



How the U.S.-Israel Partnership Is Tackling China

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When President Joe Biden traveled to the Middle East earlier this month, among his top priorities was shoring up the "special relationship" between the U.S. and Israel, which has frayed on his watch as a result of disagreements over America's policy toward Iran and its seeming disengagement from the unfolding normalization taking place between Israel and the Muslim world.

One issue that Biden didn't appear to discuss with Israeli officials, however, was China. Yet that topic is enormously consequential to the health of the long-standing strategic partnership between the two countries. That's because recent years have seen Jerusalem's ties to Beijing blossom—and in ways that have become a bone of contention in its relationship with Washington.

The issue emerged as a major item on the bilateral agenda during the tenure of President Donald Trump, as American views on China changed and policymakers in Washington became convinced of the need to pursue "great power competition" with Beijing. As a result, the U.S. cast a more critical eye on China's dealings with its foreign partners—including Israel, which had thrown its doors open to investment from Beijing in preceding years.

That focus has persisted into the Biden era, with the current administration expressing concerns about China's economic presence in the Jewish state. The persistent worry is that China's foothold could somehow empower Beijing's development of offensive capabilities, or compromise the extensive strategic ties that have existed between the U.S. and Israel for decades.

Policymakers in Jerusalem, though, say the situation is more nuanced—and that their country is beginning to actively address the danger. As proof, they point to the fact that Chinese investment in Israel, which hit a high-water mark in 2018, has since declined appreciably. Just how much is a matter of some dispute; government officials maintain that China now accounts for less than 5% of total foreign direct investment into the Jewish state, while private observers put the total considerably higher. Whatever the true figure, it is clear that Israel has begun paring back its economic partnership with China, in no small measure due to American concerns.

Israel is now giving Chinese investments greater scrutiny, as well. Back in 2019, Israel's National Security Council, in response to pressure from the Trump administration, established a rough analogue to the Committee on Foreign Investment in the United States (CFIUS), the interagency body that weighs foreign investments in America against potential national security risks. This has resulted in a much less competitive posture for China in Israel, with Chinese firms losing out on more and more infrastructure projects and economic ventures there. Furthermore, experts say, the Israeli government has quietly investigated projects in which China has been involved in the past in order to ensure that there are no intelligence or surveillance risks, as a result.

But this broader paring back is still very much a work in progress. For instance, Israel's institutions of higher learning continue to host Chinese students to study subjects, like artificial intelligence, that could later materially benefit China's security state. Israel's version of the CFIUS also remains an incomplete structure, containing—among other flaws—a multi-billion dollar "carve-out" for the country's high-tech industry, which is precisely the sector that is most attractive to China.

Even more fundamental, though, is a difference of perception about China. Simply put, the U.S. now increasingly sees China as a major strategic threat and competitor. Israel, on the other hand, see it as a neutral—perhaps even a beneficial—actor. As investment analyst Alexander Pevzner puts it, "China is not an enemy to Israel and we do not want to make China an enemy." Put another way, Israel cannot afford to spurn friends, especially one that boasts one of the largest economies in the world.

Nevertheless, it's clear that Israel is working hard to strike a balance between its own economic interests and a new, and changed, global landscape that has U.S.-China competition as a defining feature. Other American allies should be watching closely, because they will soon be expected to follow suit.