

**SCHANZER:** Hello and thank you for joining us today. I'm Jonathan Schanzer, Senior Vice President at the Foundation for Defense of Democracies. I'm honored to moderate a timely discussion today exploring Chinese investments in Israel. Today's conversation comes at an important time, as Great Power Competition heats up between China and the United States. Israel, one of America's most important allies, is being asked to make some important choices. But, how did we get here, and where do we go from here? These are some of the important questions that we will try to answer in today's conversation. FDD is proud to be hosting this conversation with the Israel-based Institute for National Security Studies, or, INSS. Our two think tanks are working together to better understand the policy options on this important and nuanced topic, and we hope that today's virtual event will be the first of a number of products and discussions to come. For more information on INSS, please visit [inss.org.il](http://inss.org.il). As many of you know, FDD is a Washington-based, non-partisan, non-profit research institute that focuses on foreign policy and national security. We take no foreign government funding and no corporate funding. And as many of you know, FDD is a resource for timely research, analysis, and policy options for Congress, the administration, media, and the wider national security community. Our programs on Israel and China are just two of the important programs that we work on. For more information on us, please visit [fdd.org](http://fdd.org).

I'm now pleased to introduce our panel of experts. Mark Dubowitz is FDD's chief executive. He is an expert on Iran's nuclear program and its global threat network. Mark is widely recognized as one of the key influencers in shaping policies to counter threats from the Islamic Republic. He—along with me, I'm proud to say—co-founded FDD's China Program. Mark has an academic background in China studies and he has done important private sector work in the Indo-Pacific region in a former life. Next is Shira Efron. She is a visiting fellow at INSS. She is also a special advisor on Israel with the RAND Corporation. Her research focus is U.S. policy toward the Middle East, including Israel's evolving ties with China. Her recent reports on Israel and China have been featured widely in the Israeli and international media, and we will hear more about those in just a little bit. Assaf Orion joined INSS as a senior research fellow in 2015 following 32 years of service in the Israel Defense Forces, and he is currently directing INSS's research program on China. And finally, Nathan Picarsic is a senior fellow at FDD with a focus on China policy. His work on U.S.-China relations and the battle to define the post-COVID global order, has recently been briefed to the U.S. Chamber of Commerce's China Center and to a range of other U.S. government agencies. A warm thank you to all for being here, let's get started. Mark, let's start with you. How did Israel find itself in this position?

**DUBOWITZ:** Well, Jon, Israel actually found itself in this position because it followed the United States and the rest of the world in really embracing China. In Israel's case, it established diplomatic relations with the People's Republic in 1992, when Yitzhak Rabin and Deng Xiaoping signed an agreement to really bring the relationship in from the cold. They'd been long standing ties in the '70s and '80s, military ties in fact, particularly after the Six-Day War, when the Chinese were very interested in acquiring Soviet military equipment from the Israelis, who had captured a lot of it in the war. And so that relationship began really covertly in the '70s and '80s. By the way, encouraged by the United States.

The United States, as we all know, was really reaching out to the Chinese in the early '70s when Nixon and Kissinger attempted to break the Sino-Soviet Alliance. And for the next 40 years, the United States encouraged its allies to seek commercial engagement and political engagement with the People's Republic. So, you saw a huge increase in commercial ties. I mean, in the United States, since the 1980s, commercial trade grew by something like 4000%. Similarly, with Germany and Israel, 2, 3, 4000% increases. So, you saw this significant increase in commercial trade with China.

The Israelis, particularly in the 2000s, but even more specifically since about 2015, you've seen a significant increase in Chinese investment and Chinese trade here in Israel, critical infrastructure, high tech, and a real obvious interest in the "Start-up Nation." So, it's a little unfair for Washington to all of the sudden kind of whipsaw the Israelis and encourage

the Israelis to cut off all Chinese ties. I mean, that's clearly not something that is possible, given the state of the Israeli economy. It's also not something we're doing in the United States. We're still continuing commercial ties with the Chinese. In fact, President Trump has done all he can to forge a trade deal with China to sell them more of our products.

So, this relationship is, again, longstanding in Israel, but it's also a relationship where the Israelis have really been whipsawed by U.S. policy in recent years. The United States has obviously taken a dramatic U-turn, or I guess it's a 90 degree turn, in changing the nature and the dynamics within Sino-U.S. relations. We've sort of woken up now in the past three years, particularly under this administration, and identified China as a strategic competitor. We have now obviously gone around the world, and gone around the United States, encouraging companies to cut their ties with the Chinese, and really starting to identify some of the significant risks that the Chinese Communist Party represents.

And the same thing is happening in Israel. The administration has come out to Israel and has made it very clear that they expect the Israelis to start being a lot more cautious about Chinese investment in critical infrastructure, as well as Chinese investment in Israel's high-tech sector. I think the particular concern in the former, is really Israel's position as possibility and linchpin in China's [Belt] and Road Initiative, which I think I'm sure Nate will talk about in more detail, as well as this concept of military-civil fusion, which I think Nate again will detail, which really is the Chinese view that they can come to Israel and invest in Israeli high tech companies and acquire artificial intelligence and quantum computing and autonomous vehicles, edge computing, biotechnology, all of those technologies that have not only commercial application, but have very specific military application.

We've seen many of those deals being done in recent years in Israel, and that's obviously a significant concern for U.S. military, for the U.S. intelligence community and for both Republicans and Democrats in Washington.

**SCHANZER:** Yeah. I think that that's an important point, that the concern right now is certainly bipartisan. We're hearing about this concern from both sides of the aisle, which is a rare thing in Washington these days.

Shira, let me turn to you. If you could just talk for a few minutes about the business deals themselves. You've detailed many of them in your recent reports, both of them are excellent—worth reading, for all of you watching from home. So just tell us a little bit about these deals. How many are there? Why are they problematic? What have you focused on?

**EFRON:** Thank you, Jon. Good to be here. I appreciate your cooperation with FDD. We look at the various elements of Israeli-Chinese ties, dating back to where Mark started, 1992, when formal relations were established. But the most interesting area, I think, is the one that has emerged in 2013. This is the investments, the Chinese investments in critical infrastructure and in Israeli technology. I think Israel, before we go into the investments themselves, Israel is a pretty interesting case, it's pretty unique. China usually invests in infrastructure projects, in part of the BRI, in developing country, and it invested in technology in developed countries. In Israel, it does both. Partly because of location and it's possible also for other reasons, which Nate might get into. In terms of the number of deals, data are not as transparent and available as you might think. We counted approximately 90 deals that have happened in the last 10 years, there are more, but we wanted to make sure that we validate each and every deal that was reported on, involving 42 Chinese companies. So, the same Chinese company can be involved in multiple deals. Before I get to the companies themselves, I think it is important to say that although Chinese companies have their own business motivations, it's highly established, especially if you look at U.S. government reports, that most Chinese companies are linked with the Chinese government in some way or another, or the People's Liberation Army, the PLA, Chinese Princelings or the Chinese Communist Party. And even though the degree of control is not certain, we know that they are influenced by broader strategic

consideration, not just economic considerations, and those are not often aligned with those of the United States, and also with Israel's by the way, even when we talk about the region.

When we look at specific investment deals, we can talk about the construction of the Ashdod Port. Of course, there's the operation of the Bayport Terminal in Haifa, which made a lot of noise in the United States and elsewhere. Construction operations of portions of the Tel Aviv Light Rail passes right by The Kirya, the Israeli equivalent of the Pentagon. Electric power plants, some roads and tunnels, and there are others. There are specific military concerns that we can talk about, some with connections to Israel's adversaries, the companies for instance that built the Light Rail in Tel Aviv, the Red Line, also is now building a train from Isfahan to Tehran. There's also IP and sensitive data transfer risks we can talk about. There's the human intelligence risks. If Chinese personnel are present in areas where the United States has deployed assets, which was the case where concerns were brought up with the case of Haifa, this is an issue also. And cyber espionage.

I can give some examples of companies that raised red flags when we saw this, from an American position. For instance, the China Communications Construction Company, CCCC, which built the Ashdod Port, it also conducts military projects and it built a satellite station for the PLA in Argentina. The parent company of CCCC, CCCC Dredging, is accused of efforts to reclaim islands in the South China Sea. ZTE invests in Israel. It bought – invested in the Israeli company, Rainbow Medical. And I think on ZTE, which is accused by the U.S. government of violating sanctions in Iran, there's no need to elaborate here. Baidu also, a web services company, that conducts AI research and autonomous cars. It invests in five Israeli tech companies and VCs. And of course, Huawei, which invest in at least two Israeli technology companies that we know of, Togan Networks and HexaTier, also raise different concerns.

Even though, this is an important note to make, China doesn't invest in military technology in Israel, it doesn't invest in the dual-use, the traditional dual-use that we talk about, that can be civil and military applications, what is defined as dual-use. But in the sense of where the U.S., how U.S. is thinking about China and the competition with China at the moment, we're talking about investments in companies that are in the, that produce the dual-use technology of the future. There's also investment through venture capital, VCs, which invest in a lot of these dual-use technologies.

**SCHANZER:** Thanks, Shira. I think important to note that there were a few small incidents in the past where the United States and Israel did have to iron out arrangements when it came to military technology, and the Israelis have stayed on side with that. I think they've complied, but I think you're right, that there are new technologies and new deals in the works that now, very recently, have come onto the U.S. radar.

Nate, let me turn to you. You study China in great depth. What did the Chinese want out of Israel? I mean, this is a tiny country, it's squarely in America's camp. It's not a country that's going to be swayed to all of a sudden become vociferous supporters of the Chinese Communist Party. So, what are they after here? And while you're at it, perhaps explain how Israel fits into the Chinese concept of a civil military fusion that Mark had mentioned?

**PICARSIC:** Thank you so much, Jon. Thank you for the opportunity to join the dialogue here today, guys. Yeah, I think it all begins with China's economic development model. At its core, China has placed the bet that its economic development can proceed without placing costly, high risk investment in the fundamental research and development. Rather, Beijing aims to engage with the broader, global ecosystem to harvest the fundamental breakthroughs, research and development that are coming out of the United States, Israel and other developed economies. So, Israel fits in squarely in that place. It's a source of breakthroughs and fundamental research and development that Beijing isn't willing or able to develop at home, within their own borders.

So, the technologies that we've already highlighted here today, the fundamental building blocks of emerging economies, if you think about biotech or cybersecurity, or next generation information technologies, smart cities, et cetera, these are capabilities that Israel is developing and that China sees as more advanced than their own capabilities. So, they look to Israel as a place where they can engage and they can develop strategic relationships that guarantee access to these types of inputs. And often, as we've already hinted, many of these do carry dual-use relevance and plug into the concept of military-civil fusion, which is Beijing's plan for converting otherwise commercial or civilian inputs into military and strategic utility.

So, if you think about semiconductors, they help us have smarter televisions and smarter computers and smarter phones, but they also help on guidance systems for missiles. Beijing has a deliberate apparatus, built up as a part of its economic development model, to convert any civilian and commercial technology that is harvest from abroad into military technology. So, the Ministry of Industry and Information Technology in Beijing, MIIT, serves as an information collector, collator and catalyst for transferring what Beijing and its state-led, enterprise driven model can steal from abroad.

And I would just emphasize this state-led, enterprise driven aspect of the economic development model, which is that it's not a direct, top down economy. It is guided by the state, as we've hinted at, but it allows and propels individual and seemingly fragmented, ad hoc private sector actors, to pursue the state's interests, and they're going out into the world.

**SCHANZER:** Thanks, Nate. Yeah, obviously important to remember, Israel is widely identified as the "Start-up Nation" for all of the terrific advances that the country has made in the realm of technology. And I think as many people have noted, the line between technology and weapons, especially as AI and other capabilities are developed, that's going to increasingly be blurred over time. And this is, of course, what the United States is concerned about and why Israel is now caught in its current predicament.

Assaf, let me turn to you. Let me just ask you about the Israeli perception of China. Is it a huge difference from the perception that's widely held in the United States? Especially now as the U.S. begins to look at great power competition and the concerns that we see on Capitol Hill. Do we see those same concerns in Israel? What are the major fundamental differences?

**ORION:** Thank you for inviting me for this event. I propose a two angled point of view on this. First, on the static dimension, well, the U.S. and China are peers in size, and Israel is not a great power. It's a small country, perhaps with extraordinary punch, but it's still a small country. So, there is the basic asymmetry in how we perceive China to begin with.

Second, is the dynamic. I think that a nuanced understanding of the differences between Israel and the U.S. perceptions of China should look at the dynamic, because the U.S. perception has been a moving target. It moved from engaging a partner and trying to implicate it into the international system, then thought "well, it might be a competitor," then you see the buds of being a rival, all the way to a potential military enemy. I think we should understand that the U.S. has swayed, in a very wide sway, pretty quickly. The beginnings were early but the swing was fast when it finally happened. Now, let's mark the turning point, the 2017 National Security Strategy, that's the end of '17. At the beginning of that year, Israel and China culminated their policy, signing the Comprehensive Innovative Partnership. So, from 2012 to 2017, Israel, more or less, rode along the U.S. perception. In '17, the U.S. turned and this is why we are now on the collision course. For America, China is an all-spectrum problem from ideology to the economy and technology to defense

and military issues and, of course, it branches into IP issues, into all sorts of espionage and so on. For Israel, China is not a national security threat. It's probably a national security concern. It's not a defense problem for us, except on some issues. It doesn't militarily reside in the Middle East except now a budding thing in Djibouti and some peacekeeping missions. But China is not a military rival for Israel and I don't foresee it going that way.

The last point, I would say, we have a huge knowledge gap between the U.S. and Israel because the U.S. has been interacting with China I guess 150 years, you have quite a large ex-China community in the States. You have a Chinatown in every serious city in the States. You're well accustomed with the language. You fought with them in Vietnam and Korea, it's not your first encounter. You had General Stilwell back in China. For Israel, we knew of each other. We have no Jews in China. We have no Jews from China. It's not a high priority intelligence target so the whole system or establishment fed by the intel community is deprived from what it has on our first-tier rivals, Iran, the Arabs around us, and so on. So, we have a huge catch up to do to understand what China is about and what really the threat from China may be to Israel.

We need to take a balanced view to try not to miss the economic potentials. In this, I would add an angle here, we're talking about Chinese investment in infrastructure. Actually, many of the projects that Shira mentioned are Israeli funding, Chinese contractors. They don't bring the capital. They do the implementation. Okay? So, it's not investment in infrastructure. This is why we need to be very sharp between the economic benefits because it's a huge market, you can't disregard it. Their capacity and infrastructure building is substantial. It meets a huge Israeli demand. By the way, the competition is not that attractive. The U.S. doesn't show up in our tenders. Nobody is coming with bids. The IT community or the high-tech community would like to have Chinese capital or any other capital, but there needs to be an alternative. It can't be China or nothing.

Eventually, we need to look at the exact challenges for Israel. We need to look at influence issues, codename "United Front," not necessarily through investment, which is the current obsession. We need to look at espionage in its wider sense, that's data dominance, that's military, defense technologies and technologies at large. We need to look at disruption. I don't think that's very high, like what's the probability that China is going to take down our electricity grid if we have no conflict between us? We have the Iranian thing to worry about. In business, Israel doesn't do, usually, a great value, human rights issues. We're not large enough to be able to afford it.

The last thing that moved seriously, we need to take note of that, is that the focus point of national security definition in the U.S. expanded like in a big bang. It was redefined military, defense, we have control mechanisms governing that. There is zero movement there towards China and the U.S. knows it. What happened is that this is a moving target and the whole of our economy now is considered something that may have security implications. This deserves more work and fine tuning.

**SCHANZER:** Thank you Assaf. I would just note that I think your point about the Israeli infrastructure is particularly important. Israel, of course, is an ancient land and it's built on infrastructure from the Ottoman Era, from the British Mandate, from a hastily built country pre- and post-1948. So, the infrastructure needs are significant, there's no question. China works for pennies on the dollar so of course that's attractive to Israel. Of course, there are the national security concerns and other issues that the United States has raised. Shira, let me turn to you for a moment and just ask you, you work for an Israeli think tank and an American think tank. You're in a very unique position. What would you say the main differences are when you look at this problem set through the lens of both of the affiliations that you have?

**EFRON:** That's a good question. I'll get to it in a moment. I just want to say it's very true that the Chinese companies do not bring in their funding in a way that they do in other developing countries that could create a debt trap. That does

not mean it's not considered investment in infrastructure. So, I think this is a point. This is why, if you look at European countries, I'm not talking European countries like Greece where Chinese do bring their capital, but other developed countries where they seek to build infrastructure there are unique financing models for different companies, including for the Chinese companies. But I think from my vantage point that the risks are the same. They're not bringing their capital but they are bringing often the source materials, the equipment, including communications equipment and the labor. So, these are important points to make.

On the think tank question, I think it's not about the think tank per se. If I was sitting in the U.S. government and the Israeli government I would think the same things are needed. It follows what Assaf said. I think there hasn't been so far a serious analysis that I've seen on the difference in the threat assessment of China between Israel and the United States. Assaf mentioned it, Israel is not an Asia-Pacific nation. It does not have to have military links to China, any connection to China. Israel does not seek freedom of navigation. Israel is a small country. I think it's really important to compare the threat assessments and in this comparison, to look at what's objective or the reasons that Assaf mentioned and I just repeated and what in this difference might be a result of the gap in knowledge that Assaf also brought up. There is a serious gap in understanding modern China in Israel. There are very few experts outside the government. They're not often used by the government. There are even fewer experts in the government itself.

The question is whether Israel underestimates the Chinese issue because it's really just not an issue for Israel or just because it doesn't understand the full magnitude of this. Then it would maybe creating programs for filling the knowledge gap, learning from the U.S. experience how they caught up with China. It's true, Assaf said, the U.S. knows China for many, many years. But really, the development of the modern Chinese expertise picked up in, we're talking about '79, '80. There were programs to train, I think it was Brzezinski then, called top flight experts in China's policy. From these programs, Israel can learn, by the way not just from the U.S., which is a very different country than Israel, but from other U.S. allies. There's Australia and New Zealand and Germany and other countries that Israel can learn from their experience.

So just one policy recommendation, we haven't spoken about it yet and I hope we get to it, but Israel is very new to this business of screening investments, foreign investments not just Chinese investments. The United States has been doing it for a long time. How can Israel strengthen its new investment screening mechanism which just started six months ago, so it's brand new, and also can learn from the United States on this. I think finally, because we just spoke about the negatives now and the compliance and the regulation and the stakes and the threats, but there are also opportunities. You see them with Congress speaking about it and a variety of other institutions. FDD, I know you've been talking about it as well and here at INSS we've been looking into this. What can the United States offer? It's very clear that for the U.S., if the U.S. is ever going to rise to the China challenge, what it can build on is its allies. The United States has allies, those allies happen to be the most advanced technologically advanced countries in the world. Working with them, Israel being one of them, on developing those alternatives, what do you call it, alliances of innovation, improving R&D on specific issues. That would be also something that I think can come from both sides of the Atlantic and be very beneficial for both.

**SCHANZER:** Okay, thank you Shira. Assaf, I'm going to give you literally a minute if you'd like to respond. I know that Shira said a few things that probably prompted you to respond.

**ORION:** Just one point on the sticks and carrots. Sticks and carrots are behavioral incentives which can directly lead to a change of behavior, but they're very reliant on the exact retribution or positive incentive. I think we're beyond correctional. It's a question of if technology is the thing and innovation is the frontier, what is the U.S. strategy to coalesce and bring its partners together and pool together the innovation base which will be not just national but a wider

base? I think since we're not there, Israel cannot yet join this joint effort of bringing our innovation bases up together. We can do it, that's the way we apply ourselves when we do.

**SCHANZER:** Okay. Mark, I want to turn to you. Is Israel maybe misreading China? I don't think Israel would consider China to be an ally but perhaps a friend is maybe a better way of putting it. Can that work out between China and Israel?

**DUBOWITZ:** Look, I'm skeptical. I think Israel is making the same mistake that the United States made for almost half a century which is this notion that you can seduce the hard men of Beijing to become responsible global stakeholders by flooding them with cash, by integrating them into your economy, by attracting their investment and cooperating on commercial terms. I think that was the U.S. assumption and it was a U.S. delusion because we certainly made the Chinese Communist Party rich, we never made them moderate. I don't think we really have any great examples that we were able to really create leverage. If anything, the Chinese Communist Party has leverage against us now because of its dominance of critical supply chains. It's built up a huge military where they certainly increase their leverage in the Indo-Pacific and are starting to take their military global with the Blue Water Navy.

I think the Israelis are suffering somewhat from the same delusion. Part of the problem, of course, is that when you talk to Israelis, their number one security threat is Iran. So, the question you have to ask is, "How much influence has Israel been able to attract as a result of allowing the Chinese into their economy vis-à-vis Iran?" I would argue very little because if you look at the Chinese relationship with Iran, it's very strong. The Chinese have been egregious proliferators of nuclear and missile technology to the Iranians, either directly or through Pakistan. People like Karl Lee, a Chinese middle-man who has sold the Iranians advanced missile systems, nuclear technology.

Even today there's going to be a huge confrontation at the UN Security Council in the next few months as the UN Arms Embargo expires. When it expires, as the Pentagon says, the Chinese and the Russians will be able to sell billions of dollars worth of fighter jets and battle tanks and naval warships and attack helicopters to the Islamic Republic. They are—the Chinese military companies—are chomping at the bit to get in even further into bed with the Islamic Republic, militarily now as well as economic. So, one has to ask oneself, I think if you're an Israeli policy maker, what leverage do you have over China? Is there any evidence of strategic leverage? Certainly, the Chinese have not voted with Israel at the Security Council on a host of issues. They continue publicly and politically to support the Palestinians and speak out against any Israeli moves on annexation, so one has some sympathy for the Israeli view, that you need a relationship with China. The United States seems increasingly to be moving out of the Middle East, and you want a relationship with China. You certainly don't want to turn China into an enemy. Israel's got enough enemies to deal with. They don't need an enemy of that size and that influence. But again, there really is, I think, a sense in Israel, that the Chinese are really not an Israeli enemy, and therefore, through commercial engagement, we can increase the leverage. There was a Pew Research poll done in December 2019, so just before the COVID-19 crisis. And it showed that 66% of Israelis have a positive view of China, and only 25% have a negative view. There were only three other countries that had more favorable views of China than Israel. And that was Russia, interestingly, Nigeria, and Lebanon. And in fact, there were only nine countries where views of China had increased from the year before. And now, again, this was pre-COVID, so we'd have to see how those numbers shake out in 2020.

So, it's interesting that Israelis have such a positive view of the Chinese. And I think there's an explanation for that. I think the Chinese have not been a direct enemy, as Assaf has indicated. I think that there is not a long history at all of Chinese anti-Semitism. If anything, I think the Chinese really admire the Jewish nation and their entrepreneurship and ingenuity. And increasingly, the Israelis look at Europe that is a major trading partner, and they see a rise in anti-Semitism and anti-Israel sentiment. And I think they assume that they can exert influence over China, and particularly, hopefully

wean the Chinese off this very strong, strategic relationship they have with the Iranians. Again, I think that's a delusion. But again, no different than the delusion that the United States has suffered from for almost half a century, until, as Assaf rightly put it, 2017 when the National Security Strategy, and then the National Defense Strategy came out and identified China as the competitor, or really the adversary that it increasingly looks like through American eyes.

I will have to see how things shake out over the next six months at the Security Council. Maybe the Chinese will surprise Israel, and actually agree to extend the Arms Embargo on Iran. But I'm very skeptical that will happen. And I think what you'll see over the next coming years, is increased Chinese military sales to Iran, increased political support for Iran, and certainly increased economic support. The Chinese still remain a buyer of Iranian oil, despite the major sanctions, and despite the fact that the Saudis and others have agreed to replace every Iranian barrel. But they still are buying Iranian oil. They're still looking for ways to invest in the Iranian energy sector. And again, this is Israel's existential enemy. So, if the Chinese are helping Israel's existential enemy, Israeli policymakers, Israeli business people, and certainly the Israeli public should take a second look at whether China really represents not only its interests, but fundamentally, does it share its values. I think that the clear answer to both those questions is "no."

**SCHANZER:** Thanks, Mark. It's funny, I'm reminded of a trip that I took to Beijing a number of years ago, and I had an opportunity to chat with some of the scholars at a state-funded think tank. And I asked them about their relationship with Israel. And they made it very clear, they were saying, "Look, the CCP can never side politically with Israel. Ideologically, they still need to identify with a number of the Arab States. They need to identify with the Palestinian cause. And that they need to identify with revolutionary movements." But at the same time, they said that they were very attracted to Israeli technology and that this was the main driver. So, it was very much a transactional relationship, and I think one that Israel would be wise to just be aware of that dynamic.

Nate, let me turn to you. If you have any thoughts about some of the other Iran-aligned movements that the Chinese have worked with. I know you and I have talked in the past about Hezbollah, and the fawning media coverage that it gets in China. Perhaps the audience would be interested to hear just a little bit about that. But I also would like you to just dig a little bit deeper, if you would, into Belt and Road, and how Israel fits into China's Belt and Road strategy. It's not one of the normal countries that we see. It really does have a unique feel to it. And I think our listeners and viewers would probably benefit from that. So, Nate, over to you.

**PICARSIC:** Thank you, Jon. I'll tackle the latter first, if that's okay. Because it's, I think, an incredibly interesting position that Israel finds itself in, in terms of China's attention and action. I think, as Shira has pointed out, China invests both in terms of infrastructure, and in terms of technology in Israel. And this fits squarely within the ambition of the Belt and Road Initiative, which builds itself on a legacy of multiple decades of China's "Go Out" strategy. So, Beijing, through its centralized state-led enterprise driven model, provide subsidies and incentives for its actors to go out into the world, and to seize strategic positions. I think, as we've talked about already, infrastructure stands out as one of the first targets, and the first means by which China introduces themselves to its global partners. And certainly, that's been the case in Israel. And in many cases, there's good reason and win-win dynamic that follows from this.

But I think it's actually one of the best examples of how China's military-civil fusion strategy presents threats and risks, and certainly some that have not fully been appreciated yet, but it could come to the fore in the weeks and months ahead. So as Beijing invests in traditional legacy infrastructures, you can think about desalination plants or bridges and roads, we see this as a very fundamental, natural action for Chinese infrastructure players to take this as the building on their development model that they've honed at home. It's something that they can deliver on price and on schedule, better than many of their global peers. But as we move into new and emerging domains, there are new and emerging

risks that come with Beijing's investment. So, if you think about smart cities and autonomous cars, you think about the sensors that are going to be proliferated in every single infrastructure investment that China oversees, whether it's an investment or one that their Chinese company is operating. And court infrastructures actually serve as a great example.

So, when Beijing comes in, either as an investor or as an operator at a port infrastructure, whether they're building a new dock or just expanding on something that already exists, they also bring with them their state champion IT logistics solution, which is marketed and proffered globally as an independent private actor. But in fact, is funded by and reports back to the Chinese Ministry of Transportation, as well as MIIT that I mentioned earlier. So, when Beijing builds a port or operates a port, it may deliver immediate economic gains for the country that it's investing in, but at the same time, China sees this as a strategic informational advantage.

So, if we talked about the data dominance that we're at risk of letting ourselves into, ports are not absent in that conversation. If China is operating a port, they then have access, preferential access, asymmetric access to operational data, as well as information on industrial control systems and the broader industrial internet of things that they're hoping to expand. And with that comes, both informational advantage, but then also capacity to deliver real kinetic effects. And there are examples of ports in China, for example, where jamming occurs and foreign militaries aren't able to operate the way they may want to. As China proliferates these systems globally, we need to be cognizant of the fact that those potential threats and risks also proliferate.

**SCHANZER:** Okay. Thanks, Nate. Shira, I want to turn to you. Building on this, the Belt and Road Initiative, and the Chinese investments in Israel. Israel's come under some pressure from the United States to stand up what is known as a screening mechanism for foreign investment. This is built with the inspiration, let's say, of a mechanism in the United States called the Committee on Foreign Investment in the United States, or CFIUS, as it's known in its acronym form. How has Israel fared in its screening thus far? I know this was one of the big asks from Washington. The fact that it even exists, I think is important, but no less important will be its performance.

**EFRON:** Thank you. Before that, I just want to, if I can, add a few points to what Mark and Nate said. So first, Mark, I think you're absolutely right, but it's not only that China has not voted with Israel in the UN; it votes actively against it. It also doesn't recognize Hamas as a terrorist organization. And you cited the example of China's objection to annexation. I think this is a little bit unfair, because a lot of really good friends of Israel, including Germany, and including U.S. congressmembers that have opposed the JCPOA have voiced concerns about annexation. But China has been critical of Israel's policies across the board in the region. And this is where, I think, Israel has not been able to have any leverage. And just mentioning Iran, I wouldn't expect a shift from China in the next few months, because the China-Iran example is really interesting. China actually does not buy so much from Iran. For Iran, China's much more important than Iran is important for China. However, China knows that Iran is its fallback option. If the United States tells all its allies in the Persian Gulf, "Stop selling oil to China," they all will, except for Iran. And this is why China needs Iran. And I don't see in a period where there's these escalating tensions, in the U.S., that China would lose its plan B. So, in that regard, I wouldn't expect anything.

Nate, you spoke about the ports. I think it's really also important that the broader context is this concept of dual-use ports. That from the U.S. Navy position, there is thinking that even if those ports now are purely commercial, one day they will turn into military assets. And this is the context, I think, that the Haifa question, which is quite different, but was seen in the U.S. as the strategic waterways, where China might one day, not likely to happen, but try to exert itself and limit the freedom of navigation of the U.S. Navy. And this is sort of the broader context from the United States.

You asked, Jon, Israel responding to U.S. pressure. And I think it serves Israel's domestic needs as well, decided in October 2019, announced that it would establish a committee to screen foreign investments. The committee started operating in January 2020. So, we're at six months now. There's not a lot of transparency. There not a lot of details that we know about this committee, but it's quite different from CFIUS. It was not established through legislation. It's a Cabinet decision. It is committing, but CFIUS is mandated in law. It is defined as advisory. Our regulators could voluntarily choose, or not, to seek its advice. But the advice itself is nonbinding. I think even more important than this is the very limited mandate that the committee has. And I'm quoting, "It's going to screen investments in the areas of finance, communications, infrastructure, transportation, and energy."

The announcement of the Cabinet decision is really vague, just a page or so. But what is explicitly mentioned is the committee is not going to deal with the technology sector at all. We just heard about the committee, when Secretary Pompeo was here on a visit almost two months ago. And one of the agenda items was the participation of Hutchison, which is Hong Kong-based company, in a tender to – actually, it was also buying. But building what would be the biggest desalination plant in the world. Hutchison was a finalist and the tender. And what the U.S. government wanted to know is why the committee has not prevented Hutchinson from reaching this stage. Hutchison did not win the tender. It was based on—in my view, on sheer luck—it was based on cost consideration. Its bid was just not competitive. So, it wasn't the Committee's making. We didn't have a test case yet to see how effective the committee is.

I think the Israeli side is very attuned to U.S. requests, to the expectations that this committee would be effective, but we are too early in the process to judge on the effectiveness. It is my assessment that a lot of focus has been given to the infrastructure. It will start with the Port of Haifa, and now a desal plant. And even though these are strategic infrastructure projects, the big issue as we've been talking all along is the technology. And the technology is not included in the Israeli Committee's mandate.

**SCHANZER:** Okay. Thank you, Shira. I want now, Assaf, if I could, to just get you. So, we've heard a little bit about the screening mechanism. That's one thing that Israel has done right, even if it's got a lot of work to do. And I think we can all agree that there is still work to be done. But it strikes me that Israel has done some other things right, as well, when it comes to China. Apart from blocking the bid of certain Chinese companies on core infrastructure, addressing U.S. concerns when they come up. There's also the issue of Israel's 5G network, and how China has been largely blocked, or maybe entirely blocked, from accessing that network. So, in other words, Israel's doing some things right here. Does it get enough credit for what it has done thus far, as it adjusts to the new realities of the U.S. China great power competition?

**ORION:** I think there is an untold story here, because there is a U.S. expectation of blasting out, trumpeting whatever's been decided. And Israel, as I said before, is not a great power. It looks at its strategic alliance with the U.S. as a main national security issue. And it looks at a commercial partnership with China as an important asset for the economy. Now, how do you manage walking between the drops so to speak? So first, Israel is a free market economy with quite a heavy burden of regulation. And security regulation is extra heavy, but you don't see it. So, if you ask around, so people will tell you, "Oh, I want to do service to China, but I understood it's not a good thing to do." Either because it blocks my going West option. And second, because I was advised to "stay away, keep off the grass." So even before we had an investment supervision committee, some acquisition attempts by Chinese companies of financial insurance, other assets, were blocked by the regulator. It's an unseen hand of whatever, but it never happened. What Shira mentioned about the desalination, another one on the electric plant that, again, the Chinese company lost. I don't know how, but God reveals himself in mysterious ways. And on 5G, while everybody's bashing Israel for not being clear, can you show me another country, including Five Eyes, which has no Chinese core components in 3G and 4G? So, no we're quite clean on that. And 5G, I don't expect to see neither in declaration nor Chinese components.

I just heard on the margins that we may have already picked a Nokia investor. But we're trying not to poke a finger in China's eye. There's no reason for us to insult China. I think we need to treat them with respect. It will never be an ally, but it's an important partner. And to Mark's remarks, I don't think we have an illusion that China will turn against Iran. They know their math. They counted how many Arabs, how many Muslims, how many Jews in the Jewish land, and they do a separation. They do business with Iran and with their bitter enemy, Saudi Arabia, and with Iran's bitter enemy, Israel, as if the others don't exist. They separate it.

And in a way the Israeli trade policy with China is a bit like a trade policy with Chinese characteristics. We differentiate between the two. Where the partition breaks is when we need to meet our U.S. ally, but then we need to adopt a very, I would say, detail-sensitive approach. We need to really understand the risks. The Haifa port will never be a military docking place for a foreign navy unless we allow it. This is not Sri Lanka and not Bentota. It's not even Pearls ownership. It's an operation lease and nothing more. So, I think the early jump of the gun that the Fifth Fleet will not come this way again, I think it's a bit premature. And much of it is symbolic and emotional and less so professional on how to manage security risks of Chinese operated container wharf.

**SCHANZER:** Yeah. I agree, Assaf. Everything that we've heard coming out of Israel and from the United States on Haifa seems to indicate that the U.S. and Israel have reached some sort of an agreement about how to mitigate the risks, and the Israeli security establishment took that very seriously and addressed whatever concerns were raised. Obviously, we're not aware of all the details and probably nor should we be, but I think it could be an interesting test case moving forward. Nate, I want to turn to you for kind of just a broad assessment now of, we've heard a lot about Israel and China and what will likely happen in the wake of COVID-19, in the wake of this pandemic. What does China do from here more broadly, and how does Israel fit into what you see as the post-COVID Chinese strategy?

**PICARSIC:** Yeah. Thank you, Jon. I think it's much more a story of continuity than one of change. China sees the COVID crisis, frankly, as an opportunity. They see it as a time when they can accelerate the plans that they've already been pursuing globally. So, you should expect to see the BRI movement and direction accelerated, not decelerated and not drawn back. They've done some things in terms of their global sort of third world investment, trying to keep pace with G20 moves to provide debt relief, et cetera, but really, they're going to continue, I think, in the movement toward the high technology sources that they look to acquire.

So, I would figure for Israel to be even more prominent within the Chinese conception of go out and global spread moving forward. And at the same time, I think that Beijing is going to push regardless of the blow-back that they receive from the international community in narrative, they're going to push their standards, their infrastructures, and the very real intelligence and kinetic risks that come with those at a new pace right now. They think that the world is going to be distracted. They think capital's going to be crunched. There'll be liquidity crises.

They're going to try to move in and pace, if they can. This is the conception that we see from China. And it has been fairly consistent even from January 2020 when they started holding their sort of planning and working group meetings around the intended effects, or the likely or perceived effects, of COVID spread in terms of economic manifestation. So, I think that the world should be alert and have certainly seen some blow-back and reaction to China getting ahead of itself. But I anticipate from the Chinese side that that's going to continue and not slow down.

**SCHANZER:** Yes, certainly. I think we see not only in the United States, but worldwide broadening concern, Hong Kong, Xinjiang, et cetera. So, I think you're probably right there. Shira, you want to interject here? We have 30 seconds.

**EFRON:** Well, yes, yes. I just wanted to bring it back to the COVID-19 effect on the investment issue in Israel. What I would be on high alert is maybe increased Chinese investment in Israeli medtech, and biotech. Those are areas that already have drawn substantial Chinese investments. What's interesting is both the United States and Europe and Canada have recently called for increased scrutiny on foreign investments in any health-related field. Now, these higher barriers to Chinese investments elsewhere may steer even more investments toward Israel. And I will tell you from the Israeli point of view, this is purely commercial. The whole concept of health security, while it's very clearly now part of the bigger perception of a national security, is very different from how the United States sees that. So, this could be also another impact that we might see here, and I think calls for attention.

**SCHANZER:** Okay, Mark, I want to wrap things up with you. You and I have together and separately written about some possible ways forward in dealing with the China-Israel relationship, trying to mitigate it, trying to manage it. But as we've warned, finger wagging won't cut it. Just simply admonishing Israel is not the way forward. So, what is the way forward? How would you recommend the U.S., U.S. policymakers in particular, how should the United States be dealing with this problem set?

**DUBOWITZ:** Well, Jon, I think that the first thing is that we have to acknowledge that we have whipsawed the world in terms of our relationship with China. I think, as all the panelists have said, I mean this has happened very recently, that we've kind of abandoned our own delusions that you can seduce the Chinese Communist Party with money to become more responsible. So, we've got to acknowledge that this is something that's going to take some time.

I think the second thing we can do is we can start to make very practical steps in Congress, in the administration, to help displace Chinese investment in Israel's critical infrastructure and high-tech sectors. So, for example, Congress is contemplating right now introducing legislation to model on what's called BIRD, which is the Binational Industrial Research and Development Fund, which was very instrumental in jump-starting U.S.-Israel high-tech cooperation back in the 1970s. Since then, it's funded about a thousand projects. There's basically about \$400 million that's gone out the door. But more importantly, what it did was it really encouraged private capital to come into Israel.

And today, U.S. venture funds are very active. U.S. money represents about a third of total investment in Israel's high-tech sector. So, what can we do to encourage even more U.S. investment, maybe more European investment, but particularly what can we do to encourage more Indo-Pacific investment from America's Indo-Pacific allies like Japan and India, Taiwan, South Korea, and of course, Australia and Canada as important Indo-Pacific players as well? So how do we displace that Chinese investment?

Again, it's not a lot of Chinese money that's actually coming into the high-tech sector. The statistics that I saw, which were 2018 VC statistics, China represented about 4% of the total amount of global VC investment that came into Israel, followed by India and Japan at 3% and 2%. Now that number may have gone up or changed since 2018. We're not talking about a lot of Chinese investment. We are talking about very strategic Chinese investment. And I think as one Israeli venture capitalists put it publicly, he said, "The Chinese are really trying to drain the brains of Israeli entrepreneurs and technology experts making these very strategic investments." So how do we beat the Chinese at that game? Let's encourage money from our Indo-Pacific allies through an alternative structure, a tri-national BIRD, and Congress is contemplating that.

The second way is to encourage even closer U.S.-Israel military R&D cooperation at even earlier stages than is now being done. And there in the current National Defense Authorization Act, there was amended language that was put in by bipartisan members of Congress to create a U.S.-Israel Operations-Technology Working Group. And the idea there is to instruct the Ministry of Defense in Israel and the Pentagon to cooperate even more closely on these 21st century military technologies. And so hopefully, if that passes Congress and signed into law, that will again start to facilitate even more cooperation.

But clearly, if the Pentagon is going to do more military R&D with Israel, if we're going to encourage even more U.S. and Indo-Pacific money into Israel, we have to, yes, acknowledge that these Israelis have been whipsawed, but also acknowledge that the Israelis have to start to make moves in the right direction. We have to be very specific about what deals are permitted, and what deals are not permitted, and what deals are on the line. Right? We can't say to the Israelis, "You can't do any business with China." I mean, that would destroy their economy.

We can say to the Israelis, "Well, you can do any business with China as long as it's not strictly military technology," right? As long as you're not selling them the Falcon Onboard Reconnaissance System for aircraft or the heartbeat drones that can help the Chinese invade Taiwan. I mean, those are the military conflicts of old we had with the Israelis. I think we've moved past that, as Assaf pointed out, and the Israelis really understand what they can and cannot sell in terms of conventional military technology.

But next generation military technology, it's very difficult to understand. Is this AI platform only for commercial consumer use, or will the Chinese Communist Party use this for military objectives? Right? What about edge computing? What about quantum computing? What about biotechnology? Is this to make Chinese people healthier, or will the Chinese use this to create a super-human Chinese soldier of the 21st century to confront the U.S. military? This might sound fanciful and science fiction, but it's not. As you read more and more of what the Chinese are doing and creating 21st century technologies, you understand they're trying to get their hands on this advanced technology, including from Israel.

And I would just conclude with this and that's to contextualize it. And I think already Assaf, and Shira, and Nate have mentioned this. Israel is not the only country in the world that the United States is having issues with, with respect to China. Right? I mean, do you take a country like Germany. I was quoting the Pew Research Poll earlier. Right? The Germans may have a very low opinion of China. Only 34% of Germans have a high opinion, 56% have a low opinion. But when you look at German-Chinese trade and cooperation, it's enormous. I mean, it dwarfs anything that the Israelis are doing with the Chinese. And it's also in very sensitive technology areas.

And we have that problem around the world with our good friends the Canadians, and Australians, and the Kiwis, and the Brits in the Five Eyes that Assaf mentioned, right? Our closest intelligence partners are also having their own issues with China and had longstanding commercial technology, energy and infrastructure ties. So, when we're wagging our finger at the Israelis, we're wagging our finger at all our allies. But I think more proactively, let's think forward, move forward and put in place the kinds of mechanisms that will help displace Chinese investments so the Israeli entrepreneurs and Israeli VCs have an alternative to Chinese term sheets and Chinese money and Chinese tender offers, and we see our allies in Israel making those kinds of important investments.

**SCHANZER:** Okay, well, we have, unfortunately, run out of time. This has been a fascinating conversation. And actually, before we conclude, I just want to know that that Ops-Tech Working Group that Mark mentioned was an idea championed by FDD's Brad Bowman and John Hannah. They deserve credit for incubating that idea. And that's, of course, one of the things that FDD takes pride in is coming up with some of the intellectual capital that is ultimately deployed in Washington and beyond.

I want to take the opportunity now to thank our panelists. We have Nate Picarsic, Assaf Orion, Shira Efron, and Mark Dubowitz. This has been, I think, a terrific first event in what I believe will be at least several if not many, between FDD and INSS. This has been a terrific conversation. I want to thank our panelists and for all of you watching at home.