Despite hopes, Chinese investment flatlining here

Regulatory changes should reverse trend

• By MAX SCHINDLER

Amid eye-popping acquisitions and media buzz about Chinese investors flocking to Israel, the world's largest country remains a minor player in Israel's hi-tech sector, according to an industry report published last week.

The number of Chinese investments in Israeli venture capital funds has declined since 2014 – a banner year – going from nine to three. Similarly, the total amount of money raised by funds with the participation of Chinese investors has also gone down, from $1.3 billion in 2014 to $360 million today.

Yet not all is gloomy – regulatory changes should make it easier for Chinese investors to come to Israel.

In August 2017, the Chinese government issued new rules on overseas investments – cracking down on acquisitions of real estate and sports teams while encouraging Chinese investors to buy up technology.

"Now that the government has a strategic investment policy, I do think that it would be easier for Chinese groups to invest in Israel," said Eddy Cukierman, chairman of Cukierman & Co. Investment House Ltd., which has specialized in encouraging Chinese investment into Israel.

"What the Chinese government wanted to avoid speculative investments. They also got the green light to make investments in Israel as it becomes more and more complex for Chinese investors who would make investments in the US," Cukierman told *The Jerusalem Post*.

From 2016-2017, China sent out conflicting signals about whether investors should be encouraged to invest abroad at all. The regulations were intended to reduce capital flight and forestall further depreciation on the yuan.

The regulatory confusion helped dampen Chinese enthusiasm for Israeli start-ups and partially explains the flatlining investment.

In the meantime, China is slowly becoming a more significant player in Israeli hi-tech, focusing on strategic investments.

One Israeli who has worked for years with Chinese told investors told market research firm IVC Research Center Ltd. that the Chinese labeled their strategy as "drain the brain."

In other words, the Chinese companies are investing in Israeli technology to use it back in the mainland, as opposed to developing R&D centers locally.

Chinese direct investments, along with merger and acquisition and buyout activity, still accounts for only 5% of the total flowing into Israel. Chinese companies continue to take a "backseat" to American, European and Japanese firms, IVC reports, excluding the 2016 acquisition of Israeli start-up Playtika by China's Giant Interactive for $4.4b.

On the flip side, the number of Chinese financial firms investing in Israeli hi-tech companies has nearly doubled from 18 in 2013 to 34 last year, and they participated in some 43 investment rounds in 2017, up sharply from 23 in 2013. For the past three years, the dollar amount ranged around $500 to $600m., comprising 12% of the total capital raised by all Israeli start-ups in 2015-2017.

Part of the problem in quantifying "Chinese investors" is that many of the deals remain obscured contractually.

"They often use Israeli representatives to make deals in Israel, so it's not listed as a Chinese investor or a Chinese transaction," said author Marianna Shapira, research director at IVC Research Center, told the *Post*. "It's easier for the local people, who know the local culture and the Israeli business market – more than what they're acquainted with – so they would prefer somebody from here."

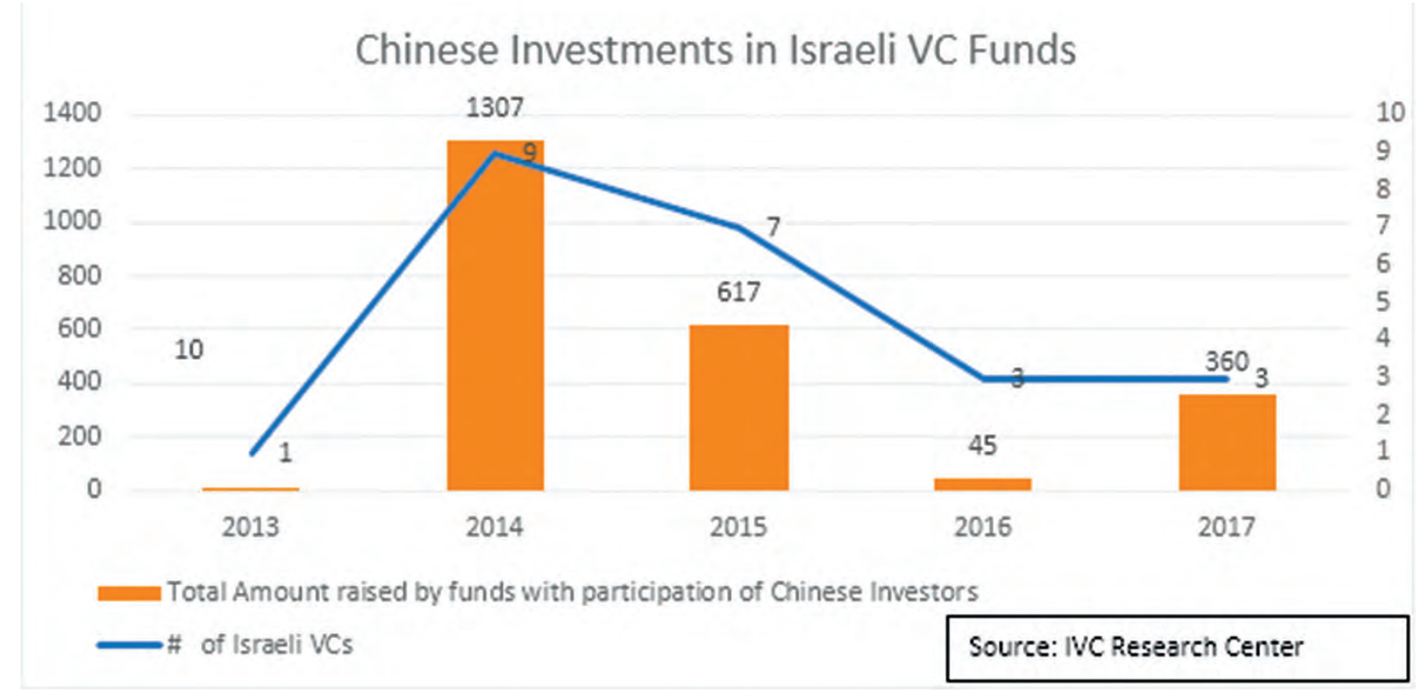
Moreover, few Israeli hi-tech firms have managed to penetrate the elusive Chinese market, often owing to cultural differences and government mercantilist policies which seek to promote Chinese-bred firms at the expense of foreign companies. Israeli firms are still much more familiar with US and European markets.

Yet Israeli companies are persisting, and ten start-ups are being hosted in the first-ever Israeli accelerator program in China, selected in November 2017.

The surprising IVC data comes amid an expected visit in May from the CEO of one of the world's largest e-commerce sites, Alibaba's Jack Ma. The company acquired its first Israeli start-up at the end of 2017, buying Visualead's computer vision technology for an undisclosed multi-million-dollar sum. Alibaba has also invested in other Israeli start-ups, along with pouring millions into Israeli venture capital firm, Jerusalem Venture Partners, fund.

Shapira says that since the Chinese regulations changed, more investors are clamoring for Israeli technology in life sciences, medical devices, software and robotics.

Cukierman added that next month's "GoforIsrael" conference may showcase greater interest from Chinese investors. "We will host in the conference important Chinese investors and leading businessmen, such as Ronnie Chan. I think this is a sign of the Chinese willingness to learn more about Israeli technology."



SAGGING CHINESE investment in Israel could be jump-started by recent regulatory changes. (Courtesy IVC)