STRATEGIC ASSETS AND NATIONAL SECURITY IMPERATIVES: THE CASE OF CHINESE INVESTMENT IN ISRAEL

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Abstract

This article analyzes the implications of states' decision to grant the right of operating their strategic assets to foreign entities. As defined in this article, strategic assets consist of possessions such as transportation and communications systems, which are vital for the functioning of a population in a given geographical space. Given the critical importance of strategic assets, it is a controversial choice by leaders to grant the right to operate them to foreign firms, which may have motivations beyond economic considerations. Foreign firms, for example, may engage in malign acts such as stealing information of vital importance or monitoring the activities of the institutions of the host state. In addressing the question of under what conditions states may allow foreign investors to administer their strategic possessions, this work will take China's investment activities in Israel as its case study, specifically focusing on China's acquisition of the right to operate Israel's strategic Haifa port. By way of conclusion, China's investment activities in Israel show that threat perception and level of political relations are crucial determinants in foreign entities' ability to secure strategic tenders abroad.

***Keywords**: Strategic assets, National security, Israel, China*

INTRODUCTION

Economic interactions between states may have strategic implications if the interactions in question involve the transfer or sale of possessions that are vital for the maintenance and sustenance of populations. Such possessions, known as strategic assets, constitute countries' critical infrastructure, which embodies assets such as oil distribution networks, electricity grids

and transportation systems. Even if foreign companies may be economically motivated, when they embark on the acquisition of strategic assets, host states may evaluate external actors' interests in their vital possessions with skepticism, given the likely risks and uncertainties in relation to national security. The concern lies in that the granting of tenders of strategic importance to foreign firms would amount to leaving the host population's fate in the hands of foreigners. Indeed, foreign operators may act in a way that is harmful to the interests of the host country. This may involve attempts to obtain information and secrets about various military and civilian facilities in the host country. In doing so, foreign companies may also be in the service of their own states, even if they may seem like economically motivated actors or private entities.

On the other hand, if the host state disallows foreign operators to acquire and/or run its strategic assets, it could be deprived of the benefit that could accrue from the foreign investment – such as provision of employment, likely transfer of technological know-how and so on. Hence, there is a trade-off between economic and security imperatives when it comes to deciding whether to allow foreign entities to operate critical possessions. To provide a perspective on how states evaluate this trade-off, this work takes Chinese firms' investment activities in Israel as its case study, with a special focus on Israel's strategic Haifa port. It is concluded in this paper that Israel's perception of China as a non-threatening country accounts for the existence of Chinese investments in Israel. This perception owes to the positive image China has established as a benign economic partner, which is a process dating back to China's integration into the liberal economic order.

The remainder of this article is as follows. Firstly, I examine China's economic activities abroad and then analyze the projects and investments undertaken by Chinese firms in Israel specifically. After this, I examine the incumbent Israeli government's decision to award tenders to China in the context of broader China-Israel relations.

1. CHINA'S INVESTMENT FORAYS

In the current international system, an overwhelming majority of states are members of the liberal-capitalist economic order. Even the most formidable challengers of this order such as Russia and China are participants of and content with the existing open economic system. This is because, as Ikenberry notes, "Openness allows them to have access to the global system and the

markets and societies of other countries" (Ikenberry, 2015:412). This is especially true for China, which emerged as a pivotal economic player following its integration into the global capitalist system – a development that ultimately enabled China to displace Japan as the real "developmental state" in East Asia (Beeson, 2009). Utilizing the opportunities presented by global free market economy, China tapped into world markets and launched investment forays into various countries across different continents. Ranging from conducting large scale investments to supplying a wide range of manufactured goods, China's economic activities have yielded impressive results in terms of economic growth (Yao, 2012:53-57).

Despite China's remarkable economic performance, some experts and politicians have expressed skepticism and highlighted the negative side of China's growing share in global economy. For example, former U.S president Donald Trump underlined the deleterious impact on U.S manufacturing industry of the outsourcing of production activities to China (Elegant, 2020). Another concern is related to the possibility that China's foreign direct investments provide this country with "political influence" in a wide range of regions such as Central Asia, Latin America and Africa (Lorber, 2017:9). This concern has become especially acute when Chinese firms began to acquire strategic assets and elements of critical infrastructure in different countries. Such undertakings are argued to pose national security risks, as China obtains a leverage through which to coerce host states. Compounding such a concern is the fact that China's becoming of an economic powerhouse is rooted in neomercantilist methods, meaning that Chinese economic activities aim to enhance state power (Yu, 2019). Even when investments and projects are undertaken by Chinese firms, as the thinking goes, they reflect the interests of the Chine state (Kardon, Kennedy & Dutton, 2020:23).

This explains why allowing China to invest in, run and control strategic sectors remains a hard choice for many states. For example, in 2016, the Australian government prevented Chinese firms from acquiring a share in Austgrid, Australia's biggest the electricity grid, due to national security concerns (Vaswani, 2016). Australia's uneasiness with Chinese investments was related to the likelihood of China transforming its economic clout into a strategic instrument, which, in turn, could be used to coerce Australia. This was aptly spelled out by the former Australian Prime Minister Kevin Rudd who stated that "From economic power proceeds political power; from political power proceeds foreign policy power; and from foreign policy power proceeds strategic power. That is China's strategy" (Rudd, 2018).

Although Chinese investments seem to be economically motivated, on a closer look, different motives may indeed be in play. Since Chinese firms undertake a wide range of projects such as building transportation systems and telecommunications infrastructure, the foothold Beijing gains through these investments in host states may be utilized for different purposes, such as stealing information or illegally monitoring air or naval traffic. A case in point is the space station China built in Argentina, which generated the concern that China acquired an ability through this investment to monitor other countries' satellites and steal vital data (Garrison, 2019).

The concern that Chinese projects may serve a dual purpose (civilian and military) also arises in the case of China's investment in Pakistan's Gwadar Port and its acquisition of a base in Djibouti (Kardon, Kennedy & Dutton, 2020). Regardless of whether China's objective is to obtain strategic strongholds in different regions for military purposes, establishing a naval footprint affords China the opportunity to project power and challenge U.S navy and control seaways. Overall, even if economic motives may play a role in the decision of undertaking investments and projects abroad, the objective of advancing China's strategic interests may be inextricably tied to China's investment forays.

2. CHINESE INVESTMENT IN ISRAEL

Israel is also among the countries that has attracted Chinse investments in recent years. Figure-1 provides a glimpse into investments and projects undertaken by Chinese firms in Israel in the last decade.

Table 1: Chinese Investments in Israel, 2010-2020

Project	**Chinse Entity**	**Status**
Gilon Tunnel	The China Civil Engineering Construction Corp.	Contractor
Carmel Tunnel	The China Civil Engineering Construction Corp.	Subcontractor
Ashdod Port	The China Harbour Engineering Co.	Co-contractor
Alon Tavor Power Plant	The China Harbour Engineering Co.	Co-owner
Rail Cars	CRRC Corp. Ltd.	

		Supplier
Haifa Port	The Shanghai International Port Group Co. Ltd.	Contractor
Tnuva	Bright Food	Owner
Makhteshim Agan	ChemChina	Co-owner

(Data retrieved from https://www.jpost.com/opinion/editors-notes-israels-chinese-folly-597451)

Chinese firms' growing presence in sectors such as transportation, energy and agriculture, which are part of Israel's critical infrastructure, raises the question of whether the tenders awarded to Chinese entities pose any national security risks for Israel. To broach this issue, the Israeli government's granting of the right to Chinese firms to develop and run Israel's strategic Haifa port offers a useful case study. This is because the fact that the Shanghai International Port Group will run the Haifa port from 2021 onwards for 25 years has both domestic and international implications. On the domestic front, Chinese firms' close proximity to Israel's naval military assets would generate the risk that China would be able to monitor and spy on Israel's military bases and activities. On the international front, Israel's decision to grant tenders to China would have a negative impact on its relations with the U.S, given the latter's objection to the decision of opening up the Israeli economy to Chinese investors (Egozi, 2020).

Despite the potential downsides of China's seizure of the right to operate the Haifa port, the Israeli government did not backtrack on the deal, justifying its decision on the basis of a simple utility-maximizing calculus. That is, Chinese firms offered the best bid to build and develop Israeli ports (including Haifa and Ashdod), and the deals would benefit Israel economically. According to the Transportation Minister Yisrael Katz "The new ports will create thousands of new jobs and lead to a drop in the cost of living. It's an expression of confidence in the State of Israel on the part of a superpower, which has decided to invest billions of shekels in Israel and turn it into an international cargo center for all the world" (Rense, 2018).

Despite Katz's remarks, Chinese firms' acquisition of the right to run the strategic Haifa port has beyond the surface implications. For example, Shaul Chorev, "a former Deputy Commander of the Israeli Navy", pointed out that "when China operates a port, it also controls

communications means. This is contrary to the interests of other states, and there is no mechanism [in Israel] that considers this." (Lapin, 2018). Chorev's emphasis on "other states" is an obvious reference to the U.S, whose navy occasionally uses the Haifa port (USS Mitscher, 2019), and therefore a Chinese firm's operation of this port, in Chorev's view, would discomfort Washington and pose the risk of frustrating Israel's relations with the U.S. Indeed, to disclose displeasure at Israel's awarding of the Haifa port contract to a Chinese company, U.S Six Fleet "docked in Israel's second-tier Mediterranean port of Ashdod, for the first time in nearly 20 years", in October 2019 (Nir, 2019). According to U.S officials, China's winning of the tender to run the Haifa port will allow China to "gather intelligence on the Israel Navy facility nearby and on visiting U.S. Sixth Fleet's warship" (Nir, 2019). Some Israeli experts concur with this view, noting that the Israeli government has failed to give due weight to the potential risks of Chinese presence in Haifa port (Eran, 2016).

As noted above, another potential consequence of China's operation of the Haifa Port is that China would be able to monitor Israel's military assets and activities. It is important to recall in this context that Israel's security agencies previously unveiled China's attempts to steal information from Israel's leading arms manufacturers, such as Israel Aerospace Industries and Rafael. The efforts were geared to obtain secrets pertaining to the production of high-tech weapons systems, some of which are co-produced with U.S firms such as "F-35 warplanes and the Arrow anti-ballistic missile defense systems" (Melman, 2019). Given China's proven interest in Israel's defense sector, Chinese elements' close proximity to Israel's marine and submarine areas in Haifa port illustrates the controversial aspect of the decision taken by the Israeli government to embrace Chinese investments.

3. ASSESING CHINESE INVESTMENTS FROM THE VIEWPOINT OF ISRAEL

Viewed in the light of the potential risks of granting tenders of strategic importance to Chinese firms, the rationale behind the Israeli government's decision to welcome Chinese investors needs to be scrutinized. This requires a proper contextualization of bilateral relations between China and Israel, and this shall be done with reference to the Post-Cold War international dynamics.

As the Cold War came to an end, Israel, a prominent U.S ally, seized an opportunity to expand its foreign policy horizon by normalizing relations with non-Western states, an endeavour

associated with Israel's wish to minimize the international isolation it was facing over the Palestinian problem. The efforts to this end bore fruit, as "leading Asian powers such as China and India, Turkey in the Middle East, and Nigeria in Africa, decided in the first months of 1992 to establish full-rank ambassadorial ties with Israel" (Inbar, 2008:25). With regards to China-Israel relations, the two sides had an uneasy past, as they were on the opposing camps during the Cold War and remained distant due to China's support for the Palestinian Liberation Organization (Aran, 2021:3). But relations gradually improved following U.S-China rapprochement during the 1970s, which enabled China and Israel to initiate contact. From late 1970s until the end of the Cold War, China-Israel relations picked up momentum thanks to Israel's assistance and contribution to China in the realms of military, technology and agriculture (Navon, 2020:4903-4918).

Israel's military assistance to China was especially notable, as Chinese weapons of Soviet origin were upgraded by Israeli experts, which enabled an improvement in China's capabilities vis-à-vis its adversaries such as Vietnam (Aran, 2021:136). Also, Israel provided China with military technology in the production of systems such as "tank weapons, antitank missiles, surface-to-air missiles, cruise missiles, military electronics, and aircraft design" (Fisher, 2008:93). Although relations continued to improve after the Cold War in the military field, the U.S acted as a stumbling block on certain occasions. For example, due to U.S pressure, Israel had to abandon its sale of Phalcon radar systems to China in 2000 (Fisher, 2008:94). Nevertheless, the upward trend in bilateral relations continued. Between 2000 and 2010, for instance, China became "Israel's second largest trading partner" and the trade volume between the two sides increased more than seven-fold during this period (Aran, 2021:372).

A major stimulus for the growing China-Israel relations was Israel's intention of diversifying its foreign policy after the Cold War. Having relied overwhelmingly on the U.S during the Cold War for military and diplomatic backing, Israel set out to build ties with major non-Western powers such as China, India and Russia after the Cold War, with the aim of lessening its dependence on the West. As regards its relations with China, the rationale for Israel to reach out to that country was that it could "benefit from expanding its diplomatic and economic ties with the world's fastest growing major economy" (Efron, 2020:1-2).

Israel's overtures towards China intensified particularly when relations with the U.S went sour – as was the case during Barack Obama's presidency – due to divergences over issues such

as Iran's nuclear programme and Palestinian peace process. During such times, Israeli Prime Minister Benjamin Netanyahu intensified efforts to further cement Israel's ties with China (Times of Israel, 2014; Efron, 2020:1-2). The culmination of this effort was the signing of the Innovative Comprehensive Partnership agreement between Israel and China in 2017, which entailed cooperation in a wide range of fields including academia, science, technology, health and environment (Shagrir, 2019:15-16). Overall, this process was the product of the continuous improvement in relations between Israel and China, a development that served Israel to demonstrate that it had options other than the West.

This context explains how China was able to penetrate the Israeli economy and managed to secure high-profile tenders. Although China and Israel do not see eye-to-eye on certain critical issues such as those concerning Iran and Palestine (Efron, 2020:5) Israeli government tries hard to maintain cordial ties with its counterpart, which is evident in its attempts not to allow third parties to impinge upon Israel's relations with China. The Israeli government's turning down of a U.S request to inspect the Haifa port over the concern of China's surveillance activities is a notable case in point (Harel, 2021). Taken together, the fact that the two sides' perception of each other has changed considerably over the decades, a consensus has emerged that a relationship based on a win-win equation may be feasible. Unlike the U.S, Israel's refusal to view Chinese investments in a negative light must be understood in this context. Thanks to mutual efforts to move their relations on to a whole new level, China and Israel have managed to avoid the zero-sum mentality that undermines many bilateral relations.

CONCLUSION

It is not an easy decision for states to grant the right to operate their strategic assets to foreign parties. There are many unknowns in relation to national security, such as the risk of vital information being stolen and military activities being monitored. Also, foreign operators may be closely tied to their own governments, which may use economic investments as a leverage through which to coerce host states. As the case of Chinese investments in Israel show, despite potential risks, the host country may conclude that gains exceed costs and risks, a scenario that occurs when relations between the two states are marked by trust.

This means that Israel's decision to grant strategic tenders to China cannot solely be explained in terms of economic benefit. If China had not softened its rigid ideological stance and integrated itself into global economy, Israeli decisionmakers would have found it hard to award high-profile tenders to Chinese firms. As scholars of Realist (Walt, 1990) and Constructivist (Katzenstein) theories both emphasize, threat perception is a key determinant regarding the way in which interstate relations unfold. Tel Aviv's decision to allow Chinese entities to operate Israeli assets that are part of Israel's critical infrastructure must be understood in this light. Israel's perception of China as a non-threatening actor has informed Israeli leaders' decision to grant tenders to Chinese firms, despite the objections of U.S officials.

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