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ISSN 2641-841X(Print) • ISSN 2641-8428 (Online)
Between a Rock and a Hard Place: Israel and U.S.-China Strategic Rivalry

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Abstract: This article examines China’s growing trade with and investment in Israel as a case study of how China’s rise affects foreign policies of U.S. allies and partners. It addresses the following questions: How does growing Chinese investment in Israel affect U.S.-Israel relations? How has Israel managed to balance its relations with China and the United States? Using the “economics-security nexus” as an analytical framework, the article examines the rationale, strategies, and significance of China’s expanding exchanges with Israel and Israel’s efforts to balance relations with the two powers. The article proposes that as China expands its investment in Israel, Israel finds itself stuck between a rock and a hard place as it faces a dilemma in balancing economic and security interests. Israel does not always follow U.S. policies toward China and intends to keep strong ties to China. However, further developments of China-Israel relations will be constrained by overwhelming U.S. influence on Israel and China's solidarity with Israel's hostile neighbors. The article suggests that China-Israel cooperation will only grow as far as it does not hurt U.S. interests. Israel's dilemma reflects a distinct feature of the international political economy today as the U.S.-China strategic rivalry intensifies and goes global. Third parties must exercise diplomatic and political skills to maintain good relations with both powers while defending their national interests.

Keywords: China-Israel relations, Chinese investment, U.S.-Israel relations, U.S.-China rivalry, economic and security interests

Introduction
At the height of the COVID-19 crisis, U.S. Secretary of State Mike Pompeo made a rare trip to Jerusalem in mid-May 2020. He reportedly discussed with Israeli leaders issues regarding Iran, the West Bank, and the pandemic. Yet such discussions could have been conducted over the phone or via video. One wonders about the real purpose of this unusual trip. Israeli media disclosed that the main reason for Pompeo’s visit at this critical moment was to warn Israel against extending economic cooperation, especially in biotech with China in the wake of COVID-19. The United States has long been concerned with China using investments in Israel to give itself a technological edge and ability to gather intelligence, using reverse-engineering technology or gaining physical proximity to strategic areas.

As part of its “going global” strategy, China has expanded investment in various sectors of the Israeli economy in recent years. Its investment in key Israeli infrastructure, such as a new port in Haifa, has alarmed the U.S. and created tensions between the U.S. and Israel. As China strives to be a global leader in public health following the coronavirus pandemic, the U.S. acted promptly to warn Israel again not to cooperate with China in high-tech fields. Israel is a prime example of how U.S. allies are welcoming trade with and investment from China while maintaining traditional security ties with the U.S. However, as U.S.-China
strategic rivalry intensifies, these countries may not be able to conduct business as usual and will find themselves between a rock and a hard place as far as their national interests are concerned.

Previously, China’s outbound investments concentrated in the developing world. Since 2005, it has expanded investments to the developed world, with sizable mergers and acquisitions (M&A) in all major Western economies. After the Donald Trump administration imposed investment restrictions, China has increased commercial activities in other developed countries, many of which are U.S. allies, often as part of its ambitious Belt and Road Initiative (BRI). Though still a large developing nation, China’s “going global” strategy has turned itself into a major force in the international political economy, and its investment in the West has a significant impact on recipient countries as well as U.S.-China relations.

The strong U.S.-Israel alliance is well-known. The U.S. was the first country to recognize Israel in 1948 when the Jewish state was formed. As U.S. President John F. Kennedy told then Israeli Foreign Minister Golda Meir in 1962: “The U.S. has a special relationship with Israel in the Middle East, really comparable only to that which it has with Britain over a wide range of world affairs.” Various U.S. administrations, Democratic or Republican, have helped maintain and consolidate the close bond between the two countries. The Trump administration deepened U.S.-Israel alliance by becoming the first foreign government to recognize Jerusalem as the capital of Israel in 2017.

According to the U.S. Department of State, the U.S.-Israel bilateral relationship is anchored by over US$3 billion in Foreign Military Financing annually. In addition to financial support, the U.S. participates in a high level of exchanges with Israel, including joint military exercises, military research, and weapons development. Through the Joint Counterterrorism Group and a semi-annual Strategic Dialogue, the U.S. and Israel have enhanced cooperation in fighting terrorism. The U.S. is also Israel’s largest trading partner, and the two countries signed a free trade agreement in 1985.

Meanwhile, China and Israel have a unique relationship rooted in history. The first group of Jews settled in Kaifeng during China’s Northern Song Dynasty (960-1127), though some scholars date their arrival to the Tang Dynasty (618-907), or earlier. The special ties between the Jews and the Chinese in the contemporary period were formed during World War II when roughly 25,000 European Jews sought shelter in China. When WWII broke out in 1939, more European Jews had taken refuge in Shanghai than in any other city. At the end of the Pacific War in 1945, the Jewish refugees left Shanghai. However, they always looked upon Shanghai as their second home, calling the city their “Noah’s Ark.” When visiting Shanghai in May 2013, Israeli Prime Minister Benjamin Netanyahu hailed the city as a “haven” for Jewish people fleeing Europe in the 1930s and 1940s. In 2015, seventy years after the end of WWII, Israel released a documentary named “Thank you Shanghai,” in which Netanyahu said Israel was “eternally grateful” to China.

Israel was the first country in the Middle East and one of the first non-communist
countries to recognize the People’s Republic of China (PRC) in 1950. Due to Chinese participation in the Korean War and U.S. pressure, diplomatic relations between the PRC and Israel were postponed. Israel’s exclusion from the Bandung conference in 1955 and China’s support for Arab nations further alienated the two countries. Trade between China and Israel started in the 1970s, and representative offices were established in Beijing and Tel Aviv respectively in 1990. Bilateral relations have boomed since diplomatic ties were established in 1992.

Despite setbacks in the relationship in 2000 and 2005 respectively, when Israel, under U.S. pressures, canceled a scheduled sale of the Phalcon early-warning radar system and upgrading of Harpy drones for China, Israel-China commercial, political, and cultural ties have continued to grow. Trade volume jumped from US$51.5 million in 1992 to US$15.3 billion in 2018. Cooperation between the two countries covers a wide range of areas including trade, agriculture, science and technology, infrastructure, tourism, etc. Today Israel has become a potential hub of China’s BRI, with increasing Chinese investment flowing into the Jewish state.

This article uses Israel as a case study of how third parties, particularly U.S. allies, respond to China’s rise and balance their relations with the U.S. and China. It addresses the following questions: How does growing Chinese investment in Israel affect U.S.-Israel relations? How has Israel managed to balance its relations with China and the U.S.? The article suggests that as China expands its investment in Israel, Israel faces a dilemma in balancing its economic and security interests. Israel-China relations are growing rapidly, but further developments of the relationship will be constrained by overwhelming U.S. influence on Israel and China’s solid ties to Israel’s hostile neighbors. The Israel case illustrates that the U.S.-China strategic rivalry is much broader and deeper than just between the two powers. It has gone global involving other parties, who struggle to maintain good relations with both powers while defending their national interests.

The Economics-Security Nexus
Relations between economics and security are at the core of the international political economy. Most research on the economics-security nexus focuses on how a state deals with both economic and security challenges in its external relations, typically from the same source. For example, how does an East Asian country handle its complex relations with China, which offers extraordinary economic benefits while presenting serious security challenges, such as in the South China Sea? Most scholars follow the liberal assumption that economic interdependence leads to security. Therefore, they conclude that the more Southeast Asian countries such as the Philippines and Vietnam are interdependent with China economically, the less likely military conflict will break out in the South China Sea.

The Israel case represents a different type of economics-security nexus in that the economic and security challenges are from various sources. Specifically, the U.S. remains Israel’s most critical security partner, and China has quickly emerged as Israel’s second-
largest trading partner with growing investments in crucial sectors of the Israeli economy. The tensions between the U.S. and China continue to grow as their rivalry intensifies. To defend its security and economic interests, Israel faces an increasingly difficult job of maintaining good relations with both powers.

**China’s Interests in Israel**

*Yin jin lai* (bringing in 引进来) and *zou chu qu* (going out 走出去) have been an integral part of China’s “reform and opening up” since 1978. From 1978 to roughly 1990, China focused on bringing in foreign direct investment (FDI) as well as foreign technology and management. Since 1990 it began going out in earnest as part of its new diplomacy. Between 1990 and 2005, China’s outbound investment concentrated in the global South, particularly Africa, Latin America, and Southeast Asia. Since 2005 China has expanded its overseas investment to the developed world.

Chinese companies have a reputation for competitive pricing on infrastructure projects and finishing on time, which makes their bids highly attractive on the global market. Chinese firms have made significant inroads in Israel, such as the 2011 purchase of sixty percent controlling interest in Makhteshim-Agan, one of the world’s largest pesticide production and distribution companies, by ChemChina for US$2.4 billion, and the 2014 takeover of Tnuva, Israel’s largest producer of dairy products, by China’s Bright Food for US$2.5 billion with a controlling stake.

Chinese companies have been involved in major transportation and infrastructure projects in Israel. For example, the state-owned China Civil Engineering Construction Corporation Ltd. (CCECC) built the Carmel Tunnels in Haifa from 2007 to 2010. CCECC was also contracted to dig tunnels for the underground sections of the light rail of the Tel Aviv metropolitan area. A group of Chinese companies were included in the draft document for building a proposed railway from Ashdod to Eilat—the Red-Med Railway, but the project was indefinitely frozen in 2019 due to high cost, environmental and other considerations. Chinese construction companies are now enlarging Israel’s two major ports in Haifa and Ashdod. In 2014, Beijing-based firm China Harbor won a tender to build the new port in Ashdod. In 2015, the Shanghai International Port Group (SIPG) entered an agreement, with commitments of US$2 billion, to build and operate a new port in Haifa for the next 25 years.

China’s main interests in Israel are advanced technologies and Israel’s strategic location. As a developing nation, China has a lot of domestic challenges—pollution, desertification, an aging population, etc. Israel is a global powerhouse in technologies and innovation and can help China solve these problems. China is particularly interested in Israel’s expertise in biotech, water tech, environmental tech, agricultural tech, IT, energy, health care, among others. It is also interested in enhancing its global presence, searching for a strategic position in the Middle East, and reaching out to U.S. allies and partners. China can either strengthen its relations with the U.S. through these U.S. allies or drive a wedge between the U.S. and its
China is eyeing Israel as an essential node of the BRI, with Israel’s strategic location and easy access to the Mediterranean Sea. When meeting with Prime Minister Netanyahu in Beijing in March 2017, President Xi Jinping proposed the two countries to “steadily advance major cooperative projects within the framework of jointly building the Silk Road Economic Belt and the 21st Century Maritime Silk Road.” Netanyahu responded by saying that “the Israeli side is ready to actively participate in infrastructure and other cooperation under the framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road.” He called trade relations between the two countries “a marriage made in heaven.” He asserted that Israel would be “a perfect junior partner” to China’s economy and welcomed Chinese investment in Israel. The three bilateral agreements that the two countries signed during Netanyahu’s visit included one that would allow 20,000 Chinese workers to get work visas permitting them to work on Israeli construction sites. Working in Israel will enable China to accumulate experience and demonstrate that it can responsibly operate, build, invest, and compete in advanced economies.

It is hard to know the exact amount of Chinese investments in Israel. A November 2018 report by Israel-based IVC Research Center suggests China invested about US$1.5 billion in around 300 Israeli companies in the previous five years. Statistics from China’s Ministry of Commerce show that in 2017 alone, China’s investments in Israel reached US$4.1 billion, all were direct investments. According to the American Enterprise Institute, Chinese businesses invested a total of US$8.05 billion in Israel from 2005 to 2019.

Compared with the U.S., China’s trade with and investment in Israel are small. The 1985 U.S.-Israel Free Trade Agreement was the first one signed by the U.S. Since then, trade between the two countries had increased ten-fold to US$49 billion in 2016. U.S. firms have been a big part of the Start-Up Nation story, with U.S. companies establishing two-thirds of the more than 300 foreign-invested research and development centers in Israel. Meanwhile, Israeli firms represent the second-largest source of foreign listings on the NASDAQ after China—and more than Indian, Japanese, and South Korean firms combined. Israel is home to more than 2,500 U.S. firms employing some 72,000 Israelis, and thousands of more jobs are supported indirectly by these employers. According to the Office of the U.S. Trade Representative, U.S. goods and services trade with Israel totaled about US$49.6 billion in 2018. U.S. investment in Israel was US$27.1 billion in 2018, a 1.8% increase from 2017, while Israel’s investment in the U.S. was US$13.6 billion in 2018, up 13.9% from 2017.

Israel’s Interests in China
Israel’s interests in China are both economic and strategic. Israel recognized China as a complete market economy in November 2005. The two countries started to negotiate a free trade agreement in 2016. They planned to complete the final round of negotiations in 2020 despite heightened tensions between the U.S. and China and pressures from the U.S.

Economic cooperation with China brings tangible benefits to Israel, such as fine
consumer products, local jobs generated by Chinese investments, growing tourists from China, upgraded infrastructure, penetration into the Chinese market for Israeli businesses, etc. During his March 2017 visit to China, Netanyahu met with the heads of some of China's largest companies, including Alibaba, Baidu, Lenovo, Wahaha, and Wanda. “I just met with 11 heads of the largest corporations in China,” he said after the meeting. “A large portion of them are investing in Israel, and a large portion of them will invest in Israel. This means jobs, the development of businesses, and a link to the major Chinese markets.”

During a cabinet meeting in September 2012, Netanyahu urged his ministers to multiply their visits to China while cutting their international travels to all other places due to budgetary constraints. “We want to set an example for the public. Only one place is an exception, and that’s China—you can travel there as much as you like.” China is a massive market for Israeli exports, so ties between the two countries must be strengthened, he explained.

After Israel-China relations suffered briefly during the early 2000s due to Israel’s canceled arms sales to China, the two countries have worked hard to improve ties. In June 2011, Israeli Defense Minister Ehud Barak traveled to Beijing—the first by an Israeli defense minister in a decade. Barak was Israel’s prime minister from 1999 to 2001 during the Phalcon crisis, so his visit was remarkably significant and represented the resumption of high-level contacts at the governmental and personal levels. Two months later, the People's Liberation Army (PLA) Chief of the General Staff Chen Bingde visited Israel. High-level military relations were restored to some extent, though Israel continues to ban sales of advanced weapons to China.

Amid tensions between China and South Korea in 2016-2017 regarding the U.S. deployment of THAAD in South Korea, Wu Dawei, China’s special envoy on the Korean Peninsula, commented that China supported South Korea's effort to defend itself from the North Korean threat, if South Korea introduced the weapons system from Europe or Israel, China would have no problem. Chinese officials presume that the real target of the U.S. missile defense system in South Korea is China; they do not view Israel with such suspicion.

Strategically, developing strong relations with China helps Israel to diversify its political and economic partnerships. As China pushes forward its BRI, Israel wishes to benefit from it. It also seeks China's neutrality in Israel's disputes with its neighbors despite China's long-standing solidarity with Palestine, Iran, and other rivals and enemies of Israel. Israel is eager to engage China about its future role in the Middle East. It hopes to affect Chinese policy on issues of non-proliferation, and especially China's position on Iran’s nuclear program. Netanyahu made developing Israeli-China relations “a strategic goal.”

**Strategies for Enhancing Relations between China and Israel**

Israel and China have developed strategies to enhance bilateral relations, especially in recent years. Both governments are heavily involved in promoting friendly relations, and
businesses on both sides have been at the forefront for building ties. Cultural and educational exchanges have also contributed to the development of bilateral relations.

**Top-down**

Israel’s first prime minister David Ben-Gurion predicted in the 1960s that the PRC would become the most critical power in the world within two decades. He praised French President Charles de Gaulle for recognizing the PRC in January 1964, and whenever possible, tried to convince Washington to improve relations with Beijing. Generations of Israeli leaders have pursued China-friendly foreign policies. Prime Minister Ehud Olmert visited China in 2007, and President Shimon Peres attended the 2008 Beijing Olympics opening ceremony.

Netanyahu visited China twice after becoming Prime Minister again in 2009. During his second trip to China in March 2017, he and Xi announced the establishment of “a comprehensive innovation partnership”—the only one of its kind that China has established with other countries. To bolster Israel-China cooperation in several domains related to innovation, the two countries established the China-Israel Joint Committee on Innovation Cooperation in May 2014. Netanyahu is the Israeli head of the committee. The Chinese head of the committee was Vice Premier Liu Yandong until March 2018 when Vice President Wang Qishan took over.

In April 2000, Jiang Zemin became the first leader of China to visit Israel. Since 2004 at least one high-ranking Chinese official at the level of foreign minister or above has visited Israel every year. Xi has not visited Israel yet as of 2020. Still, in October 2018, Vice President Wang, one of Xi’s closest allies and an influential figure in the Chinese government, paid a 4-day visit to Israel. He met with government and business leaders, co-hosted the Innovation Summit in Tel Aviv with Netanyahu and signed eight key agreements in fields such as science and technology, digital health, and agriculture. Netanyahu hailed Wang’s visit as “a tremendous compliment to Israel and a reflection of the growing ties between China and Israel.”

China is beginning to become more involved in Middle Eastern affairs. For example, the Chinese government announced in May 2013 that it would arrange a meeting between Netanyahu and Palestinian Authority leader Mahmoud Abbas when they were simultaneously visiting the country at the time, should they be willing to do so. Neither leader took the offer. However, in separate meetings with Netanyahu and Abbas, Xi urged both to re-start peace talks as soon as possible, reflecting China’s intent to strengthen its diplomatic role in a region where its influence has historically been weak.

**Bottom-up**

Bilateral cooperation at the local and business levels is dynamic. For example, despite Pompeo’s warning to Israel in March 2019 that China’s investment into the country could hinder U.S.-Israel cooperation, over 100 Israeli start-ups and companies attended the annual GoforIsrael Conference in Jinan, Shandong Province in May 2019. The conference was organized by the Cukierman & Co Investment House, a leading Israeli investment
company, and the Catalyst CEL Fund, a private Israeli equity firm. Edouard Cukierman, chair of the Cukierman, said that fears over doing business with China were overblown, and the U.S.-China trade war represented an opportunity for Israel. Avi Luvton, Asia-Pacific director at the Israel Investments Authority, noted he was not aware of any Israeli firms shying away from China because of the U.S.23

GoforIsrael, previously known as GoforEurope, has been one of the most influential business conferences in Israel for over 20 years. Cukierman first put together a Go4China conference in Tel Aviv in 2012 and began to bring investment conferences to China in 2014. GoforIsrael 2018 was a massive success with three conferences in Israel, Hong Kong, and Foshan. The Foshan conference was attended by over 100 Israeli start-ups and high-tech companies. The highlight were meetings between Israeli entrepreneurs and hundreds of Chinese investors, including executives from Alibaba, PingAn, Sailing Capital, Haitong, GF Securities, etc. The Israeli businesses that participated were well-established high-tech companies alongside new start-ups such as Trax, Orbotel, HearMeOut, Lamina, Valcare, Curalife, Check-Cap, PerfAction, MindUP, etc.24

The Jiangsu-Israel Center, an innovation hub, was unveiled in Tel Aviv in September 2019 to host Israeli start-ups as well as Chinese companies interested in partnering with Israelis firms for innovative solutions. Israel already has a presence in Jiangsu Province, via the China Changzhou Israel Innovation Park, a bi-national governmental initiative inaugurated in 2015 that provides a platform for Israeli companies to enter the Chinese market. Some eighty Israeli companies operate there that cover fields including life sciences, modern agriculture, and new materials. Jiangsu is the first Chinese province that Israel established the innovation cooperation agreement, a model followed by nine other provinces and government ministries of China.25

Cultural and educational exchanges
Cultural and educational exchanges are booming between Israel and China. Israel maintains an embassy in Beijing and consulates in four other Chinese cities: Shanghai, Guangzhou, Chengdu, and Hong Kong—the second-largest number of its diplomatic missions overseas after the U.S., which has nine.

China and Israel have established joint research and education programs. By the end of 2018, at least six joint campuses and research institutions had been set up in China, including a specialized research center for Israel studies at Tongji University between Tongji University and Tel Aviv University, a joint research center between Tel Aviv University and Tsinghua University, a joint lab between the University of Haifa and East China Normal University, a joint center for entrepreneurship and innovation for Ben Gurion University of the Negev and Jilin University, a joint agricultural training center at China Agricultural University, and the Guangdong Technion-Israel Institute of Technology. SIGNAL, a think tank and academic organization based in Israel focusing on China-Israel relations, has brought Israel studies programs to over a dozen universities across China as of 2020. China's
Ministry of Education recognized the Israel studies program in 2013.

The China Cultural Center in Tel Aviv regularly holds exhibitions of Chinese art and features Chinese artists. China opened two Confucius Institutes in Israel. The first at Tel Aviv University in 2007 and the second at the Hebrew University of Jerusalem in 2014. Despite some problems, the Confucius Institutes have worked with their Chinese counterparts and the Chinese embassy to ensure their continuous operation. The Confucius Institutes have successfully disseminated the Chinese language instruction in Israel. By 2017 numerous schools in Israel had offered programs to teach Chinese, and Israel’s Ministry of Education was planning to authorize Chinese as a subject in high school matriculation exams. In 2018, more than 1,000 Chinese students were enrolled in Israel, and about 500 Israeli students were studying in China. The University of Haifa boasted 200 Chinese students among its student body in 2016, a phenomenal increase from 2013 when the school had just 20 Chinese students.

Israel and China signed a 10-year multiple entry visa agreement in 2016. Under the new program, Chinese businesspeople and tourists are allowed to enter Israel numerous times with the same visa. The same applies to Israeli citizens visiting China. With the new visa policy, China quickly became Israel’s fastest-growing source of tourists in 2017, when, for the first time, the number of Chinese tourists surpassed 100,000, doubling the figure for 2015. The two sides hope to increase Chinese tourists to 400,000 in the next five years, and the Israeli Tourism Bureau is training Mandarin-speaking tour guides. According to China’s Central Bureau of Statistics, a total of 156,100 tourists from China visited Israel in 2019, compared with 114,200 in 2018, up 36.7 percent.

To facilitate travel, direct flights have been established. As of 2018, over a dozen weekly nonstop flights between Tel Aviv and five Chinese cities—Hong Kong, Beijing, Shanghai, Guangzhou, and Chengdu—were provided by Cathay Pacific, Air China/El Al, Hainan Airlines and Sichuan Airlines. Hainan Airlines has been planning a new direct flight between Tel Aviv and Shenzhen.

**Major Constraints in Israel-China Relations**

**U.S. Concerns**

The U.S. remains critical to Israel’s security, but U.S. and Israeli interests may not always align with each other. For its national interests, Israel does not always follow the U.S. leadership. The U.S. has become increasingly concerned about expanding China-Israel cooperation. U.S. concerns are twofold: explicitly, it is worried about security, especially defense-related technology and other technologies and capabilities that could potentially be transferred to China to strengthen its military. Implicitly, it is uncomfortable with growing Chinese influence in Israel and the Middle East in general.

The U.S. government worries that Chinese companies operating in Israel may have ties to the Chinese military, according to Shira Efron, an author of the 2019 RAND report about
Growing Chinese investments in crucial Israeli infrastructure, particularly the port of Haifa, have sounded the alarm in the U.S. Haifa is where the U.S. Sixth Fleet regularly visits and home to Israel’s nuclear submarine force. The U.S. suspects that China may monitor the entrance to the port’s military facilities in the future. Since 2017 the new Haifa port has become an issue against the backdrop of the U.S.-China trade war. It may rapidly become a problem as big as the 2000 Phalcon surveillance aircraft sale to China. During their visits to Israel in January and March 2019, respectively, both John Bolton, then National Security Advisor to Trump, and Secretary of State Pompeo warned Israel of security risks from Chinese investments. They threatened to reduce security cooperation between the U.S. and Israel.

Pompeo targeted Huawei repeatedly in his comments during foreign trips, warning allies that partnership with Huawei could imperil their security. “If certain systems go in certain places, then America’s efforts to work alongside you will be more difficult, and in some cases, we won’t be able to do so,” he told Israel’s Channel 13. Israeli companies operating in sensitive domains, such as cybersecurity, energy, and mobility, may find their ability to do business with individual American partners, primarily government entities, diminished if they have Chinese backers, former U.S. ambassador to Israel Daniel Shapiro said in January 2019.

Trump himself warned Netanyahu during the latter’s visit to Washington in March 2019 that if Israel did not curb its ties with China, its security relations with the U.S. could suffer. The U.S. Senate’s National Defense Authorization Act for the 2020 fiscal year raises “serious security concerns” over the Haifa port deal. A Chinese-operated new port could keep the U.S. Navy away from Haifa and imperil security ties between Israel and its closest ally, says the Act. The sponsor of the Act, Senator Jim Inhofe of Oklahoma, is an emphatic supporter of Israel. His adoption of such strident language sends Jerusalem a clear message.

China’s Strong Ties to the Arab States and Iran

China established diplomatic relations with all twenty-two Arab countries between 1956 and 1990 before it did so with Israel in 1992. China’s 2016 Arab Policy Paper stated: “China firmly supports Arab national liberation movement, firmly supports Arab countries’ struggle to uphold the sovereignty and territorial integrity, pursue and safeguard national interests, and combat external interference and aggression, and firmly supports Arab countries’ cause of developing the national economy and building up the countries.” It is clear that in the Israel-Arab conflict, China will stand with Arab nations. Though the China-Israel relationship is named a “comprehensive innovative partnership” by both sides, China has forged “comprehensive strategic partnerships”—the highest level in its diplomatic hierarchy—with Iran, the UAE, Saudi Arabia, and Egypt in the Middle East.

In the Israel-Palestine dispute, China’s position has been clear and consistent: supporting a two-state solution and the establishment of an independent and sovereign state of Palestine based on the 1967 borders, with East Jerusalem as its capital. China opposes
Israel’s endeavors to annex large swaths of the occupied West Bank and construction of settlements and security barriers. After the victory of Hamas in the 2006 Palestinian election, China acknowledged Hamas as the legitimately elected political entity in the Gaza Strip despite Israeli and U.S. opposition. In a meeting with Mahmoud Abbas during his visit to Beijing in July 2017, Xi reiterated China’s firm support for a political settlement of the Palestinian issue based on the two-state solution.

China is Iran’s top trading partner and a key market for Iranian crude oil exports, severely impacted by U.S. sanctions. China and Iran reportedly have been negotiating a 25-year, US$400 billion economic and security agreement since 2016 when Xi Jinping visited Tehran. The deal is controversial in Iran, and its details are murky, but reports in July 2020 that the two countries were at the final stage of reaching such an agreement created much anxiety in the U.S. and Israel.

**Between a Rock and a Hard Place**

A RAND report in 2019 titled “The Evolving Israel-China Relationship” asserts that expanding Israel-China relations will lead to a conflict of interests between Israel and the U.S. Israel and the U.S. do not always see eye to eye regarding the rise of China. Two weeks after Pompeo’s May 2020 visit to Jerusalem, the Israeli government identified a local firm over Hong Kong’s CK Hutchison to build a US$1.5 billion water desalination plant, yielding to the U.S. pressure. However, Israel has pressed ahead on other deals with China so far, highlighting a substantial gap in the positions of the two countries on whether commerce with China poses a security threat. “Israel sees China as an opportunity,” former Israeli ambassador to Washington Michael Oren remarked, “For the U.S., China is a threat—a three-pronged threat that’s strategic, commercial, and technological.”

There are other cases in which the U.S. and Israel have different approaches toward China. Before Netanyahu’s state visit to China in 2013, a U.S. court ordered Israel to send an official to testify in a lawsuit against the Bank of China for allegedly aiding in money laundering activities for terrorist groups. Though the victim of the terror attack was a Jewish-American and Israel had been involved in initiating the lawsuit, Netanyahu decided to prevent the official from testifying despite the pressure from pro-Israeli members of Congress.

Critics of the new Haifa port argue that allowing Beijing a foothold in a so strategically important location could compromise Israeli intelligence assets and even lead U.S. military vessels to avoid docking at Haifa altogether. However, some Israeli officials are countering that the concerns are overblown. “The security warnings about the Chinese are a joke, completely mad,” said one senior government source. “If they want to gather intelligence, they can simply rent an apartment in Haifa instead of investing in ownership of a port.”

The economics-security nexus in the international political economy is illustrative of the challenges Israel faces in its policies toward China and the U.S. The U.S. is Israel’s
long-standing and firmest security ally while China represents Israel’s expanding economic interests and historical friendship. Israel needs to balance its security and economic interests in today’s rapidly changing international political economy.

There are also internal debates about China in Israel. For example, within the Israeli government, the Ministry of Finance and Ministry of Defense often view China differently.\(^4^4\) The former tends to see economic opportunities, whereas the latter is more likely to be influenced by U.S. views of China.

The U.S. government repeatedly urged Israel to establish a Committee on Foreign Investment in the United States (CFIUS)-type of an inter-agency committee to scrutinize Chinese investment. Israel was indecisive, and a government team led by National Economic Council Chairman Professor Avi Simhon and National Security Council chief Meir Ben-Shabbat recommended against the establishment of such a body in May 2019, a move that angered the U.S. In October 2019, after frequent warnings and urgings from the U.S., Israel finally decided to form a government panel that would begin work in 2020 to monitor foreign investment, but without explicitly targeting China. To the U.S. government’s disappointment, scrutinizing foreign investment in Israeli technological start-ups was not included in the panel’s mandate. The panel does not have the power to cancel past deals, and its recommendations are nonbinding. The panel decision “reflects Israel’s overall approach to the issue: widen trade with China when possible and indulge American demands when necessary,” commented one analyst.\(^4^5\) It also suggests that Israel has not given in entirely to U.S. pressure when dealing with China.

The Israeli government has attempted to form a thoughtful balance between commercial and national security interests, banning trade with China in most military products while at the same time welcoming infrastructure and technology investment. China is overwhelmingly interested in civilian technologies like health, agriculture, fintech, mobility, and advanced manufacturing. In these areas of Israeli strength, Chinese companies are as free to purchase products and services as they are throughout the West, including in the U.S.\(^4^6\)

Israel has to reconcile two conflicting policies: to encourage foreign investment and expand the international market for its goods and services, and to prevent strategic assets and infrastructure from being controlled or taken over by foreign governments and corporations, even if they are not hostile to Israel. Like the U.S., Israel faces the problem of espionage and theft of advanced technologies. Russia and China in recent years have enhanced their collection of information and espionage efforts in Israel, mainly, to obtain access to Israeli hi-tech companies and via them to the U.S.\(^4^7\)

**Conclusion**

Since 2017 Chinese overseas investment has dropped due to China’s own tighter control on finance outflows and some Western countries’ scrutiny of Chinese investments on national
security grounds. As Chinese companies are increasingly discouraged from investing in the U.S. and Europe, Israel is likely to grow as a new market for Chinese investment and acquisitions.

Israel, like other third parties involved in the great power competition, will be experiencing some agonizing moment as U.S.-China rivalry intensifies. In 2000 when Israel faced pressure from the U.S. regarding its arms sales to China, its reaction was relatively simple: yield to the U.S. coercion and cancel the sales. Today, as China has become a significant power with increasing investment in Israel, it is no longer so easy for Israel to simply ignore Chinese interests. Some scholars believe that Israel does not have a systematic China policy yet, and its ability to develop a completely independent China policy is still unclear. Instead, it appears to have developed “an opportunistic policy,” trying to maximize its benefits by maneuvering between the two big powers. It is taking a hedging strategy and not putting all eggs in one basket. Nevertheless, it is unlikely that Israel will sacrifice its alliance with the U.S. to enhance relations with China.

With China’s market and capital, Israel’s hi-tech industries, and both nations’ innovative spirit, China-Israel relations have much room to grow. As a leading China scholar in Israel concluded, China will influence Israel “at a level that currently seems the stuff of fantasy.” For China, the opportunity to increase its presence and influence in a close U.S. ally has significant implications. From the realist perspective, if Israel does not bend to U.S. pressures, it would signal to other countries and the U.S. itself that its power is declining while China’s is growing. China fears a “domino effect”—if Israel is forced to cancel deals with China over security concerns, other countries might begin reexamining their ties with China, including more rigorous checks of all contracts, which could endanger China’s BRI.

The higher tensions are between the U.S. and China, the more pressure other countries will face from the U.S. as they develop relations with China. These countries would like to maintain good relationships with both powers, but it has become increasingly difficult to do so. The close alliance between Israel and the U.S., on the one hand, and China’s solidarity with the Palestinian cause and long-standing relationship with Iran on the other pose limitations to China-Israel partnership.

The China-Israel relationship reflects the reality of the international political economy today. Due to the growing strategic rivalry between the U.S. and China, third countries are increasingly facing difficulties in developing relations with China. For most of these countries, including Israel, the U.S. provides indispensable security protection, but in economic, cultural, social, and other aspects, China offers many enticing and beneficial opportunities. The worst thing these countries want is to be forced to take a side. It requires diplomatic and political skills for these countries to manage their relations with China and the U.S. simultaneously while defending their national interests.
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Endnotes


12. The American Enterprise Institute and the Heritage Foundation jointly publish the “China Global Investment Track,” which can be found at http://www.aei.org/china-global-investment-tracker/


14. This can be found on the website of the Office of the U.S. Trade Representative, “U.S.-Israel trade facts.” https://ustr.gov/countries-regions/europe-middle-east/middle-eastnorth-africa/israel.


17. 武大伟: 韩国若引进欧洲或以色列产萨德没有问题 (Wu Dawei, “If South Korea Introduces THAAD from Europe or Israel, There Will be No Problem,”) 朝鲜日报网 (Choson Ilbo), March 4, 2016.


20. For a list of high level visits between the two sides, see Chinese Foreign Ministry website at https://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/vz_676205/1206_677196/sbgx_677200/t312274.shtml.


22. “Xi urges Netanyahu to re-start Middle East peace talks,” The South China Morning Post, May 10, 2013.


27. Shai, China and Israel, 234.

28. The author’s taxi driver in Haifa in December 2019 said that he wanted to study Mandarin and become a licensed tour guide in anticipation of growing Chinese tourists in Israel.


38. Xi made the 4-point proposal during the meeting: China’s firm support to a political settlement of the Palestinian issue on the basis of the two-state solution, the establishment of an independent Palestinian state on the 1967 borders with East Jerusalem as the capital, coordinating international efforts to resume the peace process, and promoting peace through development and cooperation between the Palestinians and Israelis.


42. Ibid.


44. Author interview with a senior official at Israeli Foreign Ministry’s Office of Policy Planning and Assessment. December 16, 2019, Jerusalem, Israel.

45. Mitnick, “Why the U.S. Can’t Get Israel to Break Up with China.”


49. Shai, China and Israel, 243.

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Feldman, Germany’s Foreign Policy of Reconciliation, 73-78.