

From a situation of no diplomatic connections and almost non-existent economic relations only a quarter of a century ago, Chinese-Israeli trade, investment and political ties are on an upward spiral. Although global tensions, most notably the US's objection to the supply of certain technologies to China and, more recently, the trade war between those two countries are slowing the expansion of relations, there are sound foundations for growing geoeconomic and geopolitical cooperation, based on correlating interests that serve both countries.

Ties between China and [Israel](#) have accelerated in pace and breadth of cooperation since the early 2000s, from the political-diplomatic to investment and trade, joint educational programmes, scientific cooperation, and ever-growing tourism in both directions.

One aspect of China's interest in Israel is on a bilateral level, but in the context of its global Belt and Road Initiative (BRI) and its manifestation in the MENA region.<sup>[1]</sup>

Despite their immense differences in population and territorial size, a pattern of relations has evolved in which China values Israel as one of the global hubs of technological innovation, while Israel – as a small country – sees before it a vast Chinese market and an economic power which is willing to invest in its economy.

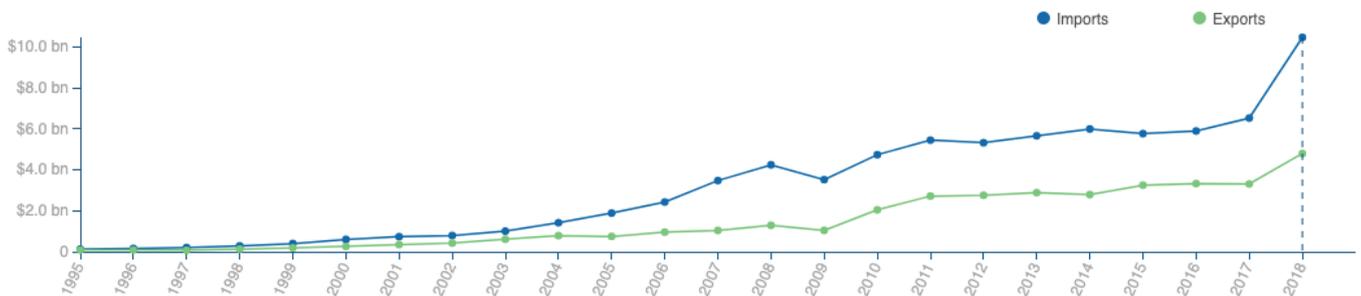
## Israeli trade with China and Hong Kong surges, tourism flows expand

To understand the overall picture of economic ties between Israel and China it is significant to include trade with Hong Kong, as a major hub which facilitates the expansion of trade relations between the two countries. In 2018 Israel's exports to Mainland China and Hong Kong totalled \$9bn (\$4.8bn to China and \$4.2bn to Hong Kong), while imports amounted to \$10.5bn, almost entirely from China.<sup>[2]</sup>

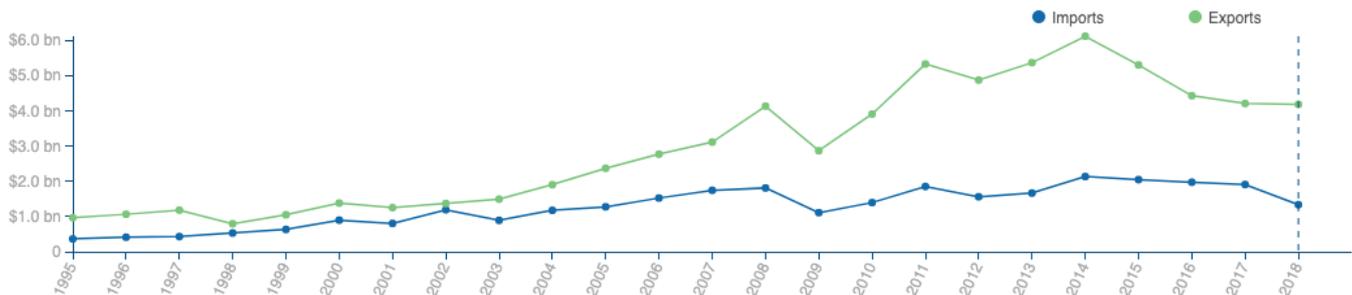
What is even more eye-catching is that those 2018 exports from Israel represented an increase of approximately 20% compared to the previous year, while imports increased by more than 50%. Such growth is barely sustainable, but at this rate it is feasible that China and Hong Kong could overtake the US as Israel's main trading partner in just a few years. In 2018 Israeli shipments to the US declined by 1.7% to \$16.8bn. Imports, meanwhile, increased by 26% to \$10.2bn in 2018.

Opening direct flight routes and easing the visa approval process has encouraged business activity,

academic and research cooperation, and paved the way for tourism to flourish. Between January and July this year 100,000 Chinese visited Israel compared to 30,000 total in 2015.<sup>[3]</sup> There are currently direct flights from Shanghai, Beijing, Guangzhou, Chengdu and Hong Kong to Tel Aviv, with more direct flights expected to be launched this year.



Israel trade in goods with China (Source: DESA/UNSD, United Nations Comtrade database)



Israel trade in goods with China, Hong Kong SAR (Source: DESA/UNSD, United Nations Comtrade database)

## Governments working to smooth the path for increased investment

Recognition of the mutual and complementary interests of the two countries has also led to the establishment of mechanisms of dialogue at governmental and business levels, which has helped to

overcome two very different political, social and business environments. One such mechanism is the Israel Innovation Conference, which was established by the Ministry of Foreign Affairs and takes place annually. It serves as a platform for exchanging ideas on cooperation between Israeli and Chinese government ministries. Last year it was attended by China's Vice President Wang Qishan, which illustrates the importance given to this gathering by Beijing.<sup>[4]</sup>

Increases in investment also characterise the relations between Israel and China. For instance, as part of the BRI China will develop and operate major infrastructure projects in Israel, including the ports of Haifa and Ashdod, and build the light rail system in Tel Aviv.<sup>[5]</sup> Over the past decade Chinese companies have acquired major Israeli businesses, including the country's biggest dairy producer, Tnuva, and the Adama agrochemicals company, not to mention becoming a major investor in the local high-tech scene. Similarly, Israeli start-ups are working harder to penetrate the Chinese market.<sup>[6]</sup>

## Deepening relationship could put Israel on collision course with the US

But if all of the above sounds promising, it is also raising grave concerns in Washington. To a certain extent this can be attributed to the general [global competition with China](#), which the US perceives as encroaching on its spheres of influence. However, more specifically it has raised its concerns with Jerusalem since the 1990s over the transfer of sophisticated technologies, military or those with dual civilian-military usage, from Israel to China.<sup>[7]</sup>

Moreover, developing Israeli ports gives Beijing not only an opportunity to compete more effectively with the US in the MENA region, but also potentially allows it to monitor and gather intelligence on the US Sixth Fleet, whose vessels frequently dock in Haifa.<sup>[8]</sup> At a recent meeting of Israel's security cabinet, the foreign ministry reportedly warned that the country could be on a collision course with the US administration unless tight restrictions are imposed on Chinese investment, because President Donald Trump sees this both as a geopolitical security threat and a distraction from accomplishing the objectives of his trade war with China.<sup>[9]</sup>

It remains to be seen how US pressure on Israel will affect the trajectory of the China-Israel relationship. The current political instability in Hong Kong should also be factored in. However, over nearly three decades China and Israel have developed multifaceted and robust relations for the

benefit of both, which are sustainable, long term and may well resist external pressures.

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