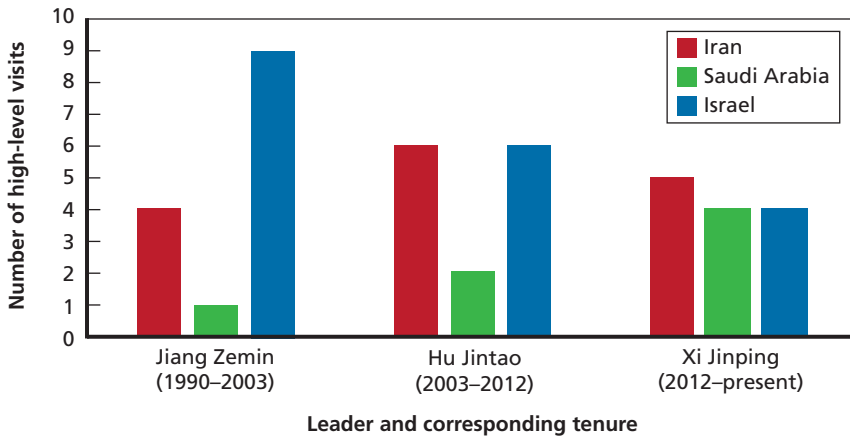
Another measure employed to gauge China's diplomatic relations with Israel is its voting record at the UN Security Council on resolutions critical of Israel. From 1992 to 2016, the year of the most recent resolution, China has consistently voted in favor of resolutions criticizing Israel (Table 4.1). What should be noted, however, is that in all of these resolutions—except for in 1994, when the resolution was adopted without vote—China has always voted with the majority of member states and is in that sense not an outlier. Netanyahu reportedly asked

Corporation, OP-351-CMEPP, 2012; and John W. Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, Seattle, Wash.: University of Washington Press, 2006.

⁵ Charlotte Gao, "Iran Protests: What's China's Stance?" *The Diplomat*, January 3, 2018.

⁶ Huo Xiaoguang, Hao Weiwei, and Qian Tong [霍小光, 郝薇薇, 钱彤], "Toward a New Journey of Common Development: Overview of President Xi Jinping's Visits to Saudi Arabia, Egypt, and Iran" [迈向共同发展新征程 - 国家主席习近平访问沙特、埃及、伊朗综述], *People's Daily* [人民网], January 25, 2016.

Figure 4.2
High-Level Visits to China Under Each Chinese Leader, 1992–2018



SOURCES: Data are from the Ministry of Foreign Affairs of the PRC website; websites of various Chinese diplomatic missions; and additional news sources, such as BBC, Reuters, and *Al Arabiya*.

Beijing to change its voting patterns in such international forums as the UN, but such a shift has not yet happened and, according to officials with the Israeli Ministry of Foreign Affairs, might not happen in the foreseeable future given China's competing interests in the Middle East.⁷

Defense Relations

As reflected by the changes in Israel's behavior following the PHALCON and HARPY incidents and by the fact that Israel relies on

⁷ Raphael Ahren and Yifeng Zhou, "Netanyahu to Times of Israel Chinese: I Hope Beijing's 'Superb' Relations with Israel Will Affect Its UN Votes," *Times of Israel*, March 23, 2017; discussion with an official at Israel's Ministry of Foreign Affairs, Jerusalem, July 2017.

Table 4.1
Chinese Support for UN Security Council Resolutions on Israel, 1992–2016

Title	Symbol	Year	Note
[Resolution] on the deportation by Israel of 12 Palestinian civilians from the territories occupied by Israel.	S/RES/726(1992)	1992	
[Resolution] on the deportation of Palestinian civilians from territories occupied by Israel.	S/RES/799(1992)	1992	
[Resolution] on measures to guarantee the safety and protection of the Palestinian civilians in territories occupied by Israel.	S/RES/904(1994)	1994	Adopted without vote
[Resolution] on events in Jerusalem and other areas throughout the territories occupied by Israel.	S/RES/1322(2000)	2000	United States abstained
[Resolution] on cessation of all acts of violence in the territories occupied by Israel and resumption of the peace process.	S/RES/1402(2002)	2002	Syria non-voting
[Resolution] on cessation of all acts of violence and withdrawal of Israeli forces from Palestinian cities.	S/RES/1435(2002)	2002	United States abstained
[Resolution] on the humanitarian situation of Palestinians made homeless in the Rafah refugee camp and respect by Israel of its obligations under international humanitarian law.	S/RES/1544(2004)	2004	United States abstained
[Resolution] on a durable and fully respected ceasefire and the full withdrawal of Israeli forces from the Gaza Strip.	S/RES/1860(2009)	2009	United States abstained
[Resolution] on cessation of Israeli settlement activities in the Occupied Palestinian Territory, including East Jerusalem.	S/RES/2334(2016)	2016	United States abstained

SOURCE: United Nations Bibliographic Information System, "Voting Record Search," Dag Hammarskjöld Library, United Nations, accessed September 27, 2018.

the United States for military supplies, Israel and China generally do not have a strong defense relationship, in contrast to China's defense relations with Iran and Saudi Arabia. We investigated the evolution of defense relations from 1992 to 2016 using a variety of measures, including high-level defense exchanges, such as visits by senior military personnel; joint exercises between China and Israel, Iran, and Saudi Arabia; and arms transfers using data from the Stockholm International Peace Research Institute (SIPRI), which measures such transfers globally in a common unit that the institute calls the "trend-indicator value" (TIV).⁸

We place the defense relationships into a comparative perspective by looking at arms transfers from China and Israel to third parties that the other country might potentially find upsetting. These include Chinese exchanges and arms transfers to Iran and Saudi Arabia (but also to other major countries in the region where relevant, such as Egypt, Qatar, Syria, and Turkey), and Israeli arms transfers to India, the Philippines, Taiwan, and Vietnam.

It is important to note that the SIPRI data we partially rely on in this chapter could undercount important aspects of China's defense relationship with actors in the Middle East, including with Israel's adversaries. In some cases, this might not be a factor in assessing the relationship. For example, Israel and Saudi Arabia have developed back-channel ties and no longer see each other as enemies, so even if they are underreported, Chinese-Saudi relations should be less of a concern to Israel.⁹

However, the same cannot be said about Chinese-Iranian defense relations, especially given escalating Israeli-Iranian tensions in Syria.¹⁰ As Yitzhak Shichor has noted, China consistently has been accused

⁸ SIPRI, "SIPRI Arms Transfers Database," database, undated(a).

⁹ Knipp, 2017.

¹⁰ Kube, 2018.

of supporting Iran's nuclear program and of supplying missiles and nonconventional weapons to Iran.¹¹ Although our analysis begins in the 1990s, after the establishment of formal Israeli-Chinese diplomatic ties, Iranian-Chinese military ties have been strong since the 1980s. China helped Iran boost its anti-access/area denial capabilities by selling it tactical ballistic and anti-ship cruise missiles, such as the HY-2 "Silkworm"; advanced anti-ship mines; and Houdong fast-attack boats. China also provided technical expertise to Iran by helping to develop the indigenous Nasr anti-ship cruise missile.¹² However, as our data show, Chinese military exports to Iran slowed down substantially because of international sanctions on Tehran. However, the fact that "Chinese design and technology can be seen in many Iranian missile series, from the short-range Oghab and Nazeat missiles to the long-range Shahab 3," remains a problem from the Israeli perspective.¹³ In addition, even as sales slowed from 2013 to 2015, the two countries deepened some of their defense ties. In 2014, in the first-ever visit of an Iranian Navy chief to China, the two countries discussed possible cooperation on anti-piracy and humanitarian assistance and disaster relief operations. During the same year, the Chinese and Iranian navies for the first time held a joint naval drill in the Persian Gulf.¹⁴ And in October 2015, Admiral Sun Jianguo, the deputy chief of staff of the PLA Navy, met with Iranian Defense Minister Hossein Dehghan to lay the foundation for deeper military cooperation.¹⁵

¹¹ Yitzhak Shichor, "China's Upsurge; Implications for the Middle East," *Israel Affairs*, Vol. 12, No. 4, November 28, 2006.

¹² Joel Wuthnow, "China-Iran Military Relations at a Crossroads," *China Brief*, Vol. 15, No. 3, February 4, 2015.

¹³ Harold and Nader, 2012.

¹⁴ Ankit Panda, "China and Iran's Historic Naval Exercise," *The Diplomat*, September 23, 2014.

¹⁵ Franz-Stefan Gady, "Iran, China Sign Military Cooperation Agreement," *The Diplomat*, November 15, 2016.

China also is thought to have had military nuclear cooperation with such countries as Algeria, Syria, and Iraq.¹⁶ China might also indirectly supply weapons, such as artillery rockets, to such groups as Hezbollah and Hamas.¹⁷ The SIPRI database does not cover such transfers, which is a notable shortcoming, as we discuss further in Appendix A.¹⁸ Nevertheless, the data that SIPRI does provide still serve as a useful shorthand to gauge at least one aspect of how official defense relations between China and Israel and between China and other countries have evolved over time.

High-Level Defense Exchanges

Top-level defense exchanges between China, Israel, Iran, and Saudi Arabia have been less frequent than top-level civilian visits, which we discussed previously. From 1992 to 2018, there was only one such visit to Iran (out of 14 total visits), three to Saudi Arabia (out of 26 total), and four to Israel (out of 13 total) by top Chinese defense officials (see Figure 4.3).

Visits by top-level defense officials from Israel, Iran, and Saudi Arabia accounted for an even smaller proportion of total visits to China during this period. From 1992 to 2018, just three out of a total of 19 visits by senior Israeli leaders to China were by either the minister of defense or the chief of the general staff. For Iran, only two out of 15 high-level visits were by the minister of defense, while for Saudi Arabia, it was just one of out of seven visits (see Figure 4.4).

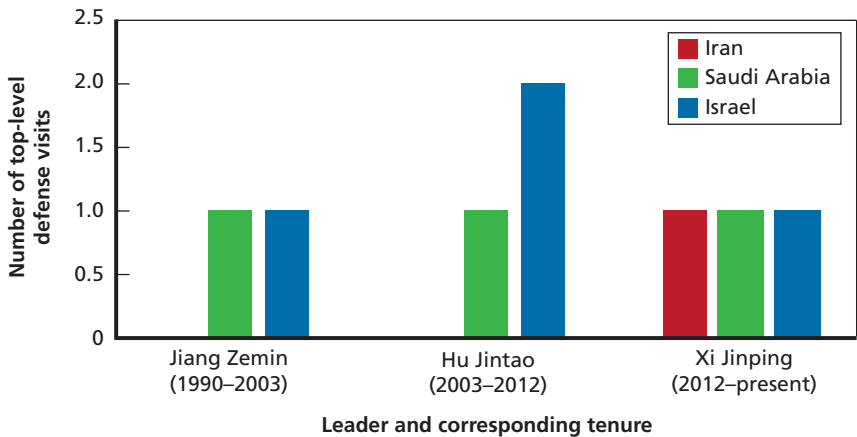
However, these numbers alone do not tell the full story of the extent and depth of defense ties between China and Israel, Iran, and

¹⁶ Shichor, 2006.

¹⁷ Yiftah S. Shapir, "Hamas' Weapons," *Strategic Assessment*, Vol. 11, No. 4, February 2009.

¹⁸ As we discuss in Appendix A, the SIPRI data are limited as they count only major conventional weapons and thus do not account for transfers of nuclear-related technologies or knowhow to Iran and other countries, or the indirect exports of weapons and ammunition to Hezbollah and Hamas.

Figure 4.3
Top-Level Defense Visits to the Middle East Under Each Chinese Leader, 1992–2018



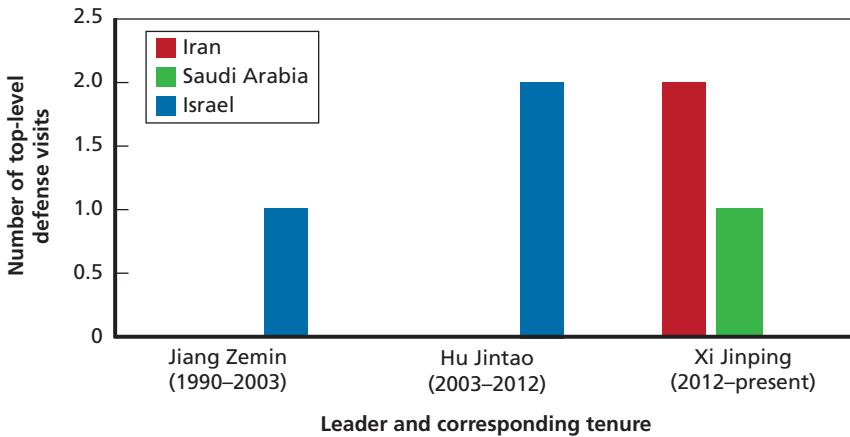
SOURCES: Data are from the Ministry of Foreign Affairs of the PRC website; websites of various Chinese diplomatic missions; and such official Chinese news sources as Xinhua, *People's Daily*, and CCTV.

Saudi Arabia. Defense exchanges between these countries are not limited to the top level of command, and in recent years, there have been several visits at lower levels. For example, in 2010, for the first time after the HARPY incident, a delegation of Chinese military officials visited Israel and senior Israel Defense Forces (IDF) officers, such as then–Navy Chief Eliezer Marom, visited China.¹⁹ The visit resulted in an agreement to provide training for PLA officers from the spokesperson’s unit at IDF spokesperson facilities.²⁰ In 2011, the PLA’s chief

¹⁹ “China Pledges to Enhance Bilateral Ties, Military Links with Israel,” Xinhua, December 13, 2010; “Friends Again, Israel and China Boost Ties,” UPI, October 2, 2012; Hiddai Segev, “Sino-Israeli Security Relations: In America’s Shadow,” Middle East Institute, May 15, 2018.

²⁰ Lior Averbach, “Dover Tzahal Yeshatef Peula Im Yehidat Ha’Dovrut Shel Tzva Sin” [“IDF Spokesperson Will Collaborate with the Spokesperson Unit of China’s Military”],

Figure 4.4
Top-Level Defense Visits to China Under Each Chinese Leader, 1992–2018



SOURCES: Data are from the Ministry of Foreign Affairs of the PRC website; websites of various Chinese diplomatic missions; and additional news sources, such as BBC, Reuters, and *Al Arabiya*.

of staff, General Chen Bingde, visited Israel to “deepen understanding, enhance friendships, expand consensus and promote cooperation” between the two countries.²¹ Reportedly, in May 2013 “Israeli Head of Military Intelligence, Major General Aviv Kochavi, headed to China secretly to meet his counterpart, Major General Chen Youyi, along with other Chinese intelligence officials.”²² In addition, these data do not reflect frequent visits by former Israeli defense officials to China.

Globes, October 25, 2010; Segev, 2018; Josef Federman and Christopher Bodeen, “China–Israel Ties Alarm Human Rights Advocates,” *Washington Times*, May 29, 2012.

²¹ Dan Williams, “Chinese Military Chief Makes First Visit to Israel,” Reuters, August 14, 2011.

²² Segev, 2018.

For Iran, in addition to the previously mentioned 2015 visit by Admiral Sun Jianguo, Rear Admiral Habibollah Sayyari, commander of the Islamic Republic of Iran Navy (IRIN), visited Beijing on the invitation of PLA Navy Commander Wu Shengli in October 2014.²³ More recently, a delegation of 16 senior officers from the Chinese Ground Force, Navy, and Air Force visited Tehran and held talks with the commander of the Iranian Army Ground Force, Brigadier General Kiomars Heidari.²⁴ In the case of Saudi Arabia, in October 2015, Wu Shengli received a visit from the commander of the Saudi Navy, Abdullah bin Sultan.²⁵

Chinese military exchanges with the rest of the region also have been growing in different forms and with different countries. Such exchanges include high-level visits and port visits. In terms of high-level visits, Admiral Wu Shengli visited Egypt in 2016 on the invitation of his counterpart and held talks with the Egyptian Minister of Defense Sedki Sobhy and Navy Commander Vice Admiral Osama Mounir Rabie.²⁶ In the same year, reportedly, Guan Youfei, director of the Office for International Military Cooperation of China's CMC, met Syrian Defence Minister Fahad Jassim al-Frej in Damascus.²⁷ For port visits, recent examples include a visit by a Chinese naval fleet in January 2017, "the second time for Chinese naval ships to pay an offi-

²³ "Iran's Navy Commander Visits China," *China Military*, October 21, 2014.

²⁴ "Iranian Army Commander, Chinese Military Delegation Meet in Tehran," *China Military*, July 4, 2018.

²⁵ Chen Guoquan and Mo Xiaoliang [陈国全, 莫小亮], "Wu Shengli Meets Saudi Navy Commander" [吴胜利会见沙特海军司令], Ministry of National Defense of the People's Republic of China [中华人民共和国国防部], October 16, 2015.

²⁶ "Chinese Navy Commander Wu Shengli Visits Egypt" [中国海军司令员吴胜利访问埃及], Xinhua [新华], May 14, 2016.

²⁷ Ben Blanchard, "China Says Seeks Closer Military Ties with Syria," Reuters, August 16, 2016.

cial visit to Saudi Arabia.”²⁸ This was followed a few weeks later by the 24th Chinese Naval Escort Taskforce’s visit to Qatar, “the PLA Navy’s second visit to Qatar.”²⁹ In June of the same year, a Chinese naval fleet made a port visit to Iran, docking at the Bandar Abbas Port.³⁰ In 2015, a Chinese naval fleet made a port visit to Turkey, the third time for Chinese naval ships to do so.³¹

Arms Transfers

The SIPRI Arms Transfer Database registers no data on Chinese arms transfers to Israel (Figure 4.5). However, given the advanced technologies available to Israel, and given its security relationship with the United States, it is unlikely that it would import arms from China. For Saudi Arabia, data are available only for three years, and for Iran, data are available from 1992 to 2015. Chinese arms transfers to Iran peaked in 1996 at 320 million TIVs and, with some variation, have consistently declined since then, reaching a low of 9 million TIVs for three consecutive years from 2013 to 2015, during the peak of international sanctions. Chinese arms transfers to Saudi Arabia also appear to have declined in value, from 33 million TIVs in 2008 and 2009 to 14 million TIVs in 2015. By comparison, Saudi Arabia’s greatest source of arms transfers remains the United States, with a value of 1,771 million TIVs in 2015. Iran, meanwhile, might get most of its arms from either China or Russia: In 2015, the value of Russian arms transfers to Iran was 4 million TIVs, but in 2016, the value was 374 million TIVs. Data are unavailable for 2016 for China.

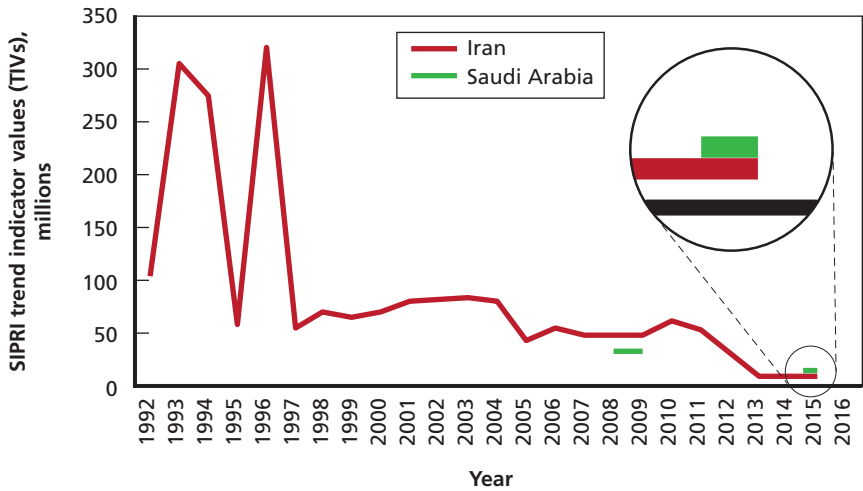
²⁸ Li Jiayao, “Chinese Naval Fleet Arrives in Saudi Arabia for Goodwill Visit,” *China Military*, January 8, 2017.

²⁹ Yao Jianing, “24th Chinese Naval Escort Taskforce Visits Qatar,” *China Military*, January 23, 2017a.

³⁰ Yao Jianing, “Chinese Naval Fleet Visits Iran,” *China Military*, June 16, 2017b.

³¹ “Chinese Navy Ships Visit Turkey for the Third Time” [中国海军舰艇第三次访问土耳其], *Phoenix News* [凤凰新闻], May 24, 2015.

Figure 4.5
Arms Exports from China, 1992–2015

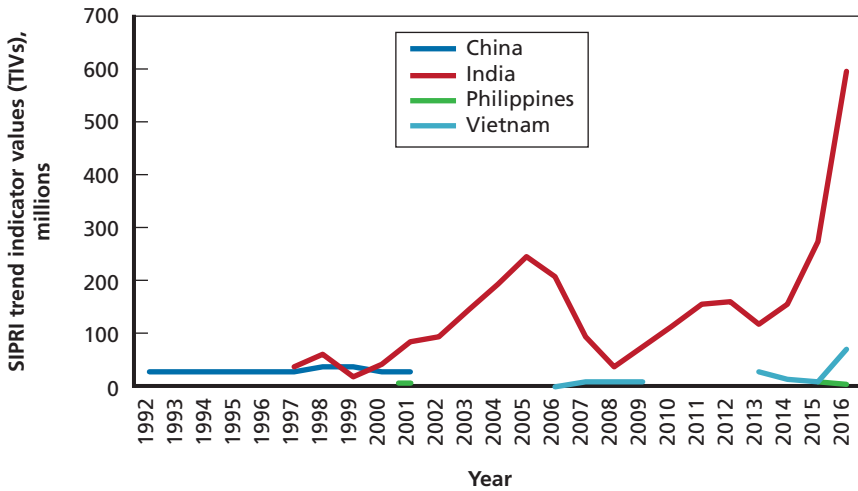


SOURCE: Data are from SIPRI, undated(a).

Gaps also exist in the data on Israeli arms transfers to China, India, the Philippines, Taiwan, and Vietnam (Figure 4.6). For China, there are data only from 1992 to 2001; according to experts, there were no arms transfers after 2001, so this is not a flaw in the data.³² For India, data are available from 1997 onward. Data are available for only three years for the Philippines, four years for Taiwan (ending in 1992, when Israel normalized diplomatic relations with the PRC), and eight years for Vietnam. Nevertheless, based on the data available, it appears that arms transfers to India have been growing the most rapidly. They reached a high point in 2005 at 247 million TIVs, underwent a period of decline before recovering again in 2015 and reaching 276 million TIVs, and then more than doubled the following year to 599 million

³² Authors' correspondence with an Israeli expert on China, December 2018.

Figure 4.6
Arms Exports from Israel to Various Countries in Asia, 1992–2016



SOURCE: Data are from SIPRI, undated(a).

TIVs. Arms transfers to Vietnam similarly experienced massive growth, expanding more than nine times from just 7 million TIVs in 2015 to 68 million TIVs in 2016. However, the total value of arms transfers to India dwarfs the total value of arms transfers to Vietnam during the period from 1992 to 2016: 2,915 million TIVs versus 134 million TIVs. Overall, however, both Vietnam and India continue to buy most of their arms from Russia, which was the biggest arms supplier to both countries in 2016. The value of Russian arms transfers to Vietnam that year was 1,039 million TIVs, while the value for India was 1,590 million TIVs.

Although the data might imply that both China and Israel do not strongly link their defense relationships with other countries to their relationship with each other, this is not the case with respect to at least two countries. Part of Israel's objection to closer relations with China

rests on its military connections with Iran, while China is dissatisfied with Israel's arms sales to India. In particular, China was upset in 2003 when Israel agreed to sell India PHALCON systems, which it denied the PRC only three years earlier because of U.S. pressure.³³ China also was unhappy about Vietnam's forward deployment of Israeli-sourced, long-range artillery rockets on the Nansha Islands in 2016.³⁴

Joint Exercises and Technology Transfers

Overall, China's defense involvement in the Middle East has been limited but has been growing over the past decade. In September 2014, for instance, China and Iran held their first joint military exercise between the PLA Navy and the IRIN.³⁵ This was followed by another joint naval exercise between the two countries in 2017.³⁶ In 2016, "special forces from China and Saudi Arabia . . . held their first joint anti-terrorism drills."³⁷ To date, however, China and Israel do not appear to have conducted any joint exercises together. The Hong Kong-based *Phoenix News*, citing a report in *Asharq Al-Awsat*, reported in 2012 that China and Israel were to conduct their first ever joint exercises.³⁸ However, there was no further reporting from other sources—including the Chinese Ministry of Defense—to corroborate this story. In 2016,

³³ "U.S. Approves Israeli Phalcon Sale to India," *Press Trust of India*, May 22, 2003; authors' correspondence with an Israeli expert on China, September 2018.

³⁴ Mo Jingxi and Chen Weihua, "China Faults Vietnam on Islands," *China Daily USA*, August 11, 2016.

³⁵ Yao Jianing, "First China-Iran Joint Military Exercise Attracts Attention," Ministry of National Defense of the People's Republic of China, September 23, 2014.

³⁶ Babak Dehghanpisheh, "Iran and China Conduct Naval Drill in Gulf," Reuters, June 18, 2017.

³⁷ Michael Martina, "China Holds First Anti-Terror Drills with Saudi Arabia," Reuters, October 27, 2016.

³⁸ "Foreign Media Claims China and Israel to Hold First Ever Joint Exercises" [外媒称中国与以色列将举行首次联合军演], *Phoenix News* [凤凰新闻], August 17, 2012.

in a notable first public cooperation between an Israeli defense contractor and the Chinese government since the HARPY incident, Israel Aerospace Industries formed a joint venture to cooperate with Lingyun (Yichang) Science and Technology Group Co., Ltd., to establish its first local civilian Chinese maintenance, repair, and overhaul (MRO) enterprise, in the Hubei Province.³⁹

Beyond Israel, Iran, and Saudi Arabia, China has begun conducting exercises with other countries in the region. In 2010, “the air forces of China and Turkey . . . carried out a joint exercise . . . in what appeared to be the first such drill involving Beijing and a [North Atlantic Treaty Organization] member country.”⁴⁰ In 2015, Chinese and Egyptian naval forces conducted a joint maritime drill in the Mediterranean at the end of a port visit to Alexandria by the Chinese forces.⁴¹ In 2017, a Chinese naval task force made a port visit to Oman, at the conclusion of which it conducted a joint exercise with the Oman navy in the Gulf of Aden.⁴²

China’s presence in the region also has grown in other ways. Beginning in December 2008, the PLA Navy began to carry out escort missions in the Gulf of Aden and around the Horn of Africa under a UN Security Council mandate and, as of July 2017, “it [had] dispatched 26 task force groups, escorted 6,400 Chinese and foreign ves-

³⁹ Israel Aerospace Industries, “IAI Deepens Its Ties in China’s Civil Aviation Market: IAI to Cooperate with Chinese Lingyun (Yichang) Science and Technology Group Co. Ltd on Establishing a Local MRO Enterprise in the Hubei Province,” press release, January 12, 2016.

⁴⁰ Jim Wolf, “China Mounts Air Exercise with Turkey, U.S. Says,” Reuters, October 8, 2010.

⁴¹ Zhang Tao, “Chinese, Egyptian Navies Conduct Joint Maritime Drill in Mediterranean,” Ministry of National Defense of the People’s Republic of China, September 9, 2015.

⁴² Yan Guiwang and Mei Yunlong [严贵旺, 梅云龙], “China-Oman Navies Hold Joint Maritime Exercise” [中阿海军举行海上联合演习], Ministry of National Defense of the People’s Republic of China [中华人民共和国国防部], June 22, 2017.

sels and warned away more than 3,000 suspected pirate ships.”⁴³ China also dispatched PLA Navy ships to evacuate Chinese nationals from Libya in 2011 and both Chinese nationals and foreigners from Yemen in 2015.⁴⁴ Most notably, in August 2017, China opened in Djibouti its first overseas military base.⁴⁵ In March 2017, during a visit to China by Crown Prince Mohammed bin Salman of Saudi Arabia, the two sides signed an agreement to “set up the first factory for Chinese hunter-killer aerial drones in the Middle East.”⁴⁶ The *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2018* also noted that

China has sold armed UAVs to . . . Iraq, Saudi Arabia, Egypt, and the United Arab Emirates. China faces little competition . . . as most countries who produce them are restricted in selling the technology as signatories of the Missile Technology Control Regime and/or the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies.⁴⁷

China’s defense relationships and activities throughout the Middle East continue to grow in terms of the range of countries and activities,

⁴³ “China to Continue Escort Missions in Gulf of Aden, Somalia,” Xinhua, October 27, 2017.

⁴⁴ Gabe Collins and Andrew S. Erickson, “Implications of China’s Military Evacuation of Citizens from Libya,” *China Brief*, Vol. 11, No. 4, March 11, 2011; BBC News, “Yemen Crisis: China Evacuates Citizens and Foreigners from Aden,” April 3, 2015.

⁴⁵ Ben Blanchard, “China Formally Opens First Overseas Military Base in Djibouti,” Reuters, August 1, 2017.

⁴⁶ Minnie Chan, “Chinese Drone Factory in Saudi Arabia First in Middle East,” *South China Morning Post*, March 26, 2017.

⁴⁷ Office of the Secretary of Defense, *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2018*, Washington, D.C.: U.S. Department of Defense, May 16, 2018, p. 23.

but despite regional rivalries, China has managed to maintain good relations throughout the region.

Economic Relations

In contrast to defense or even political relations, economic relations between Israel and China are booming. In this section, we discuss trade patterns and look at data on patent applications and grants. The latter are important in the Israel-China context because Israel is a major producer of IP and because China not only is trying to shift from investment-led to innovation-led growth, but also because patenting in China has risen dramatically. Furthermore, the trade data cover only goods trade, but trade in IP would be services trade. Services trade data are of much poorer quality than goods trade data, so it is useful to consider aspects of services trade, of which IP is one.

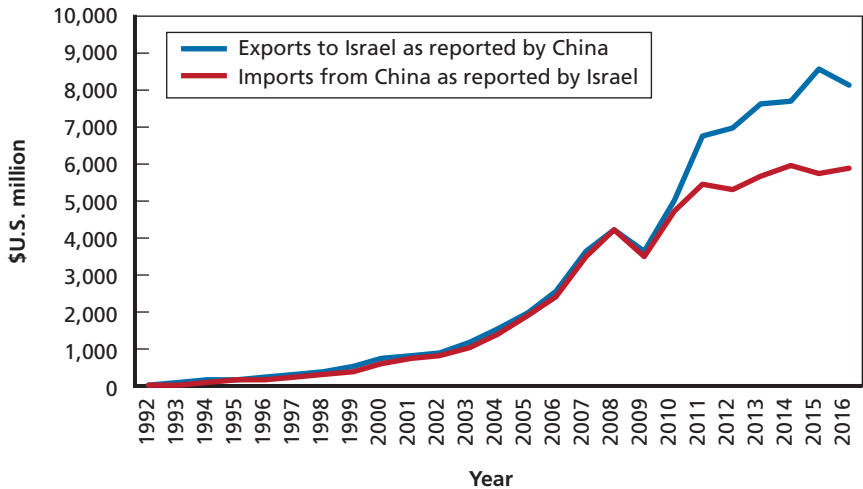
Trade

In evaluating the strength of trade ties between China and Israel, we relied on two data sources, as we elaborate further in Appendix A: (1) the China Statistical Yearbook Database (CSYD), and (2) the United Nations Commodity Trade Statistics Database (UN Comtrade), which gets its data from national statistical authorities.⁴⁸ We provide a more detailed discussion in Appendix B of the discrepancies between China-origin data and Israel-origin data in UN Comtrade.

The value of trade between the two countries has grown steadily since the 1990s (Figures 4.7 and 4.8). The exceptions were 2009, the worst year of the global financial crisis, when there was a decline in

⁴⁸ National Bureau of Statistics of China, “China Statistical Yearbooks Database,” database, undated; UN Comtrade, “Read Me First (Disclaimer): Every User of UN Comtrade Should Know the Coverage and Limitations of the Data,” webpage, undated(a); UN Comtrade, “UN Comtrade Database,” homepage, undated(b).

Figure 4.7
China Exports to Israel, 1992–2016



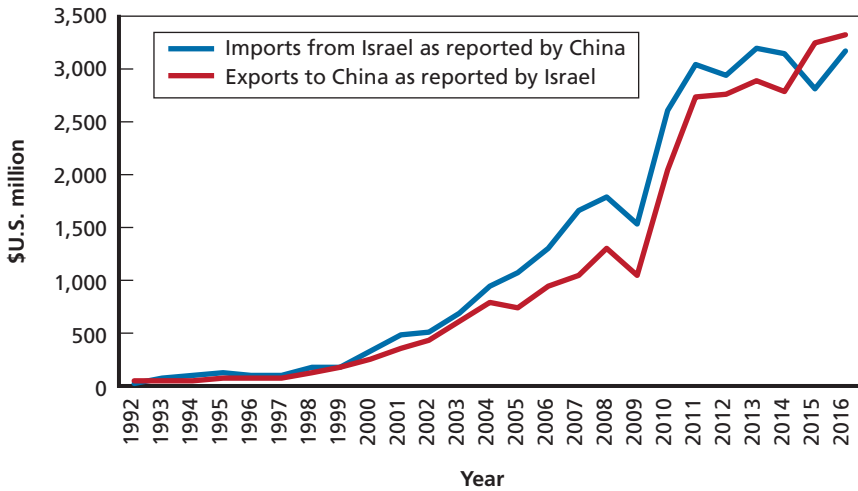
SOURCE: Data are from UN Comtrade, undated(b).

NOTES: UN Comtrade China exports are data as reported by China and are identical to data in CSYD. UN Comtrade Israel imports are data as reported by Israel.

trade in both directions, and 2015, when China's reported imports from Israel fell, although Israel's reported imports from China rose. Trade returned to growth the following year in both cases. Chinese reported exports to Israel were \$8.2 billion in 2016 and (not shown in graph) \$8.9 billion in 2017. Israeli reported exports to China hit \$3.3 billion in 2016 and (not shown in graph) stayed at \$3.3 billion in 2017 (although China reported imports from Israel of \$4.2 billion that year).

There are several notable points about trade between Israel and China. The most important is that trade in both directions has grown dramatically. An additional point is that, as with much of the world, China has a goods trade surplus with Israel. In numerous discussions

Figure 4.8
China Imports from Israel, 1992–2016



SOURCE: Data are from UN Comtrade, undated(b).

NOTES: UN Comtrade China imports are data as reported by China and are identical to data in CSYD. UN Comtrade Israel exports are data as reported by Israel.

with Israeli officials and businesspeople, we heard that most Israeli exporters fail to penetrate the Chinese market.⁴⁹ We cannot assess services trade, in which Israel could have a surplus, because of lack of data. However, data on patents, presented below, suggest that this is the case.

Patents

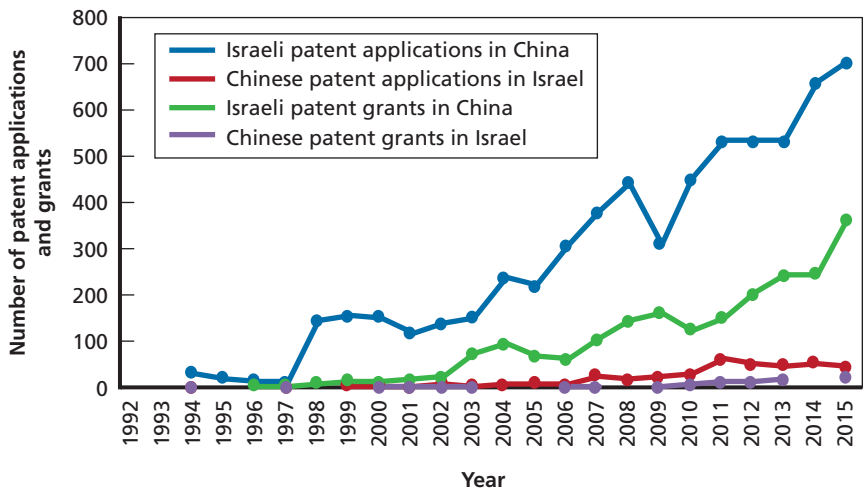
Part of greater economic exchange between Israel and China is the IP content of Israeli goods. Since the late 1990s, Israel appears to have been

⁴⁹ Discussion with Israeli entrepreneurs operating in China, Los Angeles, California, November 2018; discussion with Israeli Ministry of Foreign Affairs official, Santa Monica, California, October 2018; and authors' correspondence with an Israeli expert on China, September 2018.

moving toward protecting that IP through patenting in China. We look at two related forms of patent data: patent applications and patent grants. Not all patents that are applied for are granted (Figure 4.9).

The patent-based relationship between Israel and China has been even more one-sided than that of goods trade. Although the number of Israeli patent applications and grants in China has grown, the number of Chinese patent applications and grants in Israel remained stagnant from 1994 to 2015. Throughout this period, Chinese nationals filed an average of 21 patent applications in Israel, in contrast to the average of 283 applications filed in China by Israelis. Moreover, after reaching a high point of 61 applications in 2011, the number of Chinese patent applications declined to 46 in 2015. Israeli patent applications have, in contrast, grown steadily over the period from 1994 to 2015. The aver-

Figure 4.9
Chinese and Israeli Patents, 1992–2015



SOURCE: Data are from the World Intellectual Property Organization, “WIPO IP Statistics Data Center,” webpage, accessed 2017.

age number of patents granted in China to Israelis during this period was 106, while the number of patents granted in Israel to Chinese was less than six.

Israel has been widely hailed for its innovation, which includes patenting.⁵⁰ China is trying to become more innovative and has increased its patent applications globally. The lopsided nature of Israel-China patenting activity suggests that Israel views China as a valuable market to which to sell IP-related products and services, whereas China views Israel as a valuable source of IP, rather than a market for Chinese IP-related products and services.

Education and Cultural Relations

Education-related relations can have several effects on broader relations between two countries. First, because much innovation starts in universities, higher education alliances can affect the pace and nature of innovation and technology development in a country. Second, studying abroad can increase familiarity and knowledge about the host country, leading to stronger trade or diplomatic relations in the future. Furthermore, universities or educational institutions tied to one country and operating in a second country can help spread the values of the source country.

In gauging the educational ties between Israel and China, we used several measures, including the number of Confucius Institutes in Israel; the number of Israeli students in China and of Chinese students in Israel; the number of academic programs and campuses that Israel and China have in the other country; and the number of senior academic exchanges and visits that have taken place between the two countries. Israeli universities teach about China as part of Asian study programs, but their focus on contemporary and policy-oriented aspects

⁵⁰ Senor and Singer, 2009.

is rather limited, and since 2011, a growing number of Chinese universities have been offering Jewish, Israel, and Hebrew studies, including Nanjing University, Henan University, and Shandong.⁵¹

Confucius Institutes

Confucius Institutes started in 2004 and are foreign cultural institutions designed to promote Chinese language and culture.⁵² Data on the number and locations of Confucius Institutes in Israel are available on the website of Confucius Institute headquarters: www.hanban.org. As of summer 2017, there were two Confucius Institutes in Israel, one each at Tel Aviv University and the Hebrew University of Jerusalem. By comparison, there were no Confucius Institutes in Saudi Arabia, but there were two in Iran, both at the University of Tehran.

Exchange Students

In absolute numbers, there do not appear to be large flows of students from China to Israel or Israel to China. There are no publicly available national data sources on the number of exchange students from Israel and China in the other country. The main official source is the United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics (UIS), which reported 106 Chinese

⁵¹ For Israel university activity, see Anna Etra, "First Israel Studies Program in China to Start This Fall," *Jerusalem Post*, August 5, 2011. For Chinese university activity, a partial list can be found at The Sino-Judaic Institute, "Jewish and Middle Eastern Studies Programs in China," webpage, 2009.

⁵² Confucius Institute Headquarters, "About Confucius Institutes," webpage, 2014. Calling China's international cultural and educational outreach centers Confucius Institutes shows how far the country has migrated from its revolutionary Maoist heritage (although some believe that the rule of Xi is a step back in that direction). On November 29, 1966, during the peak of the Cultural Revolution, the Red Guards destroyed Confucius' grave in his family cemetery and exhumed some of the bodies, setting off a period of grave plunder (Sang Ye and Geremie R. Barmé, "The Fate of the Confucius Temple, the Kong Mansion and Kong Cemetery" [孔庙、孔府、孔林], Commemorating Confucius in 1966–67, *China Heritage Quarterly*, No. 20, December 2009).

students in Israel in 2014 but has no data on the number of Israeli students in China.⁵³ News reports supplement this data point. According to the online version of the *Guangming Daily*, an official newspaper run by the Chinese Communist Party (CCP) Central Committee, there were more than 200 Chinese exchange students in Israel around 2014.⁵⁴

That year, representatives of Israel's universities traveled to China to promote study opportunities for Chinese students in Israel and 350 scholarships became available annually to Chinese (and Indian) students for undergraduate and graduate degrees and short-term summer courses, in addition to 100 annual post-doctoral fellowships for all areas of research.⁵⁵ An additional program is joint research grants.⁵⁶ This could explain the increase in Chinese students in Israel; according to Chinese Ambassador to Israel Zhan Yongxin, as of late January 2016, there were approximately 1,000 Chinese exchange students in Israel.⁵⁷ In 2017, for instance, the University of Haifa alone reported having some 200 Chinese students compared to 20 in 2013.⁵⁸

Meanwhile, according to an article in the *Jerusalem Post* in 2016, "fewer than 100 Israeli students have made their way annually

⁵³ UNESCO, "Global Flow of Tertiary-Level Students," UNESCO Institute for Statistics, 2017.

⁵⁴ Sun Tong [孙通], "Israel: The Promised Land of Chinese Exchange Students" [以色列: 中国留学生的应许之地], *Guangming Daily* [光明网], June 20, 2014.

⁵⁵ Israeli Council for Higher Education, "Israel Promotes Study Opportunities for Chinese Students," webpage, October 20, 2014.

⁵⁶ Israeli Council for Higher Education, "Academic Cooperation with China and India—General Information," webpage, undated.

⁵⁷ Li Jingjing [李晶晶], "Chinese Exchange Students in Israel Hold Social Gathering, Singing and Dancing to Celebrate Beginning of Spring" [在以中国留学生举办联欢会载歌载舞庆新春], *Times of Israel* (Chinese edition) [以色列时报], January 24, 2016.

⁵⁸ Sarah Levi, "Chinese Enrollment at Israeli Universities Skyrockets," *Jerusalem Post*, August 14, 2017.

to China to pursue academic studies.”⁵⁹ However, we were unable to obtain more-complete data extending further back in time, and information about the number of exchange students that the two countries send to the other is sporadic at best.

For comparison, UIS reports that there were 163 Chinese exchange students in Iran and 875 in Saudi Arabia, but UIS reports no data for the reverse. Again, this information is undated and these numbers are all relatively small. According to the same source, Israel’s top three destination countries for exchange students are Romania (2,619 students), the United States (2,153 students), and Moldova (2,043 students). China’s top destination by far was the United States, with 309,837 students. Australia was a distant second with 112,329 students, and the United Kingdom was third, with 89,318 students. Other sources note that, around 2011, there were “approximately 1,100 Saudi students enrolled in different universities in several cities across China . . . [and] 270 Chinese students enrolled in a number of [Saudi] universities.”⁶⁰

Academic Programs

Beyond study abroad programs, joint academic campuses are another form of educational exchange. For this information, we relied primarily on news reporting. As of April 2016, Israel had four campuses or institutions in China, while China had none in Israel. In May 2014, Tel Aviv University partnered with Tsinghua University to establish the XIN Center, a “joint center for innovative research and education to be funded by government and private enterprise.”⁶¹ In December

⁵⁹ Lidar Gravé-Lazi, “Looking to China for Higher Education,” *Jerusalem Post*, May 11, 2016.

⁶⁰ Muhammad Zulfikar Rakhmat, “China and Saudi Arabia: Strengthening Ties Through Education,” *Daily Sabah*, April 13, 2014.

⁶¹ Tova Cohen, “Tel Aviv, Tsinghua Universities Set Up \$300 mln Research Center,” *Reuters*, May 19, 2014.

2015, the Technion–Israel Institute of Technology began construction on the Guangdong Technion–Israel Institute of Technology (GTIIT) in Shantou, the first Israeli university in China and one of only two foreign universities allowed to establish an independent program in China (the other being the University of Moscow).⁶² Construction was finished, and the GTIIT began welcoming its first students in the summer of 2017.⁶³ In March and April 2016, Ben-Gurion University of the Negev also established a joint center for entrepreneurship and innovation with Jilin University, while the University of Haifa established a joint laboratory building on the campus of East China Normal University in Shanghai.⁶⁴ The joint laboratory “will specialize in research in ecology, big data, biomedicine, and neurobiology. The building will be funded entirely by the Chinese government. . . .”⁶⁵ The establishment of Israeli research institutions in China is therefore a very recent phenomenon, beginning in the 2010s. We do not assess whether the motivations are primarily push factors (e.g., Israeli institutions wanting to move into China to broaden their own opportunities) or pull factors (e.g., China is eager to create alliances with Israeli universities and is willing to pay and set other conditions that ensure that ventures are valuable for the Israelis).

Senior Academic Exchanges

Senior academic exchanges are the final measure of educational and cultural cooperation we consider. These are important because they

⁶² Technion–Israel Institute of Technology, “Launch of First Israeli University in China,” December 16, 2015; and Avi Blizovski, “Machon Chadash: Ha’Sinim Yilmedu Chadshanut MeHa’Yisraelim” [“New Institute: The Chinese Will Learn Innovation from the Israelis”], *PC Anashim U’Mechasvim*, December 26, 2017.

⁶³ Ellie Bothwell, “Israel Looks to Asia,” *Inside Higher Ed*, July 14, 2017.

⁶⁴ David Shamah, “Haifa, Ben-Gurion Universities to Open R&D Centers in China,” *Times of Israel*, April 6, 2016.

⁶⁵ Witte and Sunshine, 2017.

can serve as milestones in a relationship, yielding major cooperation agreements. To measure such exchanges, we looked particularly at visits by university presidents and government officials responsible for education issues.

As an example of how such visits build on each other, in March 1995, a former minister of the Israeli Ministry of Education, Culture and Sport visited the State Commission of Education of China, leading to a Memorandum of Intent of Education Cooperation. In March the following year, a delegation of Chinese university presidents visited seven Israeli universities and signed a Memorandum of Cooperation and Understanding on Education. In April 2000, Chinese Minister of Education Chen Zhili visited Israel, where she signed an Agreement on Cooperation in the Field of Education with the Israeli Education Ministry.⁶⁶ More recently, in January 2015, during a visit by Israeli Foreign Minister Avigdor Lieberman, he and Chinese Vice Premier Liu Yandong signed the “China-Israel Innovation Cooperation Three-Year Action Plan,” which proposed the founding of the China-Israel 7+7 Research-Based University Alliance.⁶⁷ In March 2016, the XIN Center hosted the Inaugural Forum of Presidents of Israel-China Higher Education Institutions in Jerusalem.⁶⁸

Senior exchanges between Israeli and Chinese educational institutions also have taken place at the unofficial level. We were able to find reporting on ten exchanges between Israeli and Chinese university leaders between May 2016 and June 2017. Among these, four yielded agreements focused on deepening collaboration on scientific research and student exchanges. In May 2016, the vice president of the South China University of Technology visited the Hebrew University of Jeru-

⁶⁶ Embassy of the People’s Republic of China in the State of Israel, “Educational Exchanges,” webpage, September 21, 2004.

⁶⁷ XIN Center, undated.

⁶⁸ XIN Center, “XIN Holds Israel-China Higher Education Forum,” blog post, March 29, 2016.

saalem and the University of Haifa, signing memoranda of cooperation to “carry out student exchange programs and scientific research.”⁶⁹ In late November 2016, the vice president of Glasgow College, University of Electronic Science and Technology of China signed a Memorandum of Understanding and Agreement with Ariel University to “cooperate in scientific research, doctoral and post-doctoral development.”⁷⁰ In early 2017, the president of Hebei GEO University (HGU) signed an agreement with Hebrew University to “receive faculties and students of HGU for degree education or short-term academic exchanges.”⁷¹ Finally, in late June 2017, the president of the Chinese Academy of Sciences Institute of Automation (CASIA) visited the University of Haifa, where he signed an agreement on research collaboration.⁷² Senior exchanges between the two countries’ educational institutions will likely persist and grow in the coming years.

Tourism

Tourism between Israel and China also has been on the rise. According to Israel’s Central Bureau of Statistics, in 2014, the number of tourists from China was 32,400, including day visitors. By the end of 2017, this number had risen to 123,900, including day visitors, or an increase of almost 400 percent in just three years’ time (Figure 4.10). A possible contributor to this increase is an agreement between the two countries

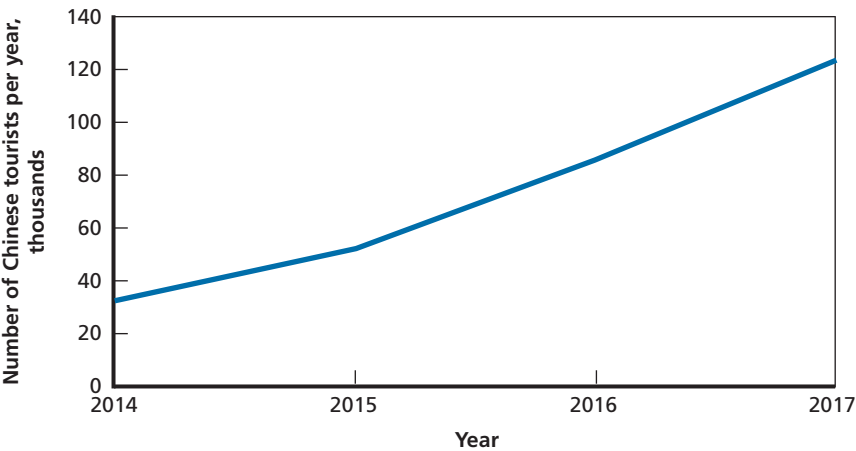
⁶⁹ South China University of Technology, “SCUT Delegation Visits Universities in Israel, Belgium and Germany,” SCUT News Network, July 9, 2016.

⁷⁰ Daniel Ni, “UESTC Delegation Visited Israeli and Italian Universities,” Glasgow College, University of Electronic Science and Technology of China, webpage, December 6, 2016. Notably, Ariel University is in the West Bank, suggesting that there are limits to China’s support of the Palestinians.

⁷¹ Hebei GEO University, “HGU Delegation Visits Institutions in Israel and Egypt,” webpage, April 12, 2017.

⁷² CASIA, “CASIA Establishes Collaboration with the University of Haifa, Israel,” press release, June 29, 2017.

Figure 4.10
Chinese Tourists to Israel, 2014–2017



SOURCE: Data are from Central Bureau of Statistics (Israel), “Table 3. – Visitor Arrivals (1), by Continent and Country of Citizenship,” 2018; and Central Bureau of Statistics (Israel), “Visitor Arrivals, by Country of Citizenship,” data tables from *Statistical Abstract of Israel*, accessed on August 8, 2017.

that entered into effect on November 11, 2016. According to the agreement, “a Chinese citizen holding an ordinary passport could request a multi-entrance B2 visa for a period of up to ten years at any Israeli embassy/consulate worldwide.”⁷³ Israeli citizens visiting China will be able to do the same, making Israel only the third country in the world to have such an agreement with China, after the United States and Canada.⁷⁴ This agreement could further boost bilateral tourism in the coming years.

⁷³ Embassy of Israel in China, “Ten-Year Multiple Entry Visa,” webpage, January 24, 2018.

⁷⁴ Raphael Ahren, “Israel and China to Sign 10-Year Multiple Entry Visa Deal,” *Times of Israel*, March 27, 2016.

Conversely, official statistics on the number of tourists from Israel to China are not available, as neither the CSYD—which is compiled by the National Bureau of Statistics of China—nor China’s Ministry of Culture and Tourism provides statistics for Israel specifically. Statistics for Israel might instead be grouped with the “Others” category under the overall section for Asia. However, other sources indicate that the number of tourists from Israel to China might have been on the increase. *Globes* newspaper, citing the Israel Airports Authority, notes that “54,000 passengers travelled on the Tel-Aviv Beijing route in 2014, up 5 percent from 2013.”⁷⁵ However, this number could include Chinese going home or Israelis stopping in China en route to other destinations and could exclude travelers to China on non-direct flights.

One other sign of the increased travel between China and Israel, for whatever purpose, is the proliferation of direct flights between the two countries. As of late November 2018, there were nonstop flights to four cities in China.⁷⁶ The Tel Aviv–Beijing route was a long-standing El Al route that Air China also flew in the 1990s; that route is now a code-share flown solely by El Al.⁷⁷ In 2016, Hainan Airlines launched a competing route to Beijing.⁷⁸ In 2017, Hainan extended its service to a new direct route to Shanghai.⁷⁹ And in 2018, the same airline launched a direct flight to Guangzhou and was considering starting

⁷⁵ Sapir Peretz-Zilberman, “Hainan Airlines to Launch Tel Aviv-Beijing Route,” *Globes*, January 12, 2015.

⁷⁶ Israel Airports Authority, “Online Flight Timetable Ben Gurion Airport,” webpage, undated.

⁷⁷ Dani Sadeh, “New Chinese Airline to Begin Competing with El Al,” *Ynet News*, June 5, 2016.

⁷⁸ Sadeh, 2016.

⁷⁹ Michal Raz-Chaimovich, “Hainan Airlines to Launch Tel Aviv–Shanghai Flights,” *Globes*, May 25, 2017.

a direct flight to Shenzhen.⁸⁰ Also in 2018, Sichuan Airlines started a direct flight to Chengdu.⁸¹

Other Cultural Relations

Outside of academic exchanges and tourism, Israel and China have made cultural outreach in other ways. In the media sphere, for example, the *Times of Israel*, a major English-language newspaper in Israel, for a time produced a Chinese-language edition in addition to versions in Arabic, Persian, and French. China Plus, of China Radio International, China's state-owned international broadcaster, has a Hebrew channel among channels in dozens of other languages.⁸² The 19th China Shanghai International Arts Festival held an Israel Culture Week on November 11–15, 2017, to “honor the 25th anniversary of the establishment of diplomatic relations between China and Israel.”⁸³ The organizer of the event was the consulate general of Israel in Shanghai and it appears to have been the first cultural event celebrating Israel in China.⁸⁴ On the Chinese side, there have been efforts by various organizations to promote China's positive role in saving Jewish refugees during the Holocaust. For example, in August 2017, Shanghai Jiaotong University Publishing House announced that it would be establishing a “Jewish Refugees to China Database.” Construction of the database was to proceed in three phases. Phase One was to consist of collecting memoirs from refugees and data on Jewish refugees from old newspa-

⁸⁰ Ari Rabinovitch, “Hainan Airlines Begins Guangzhou–Tel Aviv Direct Flights,” Reuters, August 2, 2018.

⁸¹ Michal Raz-Chaimovich, “Sichuan Airlines to Open New Route to Tel Aviv,” *Jerusalem Post*, August 29, 2018.

⁸² “China Plus,” homepage, undated.

⁸³ Qi Xijia, “Israel Culture Week,” *Global Times*, November 2, 2017.

⁸⁴ Consulate General of Israel in Shanghai, “Israel Culture Week Opens in Shanghai,” webpage, November 19, 2017.

pers. Phase Two was to consist of collecting files and data from around the world, from different parts of China and also from foreign institutions, such as the Hoover Institution Library and Archives in the United States, the National Library of Israel, the Zionist Archives, and the foreign ministry archives of multiple countries. Phase Three was to consist of recording oral histories from Jewish refugees and including written records, photographs, and videos.⁸⁵ The National Office for Philosophy and Social Sciences, under the National Social Science Fund of China, undertook research into Jewish refugees to China and issued periodic work reports on research progress. Eight such reports were issued, with the last one released on June 26, 2015.⁸⁶

The data on education and cultural relations suggest several patterns. First, as with other forms of relations, Chinese interest in technology and IP is high, as reflected in the nature of the academic programs and senior academic exchanges. Second, tourism patterns underscore the patent data in suggesting that Israel is a services exporter—Chinese tourism to Israel is a Chinese services import from Israel. Third, China is trying to reach out culturally to Israel, for example, in the form of Confucius Institutes. However, the outreach in the other direction is not as active at the nonofficial level, in the form of the limited number of Israeli students studying in China. This underscores the finding elsewhere in the report that Israel might lack the policy-oriented China-related expertise it needs.

⁸⁵ Luo Xin [罗昕], “Shanghai Jiaotong University Publishing House to Build ‘Jewish Refugees to China Database’” [上海交通大学出版社将建“来华犹太难民数据库”], *The Paper* [澎湃], August 14, 2018.

⁸⁶ National Office for Philosophy and Social Sciences [全国哲学社会科学工作办公室], “Research on Jewish Refugees to China (1933–1945)” [来华犹太难民研究 (1933–1945)], 2013.

Conclusion

Overall, relations between China and Israel are broadening and deepening on multiple fronts. Although bilateral relations appear not to be especially close in some areas, they are booming in others. In the political and defense realm, for example, relations between the two countries are cordial but not particularly warm, with each side having other, more preferred partners. Economic relations, on the other hand, are much stronger, as noted by the increase in trade between the two countries, the growth in Israeli patent applications and grants in China, and Chinese investment in Israel, which we discuss further in the next chapter. Educational relations are somewhere in between these two extremes. The number of students that Israel and China have in the other country has remained very limited, but is now growing, along with the number of high-level educational exchanges. Educators in both countries appear to be interested in increasing cooperation between their institutions, and the signing of various agreements and partnerships could pave the way for a rapid increase in the number of student exchanges in the future. Similarly, there is a lot of potential for growth in the realm of tourism and, at least on the Israeli side, there is high interest in fueling that growth. Finally, there have been other forms of cultural outreach, from cultural appreciation events to Chinese institutions working to promote a positive image of their country as a rescuer of Jewish refugees during the Holocaust.

These trends might indicate how relations between Israel and China will evolve in the future: continually strengthening ties in such “soft” areas as economics, education, and tourism coupled with maintaining the status quo in such “hard” areas as politics and defense. As the next chapter demonstrates, there has been remarkable growth in Chinese investments and acquisitions as well as involvement in infrastructure projects in Israel. Continuation of these trends could not only have important economic implications, but also political and security implications.

Chinese Investment and Construction in Israel

Chinese investment and construction activities in Israel have risen dramatically in recent years. This chapter examines Chinese investments and acquisitions in Israel from 2007 to 2018, as well as major construction projects in Israel carried out by Chinese companies over the same period. Because these activities include greater involvement in a target economy than does trade, we pay specific attention to Chinese companies and Israeli entities that present possible areas of concern to Israeli or U.S. interests. First, we provide an overview of investment and construction activities, including estimates of the total amount of investment and construction, as well as the scope of investments and other economic activity across different sectors. Then we address the profiles of Chinese entities investing or engaging in construction in Israel and several factors that should be considered when assessing the risks posed by this activity. Lastly, we look at several Israeli companies that have been the targets of Chinese investment and assess whether there are risks from Chinese ownership of or stake in these entities.

Drawing on a variety of sources, we assessed 92 investments—both direct investments and investments through venture capital—and infrastructure projects involving 42 Chinese companies and 80 Israeli companies that were targets for Chinese investment. We identified 11 companies that raise potential concerns for Israel or the United States. We also assessed a subset of the Israeli companies that received invest-

ment, with a focus on those that work on potentially sensitive or dual-use technology—i.e., technology with applications to both the civilian and military markets—and those that received investment from the Chinese firms we judged most likely to pose security concerns to Israeli or U.S. interests. We provide additional information on methods in Appendix A.

Investment and Construction Overview

Chinese investment primarily flows to wealthy countries, while Chinese construction typically takes place in developing countries.¹ Israel is an exception, being both a developed country with a sizable advanced technology sector as well as a node along China's BRI, which emphasizes connecting China to Europe, Asia, Africa, and the Middle East through major infrastructure projects. As a result, Israel is a rare example of a country with high levels of both Chinese investment and construction.

We studied 92 investments and construction projects involving Chinese entities in Israel between 2007 and 2018. Reported investment totaled \$12.9 billion, while contracts for the construction and operation of infrastructure projects totaled more than \$4 billion.² Chinese investment and construction activities present distinct concerns. The primary concern regarding investment relates to Chinese own-

¹ Derek Scissors, "Private Data, Not Private Firms: The Real Issues in Chinese Investment," American Enterprise Institute, Washington, D.C., January 10, 2018.

² For comparison, total nominal investment in transport infrastructure and communications from 2007 to 2016 was \$34.8 billion (Bank of Israel, *Annual Reports*, 2007–2016; see Table 2.A.26 "Investment in Transport and Communications, 1988–," in "Statistical Appendix and Complementary Data"). Values in New Israeli Shekels were converted using exchange rates from the Organisation for Economic Co-operation and Development, National Currency to U.S. Dollar Spot Exchange Rate for Israel [CCUSSP02ILA650N], retrieved from Federal Reserve Bank of St. Louis, July 14, 2018.

ership of companies that might possess sensitive technology or data, while concerns over construction center on the use of infrastructure projects to further Chinese foreign policy goals. The operation of infrastructure projects could present risks of surveillance. Both construction and investment activity raise concerns of Chinese social and political influence.³ This influence and potential leverage is a major concern regarding the growing scale and scope of Chinese investment and construction activity in Israel more generally; however, the focus of this chapter is on categories of risk presented by specific investments and companies.

Construction and Operation of Infrastructure

We looked at five major infrastructure projects undertaken or to be undertaken by Chinese companies in Israel at an estimated total cost of more than \$4 billion. All five projects involve the construction of transportation-related infrastructure, while two also involve the operation of new facilities; all are to be completed by Chinese state-owned enterprises. These projects include expansion of the Ashdod port, partial construction and operation of a new container terminal at the Haifa port for 25 years (Ashdod and Haifa are Israel's only two ports on the Mediterranean Sea), construction and operation of the Tel Aviv light rail (two Chinese companies are involved in building different sections), and construction of the Carmel Tunnels (a Chinese company is a subcontractor).⁴ In addition, there is a proposed rail line between

³ Scissors, 2018.

⁴ Avi Bar-Eli, "Carmelton, Chinese Firm Reach Compromise on Tunnels Project," *Haaretz*, November 3, 2008; Amiram Barkat, "Eilat Railway Hits Financing Buffers," *Globes*, May 21, 2014; Angela Yu, "Chinese Port Operator Signs Deal to Run Israel's Haifa Port," JOC.com, June 2, 2015; David Shamah, "China Firm to Build New Ashdod 'Union Buster' Port," *Times of Israel*, September 23, 2014b; Hedy Cohen, "Arison, Chinese Co Win TA Light Rail Underground Tender," *Globes*, May 19, 2015; and China Railway Construction Corporation Ltd., "CCECC Signs Israel's First Light Rail Operation Maintenance Contract," webpage, November 16, 2017.

Eilat and the Mediterranean that, if approved, would likely be built by a Chinese state-owned enterprise at an estimated cost of a little less than \$2 billion.⁵ The port projects and the Eilat-Mediterranean railway line are of particular note, as they represent pieces in the larger Chinese BRI, which aims to physically connect Europe to China in multiple ways. We discuss this topic further in the following sections, after introducing a subset of the Chinese entities investing and involved in construction in Israel, as part of the concerns these entities could represent.

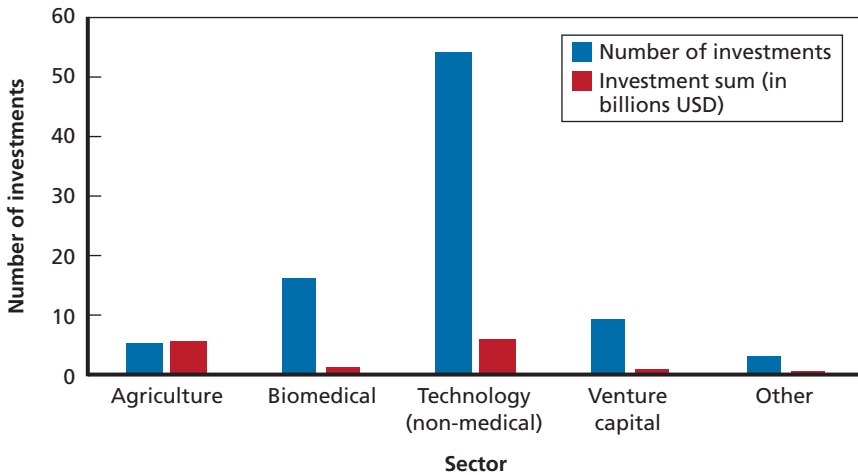
Investment

The agriculture and technology sectors were the biggest targets of Chinese investment by monetary value, at approximately \$5.3 billion in agriculture and \$5.7 billion in technology; together, these two sectors accounted for approximately 87 percent of total Chinese investment in Israel. Furthermore, the agriculture-related investment included a strong technology component in that it focused on agricultural technology. For agriculture, the investment figure is driven by the acquisition of Adama (previously Macteshim-Agan) for \$2.8 billion by ChemChina, which acquired 60 percent of the agrochemical company in 2011 and the remaining 40 percent in 2016.⁶ The technology sector was by far the biggest target of Chinese investment in terms of the number of companies we examined: Fifty-four of the 92 investments were in Israeli technology companies. Other sectors that received Chinese investment over this period included biomedical and pharmaceutical companies (Figure 5.1). We also have included venture capital as a separate category; most of the Israeli venture capital companies to which Chinese entities have provided funding invest primarily in

⁵ Barkat, 2014.

⁶ Yoram Gabison, "IDB Selling Remaining 40% Stake in Adama to ChemChina for \$1.4 Billion," *Haaretz*, July 18, 2016.

Figure 5.1
Chinese Investment in Israel by Sector, 2007–2018



SOURCE: Authors' assessments from sources described in Appendix A.

the technology or biomedical technology sectors. The reported values and counts likely underestimate the actual totals, as some investment amounts were undisclosed, and our compilation of 92 investments over this period might not be exhaustive. Although some amounts represented the total investment in funding rounds in which the Chinese companies were not the sole participants, this overestimation might be counterbalanced by undisclosed amounts of investment.

Chinese Entities

Of the 42 Chinese companies involved in investments and infrastructure projects in Israel, we identified 11 that raise potential concerns for Israel or the United States. These concerns include connections with the Chinese military or government; issues related to security, privacy,

or censorship; business activities with Israel's adversaries, such as Iran; and the possible implications of Chinese development and operation of major infrastructure that might be important to Israel's security. Table 5.1 presents an overview of 12 companies of concern: the original 11 studied and the Hong Kong-based venture capital firm Horizons Ventures Ltd., which is included because of its outsized involvement in Israel. Horizons Ventures, which focuses on disruptive technology start-ups, invested in more Israeli companies than any other Chinese entity: 21 of the 92 investments, at a total of \$273 million. Li Ka-shing, Hong Kong's richest man and the main figure behind Horizons, has been described as "the most active foreign investor" in Israel. Li also donated \$130 million through his Li Ka Shing Foundation to the Technion-Israel Institute of Technology in Haifa, with the goal "to foster knowledge transfer between China and Israel."⁷

Military and Government Connections

A key concern is the nature of the ties that Chinese companies investing or building major infrastructure projects in Israel have with the Chinese government, armed forces, or military entities. Ties to military intelligence or to Chinese operations in the South China Sea would be particularly concerning to the United States. Cybersecurity risks and the potential for the transfer of sensitive technologies are the primary issues with the military and government connections of companies engaging in investment, while ties to objectionable Chinese military activity are the main concern related to construction. Surveillance also is a concern for some investments, especially in the telecommunications sector, and for contracts to operate such major infrastructure as rail and ports.

One of the state-owned companies working on infrastructure projects in Israel has completed work for the Chinese armed forces,

⁷ Shu-Ching Jean Chen, "Li Ka-shing and Horizons Ventures: The Making of a Venture Powerhouse," *Forbes*, March 12, 2014.

Table 5.1
Chinese Companies That Have Invested or Built Infrastructure in Israel

Chinese Entity	Company Information	Ownership	Activity	Israeli Entities or Projects	Area of Concern
Alibaba	E-commerce and internet services company; investments include eight Israeli technology or venture capital companies	Public	Investment	Visualead, Thetaray, Twiggle, Lumus, Jerusalem Venture Partners (JVP), Infinity Augmented Reality, SQream Technologies	Security issues; censorship concerns related to the purchase of Hong Kong newspaper <i>South China Morning Post</i>
Baidu	Web services company that also is doing artificial intelligence research and developing autonomous cars; investments include five Israeli technology companies or venture capital funds	Public	Investment	Pixellot, Tonara, Taboola, Dynamic Yield, Carmel Ventures	Government connections: national lab for artificial intelligence; security issues
China Broadband Capital Partners	Technology, media, and telecommunications investment company	Private	Investment	IronSource Ltd.	Princeling connections (explained in more detail in text)

Table 5.1—Continued

Chinese Entity	Company Information	Ownership	Activity	Israeli Entities or Projects	Area of Concern
China Communications Construction Company and subsidiaries, such as China Harbour Engineering Company	Infrastructure projects worldwide, including Gwadar Port in Pakistan and Colombo Port City in Sri Lanka	State-owned	Construction	Construction of Ashdod port, proposed Eilat-Mediterranean rail line	Military construction projects, including in the South China Sea
China Railway Tunnel Group	Infrastructure projects in more than 80 countries	State-owned	Construction	Portion of the Tel Aviv light rail	Conducts business in Iran; corruption
Horizons Ventures Ltd. (Hong Kong)	Investments in more than 80 companies worldwide, primarily in the United States and Israel, focusing on disruptive technologies	Private	Investment	More than 20 Israeli companies	Largest investor in Israel by number of companies
Huawei Technologies Co., Ltd.	Network and telecommunications equipment company	Private	Investment	Toga Networks, HexaTier	Ties to the Chinese government and military; accused of selling surveillance and other equipment to Iran in violation of sanctions

Table 5.1—Continued

Chinese Entity	Company Information	Ownership	Activity	Israeli Entities or Projects	Area of Concern
Kuang Chi	Technology conglomerate, with expertise in areas from materials technology to aerospace; Kuang Chi plans to establish an “International Innovation Headquarters” in Tel Aviv and invest \$300 million in Israel through its Global Community of Innovation Fund, of which it has already invested \$50 million	Private	Investment	eyeSight, AgentVI, Beyond Verbal	Government connections: first company Xi Jinping visited as head of the CCP, one of several technology companies chosen by the government to participate in a mixed-ownership pilot to introduce private-sector innovation into China Unicom
Lenovo	Personal computers and electronics company	Public	Investment	Neura, Canaan Partners Israel	Government connections: founder served as National People’s Congress delegate; security issues
Tencent	Internet company: maker of WeChat, a social media application with more than 900 million monthly active users	Public	Investment	Contacts+, Singulariteam	Government connections: CEO served as National People’s Congress delegate; security and censorship issues

Table 5.1—Continued

Chinese Entity	Company Information	Ownership	Activity	Israeli Entities or Projects	Area of Concern
Xiaomi	Smartphone and electronics company	Private	Investment	Pebbles Interfaces	Government connections: received government support to develop semiconductor technology; founder served as National People's Congress delegate; security issues
ZTE Corporation	Network and telecommunications equipment company	Public	Investment	Rainbow Medical	Ties to Chinese government and military; accused of selling surveillance and other equipment to Iran in violation of sanctions

SOURCE: Authors' assessments from sources described in Appendix A.

including in the South China Sea. Among the companies investing in Israel, telecommunications companies Huawei Technologies Co., Ltd. and ZTE Corporation are especially noteworthy for their less-than-transparent government and military connections, as well as for a variety of potential security problems, which we discuss in more detail later. Other potential concerns include companies receiving direct support from the government to develop dual-use technologies and company executives having government connections, either through holding government positions or through personal connections with high-ranking officials or their relations (“princelings”).⁸

China Communications Construction Company (CCCC), a state-owned enterprise that plans to build the proposed rail line from Eilat to the Mediterranean if approval for the embattled project is received, has completed construction projects for the Chinese military, including in the South China Sea, through its subsidiaries.⁹ China Harbour Engineering Company (CHEC), one of CCCC’s subsidiaries, built a PLA-operated satellite ground station in Argentina. Although the facility’s purpose is allegedly for scientific research, its secretive nature, advantageous location, and connections to the PLA’s General Armaments Department and Xi’an Satellite Control Center have led many observers to suspect that it functions as an intelligence collection site.¹⁰ CHEC also has been contracted to build Israel’s new Ashdod port.¹¹

⁸ The term *princelings* refers to relations, particularly descendants, of high-ranking former CCP officials. Princelings often are perceived to receive preferential treatment from this status. Many princelings also hold high-level positions in government or business.

⁹ Barkat, 2014.

¹⁰ Victor Robert Lee, “China Builds Space-Monitoring Base in the Americas,” *The Diplomat*, May 24, 2016.

¹¹ Shamah, 2014b.

CCCC Dredging, another subsidiary, allegedly has been involved in China's island reclamation efforts in the South China Sea.¹²

There has been a great deal of concern in the United States about Huawei and ZTE. In October 2012, the U.S. House of Representatives Permanent Select Committee on Intelligence released a report detailing the connections between telecommunications companies Huawei and ZTE and the Chinese government, and the risks posed by these companies doing business in the United States and with U.S. companies.¹³ The Committee was concerned about the threat of "economic and foreign espionage" because of the potential influence of the Chinese government in these companies' business operations and the possibility that they could provide access to telecommunications networks for intelligence-gathering purposes.

The report's conclusions included that "Huawei may have connections and ties to Chinese leadership that it refuses to disclose." Ren Zhengfei, Huawei's founder and president, allegedly is the former director of the PLA Information Engineering Academy, believed to be affiliated with China's signals intelligence department. The report further referenced unconfirmed accounts that Huawei Chairwoman Sun Yafang previously worked at China's Ministry of State Security (China's major external intelligence agency).¹⁴ The Committee received evi-

¹² Laura Zhou, "Chinese Island-Building Firm Wins Contract with South China Sea Rival Claimant, the Philippines," *South China Morning Post*, October 27, 2016.

¹³ Mike Rogers and C. A. Dutch Ruppersberger, *Investigative Report on the U.S. National Security Issues Posed by Chinese Telecommunications Companies Huawei and ZTE*, Washington, D.C.: U.S. House of Representatives, Permanent Select Committee on Intelligence, October 8, 2012.

¹⁴ Bill Gertz, "Chinese Telecom Firm Tied to Spy Ministry," *Washington Times*, October 11, 2011; Cai Ye [蔡烨], "Evidence from the Histories of Huawei's Ren Zhengfei and Sun Yafang That Must Be Spoken" [见证华为任正非和孙亚芳历史不得不说的], Sina Blog of Cai Ye [新浪-蔡烨的博客], April 19, 2012; Bryan Krekel, Patton Adams, and George Bakos, *Occupy the Information High Ground: Chinese Capabilities for Computer Network Operations and Cyber Espionage*, Falls Church, Va.: Northrop Grumman Corp., March 7, 2012.

dence from a former employee that Huawei provided “special network services to an entity the employee believes to be an elite cyber-warfare unit within the PLA.” A Northrop Grumman report on Chinese cyber capabilities, prepared for the U.S.-China Economic and Security Review Commission in 2012, similarly concluded that

the combination of recent infusions of cash, regular appearances at PLA defense industry events, and working relationship with various government research institutes on projects with dual use applications suggests that an ongoing relationship between Huawei and the Chinese military and Chinese political leadership may exist.¹⁵

The Committee noted that, like Huawei, ZTE’s responses lacked transparency and the company was uncooperative with the investigation; the report found that “the history and structure of ZTE . . . reveal a company that has current and historical ties to the Chinese government and key military research institutes.”¹⁶ One concern had to do with ZTE’s largest shareholder, Zhongxingxin, which is partially owned by two state-owned enterprises that “allegedly partake in sensitive technological research and development for the Chinese government and military.”¹⁷ According to the Northrop Grumman report,

ZTE maintains a diverse relationship with the PLA that encompasses collaborative research with military and civilian universities, including satellite navigation, data link jamming techniques, training of active duty PLA personnel, and as a regular exhibitor and presenter at PLA sponsored defense industry expositions.¹⁸

¹⁵ Krekel, Adams, and Bakos, 2012.

¹⁶ Rogers and Ruppertsberger, 2012, p. 38.

¹⁷ Rogers and Ruppertsberger, 2012, p. 39.

¹⁸ Krekel, Adams, and Bakos, 2012, p. 71.

In January 2018, AT&T canceled a deal to sell the Huawei smartphone in the United States. The cancellation came a month after members of Congress sent a letter to the Federal Communications Commission citing concerns about Huawei's ties to the PRC and the company's role in espionage.¹⁹ No such limitations exist on Huawei's products in Israel and, as discussed later, it has invested in at least two Israeli technology companies, Toga Networks and HexaTier, which raise other concerns. Huawei's investment in Toga was initially disguised and unreported, and this secrecy and the continuing uncertainty of the nature of Huawei's and Toga's relationship also is a source of concern.²⁰

In February 2018 testimony to the Senate Select Committee on Intelligence, six U.S. intelligence leaders cautioned against private citizens using Huawei or ZTE products.²¹ In particular, FBI Director Chris Wray noted that a company " beholden to foreign governments that don't share our values" could have the "capacity to maliciously modify or steal information and provides the capacity to conduct undetected espionage" if it had a position inside the U.S. telecommunications network.²²

In April 2018, the U.S. Department of Commerce announced its denial of export privileges for ZTE, meaning that it banned the company from buying components made in the United States for the following seven years. The ban came after the Department of Commerce determined that ZTE violated the terms of a 2017 settlement, as part of which it agreed to pay \$892 million in fines and penalties and

¹⁹ Paul Mozur, "AT&T Drops Huawei's New Smartphone Amid Security Worries," *New York Times*, January 9, 2018.

²⁰ Orr Hirschauge, "China's Huawei Is Coy on Ties to Israeli Firm," *Wall Street Journal*, June 2, 2016.

²¹ Sara Salinas, "Six Top U.S. Intelligence Chiefs Caution Against Buying Huawei Phones," CNBC, February 13, 2018.

²² Daniel Van Boom, "Don't Use Phones from Huawei or ZTE, FBI Director Says," *CNET*, February 14, 2018.

committed to fire and discipline some of its senior staff. The same day the ban was announced, the United Kingdom's National Cyber Security Center warned British telecom operators not to use ZTE's telecom equipment because of security concerns related to the company's state-backed ownership.²³

The United States lifted its ban on ZTE in July 2018, following an agreement with the company that included the payment of a \$1 billion penalty, \$400 million placed in an escrow account, and other conditions.²⁴ However, pressure on both companies has continued to mount. In August, the United States largely banned the use of Huawei and ZTE technology by the U.S. government and contractors.²⁵ By the end of November, the United States, Australia, and New Zealand had all banned the use of Huawei technology in next-generation 5G networks, and UK officials had expressed concerns.²⁶

In terms of other privately owned or publicly traded Chinese companies investing in Israel, many of the executives from these companies have served as delegates to the National People's Congress (NPC) or have other high-level PRC government connections. The NPC is China's official main legislative body, although it wields very little real power, primarily acting as a rubber stamp in passing measures handed down from the Party or State Council.²⁷ The NPC's nearly 3,000 dele-

²³ Moody's Investor Service, "Telecom Equipment: U.S. Bans Chinese Telecom Equipment Maker ZTE from Buying U.S. Components, a Credit Positive for Its Rivals," April 23, 2018.

²⁴ Karen Freifeld, "U.S. Lifts Ban on Suppliers Selling to China's ZTE," Reuters, July 13, 2018.

²⁵ Matthew Humphries, "U.S. Government Agencies Can't Buy Huawei or ZTE Products Anymore," *PC Magazine*, August 14, 2018.

²⁶ Robert Fife and Steven Chase, "New Zealand Becomes Third Five Eyes Member to Ban Huawei from 5G Network," *The Globe and Mail*, November 29, 2018; Matthew Field, "British and German Concerns Mount over China's Huawei," *The Telegraph*, November 29, 2018.

²⁷ Austin Ramzy, "Q. and A.: How China's National People's Congress Works," *New York Times*, March 4, 2016.

gates include many of China's most influential businesspeople, providing some degree of political protection to their companies and giving them a platform to raise issues of concern. It is therefore not surprising or necessarily concerning that the executives whose companies are investing in Israel are members. However, inviting businesspeople to participate in the NPC might serve to engender Party loyalty.²⁸ Tencent CEO Pony Ma, Xiaomi's Lei Jun, and Lenovo's Liu Chuanzhi have all served as delegates. Many tech company executives, including leaders from Tencent, Alibaba, Lenovo, and Baidu, traveled with President Xi during his first state visit to the United States in 2015.²⁹

Chairman Edward Tian of China Broadband Capital Partners (CBC), a privately owned technology, media, and telecommunications investment company, got his start as the co-founder of AsiaInfo Holdings, Inc., China's first internet provider. He then served as the CEO of China Netcom Co., Ltd. and as Vice Chairman and CEO of China Netcom Group from 1999 to 2006.³⁰ China Netcom, a state-owned telecommunications service provider that merged with China Unicom in 2008, was backed by the son of former Chinese President Jiang and appears to have enjoyed preferential treatment because of this connection.³¹ Along with Ping An Ventures, a subsidiary of Chinese financial services company Ping An Insurance, CBC invested \$85 million in Israeli mobile advertising company IronSource in 2015.³²

²⁸ Reuters, "China's Billionaire Lawmakers Keep Getting Richer and Richer," *Fortune*, March 2, 2017.

²⁹ "What's in a Picture? The Unspoken Messages in Xi Jinping's Group Portrait with CEOs and Senior Executives During His First State Visit to the U.S.," *South China Morning Post*, September 24, 2015.

³⁰ CBC, "CBC Team," webpage, 2012.

³¹ John Pomfret, "Lines Crossed in China; State-Owned Firms Bully Customers, One Another in Fight for Telecom Turf," *Washington Post*, August 17, 2002.

³² Rebecca Fannin, "Recent Linkups by China-Israel VCs and Tech Startups Spell More Opportunity Than Risk," *Forbes*, November 19, 2015.

Several of the companies also are involved in partnerships with Chinese government agencies or have received significant funding from the government to develop new technologies. Major mobile phone and smart appliance developer Xiaomi received government support to develop its own smartphone processor, which was launched in its newest smartphones in early 2017. A Xiaomi representative declined to say how much money the company received from the government, but stated that “assistance extended beyond cash to include research and development.”³³ As reported by the *Wall Street Journal*, “the support is the latest sign of China’s push to develop its semiconductor industry, which has included attempts to buy overseas chip companies for their technology.”³⁴ Transfers of semiconductor technology to China are an area of concern because of its dual-use potential: Chips can be used in weapon systems as well as in smartphones.³⁵

Chinese search engine giant Baidu is partnering with the Chinese government to advance artificial intelligence (AI), a technology widely considered to be dual-use. Not only can it be developed specifically for military purposes and is a focus of the Chinese military, but AI has an “omni-use” potential, much like electricity.³⁶ In February 2017,

³³ Tim Culpán, “Xiaomi Is the China Trump Needs to Watch,” Bloomberg Opinion, March 1, 2017.

³⁴ Eva Dou, “Xiaomi Launches Its Own Chip, with an Assist from Beijing: Government Funding Helped Smartphone Maker Develop Its Pinecone Surge S1 Chip,” *Wall Street Journal*, February 28, 2017.

³⁵ In fact, in September 2017, upon recommendation by the Committee on Foreign Investment in the United States (CFIUS), U.S. President Donald Trump blocked Chinese government-backed Canyon Bridge Capital Partners from buying U.S.-based Lattice Semiconductor on national-security grounds, citing in part the use of Lattice products by the U.S. government (Kate O’Keeffe, “Trump Blocks China-Backed Fund from Buying Lattice Semiconductor,” *Wall Street Journal*, September 13, 2017). This was only the fourth time since the start of CFIUS that a U.S. president has blocked a transaction.

³⁶ On defense uses, see Elsa B. Kania, *New Frontiers of Chinese Defense Innovation: Artificial Intelligence and Quantum Technologies*, San Diego, Calif.: Study of Innovation and

China's National Development and Reform Commission authorized Baidu to establish a national laboratory for deep learning as part of a larger push to develop China's AI industry.³⁷ The laboratory is to focus on seven research areas, including "machine-learning-based visual recognition, voice recognition, new types of human machine interaction and deep learning intellectual property."³⁸ The Baidu-led laboratory includes multiple universities, including Beihang, "which is known for military research."³⁹

The technology conglomerate Kuang Chi, which specializes in technologies from advanced materials to smart city technology and communications, was the first company that Xi visited after becoming leader of the Party.⁴⁰ In addition, Kuang Chi was selected by the Chinese government, along with other tech giants like Alibaba and Baidu, to inject money into state-owned telecommunications company China Unicom in 2017 as part of a pilot program to introduce private-sector expertise into the state-owned telecom sector.⁴¹ In May 2016, Kuang Chi announced that it intended to invest \$300 million in Israeli tech-

Technology in China, Institute on Global Conflict and Cooperation, University of California, Research Brief 2018-12, May 2018. On the idea of AI as an omni-use technology, see Jeffrey Ding, *Deciphering China's AI Dream: The Context, Components, Capabilities, and Consequences of China's Strategy to Lead the World in AI*, Oxford, UK: Future of Humanity Institute, March 2018.

³⁷ He Wei, "Baidu to Lead National AI Effort," *China Daily*, February 22, 2017; Stephan De Spiegeleire, Matthijs Maas, and Tim Sweijs, *Artificial Intelligence and the Future of Defense*, Netherlands: The Hague Center for Strategic Studies, 2017.

³⁸ De Spiegeleire, Maas, and Sweijs, 2017, pp. 77–78.

³⁹ Owen Churchill, "China's AI Dreams," *Nature*, Vol. 553, January 17, 2018, pp. S10–S12.

⁴⁰ Yang Jingru [杨婧如], "Xi Jinping Observes Shenzhen Kuang Chi Research Center: The Nation Should Select and Use the Most Outstanding Talent" [习近平考察深圳光启研究院: 国家应择天下英才而用], *China News*, December 14, 2012.

⁴¹ Bein Perez, "China Taps Nation's Who's Who of Technology to Anchor Ownership Shakeup at Unicom's Parent," *South China Morning Post*, August 16, 2017.

nology companies through a Global Community of Innovation Fund and planned to establish an International Innovation Headquarters in Tel Aviv; Kuang Chi Chairman Liu Ruopeng asserted that Kuang Chi's goal was to "invest in the best local companies in the fields of biometrics, communications, robotics, and augmented reality and take them to the next level commercially and technologically."⁴²

Security and Censorship Concerns

Several of the Chinese tech companies investing in Israel have received attention related to security vulnerabilities in their products or are known to participate in Chinese censorship efforts. Whether these security vulnerabilities are simply the result of sloppiness, are included as standard practice for such technology companies, or are intentionally included to enable government surveillance is unknown. Chinese internet companies are required to comply with censorship directives and must turn over user data to the Chinese government upon request if the data are stored on Chinese servers. These requirements give rise to potential political concerns over these companies' investments in Israel.

Browsers made by Chinese technology giants Tencent, Alibaba, and Baidu all contained "strikingly similar security vulnerabilities" that left user data open to potential surveillance and malicious attackers, according to reports by The Citizen Lab, a research center based at the University of Toronto's Munk School of Global Affairs.⁴³ In early 2016, The Citizen Lab found that Tencent's QQ browser transmitted personal data, including URLs visited, Wi-Fi access points, and unique device identifiers, with either weak or no encryption. One month ear-

⁴² *Times of Israel* Staff, "Gesture Tech Firm eyeSight Nabs \$20 Million Chinese Investment," May 15, 2016; Shoshanna Solomon, "China's Kuang-Chi to Set Up Tel Aviv Base, Eyes Larger Firms," *Times of Israel*, January 12, 2017.

⁴³ Jeffrey Knockel, Adam Senft, and Ron Deibert, "Wup! There It Is: Privacy and Security Issues in QQ Browser," The Citizen Lab, March 28, 2016.

lier, The Citizen Lab had published a report on similar issues with Baidu's browser, which leaked users' GPS coordinates in addition to the same types of personal data leaked by Tencent's browser.⁴⁴ Alibaba's UC Browser also transmitted search terms, geolocation, and device information with either no encryption or easily decryptable encryption, as reported by The Citizen Lab in May 2015.⁴⁵ In addition, both Tencent's and Baidu's browsers contained vulnerabilities that could be exploited to install malicious code on users' devices.

Both the Taiwanese government and the Indian Air Force investigated Xiaomi phones over potential security issues. In 2014, Xiaomi's devices were reported to send user data to servers in China, including collecting address book data without permission, prompting a Taiwanese government investigation.⁴⁶ Storage of user data on servers in the Chinese mainland is a potential concern for Taiwan, given legal requirements to share such data with the Chinese government if requested. The results of the Taiwanese investigation are unknown, but these security issues led the Indian Air Force to warn their personnel against using Xiaomi devices.⁴⁷

Lenovo also has faced criticism related to security issues with its products, especially with software preloaded on its devices. In 2015, Lenovo encountered backlash over Superfish adware pre-installed on some of its laptops. Superfish was designed as advertising software to improve customers' shopping experiences, but it left devices susceptible to various attacks, including allowing attackers to view encrypted web

⁴⁴ Jeffrey Knockel, Sarah McKune, and Adam Senft, "Baidu's and Don'ts: Privacy and Security Issues in Baidu Browser," The Citizen Lab, February 23, 2016.

⁴⁵ Jakub Dalek et al., "A Chatty Squirrel: Privacy and Security Issues with UC Browser," The Citizen Lab, May 21, 2015.

⁴⁶ Michael Gold, "Taiwan Government Investigates Xiaomi on Potential Cyber Security Concerns," Reuters, September 24, 2014.

⁴⁷ Pradip R. Sagar, "Chinese Smartphones a Security Threat, Says IAF," *New Indian Express*, October 19, 2014.

traffic or to trick users into trusting fake websites and software.⁴⁸ Notably, the vulnerabilities in Superfish were introduced through code from an Israeli company, Komodia, and not by Lenovo itself. But Lenovo has a pattern of including unnecessary and vulnerable pre-installed software on its devices. Shortly after the Superfish incident, security issues were discovered with software installed by the Lenovo Service Engine, and in June 2016 the company issued an advisory instructing users to uninstall preloaded Lenovo Accelerator software after security researchers identified vulnerabilities.⁴⁹

In addition to the above security concerns, Chinese tech companies have little choice but to play a role in China's censorship efforts. Tencent's popular WeChat app, which has 938 million monthly active users, has frequently come under fire for its censorship of sensitive terms and images in both group and one-on-one private messages.⁵⁰ According to a profile of Tencent by *Fast Company*, "Chinese Internet companies, Tencent included, employ hundreds if not thousands of their own censors."⁵¹

Concerns over censorship also arose when Alibaba purchased the Hong Kong newspaper the *South China Morning Post* (SCMP) in 2016. The English-language SCMP is blocked in mainland China and often runs articles that are more critical of the Chinese govern-

⁴⁸ Paul Ducklin, "Lenovo 'Superfish' Controversy—What You Need to Know," *Naked Security* by Sophos, February 20, 2015; Jim Finkle, "U.S. Urges Removing Superfish Program from Lenovo Laptops," Reuters, February 20, 2015.

⁴⁹ Henry T. Casey, "Lenovo Urges Windows 10 Users to Uninstall Dangerous Utility," *Laptop*, June 3, 2016; Jared Newman, "Lenovo's Service Engine Marks Yet Another Bloatware Blunder for the Company," *PCWorld*, August 12, 2015.

⁵⁰ Scott Cendrowski, "China's WeChat Is a Censorship Juggernaut," *Fortune*, April 14, 2017; Jordan Novet, "China's WeChat Captures Almost 30% of the Country's Mobile App Usage: Meeker Report," CNBC, May 31, 2017.

⁵¹ Dorinda Elliott, "Tencent: The Secretive, Chinese Tech Giant That Can Rival Facebook and Amazon," *Fast Company*, April 17, 2014.

ment than would be allowed by Chinese government censors. According to the *New York Times*, “Alibaba said the deal was fueled by a desire to improve China’s image and offer an alternative to what it calls the biased lens of Western news outlets,” reasoning that mirrors language frequently used by the Chinese government regarding coverage of China.⁵² In July 2016, after the SCMP managed to interview a detained Chinese activist when even her lawyer and husband could not get in contact with her, the *Guardian* quoted a former SCMP employee as criticizing the paper: “A newspaper that used to be one of the best in Asia is now becoming a mouthpiece.”⁵³ In the interview, the activist claimed that she regretted her actions and wanted to repent, leading many to believe that the interview was forced.

Chinese Business in Iran

A final concern is that Chinese companies investing or building infrastructure in Israel also could be conducting business with Israel’s adversaries, which could be contrary to Israel’s interests.⁵⁴ Although this also might be true for companies from other countries with which Israel does business, Chinese companies investing in Israel might be state-owned, and the Chinese state has significant reach into even private companies, which could make this a more salient issue for Chinese investment. Of the 42 Chinese companies we examined, ZTE and China Railway Tunnel Group are known to have business ties in Iran, and ZTE has violated U.S. sanctions and sold surveillance equipment to an Iranian government-controlled telecom company. ZTE sold \$130.6 million worth of network equipment to Telecommunication Company of Iran (TCI) in 2010, including intercept equipment capa-

⁵² David Barboza, “Alibaba Buying South China Morning Post, Aiming to Influence Media,” *New York Times*, December 11, 2015.

⁵³ Tom Phillips, “Mysterious Confession Fuels Fears of Beijing’s Influence on Hong Kong’s Top Newspaper,” *The Guardian*, July 25, 2016.

⁵⁴ For more detail, see Scobell and Nader, 2016, Chapter 4.

ble of monitoring citizens' voice, text messaging, and internet communications.⁵⁵ This sale also included equipment that originated in the United States. In March 2017, the U.S. government fined ZTE almost \$900 million for export control violations. The U.S. Department of Justice's press release on the settlement stated that

ZTE obtained U.S.-origin items—including controlled dual-use goods on the Department of Commerce's Commerce Control List (CCL)—incorporated some of those items into ZTE equipment and shipped the ZTE equipment and U.S.-origin items to customers in Iran. ZTE engaged in this conduct knowing that such shipments to Iran were illegal. ZTE further lied to federal investigators during the course of the investigation when it insisted, through outside and in-house counsel, that the company had stopped sending U.S.-origin items to Iran. In fact, while the investigation was ongoing, ZTE resumed its business with Iran and shipped millions of dollars' worth of U.S. items there.⁵⁶

The China Railway Tunnel Group also has conducted business in Iran; its parent company, China Railway Group Limited, has a contract of more than \$2 billion to build a high-speed rail link from Tehran to Qom and then to Isfahan.⁵⁷ In May 2015, three months after the launch of the Iran project, the China Railway Tunnel Group won an \$800 million contract to build a portion of the Tel Aviv light rail.⁵⁸

⁵⁵ Steve Stecklow, "Special Report: Chinese Firm Helps Iran Spy on Citizens," Reuters, March 22, 2012.

⁵⁶ U.S. Department of Justice, "ZTE Corporation Agrees to Plead Guilty and Pay over \$430.4 Million for Violating U.S. Sanctions by Sending U.S.-Origin Items to Iran," press release, Office of Public Affairs, Washington, D.C., March 7, 2017.

⁵⁷ "Iran Finalizes €2.2b Rail Deal with China's CMC—Exclusive," *Financial Tribune*, May 20, 2017; "Iran Launches \$2.7bn High-Speed Rail Project," *Trade Arabia*, February 26, 2015.

⁵⁸ *Times of Israel* Staff, "Chinese Company Connects Tel Aviv Rail, Tehran," July 6, 2015.

Chinese Development of Major Infrastructure

Although some of the Chinese projects in Israel began the year prior to China's announcement of its BRI, Chinese construction and operation of ports, rail, and roads in Israel can be viewed today through the lens of the BRI, especially because the BRI builds on longer-term Chinese efforts to push westward. In terms of ports, the maritime component of the BRI, Chinese companies are working to develop port infrastructure across Asia, Africa, and the Middle East. Outside of Israel, such ports include the Doraleh Port in Djibouti, the Gwadar Port in Pakistan, and the Colombo Port City in Sri Lanka.

The Doraleh Port was financed and built by Chinese state-owned enterprises and is the site of China's first overseas military base, which became officially operational as of August 2017. The military facility is located southwest of the main port, but there are reports that the Chinese navy will have a dedicated berth in the port as well.⁵⁹ According to one recent analysis, among the factors that China has considered in selecting the location for its first, and potentially future, overseas bases, is the existence of a Chinese-built and -operated port and other transportation infrastructure. The authors of this analysis report that researchers from China's Naval Research Institute "recommend building overseas military facilities in locations where Chinese state-owned companies have already built—or are building—infrastructure primarily for civilian use."⁶⁰ The United States also has a naval base in the area, near the new Chinese facility, raising concerns about potential surveillance. Other concerns include the degree of leverage China might have in Djibouti given the large amount of Chinese loans used

⁵⁹ Erica Downs, Jeffrey Becker, and Patrick deGategno, "China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base," CNA, July 2017.

⁶⁰ Downs, Becker, and deGategno, 2017.

to finance various infrastructure projects in the country, amounting to 60 percent of Djibouti's gross domestic product.⁶¹

The Gwadar Port in Pakistan, built by CHEC, has been leased to another Chinese state-owned company for 23 years. Gwadar sits at a strategic location between Asia and the Middle East at the mouth of the Strait of Hormuz, on a route that accounts for 82 percent of China's crude oil imports.⁶² Some media reports have speculated that the port will be the site for China's next overseas military base.⁶³ The Colombo Port City project in Sri Lanka, another China-invested port area, also has attracted attention because of potential corruption and environmental issues, as well as its strategic benefit for China in the Indian Ocean.⁶⁴

Chinese state-owned companies also have been taking over cargo terminals in ports across Europe, most recently Zeebrugge in Belgium, and in Spain, Italy, and Greece.⁶⁵ European leaders have become worried about Beijing's use of its investments for political leverage. One example is Greece, which, following a \$1 billion Chinese investment in the old Piraeus Port, has resisted European Union condemnations of China's human rights violations, blocked a statement against Chinese aggression in the South China Sea, and objected to more-extensive

⁶¹ Andrew Jacobs and Jane Perlez, "U.S. Wary of Its New Neighbor in Djibouti: A Chinese Naval Base," *New York Times*, February 25, 2017.

⁶² Ankit Panda, "Chinese State Firm Takes Control of Strategically Vital Gwadar Port," *The Diplomat*, November 13, 2015.

⁶³ Liu Zhen, "Pakistan Port on China's Radar for Naval Base, Pentagon Report Says," *South China Morning Post*, June 7, 2017b.

⁶⁴ Smruti S. Pattanaik, "Controversy over Chinese Investment in Sri Lanka," East Asia Forum, June 5, 2015; Wade Shepard, "Sri Lanka's Colombo Port City: The Frontline of China and India's Geopolitical Showdown," *Forbes*, August 12, 2016.

⁶⁵ Keith Johnson, "Why Is China Buying Up Europe's Ports?" *Foreign Policy*, February 2, 2018. For a broader discussion of China's port investments, see Devin Thorne and Ben Spevack, *Harbored Ambitions: How China's Port Investments Are Strategically Reshaping the Indo-Pacific*, C4ADS, April 17, 2018.

scrutiny of Chinese investment in Europe.⁶⁶ Without explicitly mentioning China, European Commission President Jean-Claude Juncker said in September 2017,

Europe must always defend its strategic interests If a foreign, state-owned company wants to purchase a European harbor, part of our energy infrastructure or a defense technology firm, this should only happen in transparency, with scrutiny and debate. It is a political responsibility to know what is going on in our own backyard so that we can protect our collective security if needed.⁶⁷

Israel also considers ports as key infrastructure that require special protection.⁶⁸ However, Chinese state-owned enterprises have entered the Israeli market as sole or subcontractors or suppliers and have won tenders to build and operate new ports (as well as other transportation assets that are considered by Israel to be critical infrastructure, such as rail) without extensive scrutiny.⁶⁹ In 2016, in an op-ed in the U.S.-based international affairs magazine *Diplomatic Courier*, the managing director of the Israeli Association of Public-Safety Communications Officials advocated for Israel's participation in the BRI and promoted Djibouti as a model for Israel in balancing relations with the United States and China. Djibouti, he wrote, "has found the magic

⁶⁶ Jason Horowitz and Liz Alderman, "Chastised by E.U., a Resentful Greece Embraces China's Cash and Interests," *New York Times*, August 26, 2017.

⁶⁷ European Commission, "State of the Union 2017—Trade Package: European Commission Proposes Framework for Screening of Foreign Direct Investments," Brussels, September 14, 2017.

⁶⁸ Roy Goldschmidt, "Hakiberneti Veha'Hagana Al Tashtiyot Chiyuniyot" ["Cyber Space and Defense on Essential Infrastructure"], *Haknesset* [The Knesset], Merkaz Hamida Veha'Mechkar [Center for Research and Information], May 12, 2013.

⁶⁹ Amos Harel, "Israel Is Giving China the Keys to Its Largest Port—and the U.S. Navy May Abandon Israel," *Haaretz*, September 17, 2018.

formula that allows these rival super powers to dwell side by side.”⁷⁰ However, the U.S. and Israeli military presence in Haifa presents concerns regarding the operation of a container terminal at the neighboring civilian port by a Chinese company. Haifa is a frequent port of call for the U.S. Sixth Fleet and serves as the base for Israel’s submarines.⁷¹ In 2018, for example, there were three port calls in Haifa, by the aircraft carrier USS *George H.W. Bush*, the amphibious assault ship USS *Iwo Jima*, and the guided-missile destroyer USS *Donald Cook*.⁷² The state-owned Shanghai International Port Group (SIPG) won a 25-year contract, beginning in 2021, to operate the new Bayport Terminal at Haifa port next door to the government-owned naval port, as shown in Figure 5.2.⁷³

China portrays its port development activity as primarily economic in nature, and many recipients also view relatively cost-effective Chinese bids to build infrastructure as an economic opportunity, which could lead political and security ramifications to be overlooked and deals to be less thoroughly scrutinized. Some observers in Israel have begun to note these potential effects on Israel’s security interests, particularly concerning the effect that Chinese involvement with Israeli ports might have on the U.S. military’s willingness to operate in these areas, although it is not clear whether they are differentiating between Chinese control over an entire port versus Chinese operations at a section of a port. Rear Admiral (Ret.) and professor Shaul Horev,

⁷⁰ Roi Feder, “What China’s New Silk Road Means for Israel,” *Diplomatic Courier*, September 1, 2016.

⁷¹ Justin Jalil, “Israel Navy Welcomes New Submarine in Haifa,” *Times of Israel*, September 23, 2014; U.S. 6th Fleet, webpage, 2017.

⁷² “Chinese Port Operator at Haifa Will Mean Questions for U.S. Navy,” *The Maritime Executive*, September 14, 2018.

⁷³ Yu, 2015. “Shanghai Wins Haifa Terminal Concession,” *Port Technology*, April 13, 2016; “Haifa Container Terminal Deal with China’s SIPG Under Review,” *PortSEurope*, December 23, 2018.

Figure 5.2
Aerial Image of the Haifa Port Area



SOURCE: Google Maps and consultations with Israeli experts.

NOTE: Locations are not exact.

the director of the University of Haifa's Research Center for Maritime Policy and Strategy, and former Deputy Chief of Naval Operations and director of the Israel Atomic Energy Commission (IAEC), said that, because of the Chinese involvement with the port in Haifa, the possibility of the U.S. Sixth Fleet viewing Haifa as a home port is "no longer on the agenda." Horev also implied that former senior U.S. military personnel believed "Israel lost its mind" in letting a Chinese company operate the port, and now the Israeli Navy "will not be able to count on maintaining the close relations it has had with the Sixth Fleet."⁷⁴ This sentiment is shared by some U.S. naval officials. For example, Admiral (Ret.) Gary Roughead, former U.S. Chief of Naval Operations, said that a Chinese-run port in Haifa could limit U.S. Navy ships' port calls. In a workshop at the University of Haifa in August 2018, he reportedly said that

⁷⁴ Harel, 2018.

the Chinese port operators will be able to monitor closely U.S. ship movements, be aware of maintenance activity and could have access to equipment moving to and from repair sites and interact freely with our crews over protracted periods. Significantly, the information systems and new infrastructure integral to the ports and the likelihood of information and electronic surveillance systems jeopardize U.S. information and cybersecurity.⁷⁵

Former U.S. ambassador to Israel Dan Shapiro told the *Times of Israel* that “To have a Chinese company operate a port of a close ally potentially poses a significant challenge and maybe a risk for U.S. Navy operations.”⁷⁶

CHEC, the state-owned company building both the Gwadar and Colombo projects, is developing Ashdod’s new port. As the aerial image of the Ashdod port area in Figure 5.3 indicates, CHEC will operate in close proximity to Israel’s navy base and to the national electricity company and the regional refineries, two other key infrastructure assets.

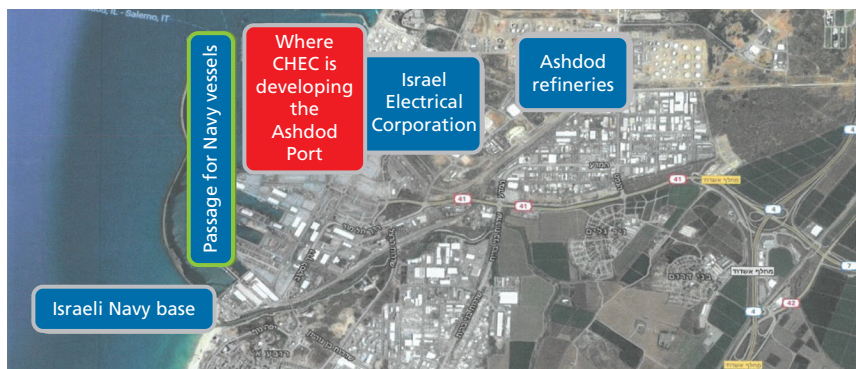
In addition to ports, Chinese companies are involved in other major infrastructure projects in Israel, especially in transportation. Israel is drawn to cost-effective Chinese bids, commitment to completion of projects under tight deadlines, and Chinese interest in financing parts of projects. In addition, Israel sees its connection with the BRI as an opportunity to improve its ties with China more generally, as well as to open economic opportunities for Israeli companies.⁷⁷ Thus, although the MOD limits all its tenders to Israeli suppliers or to foreign suppliers with no connection to foreign governments, other ministries

⁷⁵ David Brennan, “Chinese Deal to Take Over Key Israeli Port May Threaten U.S. Naval Operations, Critics Say,” *Newsweek*, September 14, 2018; also reported in “Chinese Port Operator at Haifa Will Mean Questions for U.S. Navy,” 2018.

⁷⁶ Raphael Ahren, “Has Israel Made a Huge Mistake Letting a Chinese Firm Run Part of Haifa Port?” *Times of Israel*, December 20, 2018.

⁷⁷ Ben-Gedalyahu, 2015.

Figure 5.3
Aerial Image of the Ashdod Port Area



SOURCE: Google Maps and consultations with Israeli experts.

NOTE: Locations are not exact.

do not impose such restrictions. In some cases, sector-specific regulators have been blocking Chinese bids to take over different assets—for example, the insurance companies Clal and The Phoenix—fearing that foreign companies would control hundreds of billions of shekels of Israeli savings and pensions (or about 28 percent of that amount in U.S. dollars).⁷⁸ However, officials in the transportation and energy sectors do not appear to be concerned about the same considerations and instead see value in the substantial cost savings and improved efficiency offered by Chinese companies.⁷⁹

The risks of Chinese state-owned entities building and running major infrastructure in Israel have been flagged for years by Efraim

⁷⁸ Melman, 2018. In 2017, the average exchange rate was 3.5755 Israeli shekels to the U.S. dollar, so 100 billion worth of shekels would be the equivalent of \$28 billion (Organisation for Economic Co-operation and Development, 2018).

⁷⁹ Sonia Gorodisky, “Shuv Chevra Sinit Zachta Be’Michraz Tashtiyot Anak; Sakkana o Hizdamnut?” [“Again a Chinese Company Won a Giant Infrastructure Tender; Danger or Opportunity?”], *Globes*, March 4, 2018.

Halevy, former head of the Mossad, Israel's intelligence agency. Although Halevy does not oppose economic connections with China, he fears that, given the close links between Chinese companies and the PRC, Chinese control of key assets in Israel could be used as leverage against Israel.⁸⁰ In late 2013, he wrote that

It is clear that China is establishing varied transport systems enabling it to increase its field of interest throughout the Middle East, turning it into a major player, with broad strategic interests in the area . . . China holding the trans Israel railway, owning it and operating it, will not be understood by the U.S.⁸¹

Halevy alluded to other political risks as well:

China gives substantial support, at times massive, to the extremists from among our enemies. Twenty-two years of diplomatic experience have shown that China refused to respond to Israel's requests not to supply our enemies with means to further develop of [sic] weapons of mass destruction . . . China has shown that in all related to the war on Islamic extremism terror, it is willing to put up secure banking infrastructure for the use of terrorists who are active against Israel.⁸²

Similar risks were raised by Israeli political leaders. In March 2018, four Knesset members representing different parties across the political spectrum initiated a discussion in the Knesset Foreign Affairs

⁸⁰ Efraim Halevy, "Meoravut Sin Be'Kav Harakevet Le'Eilat: Haim Hi Retsuya Le'Medinat Yisrael?" ["China's Involvement in the Train Line to Eilat: Is It Desirable for the State of Israel?"], Shasha Center for Strategic Studies, The Hebrew University in Jerusalem, 2014.

⁸¹ As reported in PTI, "Former Mossad Chief Efraim Halevy Warns Against China's Role in Israeli Rail," *The Economic Times*, October 5, 2013.

⁸² As reported in PTI, 2013. Note that while other countries have experienced debt risks from Chinese loans for BRI-related infrastructure, this has not been a concern for Israel, where the debt-to-gross domestic product ratio is below 60 percent.

and Security Committee titled, “Israel’s Policy vis-à-vis the Entrance of Chinese Entities to Strategic Areas in Israel,” which concentrated on political and security risks.⁸³ In July 2018, for the first time, a classified discussion was reportedly held at the Committee.⁸⁴ Reportedly, during the discussion, the prime minister’s economic adviser, Avi Simhon, indicated that the government might form a new “body or team that would vet foreign investments, a move largely seen [as] aimed at China,” in stark contrast to the Israeli government’s current policy, which has encouraged foreign investment from China. This suggestion is seen as influenced by shifts in U.S. and European attitudes toward Chinese investment.⁸⁵

Since then, leading security experts in Israel have voiced concerns over deepening Chinese involvement in Israel’s infrastructure and technology sectors, including Nadav Argaman, the head of Shin Bet, Israel’s internal security service, who called for instituting a mechanism for screening foreign investments in January 2019.⁸⁶ Reportedly, mostly in response to fears over U.S. pressure, the Israeli National Economic Council and the National Security Council have been working on a plan to vet foreign investments.⁸⁷ However, as of January 2019, such a plan had not been formalized. At the same time, a policy shift seems in

⁸³ Melman, 2018.

⁸⁴ Conversations with a former senior official with Israel’s Ministry of Labor, Tel Aviv, July 2018, and an Israeli think tank team, Tel Aviv, July 2018. Reference to the hearing also was included in Barak Ravid, “Scoop: Netanyahu’s Senior Economic Adviser Backs Trump’s Trade War with China,” *Axios*, July 12, 2018.

⁸⁵ Hagai Amit, “In Turnaround, Israel May Form Body to Vet Foreign Investment,” *Haaretz*, July 16, 2018.

⁸⁶ “Chinese Investments in Israel Could Pose Security Threat, Shin Bet Chief Warns,” *Haaretz*, January 9, 2019.

⁸⁷ “Chinese Investments in Israel Could Pose Security Threat, Shin Bet Chief Warns,” *Haaretz*, January 9, 2019; Hagai Amit, “Israel Moving Ahead with Law to Vet Foreign Investment,” *Haaretz*, December 20, 2018.

the making, as Israel reportedly is planning to bar Chinese and Turkish companies from competing in a tender process for establishment of a new international airport because of Chinese espionage concerns and diplomatic tensions with Turkey. Although China was not targeted specifically, the tender was limited to companies from member countries of the North Atlantic Treaty Organization.⁸⁸

Israeli Companies

Israeli companies that receive Chinese investment might create security vulnerabilities or concerns for either Israel or the United States. This section briefly describes a subset of the Israeli companies, including venture capital companies, that were the targets of Chinese investment. We selected these companies based on one or more of three criteria: (1) their development of potentially sensitive or dual-use technologies, (2) the high-risk potential of the Chinese entity doing the investing, and (3) concerns expressed by stakeholders or government officials. Table 5.2 summarizes key information on the seven operating companies selected for analysis.

The sale of Tnuva—the largest Israeli food conglomerate and a symbol of local industry—to Chinese Bright Food drew substantial public criticism that generated debate on this deal within the Israeli government. Lawmakers proposed a bill to regulate foreign investments in Israel more generally, implying, however, a focus on China especially.⁸⁹ The Israeli government blocked the bill and the Ministry of Finance backed the deal on the grounds that Chinese companies are not different from any other economic players and that the Ministry of Finance would

⁸⁸ *Times of Israel* Staff, “Israel Said to Bar China, Turkey from Bidding for \$40 Million Airport Tender,” *Times of Israel*, January 25, 2019.

⁸⁹ Evron, 2017.

Table 5.2
Israeli Companies That Received Chinese Investment

Israeli Entity	Company Information	Chinese Investors	Area of Concern
Tnuva	Tnuva's share of Israel's dairy market exceeded 70 percent at the time of acquisition (declined since then to about 50 percent). ^a	Bright Food (state-owned)	Acquisition led to protests in Israel over food security, as the deal gave a Chinese state-owned company a 56-percent stake in one of Israel's largest food producers; members of the Knesset Economic Affairs Committee opposed the deal. ^b
ThetaRay	Cybersecurity company that specializes in the detection and prevention of advanced persistent threats, which are high-level cyber actors, usually nation-states. ^c	Alibaba	ThetaRay's products aim to detect and prevent cyber intrusions from Chinese government actors.
Kaymera	Cybersecurity start-up focused on mobile devices. ^d	GoCapital	Kaymera's security products are marketed toward governments as well as businesses; Kaymera's founders have military security backgrounds. ^d
Toga Networks	IT and telecommunications company; the nature of Huawei's relationship with Toga is unclear. ^e	Huawei	Potentially sensitive technologies; investment by Huawei, a company with suspected ties to the Chinese military and government.
HexaTier	Database security company; according to Reuters, "Huawei will use HexaTier to set up a research and development center in Israel for databases in the cloud." ^f	Huawei	Potentially sensitive technologies; investment by Huawei, a company with suspect ties to the Chinese military and government.

Table 5.2—Continued

Israeli Entity	Company Information	Chinese Investors	Area of Concern
Rainbow Medical	Investment company focused on medical innovations, with a current portfolio of 12 companies. ⁹	ZTE	Investment by ZTE, a company with suspected ties to the Chinese military and government and that has illegally conducted business in Iran.
Copyleaks	Company's product uses AI to identify plagiarism	Unknown	Copyleaks' founders were formerly programmers in the 8200 unit in the IDF, which is responsible for signals intelligence and is comparable to the U.S. National Security Agency. ^h

^a Lazar Berman, "Chinese State Company Buys Controlling Stake in Tnuva," *Times of Israel*, May 22, 2014; Adi Dovrat-Meseritz, "Israel's Biggest Food Company Sees Its Share of Market for Dairy Goods Fall Below 50%," *Haaretz*, October 9, 2017.

^b Berman, 2014.

^c David Penn, "ThetaRay Lands \$5 Million Investment from Alibaba, Partners with PwC," *Finovate Blog*, December 4, 2015.

^d Gedalyah Reback, "Kaymera Nabs \$10 Million for Its Super Secure Mobile OS," *Geektime*, February 1, 2016.

^e Hirschauge, 2016.

^f Tova Cohen and Catherine Cadell, "Huawei in Talks to Buy Israeli Cyber Company HexaTier: Sources," *Reuters*, December 20, 2016.

^g Rainbow Medical Innovation, homepage, undated.

^h "AI Plagiarism Detection Co Copyleaks Raises \$1.1m," *Globes*, March 29, 2018.

always guarantee that the Israeli consumer could purchase foodstuffs at “reasonable prices” regardless of the identity of the buyer.⁹⁰

Other than Tnuva, most of the Israeli companies present concerns related to technology. Concerns about Chinese ownership of Israeli technology companies can be broken down into issues related to transfers of military technology, the security and privacy of customer data, and concerns about IPR enforcement. Chinese investment in companies working on semiconductors, AI, satellite communications, and other potentially dual-use technologies falls into the first category, even though the Israeli companies might not be working directly on military applications. Investment in technology companies in the fields of telecommunications and cybersecurity raises issues of security and data privacy. Access to telecommunications platforms could be used for surveillance, and customer data held by Chinese companies could be subject to access requests from the Chinese government. Moreover, China has a track record of weak enforcement of IPR, which could lead to the theft of Israeli IP, and even to the possibility of Israel losing its competitive advantage in the technology industry.

More generally, Chinese investments in Israel can lead to increased social and political influence. This concern fueled the opposition to the acquisition of Tnuva, which some in Israel view as a national symbol. As mentioned earlier, there has been speculation regarding the connection between Chinese investment in Greece and several pro-China stances Greece then adopted in the European Union. Australia also has started to reckon with widespread issues of Chinese political interference and influence operations. The CCP has employed a combination of carrots and sticks to manipulate members of the Australian academic and business communities as well as politicians, including a case where an Australian senator repeated Chinese government talk-

⁹⁰ Navit Zomer, “Rosh HaMosad Lesha’avar: Shlita Zaar Be’neches Cmo Tnuva – Sakana” [“Former Mossad Head: Foreign Control in an Asset like Tnuva—Danger”], *Ynet*, February 17, 2014.

ing points regarding the South China Sea after receiving donations from a Chinese citizen and counselled this Chinese donor on avoiding Australian government surveillance.⁹¹ Similar influence and coercion approaches could be applied in the context of Israel.

Venture Capital

In addition to acquiring or directly investing in Israeli companies, Chinese entities have been active in investing in Israeli venture capital firms (a subset of such firms is shown in Table 5.3). Many of these venture capital companies focus on investing in other Israeli companies innovating in areas of sensitive or potentially dual-use technology, such as cybersecurity, AI, and robotics.

The Israeli private equity firm Catalyst is worth mentioning as an addition to risks of Chinese ownership and access to Israeli dual-use technology because it also raises conflict of interest concerns. Catalyst head, former Israeli Air Force pilot and commander, Israel Aerospace Industries chairman, and Yisrael Beitenu Minister Yair Shamir, also serves as the chair of NTA, the national company responsible for rail in Gush Dan, the central coastal part of Israel. NTA issued a tender that was characterized as “problematic” and “flawed” by the Ministry of Finance. Despite objections, Shamir announced that Chinese entities won after proposing the lowest bid. Two months later, Catalyst launched the China Everbright Limited China Israel Fund in partnership with the PRC-owned China Everbrite Fund.⁹²

Chinese-Israeli venture capital fund MizMaa is also notable. It is based in Israel and invests only in Israeli companies, although it is funded by China. MizMaa’s funding comes from three wealthy Chi-

⁹¹ John Garnaut, “Australia’s China Reset,” *The Monthly*, August 2018.

⁹² Tali Heruti-Sever, “Yair Shamir Metsig: Ha’Malatim Ha’Tsafatiyim, Hakronot Hasiniyim, Hayoets Hamefukpak, Ve’Nigudei Hainyanim” [“Yair Shamir Present: The French UAVs, the Chinese Cars, the Shady Consultant, and the Conflicts of Interests”], *The Marker*, January 30, 2017.

Table 5.3
Israeli Venture Capital Companies

Israeli Entity	Company Information	Chinese Investors	Area of Concern
Singulariteam	Venture capital fund that aims to “focus investments into new areas like machine learning, artificial intelligence and robotics” ^a	Tencent Holdings, Renren	Potential for dual-use technology; Singulariteam also raised funds from an “unnamed Russian investor.” ^a
Viola Ventures (formerly Carmel Ventures)	Venture capital fund that invests in “Enterprise Software/SaaS, AI, Cloud Infrastructure, FinTech, Frontier Technologies (automotive, IOT, AR/VR, drones), Big Data, Digital Media, Consumer Services, Semiconductors and more” ^b	Baidu, Ping-an, Qihoo, and Shengjing 360	Investments in potentially sensitive or dual-use technologies
Canaan Partners	Venture capital fund that invests in the following sectors: SaaS/Enterprise, mobile computing, and internet infrastructure ^c	Lenovo, Shengjing 360	Investments in internet infrastructure
Catalyst (Catalyst China Everbright Limited China-Israel Fund)	Catalyst is a private equity firm that launched the first Israeli-Chinese fund with an investment of \$200 million from China Everbright Ltd. It invests in technology and innovation companies, including SatixFyLtd, an Israeli provider of satellite communication. ^d	China Everbright Ltd.	Investments in potentially sensitive or dual-use technologies; conflict of interest: Catalyst head Yair Shamir also is the chair of NTA, the Israeli governmental company building the light rail in the Tel Aviv area. Irregularities related to light rail tenders have raised conflict of interest concerns.

Table 5.3—Continued

Israeli Entity	Company Information	Chinese Investors	Area of Concern
OurCrowd	Small venture capital firm; portfolio includes cyber threat intelligence companies Thetaray and Kenna Security, AI companies Vayavision and Magisto, and robotics company Memic, among others ^e	Unknown	Investments in potentially dual-use or sensitive technologies; the identity of the Chinese investor is unknown, although an OurCrowd representative claimed that the company received funding in its C round from “China’s most well-known internet company” ^f
Pitango	One of Israel’s largest venture capital funds; has invested in 250 companies worldwide; portfolio includes semiconductor companies Anobit and Sckipio, text analytics company ClearForest, facial recognition protection company D-ID, and cybersecurity companies ForeScout and Skycure, among many others ^g	Yongjin Group	Investments in potentially sensitive or dual-use technologies.

Table 5.3—Continued

Israeli Entity	Company Information	Chinese Investors	Area of Concern
JVP	Venture capital firm focusing on cybersecurity (11 companies in its portfolio), big data/predictive analytics (eight companies), media/next-gen tech (ten companies), and cloud and enterprise software (ten companies)	Alibaba, Yongjin Group	Investments in potentially sensitive or dual-use technologies

^a Ingrid Lunden, "Israel VC Singulariteam Raises 2nd Fund, \$102M Backed by Tencent, Renren Founders," *Techcrunch*, January 28, 2015.

^b Viola Ventures, homepage, undated.

^c Canaan, "About," webpage, undated.

^d Heruti-Sever, 2017.

^e OurCrowd, "Funded Portfolio," webpage, undated.

^f Feifei Zhang, "Cool Reflections on 'Israel Fever'" ["以色列热"的冷思考], *Economic Observer*, October 22, 2016.

^g Pitango Venture Capital, "About Us," webpage, undated.

nese families and invests in the following sectors: AI/machine learning, mobility (autonomous vehicles), cybersecurity, fintech/blockchain, and cloud/storage/serverless computing.⁹³ MizMaa has been operating since 2016, and through late 2018 has participated in funding rounds totaling over \$80 million. According to one of MizMaa's founders, their goal is to invest at least \$100 million in a portfolio of 16 to 18 companies, aiming for a 10-percent stake in each.⁹⁴ MizMaa's core team includes a former employee of the U.S. Department of Defense and current member of the Board of Trustees for the U.S. National Defense University's Institute for National Strategic Studies, as well as an Israeli Air Force veteran who worked on the deployment of new aviation technologies.⁹⁵

Conclusion

Israel's advanced technology sector attracts Chinese investment, while its position along the BRI economic corridor has further increased its attractiveness as a location for major Chinese-built infrastructure projects. There are enormous benefits to Israel in its business relations with China. Investment can help it diversify its sources of capital, and links with Chinese businesspeople can help Israeli companies enter the rapidly growing Chinese market. Collaboration on technology and innovation can accelerate discoveries and technology improvements. Involving Chinese construction companies can prove a lower-cost and more-efficient source of project development and completion than

⁹³ MizMaa, "Sectors," webpage, undated.

⁹⁴ Idan Rabi, "Chinese Fund MizMaa to Invest \$100m in Israeli Startups," *Globes*, June 13, 2017.

⁹⁵ MizMaa, "Team," webpage, undated.

could be gained from either Israeli or other foreign companies working on those tasks.

At the same time, however, as Chinese investment and construction in Israel continue and potentially grow, Israel has become concerned about the potential risks posed by this activity. Sources of potential risk include the military and government connections of Chinese companies investing or building infrastructure in Israel, security vulnerabilities and censorship concerns presented by Chinese technology companies, and companies conducting business with Israel's adversaries. Chinese investment and construction activity in Israel could lead to transfers of military or dual-use technologies to China, threats to Israeli IP and potentially to the competitive advantage of Israel's tech companies, and surveillance opportunities and threats to consumer data privacy.

Policy Implications of Growing Israeli-Chinese Ties

Relations between China and Israel are growing quickly and expanding in numerous areas—diplomacy, trade, investment, construction, educational partnerships, and tourism. China’s prime objectives in Israel are acquiring advanced technology and utilizing Israel’s location for the BRI while maintaining a relatively low profile in the region, although public engagements have become increasingly visible. The logic of the first two goals is clear, but what about the logic underlying the third goal? China wants to sustain a highly beneficial relationship with Israel while continuing to enjoy good relations with countries in the Arab and Muslim worlds. To be blunt, China does not want to be perceived as being staunchly “pro-Israel” because this would almost certainly undermine its cordial ties and vibrant economic relations with other countries in the Middle East, including Iran. Understandably, Israel seeks to expand its diplomatic, economic, and strategic ties with the world’s fastest growing major economy and diversify its export markets and sources of investments from the United States and Europe.¹

Although evolving relations with China present Israel with important opportunities—for instance, large pools of available capital and cost-effective, fast construction of plant and infrastructure projects at

¹ Poulin, 2014; and Liu Zhen, 2017a.

high standards—they also pose a variety of challenges. First, this cooperation represents an area where Israel's interests might diverge from those of the United States, Israel's most important ally. In particular, China's engagement with the Israeli tech sector and Chinese involvement in building and operating key infrastructure projects in Israel could upset Washington, especially in light of growing trade tensions between the United States and China.

Already, there are indications that reports on these deepening Israeli-Chinese ties are raising some eyebrows in Washington. In November 2018, *Haaretz* reported that, according to one White House official, “the Pentagon was also infuriated too, as were the Treasury Department and the office of Vice President Mike Pence” about Israel's port collaboration with China, “but as far as is known, the issue is not yet on Trump's agenda. The official did warn, however, that when Trump is personally briefed on the matter, he would be expected to be furious.”² On his visit to Israel in January 2019, National Security Adviser John Bolton voiced Washington's concerns over Beijing's growing involvement in key infrastructure in Israel, according to reports, and specifically mentioned the Haifa port terminal.³

A second challenge is incompatibility between some Chinese and Israeli interests. China's interests in the Middle East are motivated not only by the region's role as a link in the BRI, but also by China's energy dependence, which demands good relations with Israel's adversaries, primarily Iran. As a result, China's political positions and objectives in the region conflict with Israeli interests, and the two countries find themselves on opposing sides in international forums, such as the UN.

As noted above, China prefers to have a relatively low-key relationship with Israel so that it can maintain cordial relations with other

² Amir Tibon and Amos Harel, “‘Trump Will Be Furious’: Tension Between U.S. and Israel over China Infrastructure Projects,” *Haaretz*, November 11, 2018.

³ Michael Wilner, “Bolton Tells Netanyahu of U.S. Concerns with Chinese Presence at Haifa Port,” *Jerusalem Post*, January 6, 2019.

Middle East states. Indeed, China wants to be able to portray itself as a champion of the Palestinians and a good friend of the Arab world. China desires a balanced Middle East policy to ensure the continued flow of energy from the region and also wants to continue to reap economic benefits with numerous Arab states. In addition, China wants to raise its stature and influence in the Middle East and be seen as a true great power.⁴ From Beijing's perspective, all great powers in the modern era have been prominent players in the Middle East.

A third challenge rests on the security of Israel's technology and future prospects for the Israeli economy. Based on the experiences of other countries, China's policies and practices on matters related to IPR could raise red flags in Israel. According to Jason McNew, founder of Stronghold Cyber Security, "China is notorious for not respecting the intellectual-property laws of other nations so Israel has to be very careful about what kind of manufacturing they outsource to China."⁵ Furthermore, acquisition of Israeli companies and knowledge generated through academic cooperation might enable China to funnel crucial technologies and resources from Israel to China, with insufficient returns. As mentioned earlier, Israeli companies face difficulties penetrating the Chinese market. Through this process, China could gradually become a direct competitor to Israel, depriving Israel of the benefits of its past investments in advanced technologies and brand development. Although the issue of returns on investment to a specific company is a private matter about which Israeli companies might need to become better informed, the overall strength of innovation in Israel can be a matter of government concern. Accordingly, the government will need to remain vigilant to the possibility of the erosion of its inno-

⁴ Scobell and Nader, 2016, pp. 15–19.

⁵ Dave Gordon, "Unlikely Partners? China and Israel Deepening Trade Ties," BBC News, July 19, 2018.

vation base, including strengthening IP protections and aggressively pursuing violations if warranted.

Finally, China's construction and operation of key infrastructure projects in Israel, including ports and rail, raise political and security concerns. In particular, Chinese installation of and access to cameras, radio, fiber-optics, and cellular networks raise cybersecurity, data privacy, and espionage risks. Chinese involvement in major infrastructure projects also raises economic questions related to the ability of the local Israeli construction and transportation industry to survive, given the competition with Chinese state enterprises with enormous access to subsidized capital, as well the crowding out of other foreign (private) companies that cannot compete with Chinese rates.⁶ Although opening the market to Chinese firms was aimed at increasing competition, there is now a fear of a Chinese "takeover."⁷

Despite rapidly evolving relations with the PRC, Israeli understanding of modern China and its foreign policy is limited.⁸ Israeli security and diplomacy experts have traditionally focused on the Middle East, along with the United States and Europe. Business experts mostly have been geared toward the United States and Europe. In fact, aside from strong restrictions on the sales of defense technology imposed by the MOD since the mid-2000s, Israel does not have an overall China policy that addresses issues of IP, Chinese involvement with Israeli infrastructure, and investment. The absence of such a policy prompted the desire for a discussion in the Knesset Foreign

⁶ Telephone conversation with a former official at the Ministry of Economy, April 2018.

⁷ Telephone conversation with a former official at the Ministry of Finance, February 2018.

⁸ Telephone conversation with an expert on Israeli-Chinese ties, February 2018; conversation with an Israeli think tank team, September 2017; telephone conversation with a former U.S. official with extensive experience in Israel-U.S. relations, August 2017.

Affairs and Security Committee on China's involvement in strategic infrastructure in Israel.⁹

Policy Recommendations

Israel is not the only country grappling with questions related to how it manages its trade and investment ties with China. Approaches are varied and include the U.S. model of carefully examining Chinese investment and retaliating against China's activities related to IP and technology transfer, among other practices as well as more-liberal approaches, such as those of the United Kingdom, Germany, and France. Countries that limit China's involvement in their economies usually focus on two core dimensions: investment and access to technology and construction and operation of major infrastructure. Although foreign investment in sensitive technology and involvement in major infrastructure could be relevant to any foreign actor, Chinese entities with deep ties to the PRC government and access to low-cost capital present a unique set of challenges.

In the next section, we focus on policy recommendations for Israel. These recommendations are primarily aimed at acquiring the necessary knowledge and developing policies that would help Israel gain the most out of its growing ties with China without compromising its security, undermining its competitive edge, and jeopardizing its close ties with Washington. These recommendations fall under two overarching categories: (1) gaining a better understanding of what opportunities and challenges deeper ties with China could bring; and (2) using the experiences of other countries to develop policies vis-à-vis the PRC that account for these challenges and opportunities. We include recommendations for U.S. policymakers in a later section dis-

⁹ Melman, 2018.

Discussing the implications of the growing Israel-China ties for the United States.

Develop a Better Understanding of China and the Implications of Deeper Ties

As Israel develops a comprehensive policy toward China, it should ensure that it fully understands the opportunities and challenges that its growing ties entail. This understanding hinges on investing in more-focused policy research and in developing the human capital that can guide this thinking.

Consider a Formal Interministerial China Process to Coordinate Policy

Israel's ministries have different policies toward China. As noted above, the MOD limits all its tenders to Israeli suppliers or foreign suppliers with no connection to foreign governments, but other ministries do not impose such restrictions and allow tenders from companies in China. This might be a reasonable policy and is similar to that of other countries. But the practices of non-defense ministries could have implications for Israeli security and defense, so information-clearing is important.

One way to coordinate information is to set up an interministerial group that would meet regularly. This group could be formal or informal and could include members of the cabinet or officials at the director-general level. To ensure participation and to make sure that important issues are properly addressed, it could be run out of the office of the director-general of the Prime Minister's Office. Whatever option is chosen, given the importance and potential benefits and risks of the China relationship, a coordination mechanism will be beneficial.

Assess the Costs and Benefits of Engagement with China

Israel should fully examine the potential opportunities and challenges of its deepening ties with China. The analysis should go beyond the

issue of foreign investment and specifically examine the attributes and interests of China, as well as its modes of operation, that could distinguish it from other countries with which Israel is engaging. Similarly, this assessment should consider Israel's own unique strategic position, which could make the country particularly vulnerable to unchecked ties with China or give Israel additional leverage. Table 6.1 lists examples of unique attributes that should be incorporated into Israeli thinking on its policy vis-à-vis China.

Clearly, more-extensive research is needed to examine these and other issues that could affect the calculus for Israel's deepening its ties with the PRC. For that purpose, Israel should make China a more salient topic in its security, economic, and diplomatic assessments. Israel also should develop sufficient expertise to better understand the full implications of the country's relations with the PRC.

Develop China Expertise Within the Policy Community

Although Israel has been deepening its ties with China across the board, the Israeli policy community's understanding and knowledge of modern China is thin.¹⁰ Based on our discussions with experts, there are very few scholars in Israeli academic institutions with expertise on contemporary China and even fewer with knowledge of Chinese foreign and economic policy, despite the fact that Asian Studies departments have existed in Israeli universities for decades. Mandarin language skills are taught at insufficient levels at academic institutions. China expertise in government ranks, as well as in think tanks, is also limited.¹¹

However, Israel does have untapped China expertise. Israeli defense experts who were active during the era of deep defense col-

¹⁰ Telephone conversation with an expert on Israeli-Chinese ties, February 2018; conversation with an Israeli think tank team, September 2017.

¹¹ Telephone conversation with an expert on Israeli-Chinese ties, February 2018; conversation with an Israeli think tank team, September 2017.

Table 6.1
Attributes for Consideration in a Cost-Benefit Analysis of Israel's Ties with China

China-Specific Attributes	Israel-Specific Attributes
Opportunities	
Fastest growing major economy	Seeks foreign investment; European investment uncertain because of economic slowdown and political constraints
Rising diplomatic power	Subject to BDS pressures and diplomatic challenges in Europe and the United States. While China does not support Israel, PRC officials refrain from criticizing its politics.
Large potential export market	Economy dependent on exports; interest in diversifying export markets beyond Europe and the United States
The BRI will create shipping and trade links from Central Asia to South Asia, the Middle East, and onward to Africa and Europe. Chinese companies are often the lowest bidders in infrastructure tenders, committed to tight deadlines, and willing to fund portions of projects.	Israel is drawn to Chinese cost-effectiveness and sees its own strategic location along the BRI as an asset that can help improve ties with Beijing.
China needs to move up the technology ladder to sustain its growth and escape the so-called "middle-income trap." ^a	Israel is a source of innovative technology that can help China in many sectors.
Challenges	
Problematic track record of cyber espionage and lack of respect for IPR	The success of the Israeli economy hinges on its high-tech sector and any risk to its competitiveness could have dire implications for continued growth.

Table 6.1—Continued

China-Specific Attributes	Israel-Specific Attributes
Energy dependence on Iran (and Saudi Arabia) dictates strategic position in the Middle East	Iran is Israel's main adversary with a decades-long proxy war between them. Israel is threatened by Iran directly and through its proxies in Syria, Lebanon, and Gaza. Israel works to prevent Iran from strengthening its position in the region, continuing to develop ballistic missiles and nuclear capabilities, and arming Hezbollah and Hamas.
In a trade war with the United States; conflicting security agendas in the South China Sea	Israel depends on the United States militarily (for weapons and financial aid); diplomatically (for political cover at the UN and international forums); and economically (for example, Israeli companies list on the U.S. NASDAQ exchange and likely will continue to do so even if China becomes Israel's number one trade partner). Israel's enhanced ties with China, especially technology cooperation, could upset Washington and endanger Israeli-U.S. ties.
Chinese construction and operation of key infrastructure pose unique cybersecurity and data surveillance risks.	Israel's small size and contested regional environment require special protection of critical infrastructure.
Investments and operation of critical infrastructure by Chinese entities connected with the PRC government could be used as political-strategic levers.	Israel could be pressured politically, as it was in the terror financing court case in New York against the Bank of China. Also, the operation of infrastructure that could have security links or risks (e.g., ports that are used by the U.S. Navy) could draw criticism from the United States and trigger a renewed confrontation with Washington over the nature of Israel's ties with the PRC.

^a George Magnus, *Red Flags: Why Xi's China is in Jeopardy*, Yale University Press, 2018.

laboration between the countries as well as private-sector actors who engage with Chinese counterparts regularly in some cases have significant knowledge of Chinese politics and foreign policy.¹²

Israel is not the only country to be caught off guard in terms of its shortage of modern China expertise. But one positive example is how the United States prioritized its development of policy experts on China in the late 1970s. U.S. interests vis-à-vis China are very different than Israel's, and, as a result, the U.S. sense of urgency for grappling with China was much greater. However, at the time the United States started developing its expertise, relations were limited and few could foresee the rapid growth and 21st-century importance of China. Instead, at the time U.S.-China relations were established, the U.S. foreign policy focus was largely on Europe and the Soviet Union, much as Israel's focus has been on the Middle East.

Israel can learn valuable lessons for ensuring that its critical institutions—the IDF, Mossad, Shin-Bet, cabinet ministries (e.g., Foreign Affairs, Defense, Strategic Affairs, Energy, Transportation), cyber command, and business associations—are all equipped with expertise and knowledge of the PRC. When needed, their expert staff members should be available to advise other institutions dealing with China on what the benefits and shortcomings could be.

Concrete ideas for enhancing Israeli understanding of China include expanding Mandarin training programs; expanding contemporary China studies and research in Israel's universities; encouraging and offering funding for master's and doctoral students to focus on contemporary China, and, in particular, on its foreign and economic policy; launching academic dialogues on the topic of the PRC and facilitating exchange programs for faculty and students specializing in this topic; and inviting experts from the United States and abroad to train the Israeli policy community. Israel also could take advantage of

¹² Telephone conversation with an expert on Israeli-Chinese ties, September 2018.

defense experts who gained their knowledge during the early period of defense collaboration and of the businesspeople working with and in China. Connecting such informal experts to Israel's policy community could help bridge contemporary gaps in understanding and build expertise.

Develop a Comprehensive Policy Toward the PRC, Learning from Other Countries

As it works to build a cadre of China expertise and examines the costs and benefits of engaging the PRC, Israel should develop policies that reflect this calculus. Fortunately, Israel can learn from the experiences of other countries and adapt some of the common approaches to China to Israel's unique settings. Although the United States is Israel's most important strategic ally, the two countries have very different interests and challenges when it comes to the PRC. In many instances, Israel might not want to adopt a U.S. approach toward China and Chinese companies. At the same time, the U.S. experience offers valuable lessons for Israel, especially when it comes to screening foreign investment.

Israel is now facing a situation similar to that of Europe in grappling with how best to handle the trade-offs associated with Chinese investments. Chinese economic activities in Europe include acquisitions of technology and investment (and even the provision of funding) in major infrastructure projects. As in the Israeli case, many Chinese investments in Europe are made by Chinese state-owned enterprises. But Europe has started to become wary of Chinese investment: Chinese investments in European technology have raised concerns that the PRC could leverage European knowledge to become a direct competitor to countries on the continent.¹³ After the \$5 billion acquisition

¹³ Philippe Le Corre, "On Chinese Investment and Influence in Europe," testimony before the House of Representatives Foreign Affairs Committee, May 23, 2018.

of German robotics firm KUKA in 2016, European leaders also have become worried about the transfer of technologies to the PRC.¹⁴

Chinese investment in European infrastructure also is reminiscent of the Israeli case and includes the transportation, energy, real estate, and ports sectors.¹⁵ The ports usually are linked to inland logistics networks, meaning that Chinese involvement in Europe, and soon in Israel, would extend beyond the ports themselves. Similar to the Israeli responses to the Bright Food acquisition of Tnuva, Chinese investments in European infrastructure have occasionally led to domestic public resistance.¹⁶

In its commercial assessment of the PRC, Europe has flagged several important issues that also are relevant for Israel: the lack of reciprocal access to the Chinese market; a level playing field; and fair competition.¹⁷ Europe also is concerned about human rights, which is not an explicit Israeli concern. However, Israel is extremely worried about the empowerment of Iran, one of China's allies, and that should be reflected in Israeli assessments and policymaking on ties with China.

In addition to learning from the U.S. experience, Israel can benefit from following these discussions in Europe. Israel should prioritize the development of its PRC policies on three central policy areas: screening of foreign investment; regulating foreign involvement in major infrastructure projects; and monitoring companies suspected of cyber espionage and irregular technology transfer. As noted in Chapter Two, Israel already has a mechanism for controlling exports of defense and dual-use items; in addition to our policy recommendations, it will

¹⁴ Andrea Shalal, "Germany Risks Losing Key Technology in Chinese Takeovers: Spy Chief," Reuters, April 11, 2018.

¹⁵ Le Corre, 2018.

¹⁶ David Shamah, "MKs, Farmers, Slam 'Dangerous' Sale of Tnuva to Chinese," *Times of Israel*, February 26, 2014a; Le Corre, 2018.

¹⁷ European Commission, 2017.

need to maintain the quality of that process to respond to new developments in technology and defense.

Consider Developing a Mechanism to Screen Foreign Investment

Different countries have different approaches to foreign investment. The key consideration in the United States is whether investments could pose a risk to U.S. national security. For Israel, this standard would encompass not only the direct effects on Israeli national security, but also the implications of the investment for Israeli-U.S. ties because Israel depends on the United States for its security. There are other models beyond the U.S. model. However, many countries are considering restrictions to Chinese investment.¹⁸

The U.S. mechanism is CFIUS, an interagency panel of government officials that reviews acquisitions of U.S. businesses by foreign buyers to assess security risks. Led by the Treasury secretary, it includes a broad membership.¹⁹ For many years, CFIUS relied strictly on voluntary disclosures from business entities or other government agencies to review or investigate deals in question. Although filings were voluntary, CFIUS retained the right in perpetuity to unwind a deal it had not reviewed, so filing provided safe harbor. In addition, CFIUS reviewed acquisitions only and did not review other ways in which foreign companies might become involved in U.S. businesses, such as

¹⁸ Jodi Xu Klein, "It's Not Just the U.S.: Around the World, Doors Are Shutting on Chinese Investment," *South China Morning Post*, September 15, 2018.

¹⁹ In addition to the Secretary of the Treasury, members include the heads of the Departments of State, Defense, Justice, Commerce, Energy, and Homeland Security; the Office of the U.S. Trade Representative; the Office of Science and Technology Policy; and, on an *ex officio* basis with specific responsibilities, the Director of National Intelligence and the Secretary of Labor. Observers (who may participate) include the heads of the Office of Management and Budget, the Council of Economic Advisers, the NSC, the National Economic Council, and the Homeland Security Council (U.S. Department of the Treasury, "Composition of CFIUS," webpage, December 1, 2010).

through passive investments or licensing agreements. It also did not review greenfield investments by foreign firms.

The United States instituted a major reform of CFIUS and export control laws in 2018, the first reform of CFIUS since 2007. Under the new rules, CFIUS reviews now cover some purchases of real estate as well as concessions at airports, seaports, and military bases; reviews were extended to transactions beyond acquisitions if they involve certain types of infrastructure, technology, or personal data.²⁰ Other changes include extending CFIUS jurisdiction to transactions that are meant to evade CFIUS jurisdiction and requiring mandatory filings for certain transactions. Greenfield investments—and, in fact, the majority of foreign investments into the United States—still do not fall within CFIUS jurisdiction. There were no China-specific measures in the changes, but some of the changes could fall heavily on Chinese investment activity. Not making investment, infrastructure, or any other type of screening country-specific is one way of ensuring open markets while instituting the preferred security policy.

The European Union does not have a CFIUS-like mechanism, but it has been working to define a joint position regarding Chinese foreign direct investment and a Europe-wide review. However, conflicting interests among European Union member states could hinder the development and enforcement of a Europe-wide policy. Although France and Germany support the idea, several member states fear that it would lay the groundwork for protectionism.²¹ With that said, some legislation is expected that will highlight the importance of this issue and empower individual states that have adopted national screening

²⁰ This paragraph draws from Brian Egan, Evan T. Abrams, and Zhu (Judy) Wang, “Changes Afoot for CFIUS and U.S. Export Controls as the Dust Settles on FIRRMA [the Foreign Investment and Risk Review Modernization Act], International Law Advisory, Step-toe, August 16, 2018.

²¹ Philip Blenkinsop, “EU Promises Tough Line on U.S., China While Pushing for Free Trade,” Reuters, June 23, 2017.

policies.²² Most recently, Germany amended the German Foreign Trade Regulation to enable the government to screen and, if needed, block foreign investments.²³

Additional models exist. In contrast to the United States, which focuses on national security, both Canada and Australia review foreign investments with broader mandate. Australia's Foreign Investment Review Board includes seven members and acts in an advisory role to Australia's treasurer, who makes the final decisions. The Board reviews investments based on a "national interest" test.²⁴ In Canada, under the Investment Canada Act, foreign investors who either acquire a Canadian business or set up a new business must notify the government and could be subject to review. Both the law and its associated rules are complex, but one important point is that investments above a certain threshold are assessed for their likely net benefit for Canada.²⁵

Israel should consider the CFIUS model, along with other possible mechanisms for screening foreign investment. Israeli policymakers have traditionally opposed this idea, explaining that the Israeli business environment is bureaucratic enough and poses sufficient hurdles to business activity.²⁶ Yet, given the flow of foreign funds into Israel, this idea is worth reconsidering with adaptations.

Whichever model is decided, it should strive to not crowd out foreign investment and not merely add another layer to an already

²² Erik Brattberg, "China's Relations with U.S. Allies and Partners in Europe," testimony before the U.S.-China Economic and Security Review Commission, April 5, 2018.

²³ "Foreign Investment in the EU: A Tale of Competing Tensions," *Lexology*, July 26, 2017.

²⁴ Foreign Investment Review Board (Australia), "About FIRB," webpage, undated; Foreign Investment Review Board (Australia), *Annual Report 2016–17*, Commonwealth of Australia, 2018.

²⁵ Government of Canada, "Investment Canada Act," webpage, April 6, 2018; Government of Canada, *Annual Report: Investment Canada Act 2016-17*, Innovation, Science and Economic Development, 2017.

²⁶ Telephone conversation with an expert on Israeli-Chinese ties, February 2018.

bureaucratic business environment. Israel also should be as transparent as possible, fast, and agile. At the same time, screening should ensure that the deals in question meet Israel's desired criteria. These criteria could include whether they pose national security risks to Israel (e.g., accounting for surveillance risks; considering connections to Israeli adversaries; or degrading the U.S.-Israel security relationship by transferring know-how of dual-use technology, either directly or indirectly). Criteria also could include whether investments undermine Israel's competitive edge in a critical industry, although this could start to restrain the functioning of investment markets in an undesirable way. Notably, anything involving economic—rather than security—issues could result in adverse protectionism or political favors, so Israeli policymakers should consider any non-security criteria carefully. Like CFIUS, such a body should be an interagency institution that consults with experts and stakeholders from different areas. Cases deemed risky could move to a more comprehensive review or be placed under specific restrictions.

As mentioned earlier, regulators in specific industries in Israel have blocked Chinese purchases of what they deemed critical assets, like the two biggest Israeli insurance firms, but there is no orderly process that guarantees scrutiny and intervention if needed across the board. This is where a mechanism modeled after elements of CFIUS could become useful. Reportedly, for the first time in July 2018, the prime minister's economic adviser, Avi Simhon, indicated that the government might form a new "body or team that would vet foreign investment."²⁷ Since then, mostly in response to fears over U.S. pressure, Israeli press reported that, in addition to the National Economic Council, the National Security Council also has been working on

²⁷ Amit, 2018.

a plan to vet foreign investments.²⁸ Reportedly, in March 2019, the Israeli government decided to announce the establishment of a committee to screen foreign investments, but the nature of this mechanism and its effectiveness have yet to be established, and there are fears that it would not be comprehensive enough to mitigate all risks.²⁹ According to press, in response to objections from various ministries opposing additional bureaucratic burden, the screening mechanism might be only voluntary.³⁰

Consider Regulating Foreign Involvement in Critical Infrastructure

There are many definitions of critical infrastructure, but Israel, like other countries, considers infrastructure critical when disrupting its operation could have serious social, economic, political, and security implications. Under the Israeli category, rail, ports, and other assets require special protection.³¹ A CFIUS-like or other mechanism could screen foreign involvement in critical infrastructure. This mechanism need not be country-specific, but in the context of China, such screening would determine whether the entity involved is linked with the PRC government, and if so, whether there are implications of a foreign government's access to Israeli critical infrastructure. This assessment also should assess links of foreign entities to Israeli adversaries (such as

²⁸ "Chinese Investments in Israel Could Pose Security Threat, Shin Bet Chief Warns," *Haaretz*, January 9, 2019; Hagai Amit, "Israel Moving Ahead with Law to Vet Foreign Investment," *Haaretz*, December 20, 2018.

²⁹ Hagai Amit, "Netanyahu Rotse Le'Vaser Le'Trump al Hakamat Vaada Le'Hagbalat Haskaot Siniyot" ["Netanyahu Wants to Tell Trump About the Establishment of a Committee to Limit Chinese Investments"], *Marker*, March 5, 2019; phone conversation with former official with Israeli Ministry of Labor, March 6, 2019; phone conversation with U.S. State Department official, March 6, 2019.

³⁰ Omri Milman, "Ha'Malal Ba'Derech Le'Pshara: Haskaot Zarot Lo Yehuyvu Be'Bdikat Vaada Meyuhedet" ["The NSC on the Way to Compromise: Foreign Investments Would Not Require Examination Through Special Committee"], *Calcalist Tech*, March 13, 2019.

³¹ Goldschmidt, 2013.

Iran), and whether the deal could raise surveillance risks and compromise the security of private data. At the same time, it is important that foreign companies continue to operate and invest in infrastructure in Israel. Because different sectors operate under different constraints and have distinct objectives, it is unrealistic to expect that the Ministry of Transportation, for example, will be aware of all risks stemming from a foreign entity building and supplying cars for a light rail. In addition, it is counterproductive to the Israeli economy for the Ministry of Transportation to be as restrictive as the MOD. To ensure that all considerations are weighed accordingly, an interagency group is needed for examining such deals.

Israel, however, might not want to block deals by foreign entities that raise certain risks, but rather might develop mitigation strategies. These could include, for example, requirements that any Chinese firm investing in Israel accept certain restrictions and oversight if it also does business with foreign governments hostile to Israel; that the investment be structured in such a way that information or control over certain activities be walled off from a foreign government; that a foreign entity collaborate with an Israeli partner, and, in extreme cases, a requirement that the Israeli partner be the prime contractor; and that appropriate cyber protection is installed to protect against foreign espionage and abuse of private data.

Ensure Monitoring Activities of Companies with Negative Espionage Track Records

Israel should take steps to safeguard itself against companies that might present risk of espionage. Again, these steps need not be country-specific. As noted in Chapter Five, the Chinese telecommunications company Huawei presents a challenge, and its treatment illustrates different approaches Israel could take. The United States, for example, has been quite cautious, banning the use of Huawei technology in the government and in 5G networks, along with Australia and New Zealand.

An intermediate approach is that of the United Kingdom, which recognizes that telecommunication networks incorporate foreign technologies, that many manufacturers build some equipment in China, and that there might be advantages to such multinational sourcing. At the same time, the United Kingdom considers telecommunication networks to constitute critical infrastructure and thus has developed a strategy to mitigate the risks associated with the presence of Huawei in the country's networks. In 2010, following a set of agreements between the UK government and Huawei, the latter formed the Huawei Cyber Security Evaluation Center (HCSEC). HCSEC provides the UK government with a way to inspect Huawei's equipment and insight into the company's strategies and product ranges, with the aim of mitigating risks to UK national security. The governmental agency coordinating with HCSEC is the UK's Government Communications Headquarters (GCHQ), which is similar to the U.S. National Security Agency (NSA). The HCSEC is monitored by an oversight board, the role of which is to report to the government that risks are addressed properly. Although HCSEC is funded by Huawei, GCHQ oversees its commitment to adhere to UK requirements and provides assurances regarding security risks.³²

Israel should consider a broad array of options when it comes to technology security. Israel could limit the use of technology from a specific provider on IDF bases and in sensitive government facilities, a limitation that does not exist today. It also could require the sharing of source code and local data storage, among other measures. Or it could institute broad bans. One first step should be to conduct an in-depth review of the variety of approaches adopted by different countries for mitigating risk to understand which ones offer useful lessons.

³² Huawei Cyber Security Evaluation Center (HCSEC) Oversight Board, *1st Annual Report 2015: A Report to the National Security Advisor of the United Kingdom*, March 2015.

Implications of Israel-China Relations for the United States

The United States has a clear interest in China's growing economic and political presence in Israel. From the U.S. perspective, the potential for the PRC to acquire Israeli technology with advanced military applications or convert critical infrastructure investments into strategic assets—including the potential for dual-use of such assets as ports—could pose challenges to U.S. interests, especially as U.S.-China competition intensifies. Thus, although the Israeli MOD is exercising caution with respect to exports of dual-use technology to China, Chinese investments in Israeli technology and critical infrastructure have proceeded largely without oversight, and could raise frictions between the United States and Israel, similar to the way the PHALCON and HARPY incidents did in the early 2000s.

In addition, Chinese influence over official Israeli diplomatic positions would be problematic from a U.S. perspective. As shown in the New York terrorism financing trial against the Bank of China, the PRC has already demonstrated its ability to exert political pressure on Israel and pit Jerusalem against Washington on an issue of great importance.

Finally, Israel's cooperation with China on facilitating BRI routes to Europe also might raise concerns in the United States, although this does not rise to the level of the other concerns. The U.S. National Security Strategy stated that "China is gaining a strategic foothold in Europe" and called for joint action with Europe to "contest China's unfair trade and economic practices and restrict its acquisition of sensitive technologies."³³ These concerns in terms of PRC involvement in Europe stem from its ability to influence certain European Union members and its undermining of European unity on such matters as the South China Sea, human rights violations, and better investment

³³ White House, 2017.

screening to monitor risks related to dual-use technology and infrastructure. In addition, the PRC's presence in the Balkans has implications for ties with other regional actors, such as Turkey and Russia.³⁴

The United States and Israel have distinctively different interests and concerns vis-à-vis the PRC and there is no reason to expect that they would see completely eye-to-eye on this topic. Still, transparency, coordination, and awareness would help the United States obtain a full picture of Chinese engagement in Israel and avoid friction between Washington and Jerusalem. Thus, recommendations in this section are designed for the United States, in addition to Israel.

Enhance U.S.-Israel Dialogue on China

The United States and Israel already have an established coordination mechanism on China, but it is handled by the Israeli MOD and is limited to exports of dual-use technology. Coordination should be expanded to other areas, aside from defense, and involve other ministries and agencies. The engagements between Washington and Jerusalem should include China as a regular item in discussions and policy decisions. Israel and the United States also should ensure regular information-sharing and joint monitoring of the nature and extent of Chinese investments and economic activities in Israel and in the broader Middle East (including in the Red Sea and east Mediterranean). This is especially important as growing voices in Israel call for developing a process to scrutinize Chinese economic practices more closely.

Share Knowledge and Help Israel Develop Its China Policy

The United States, more than any other Israeli ally or partner, has extensive knowledge and experience handling the PRC. As Israel deepens its ties with China, the United States can play an important role in

³⁴ Le Corre, 2018.

raising awareness and sharing information about the consequences and long-term costs and benefits of Chinese economic involvement.

Israeli expertise and capacity on China is rather limited. To help build this capacity, the United States can share its own experience in terms of building its capacity of modern China understanding four decades ago. In 1977, the top China and Asia staffer on the NSC staff, Michel (Mike) Oksenberg, wrote a memo to his supervisor, National Security Adviser Zbigniew Brzezinski, expressing concern that the government's China experts lacked adequate knowledge and expertise of China.³⁵ The memo called for having 25 to 35 "top-flight Chinese intelligence analysts," and although this number was not reached in full, several seasoned China experts indeed worked for the U.S. government starting in the 1990s.³⁶ The United States can share with Israel how it developed adequate knowledge of China and expertise in a relatively short period. That would provide an opportunity for the United States to help build relevant Israeli capacity on China and provide insight as Jerusalem crafts a comprehensive policy vis-à-vis the PRC.

In addition, the United States can advise Israel on developing an investment screening mechanism and help Israel build greater capacity regarding the regulation and oversight of defense-related sales, managed in the United States by the Department of State, and export control of dual-use items, managed in the United States by the Department of Commerce.

³⁵ Mike Oksenberg, "Suggestion for a PRM," memorandum for Zbigniew Brzezinski, Washington, D.C., National Security Council, February 2, 1977.

³⁶ Peter Mattis, "Getting China Right from Carter to Obama," *War on the Rocks*, August 22, 2016.

Concluding Thoughts

Israel has an enormous amount to gain from contact and cooperation with China. Better trade relations can help diversify Israel's exports and therefore provide more resilience to Israel's economy, especially because China is expected to grow far more quickly than Israel's other major export markets, Europe and the United States. Chinese tourism, a form of services trade, can provide added benefit. There also are investment benefits. China is a growing source of worldwide investment, and investment in Israel can help spur growth and business formation. China also is improving its innovation and technology development abilities, and Israeli leadership in this area can provide further gains to both countries.

Despite the potential gains of the relationship to Israel, there are also risks. The biggest is that the United States, Israel's main security patron, views China not only as a trade partner, but also as a global competitor and a potential adversary. Accordingly, the United States is likely to oppose any Israeli actions that build Chinese military capabilities or transfer sensitive U.S. technology.³⁷ Yet the very fact that China is involved with some of Israel's most advanced technology companies means that there is a chance that Israel-China cooperation could lead to building Chinese capabilities.

This is no reason for Israel to exit or shy away from the relationship. According to reports from the Israeli TV Channel 13, Chinese officials, including those from the Chinese Foreign Ministry, have been seeking clarification from Israel regarding statements cautioning against warming ties with China.³⁸ Although Israel should first

³⁷ Telephone conversation with a former U.S. official with extensive experience in Israel-U.S. relations, August 2017; in-person conversation with a former U.S. official who worked on defense issues related to Israel in the late 1990s and early 2000s, August 2017.

³⁸ *Times of Israel* Staff, "China Said to Seek Clarifications from Israel over Investment Concerns," *Times of Israel*, January 23, 2019.

and foremost not jeopardize its special relations with the United States, it should ensure that it does not damage its important interests with China. The United States is sympathetic to Israel seeking economic gains from China—most strong U.S. allies are doing so. But it is a reason for Israel to be more careful and aware about the relationship. This includes more monitoring and coordination within the government; better assessments of China's economic activities; and building capabilities among Israelis to speak Mandarin Chinese and gain expertise in Chinese history, politics, economics, and strategic goals.

Data Collection and Methods

The authors drew on a wide range of data sources and employed a mix of methods. We based the historical overview of Israeli-Chinese ties largely on open-source materials in Hebrew, Chinese, and English (Chapter Two). To better understand how China sees Israel, we relied on Chinese sources, both official and media reporting (Chapter Three).

In Chapter Four, to measure Israel-China relations across different domains, we compiled information from a variety of sources. For political relations, we reported bilateral visits between China on one side and Iran, Israel, and Saudi Arabia on the other. To do so, we relied primarily on official Chinese-language information sources, including the websites of the Chinese Ministry of Foreign Affairs, various Chinese diplomatic missions, and the Chinese Ministry of National Defense. We supplemented this with official Chinese news sources, such as Xinhua, CCTV (now known abroad as China Global Television Network, or CGTN), and the website of the *People's Daily*. We also included English news sources, such as *Al Arabiya*, Reuters, and the *New York Times*. We examined China's voting record at the UN Security Council, particularly on resolutions critical of Israel from 1992 to 2016, the year of the most recent resolution.

In assessing bilateral defense relations, we used two measures of arms transfers. The first relied on data from the SIPRI Arms Transfer Database, which measures such transfers globally in a common unit the

institute calls the TIV.¹ The second measure relied on Chinese media reporting on Israeli arms transfers to and other forms of defense cooperation with India, the Philippines, Taiwan, and Vietnam, drawing on the *People's Daily*, the *Global Times*, and the news website of the Chinese Ministry of Defense, 81.cn (also known as "China Military Net"). Although the SIPRI data provide one of the most comprehensive sets of information, the data have serious shortcomings. These shortcomings include recording an arms transfer only if SIPRI has verified reliable information that a recipient has placed an order or if the seller has begun delivery. Furthermore, the data cover only major conventional weapons.² The data do not cover other aspects of China's defense relationships with other countries and entities in the region, including, for example, China's support for Iran's nuclear program; military nuclear cooperation with such countries as Algeria, Syria, and Iraq; the supply

¹ These data provide the value of arms transfers from China to Iran and Saudi Arabia and from Israel to China, India, the Philippines, Taiwan, and Vietnam.

² SIPRI provides a detailed explanation of how it measures arms transfers:

SIPRI statistical data on arms transfers relates to actual deliveries of major conventional weapons. To permit comparison between the data on such deliveries of different weapons and to identify general trends, SIPRI has developed a unique system to measure the volume of international transfers of major conventional weapons using a common unit, the trend-indicator value (TIV).

The TIV is based on the known unit production costs of a core set of weapons and is intended to represent the transfer of military resources rather than the financial value of the transfer. Weapons for which a production cost is not known are compared with core weapons based on: size and performance characteristics (weight, speed, range and payload); type of electronics, loading or unloading arrangements, engine, tracks or wheels, armament and materials; and the year in which the weapon was produced. A weapon that has been in service in another armed force is given a value [of] 40 percent of that of a new weapon. A used weapon that has been significantly refurbished or modified by the supplier before delivery is given a value of 66 percent of that of a new weapon . . . (SIPRI, "Sources and Methods," webpage, undated[b]).

of missiles and non-conventional weapons to Iran; and the indirect supply of weapons to such groups as Hamas.³

In addition to arms transfers, we investigated the evolution of defense relations from 1992 to 2016 using high-level defense exchanges, such as visits by senior military personnel, and joint exercises between China and the three countries. We also include references to such exchanges with other major countries in the Middle East where relevant, such as Egypt, Qatar, Syria, and Turkey.

For economic relations, we considered patents and trade. For data on patents, we used the databases of the World Intellectual Property Organization.⁴ For trade, we draw data from two sources. The first is the United Nations Commodity Trade Statistics Database (UN Comtrade), run by the United Nations Statistics Division, which gets its data from national statistical authorities, and which provides data from 1994 to 2015 on Chinese exports to and imports from Israel.⁵ The second source is the CSYD, which is published annually by the National Bureau of Statistics of China, itself directly subordinate to the State Council.⁶ CSYD and UN Comtrade data with China as the reporting country are nearly identical—which is not unexpected, as UN Comtrade gets its data from national statistical authorities. We further compared CSYD and UN Comtrade data on Chinese exports to Israel with UN Comtrade data on Israeli imports from China as reported by Israel, as well CSYD and UN Comtrade data on Chinese

³ Shichor, 2006; Shapir, 2009.

⁴ World Intellectual Property Organization, 2017; We opted not to use bilateral foreign direct investment (FDI) data. The United Nations Conference on Trade and Development (UNCTAD), the primary source for such data, covers only 2001 to 2012. Given rapidly developing investment relations, we decided that using those data would give an insufficiently complete picture of how economic ties between the two countries have evolved over time. Instead, we use other sources for our discussion of investment in Chapter Five.

⁵ UN Comtrade, undated(b).

⁶ National Bureau of Statistics of China, undated.

imports from Israel with Comtrade data on Israeli exports to China as reported by Israel. These data series diverge. We provide a more detailed discussion of the discrepancies between China-origin data and Israel-origin data in Appendix B.

We use several sources to gauge the strength of educational ties between China and Israel, including the number of Confucius Institutes in Israel; the number of Israeli students in China and of Chinese students in Israel; the number of academic programs and campuses that Israel and China have in the other country; and the number of senior academic exchanges and visits that have taken place between the two countries.⁷

In Chapter Five, we investigate Chinese investment in Israel using open source materials in English, Chinese, and Hebrew, including publicly available but privately assembled data sets on investment and construction; the Chinese and English websites of the Chinese companies; the websites of the Israeli companies; U.S., Israeli, Chinese, and other international news articles; technology and financial websites that report on investments; blogs that report on cybersecurity or human rights issues; and U.S. government reports.

Drawing on these sources, we looked at Chinese companies that have invested in or been involved in infrastructure construction projects in Israel, as well as the Israeli entities that received the investment. Although the list might not be exhaustive, we sought to examine as many Chinese companies as possible that are known to have invested in Israeli businesses or venture capital firms, or to have been contracted for infrastructure projects in Israel between 2007 and 2018. The

⁷ For gauging the education relationship, data for Confucius Institutes are available via the Confucius Institute Headquarters website; data on Israeli students in China and Chinese students in Israel are drawn from the UIS and are supplemented by various news websites; data for academic programs and campuses are available from various news websites, including Reuters and the *Times of Israel*; and data for senior academic exchanges are drawn from a wide variety of sources, including the websites of universities, the Chinese Embassy in Israel, and others.

number of investments and infrastructure projects totaled 92, and 42 Chinese companies participated in these activities. In researching these Chinese companies, we aimed to characterize their general investment profiles, as well as connections to the Chinese government or defense establishment, business dealings with Israeli adversaries, and any negative attention received with regard to security or privacy issues. We identified 11 companies that raise potential concerns for Israel or the United States.

We also assessed a subset of the Israeli companies that received investment, with a focus on those that work on potentially sensitive or dual-use technology, meaning technology with applications to both the civilian and military markets, or those that received investment from the Chinese firms we judged to be most likely to pose security concerns to Israeli or U.S. interests. This analysis examined 11 of the nearly 80 Israeli companies that were the targets of Chinese investment from 2007 to 2018. We examined both direct investments as well as investments through venture capital, and we included infrastructure contracts where a Chinese entity is involved in any capacity, whether as the prime contractor or as a subcontractor.

Differences in Trade Data by Source

Although all data sources show that trade between Israel and China has grown, there is a notable discrepancy between data on Chinese exports to Israel and Israeli imports from China, as well as between data on Chinese imports from Israel and Israeli exports to China. The CSYD data and UN Comtrade data on Chinese exports to Israel are on average 1.2 times larger than UN Comtrade data on Israeli imports from China. Similarly, CSYD and UN Comtrade data on Chinese imports from Israel are on average 1.3 times larger than UN Comtrade data on Israeli exports to China. Thus, both CSYD and UN Comtrade note Chinese exports to Israel as having grown 61 times from 1994 to 2015, while UN Comtrade notes that Israeli imports from China have grown 72 times over the same period. CSYD and UN Comtrade also note that Chinese imports from Israel have grown 26 times from 1994 to 2015, while Comtrade notes that Israeli imports to China have grown 55 times during the same period.

Several reasons can be provided to explain the differences in the value of trade recorded by the Chinese and Israeli governments and subsequently provided to UN Comtrade. The United States and China, which face a similar issue in their trade relationship, established the U.S.-China Joint Commission on Commerce and Trade (JCCT) in 1983 as “a forum for high-level dialogue on bilateral trade issues

between the United States and China.”¹ The JCCT, in turn, established trade statistics working groups to ascertain the causes behind the discrepancies between the two countries’ trade data. In 1994, the working group’s main conclusion was that

goods shipped indirectly from China via Hong Kong and other intermediary countries or regions account for a large part of the discrepancy in the U.S.-China bilateral trade statistics. Although both countries follow the same international guidelines on merchandise trade statistics programs, the corresponding import and export statistics from both countries will not necessarily match. Differences in partner country attribution and value added in intermediary countries or regions are major causes of the discrepancies in indirect trade from China to the United States.²

In 2009, the statistical working group further found that statistical discrepancies in eastbound (China to the United States) trade “may occur when goods enter the commerce of [an] intermediary country or region.”³ The working group also found that “differences in values declared to customs account for a large part of the statistical discrepancy in direct trade” because goods exported from China—particularly processed goods—“may change ownership in route to the United States” with the “higher values reported for the goods in U.S. imports reflect[ing] markups and not any transformation of the products.”⁴ In 2012, the statistical working group found that statistical discrepancies might arise from differences in definitions and meth-

¹ “U.S.-China Joint Commission on Commerce and Trade (JCCT),” Export.gov, July 16, 2016.

² U.S.-China Joint Commission on Commerce and Trade, *Report on the Statistical Discrepancy of Merchandise Trade Between the United States and China*, October 2009, p. 1.

³ U.S.-China Joint Commission on Commerce and Trade, 2009, p. 2.

⁴ U.S.-China Joint Commission on Commerce and Trade, 2009, p. 3.

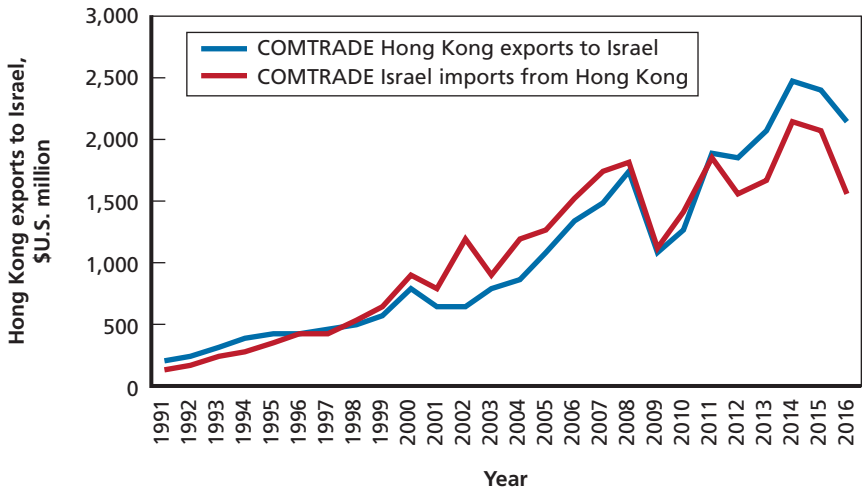
odology, such as differing interpretations of what to include in each other's statistical territory, time lag, and Chinese re-exports. Statistical discrepancies can also arise in eastbound direct trade "when an intermediary party purchases the goods after export and resells them to a third party in the United States at a higher price."⁵ Finally, discrepancies might occur in indirect trade when Chinese goods are shipped through Hong Kong or other intermediary countries or regions because of value added or the Chinese goods being declared as exports to these intermediaries.⁶ Although Israel and China have not established any similar statistical working groups to look into the statistical discrepancies in their trade, it is likely that they have the same underlying causes.

Notable discrepancies also exist in Hong Kong and Israeli trade data (see Figures B.1 and B.2). When considering China's international economic relations, it is valuable to consider Hong Kong as well, because Hong Kong has served as a trade and investment conduit for China. UN Comtrade-listed data on Hong Kong exports to Israel are on average 1.04 times larger than UN Comtrade-listed data on Israeli imports from Hong Kong. Data on Hong Kong imports from Israel are on average 0.64 times larger than data on Israeli exports to Hong Kong.

⁵ U.S.-China Joint Commission on Commerce and Trade, *The Second Phase Report on the Statistical Discrepancy of Merchandise Trade Between the United States and China*, December 2012, p. 4.

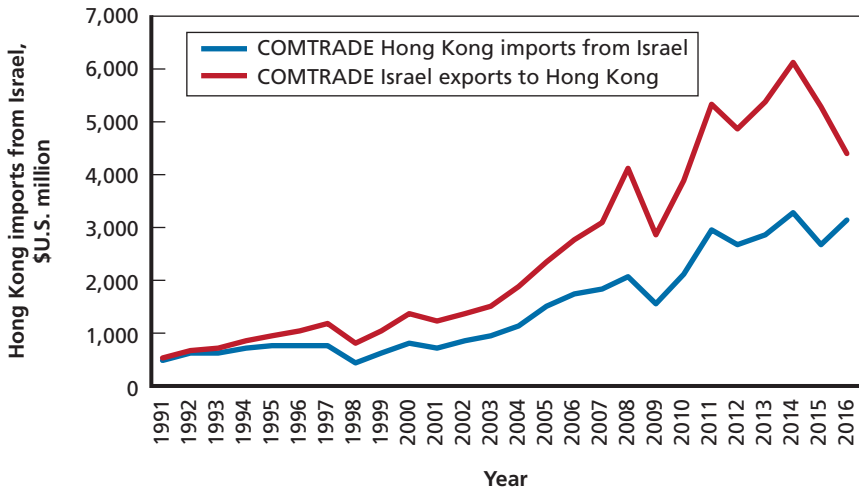
⁶ U.S.-China Joint Commission on Commerce and Trade, 2012, pp. 3–5.

Figure B.1
Hong Kong Exports to Israel, 1991–2016



SOURCE: UN Comtrade, undated(b).

Figure B.2
Hong Kong Imports from Israel, 1991–2016



SOURCE: UN Comtrade, undated(b).

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Since the early 2000s, relations between China and Israel have expanded rapidly in numerous areas, including diplomacy, trade, investment, construction, educational partnerships, scientific cooperation, and tourism. China’s primary interests in Israel are advanced technology and Israel’s location as part of the Belt and Road Initiative. Israel seeks to expand its diplomatic and economic ties with the world’s fastest growing major economy and diversify its export markets and investments from the United States and Europe. Although evolving relations with China present Israel with important opportunities, they also present a variety of challenges. In this report, RAND researchers discuss the growing relationship and the challenges it poses for Israel and for Israel’s most important ally, the United States. The report concludes with two recommendations for Israel and one for the United States. Israel would benefit by (1) gaining a better understanding of the opportunities and challenges deeper ties with China could bring, including developing better knowledge of China; and (2) using the experience of other countries to develop policies toward China that account for these challenges and opportunities. The United States, in turn, would benefit by working more closely with Israel to deconflict, shape, and advance a mutually agreed-upon China-related agenda and by helping Israel build its knowledge base and understanding of China.



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