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Israel's growing relationship with China: a problematic buffer against European sanctions?

By Yossi Alpher

Executive summary

Israel's rapidly developing economic links with China appear in part to reflect an Israeli drive to diversify economically in anticipation of growing European sanctions over the Palestinian issue. The Israeli political right evidently prefers economic stress to significant withdrawal from the West Bank.

Beijing may be prepared to ignore the Palestinian issue, but its strategic interests do not necessarily coincide with Israel's. Chinese investment in Israeli high-tech and strategic infrastructure may ultimately be detrimental to Israel's overall well-being, whether the issue is the siphoning off of Israeli technical know-how or Israel's sensitive relations with Egypt.

The Israel-China relationship has never lacked for interesting comparisons and contrasts. At issue are two ancient civilisations that traditionally place a high premium on learning, but historically experienced little if any contact and interaction.

Currently, although the two countries differ vastly in size, they express high interest in one another. Yet the source of that mutual interest differs radically in each country. In this difference lies a significant commentary on Israel's emerging strategic situation and the choices its leadership is making to manage it.

Backdrop to the emerging Israel-China strategic economic relationship

Israel is courting heavy Chinese investment in infrastructure and high-tech research and development (R&D), at least in part as a hedge against what it perceives as the danger of international economic and political isolation catalysed by the BDS (boycott, divestment, sanctions) campaign and imposed by Europe, its largest trading partner. The context is Israel's perceived obstruction of efforts to reach a two-state solution to the Palestinian issue.

Even though Israel's economy remains in good shape by global standards, the warnings of economic punishment if the current peace process fails are proliferating. U.S. secretary of state John Kerry and Israeli chief negotiator Tzipi Livni repeat them like a mantra. On February 1st 2014 Kerry stated in Munich that

> There's an increasing de-legitimisation campaign that has been building up. People are very sensitive to it. There are talk of boycotts and other kinds of things .... Today's status quo absolutely, to a certainty, I promise you 100 percent, cannot be maintained. It's not sustainable. It's illusionary.

This echoed a warning sounded a week earlier by European Union (EU) ambassador to Israel Lars Faaborg-Andersen that

> If Israel were to go down the road of continued settlement expansion and were there not to be any result in the current talks, I am afraid that what will transpire is a situation where Israel finds itself increasingly isolated.

(To be fair, the EU also threatens to dry up vital EU funding for the Palestinian Authority if the Palestine Liberation Organisation does not show more negotiating flexibility.) That same day Germany, perhaps the most pro-Israel of EU countries, announced landmark restrictions related to the settlements in its bilateral and private sector agreements with Israel.

In effect, one reason Israel is looking to the People's Republic of China is that it cannot, or will not (depending on which politician one asks), "solve" the Palestinian issue and generate a two-state solution to the West's satisfaction.

Some in the current Netanyahu government, with its heavy settler and pro-settler representation, plainly and openly prefer economic sanctions to a Palestinian state. Thus, Economy Minister Naftali Bennett stated in mid-January, referring to the security threat posed in his view by a two-state solution, that "a Palestinian state will wreck Israel's economy" and that the international boycott threat pales in comparison. Minister of Defence Moshe Yaalon reportedly added, in responding to a dire assessment presented by Minister of Finance Yair Lapid with regard to the effects of a European boycott, "You know what, examine the ramifications for the Israeli economy the moment missiles are fired at population centres in Israel from the West Bank and Gaza Strip".

Israel's reaction to the threat of boycott and isolation is increasingly shrill, seemingly reflecting growing concern. Kerry, representing Israel's friend and ally the U.S., is regularly castigated and denigrated by senior Israeli ministers. Prime Minister Binyamin Netanyahu is constantly trumpeting Israel's high-tech sector to Europeans and Americans by way of pointing to an investment sector whose product is conveniently "invisible". Some in Israel even saw in Netanyahu's decision at the recent Davos meeting to share with Norway's prime minister the news that his son is dating a (non-Jewish) Norwegian girl a lame attempt to endear Israel to Scandinavia, where boycott threats are loudest.

For Israel, linking up with China appears to have overriding importance as part of a broad strategic push into emerging markets like India, Indonesia and Mexico, at the expense of Europe. Israel's Ministry of the Economy is reportedly closing Israeli trade missions in Sweden and Finland and opening them in China, India and Brazil.

China, for its part, is hardly concerned over isolation. It seeks to expand its infrastructure and R&D investments in Israel as part of a broad campaign to guarantee its long-term economic interests in Africa and the Middle East. For China, Israel is a relatively small component of a global grand design to position itself as the world's number one economic power based on broad access to both resources and markets.

The strategic price Israel is prepared to pay

The diverse strands of this issue came together rather neatly in April-May 2013 in a controversy over the funding of terrorism. Netanyahu was about to embark on a trip to China to generate expanded economic relations when Beijing presented an ultimatum: either cease Israel's involvement in a legal case being brought in the U.S. against the Bank of China, or China will withdraw the invitation. The case in question involves charges by American Jewish families of the victims of Hamas terrorism that the Bank of China knowingly laundered funds bound for Hamas. Israel supplied the incriminating information and was supposed to provide expert testimony in a U.S. court.

Combating terrorism worldwide is one of Netanyahu's political "tickets". Indeed, as the brother of a senior commando officer who was killed in the renowned 1976 Entebbe operation to free Israelis hijacked by terrorists, Netanyahu rode to a political career by presenting himself as an expert on the subject. That his government would withdraw from the Bank of China case and turn its back on American Jewish victims of anti-Israel terror attacks shocked and disappointed many observers. Yet it did withdraw, Netanyahu went to China, and new contracts were signed. At the strategic level he opted in this instance for expanding the China connection over pursuing Israel's war against terrorism and maintaining strategic links with the Diaspora.

The past two years have witnessed several steps toward major Chinese investment in Israeli R&D and infrastructure that are of equal concern at the strategic level. Thus, Chinese entrepreneurs have contributed large sums to the Haifa-based Technion-Israel Institute of Technology ($130 million) and to Tel Aviv University (reportedly hundreds of millions of dollars) to sponsor joint technological education programmes that appear to offer China enhanced access to the fruits of Israeli high-tech R&D. And two years ago, on February 15th 2012, the previous Netanyahu government gave preliminary approval to a Chinese proposal to fund and build a railway line linking Israel's Red Sea port of Eilat, via existing infrastructure in the Beersheva-Dimona northern Negev area, with the Mediterranean port of Ashdod, at a cost of well over six billion dollars. The rail link, which arguably would have little strong commercial or tourist-related use for Israel (in competition with air and road links) and has generated strong environmental opposition, would offer China an alternative to the Suez Canal for transporting raw materials from Europe to China and finished consumer goods from China to the Mediterranean area.

The Eilat-Ashdod link fits into a much broader regional pattern of Chinese infrastructure investments that is sometimes called the "String of Pearls". China is investing in huge port and rail facilities in Pakistan, Iran, Yemen, Sudan, and East and Central Africa – all linked to its growing need to guarantee oil, gas and mineral imports over the long term. A trans-Asia railway is planned to link Beijing to the Syrian Mediterranean coast. Needless to say, in building and operating these facilities, the People's Republic of China retains a measure of control over them.

An Eilat-Ashdod rail link, with concomitant expanded port facilities in Eilat, is sensitive not only in terms of Israel's sovereign control over its infrastructure, but also with regard to Israeli-Egyptian relations. To the extent that this project is understood in Cairo as an Israel-based competitor to the Suez Canal for "Red-Med" transport, the railway line could sour Israeli-Egyptian relations at a sensitive time in the Middle East, when Egyptian army combat against Islamist and Salafist forces in Sinai and Gaza is of primary importance for Israel. It could even provoke U.S. displeasure in view of the need to contain Chinese expansionism that is implied in President Barack Obama's "pivot to Asia" – Israel is already highly sensitive to American requests to avoid exporting certain security systems to China. Nor is Israel's willing integration into the "String of Pearls" likely to be to the liking of India, China's strategic rival in Asia and a close trading partner of Israel's.

Israel can hardly assume that Chinese high-tech and infrastructure investment reflects only benevolent Chinese interests. Beyond the aforementioned Bank of China case involving a Hamas link, Chinese investment in Iranian energy and infrastructure enterprises and even in the Iranian nuclear project far overshadows what Beijing contemplates spending in Israel and represents a strategic interest that Beijing apparently intends to protect even in the event of conflict in the Middle East. Little wonder that China has been the least enthusiastic of the permanent members of the UN Security Council to impose sanctions on Iran.

Further, Chinese infrastructure investment abroad, as at home, reflects disciplined central planning based on hard-nosed assessments regarding China's long-term strategic interests. China may indeed ignore the Palestinian issue as a political factor in its dealings with Israel and, as an enthusiastic Israeli government official told the *Financial Times* in early January, "want to talk [only] about three things: Israeli technology, Israeli technology and Israeli technology". But that does not mean there will not be strategic ramifications when it suits China's needs.

Conclusion

As former Mossad head and national security adviser Efraim Halevy wrote recently in a report criticising the Eilat-Ashdod rail project,

> The reality emerging from a massive Chinese presence on a central Israeli artery will provide China with levers of economic and political pressure on Israel. There is a large gap between Israel's capabilities and those of a world power in control of a significant sector of our physical space and economic capacity.

The Netanyahu government appears prepared to take strategic risks to enable economic links with China whose net benefit to Israel is questionable. To the extent that the economic tilt toward China is indeed a response to the fear of impending European economic sanctions, it may be an indication that the Netanyahu government ultimately values the West Bank more than its economic and political links with Europe.

THE AUTHOR

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