



China's Investments In Israel Are A Double-Edged Sword

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These days, the consensus among connected venture capitalists and savvy entrepreneurs is unanimous: Israel's hi-tech sector is thriving.

Over the past decade, the country's unique mix of informal culture, innovation and entrepreneurship – the same qualities that have made it the quintessential "start-up nation" – have shaped the Jewish state into an incubator of technological progress, and the world has taken notice.

The last several years have seen a surge in investment in Israeli hi-tech firms from foreign entrepreneurs eager to capitalize on this dynamism. In 2016, Israel's tech sector raised \$4.83 billion in foreign direct investment. In 2017, that figure rose to \$5.24b. And so far this year, Israel's tech sector has drawn in \$3.2b., more than the total amount of capital raised between 2010 and 2013.

Much of this investment comes from the United States and Europe. But a significant – and growing – share is Chinese in origin.

Over the past several years, the People's Republic has emerged as a major patron of Israeli innovation, inking landmark deals with both government and private industry that has positioned it as a key stakeholder in the "Silicon Wadi." These include a massive \$300 million "clean tech" agreement signed last year between the two countries to import Israeli energy and agricultural technologies into China, and a more recent \$26m. investment by tech giant Alibaba in Israeli data analytics company SQream DB. Estimates now suggest that China is on track to overtake the United States as Israel's single largest source of investment in the near future.

In fact, China's stake in Israeli hi-tech has become so significant that it now runs the risk of impacting the longstanding special relationship between Jerusalem and Washington.

Since taking office, the Trump administration has hewed a decidedly pro-Israel foreign policy line. Landmark decisions, like the one to transfer the US Embassy to Jerusalem, have brought the two governments considerably closer together, buoying a bilateral relationship that languished during the Obama years. So, too, has the US administration's more confrontational approach toward Iran, one of the gravest threats facing the Jewish state.

But officials in Washington have begun to worry over what they see as pervasive Chinese penetration of Israel's hi-tech sector. Informal assessments now circulating within the US government estimate that China directly controls, or has influence over, as much as a quarter of Israel's total hi-tech industry.

That's a problem for Washington. The United States has long fretted over the national security implications of China's expanding economic investments, and a standing inter-agency committee (known as the Committee on Foreign Investment in the United States, or CFIUS) has repeatedly blocked Chinese bids for access to sensitive economic sectors in the US.

Those concerns continue. This summer, the House of Representatives overwhelmingly passed new legislation designed to tighten foreign investment rules so as to better protect US technology from Chinese acquisition.

It did so because, in the eyes of US policymakers, China's economic activities are a key part of the increasingly aggressive, neo-imperial foreign policy now being pursued by Beijing. And Washington sees China's deepening stake in Israel in this light.

That, in turn, makes it a problem for Jerusalem. Strategic partnership with the United States has long been a cornerstone of Israeli security, and since its formal codification in the early 1980s has spawned extensive security cooperation and myriad defense-industrial projects. Up until now, Israel's technological dynamism has served as an asset to this partnership, facilitating breakthroughs that have greatly benefited both countries. In the not-so-distant future, however, it could become a liability, if escalating Chinese investments are perceived as compromising the integrity of joint projects and ventures.

That, at least, is the worry of officials in Washington, who are watching closely as Beijing takes advantage of Israeli innovation. Given the significance of the bilateral relationship, Israel's government should waste no time assuaging their fears.

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