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Chinese Investments in Israel: Opportunity or National Threat?

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President Peres's state visit to China, the first by an Israeli president in over a decade, occurs against the background of the current debate in Israel over Chinese investments in Israeli assets. Reports in recent months of talks between the Israeli food conglomerate Tnuva and China's Bright Food over the sale of the controlling share in Tnuva, and reports of a possible sale of Clal Insurance to a group of Chinese investors, have touched off a heated public debate about China's penetration into the Israeli market. In fact, already in 2010, Chinese companies showed serious interest in investing in Israel, especially in the hi-tech sector, and 2011 saw the largest investment of a Chinese company in Israel to date: the $1.44 billion purchase of 60 percent of Makhteshim Agan, a world leader in agricultural chemicals, by ChemChina, a Chinese chemical conglomerate. There have also been direct investments of more than half a billion dollars in Israel industries, mostly in the fields of IT, advanced medical equipment, and agricultural technology. Furthermore, agreements of cooperation involving hundreds of millions of dollars have been concluded between leading academic institutions in Israel and Chinese universities.

Those opposing the transfer of control of Israeli technology, natural resources, and infrastructure projects to Chinese corporations and investors present several arguments. One major issue concerns China's political and strategic positions, efforts, and objectives in the Middle East, which often do not match Israeli interests. China's interest in the Middle East stems first and foremost from its energy dependence, which demands good relations with Iran and Saudi Arabia. China even assisted Iran with its nuclear project, and was later accused of weakening the international sanctions imposed on Iran. China has also worked to incorporate the region in a transportation infrastructure connecting it

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with Europe, which turns it into a serious regional player in the Middle East. For all these reasons, Beijing has growing interest in the region's political and strategic developments. Some claim that under such circumstances, China might espouse anti-Israeli positions in future regional conflicts and promote outcomes that are contrary to Israel's interests. The activity of Chinese companies in Israel – companies that, to the opponents of this involvement, are simply an extension of their regime – can help the Chinese government by gaining control of important Israeli connections and access to information, technological resources, and other essential assets.

The second important concern centers on China’s image as a state that does not operate assertively against IPR (intellectual property rights) violations. According to this claim, activity such as acquiring control of Israeli companies and fostering cooperation between academic institutions is liable to enable China to funnel crucial technologies and resources from Israel to China and thereby drain Israel of crucial assets. This risk presents as especially grave if China tries to weaken Israel out of political and strategic considerations. The ostensible conclusion is that even if it is both impossible and undesirable to block the access of Chinese companies to the Israeli market, they must be seen as an extension of a regime that poses a risk to the State of Israel, and should therefore be denied access to projects and assets of national importance.

Proponents of Chinese investment dismiss these concerns and claim that Chinese corporations, no matter who owns them, are regular economic institutions motivated by standard motives of profit and loss. China is undergoing rapid processes of change, and local companies operate like other foreign companies and should not be singled out or disqualified. Underlying this argument is the fact that China has climbed to the top rungs of global investment, and the fact that nations all over the world, including West European countries and the United States, are open to Chinese investments. Those who support Chinese investments in Israel say that other nations are no less sensitive to China than Israel and nonetheless allow the activities of Chinese companies. Moreover, given that China has become the second largest economic superpower in the world (and is expected to pass the United States by the end of this decade) on the one hand, and the economic woes of Western nations on the other, the Israeli economy must develop strong investment (and trade) relations with China lest it stymie further development. As for the concern of technologies trickling away, proponents of Chinese investment note that the sale of one company to another always entails risk, and that in the global economy the national ownership of any technology, especially commercial technology, is necessarily amorphous.

Although this debate does not fully encompass the issue and some of the claims made are highly questionable, it raises a number of critical questions. Chinese activity in Israel is unexceptional, and is rather part of a global phenomenon. Given China's increasing participation in the global economy and its growth trends, Chinese companies and other organizations will seek to increase their activities in Israel, including in sensitive fields such as infrastructures and natural resources. As a country dependent on capital sources and external markets, Israel should not obstruct this trend. Still, Chinese activity around the globe and especially in the West arouses suspicion, and countries have imposed various limits on Chinese corporations. Is this justified? Is the conduct of Chinese corporations really that different from that of other corporations? In many cases, it is too early to establish whether the activity of Chinese companies around the world is a new, unfamiliar phenomenon.

In these circumstances, Israel must adopt a cautious, calculated approach that takes into account all the arguments for and against expanded activity by Chinese companies in Israel. Chinese companies and institutions will likely continue to take an interest in the Israeli economy and technology and will increase their activities here. This is a desirable state of affairs that should be encouraged. Any attempt to thwart China's interest in Israel will not only block economic resources but will also deny Israel useful political means. Economic considerations are an important element in China's formulation of its foreign policy. Thus, the expansion of Chinese investment and economic activity in Israel can provide Israel with certain tools to strengthen bilateral relations. Conversely, closing the door on China will leave Israel bereft of means of influence at a time when China's involvement in the Middle East is on the rise.

However, Israel cannot afford to open its doors to Chinese companies and institutions without a thorough review process. First certain Chinese companies have already been barred from operating in some countries. It is necessary to ascertain whether or not the reasons for the ban on their activities elsewhere are relevant to Israel. Second, competition between China and the United States is not expected to abate anytime soon. The complex relationship between the two has, on more than one occasion, complicated matters for Israel because of its own close relationship with the United States. As long as Israel remains dependent on the United States, it must examine the ramifications of growing closer to China for its relations with Washington. Third, the patterns of conduct exhibited by Chinese corporations, even as purely economic institutions, are insufficiently understood. It is therefore imperative to ensure that the forging of economic ties with them does not facilitate a future blow to Israeli companies and the Israeli economy in general.

Such a review process must start now as part of a framework that review all foreign investments in Israel, and be carried out by a permanent body formed precisely for this purpose. This body would take into account the gamut of political, strategic, economic, and technological aspects involved in Chinese activity in Israel and the region. This is not likely to irk China, as such examinations are standard in various nations around the globe – China too inspects and limits certain foreign investments in its country. In fact, such a process would actually help Israel's economic ties with China, because it would determine clear parameters for the activity of Chinese (and other foreign) companies in Israel, identify the problematic cases, and dispel public debate about the activities of the other, non-problematic, companies that, according to studies from abroad, represent the vast majority of Chinese companies operating outside of China. Finally, such a process would prevent damage to Israeli-Chinese relations. After all, it is in Israel's interest to strengthen its economic relations with China, just as other Western countries have, including the US, which is China's largest debtor. On the other hand, if such a process is not conducted, it may lead to undesirable outcomes. The Israeli business sector works faster than government systems, and Chinese corporations study the lessons of the past to improve their operations. Consequently, as long as clear guidelines on the activities of Chinese elements in Israel do not exist, decisions may be taken that – should they need to be modified in the future – could potentially exact a costly toll and seriously damage Israeli-Chinese relations.

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