

# THE TIMES OF ISRAEL

## Israeli firms fly out to woo China investors despite myriad of potential hazards

By JOSHUA DAVIDOVICH and SHOSHANNA SOLOMON 26 May 2019, 3:02 pm



A billboard for the GoForIsrael conference at a train station in China. (Courtesy GoForIsrael)

Representatives from dozens of Israeli companies will journey from Tel Aviv to the Chinese city of Jinan in the coming days in search of investors willing to pump money into their firms.

The group, which will be meeting investors at a one-day conference, are part of a surging crop of Israelis who are looking toward the east for funding. But they are doing so at what some might consider a particularly awkward time, as concerns over Chinese investments around the world have reached a fever pitch over trade imbalances, intellectual property theft, spying and the Asian tiger's larger ambitions in the world.

When they get to Jinan, the financial capital of one of the most prosperous provinces in the country, the Israeli business group will be greeted by a China that is preparing for what President Xi Jinping recently called a modern "Long March," a reference to a grueling journey at the heart of one of the Communist Party's seminal myths.

The comment served as a chilling reminder of the seriousness of a looming trade war, tech war or even cold war between China and the US, with Israel caught smack in the middle.

While Israel values the US as its most important ally, it has been forced to attempt to balance its ties with Washington, wanting to have doors open as wide as possible to the rising economic powerhouse that is China.

“We thought we could simply do everything we like with the Chinese without upsetting the Americans. It doesn’t work that way, there is no free lunch,” said Jon Medved, CEO of the OurCrowd investment platform. “Israel’s relationship with the US is so core, and so central and so strategic that we have to remember that at all times, both as a country as well as business people.”



**Crowdfunding guru Jon Medved. (Courtesy)**

Avi Luvton, Asia-Pacific director at the Israel Investments Authority, said he didn’t know of firms shying away from China because of the US, but said there was more awareness in Israel about what a US-China trade war could mean.

“There is Israeli sensitivity regarding this matter,” he said. “The repercussions of this policy means that for example if an Israeli company that has ties with Americans, it wouldn’t want to put those ties at risk because of the trade war with a joint venture with China.”

In recent days, those risks have been underlined by the Trump administration’s moves against Chinese telecom giant Huawei, with more Chinese companies reportedly next in line.

Rebecca Zeffert, Executive Director of the Israel-Asia Center, which promotes ties with China, said that while there was growing interest in China in Israeli firms, “the US-China trade war and security concerns raised over Chinese investments in Israeli infrastructure and certain tech sectors will certainly drive Israeli companies in those sectors to hold off from pursuing Chinese investments.”

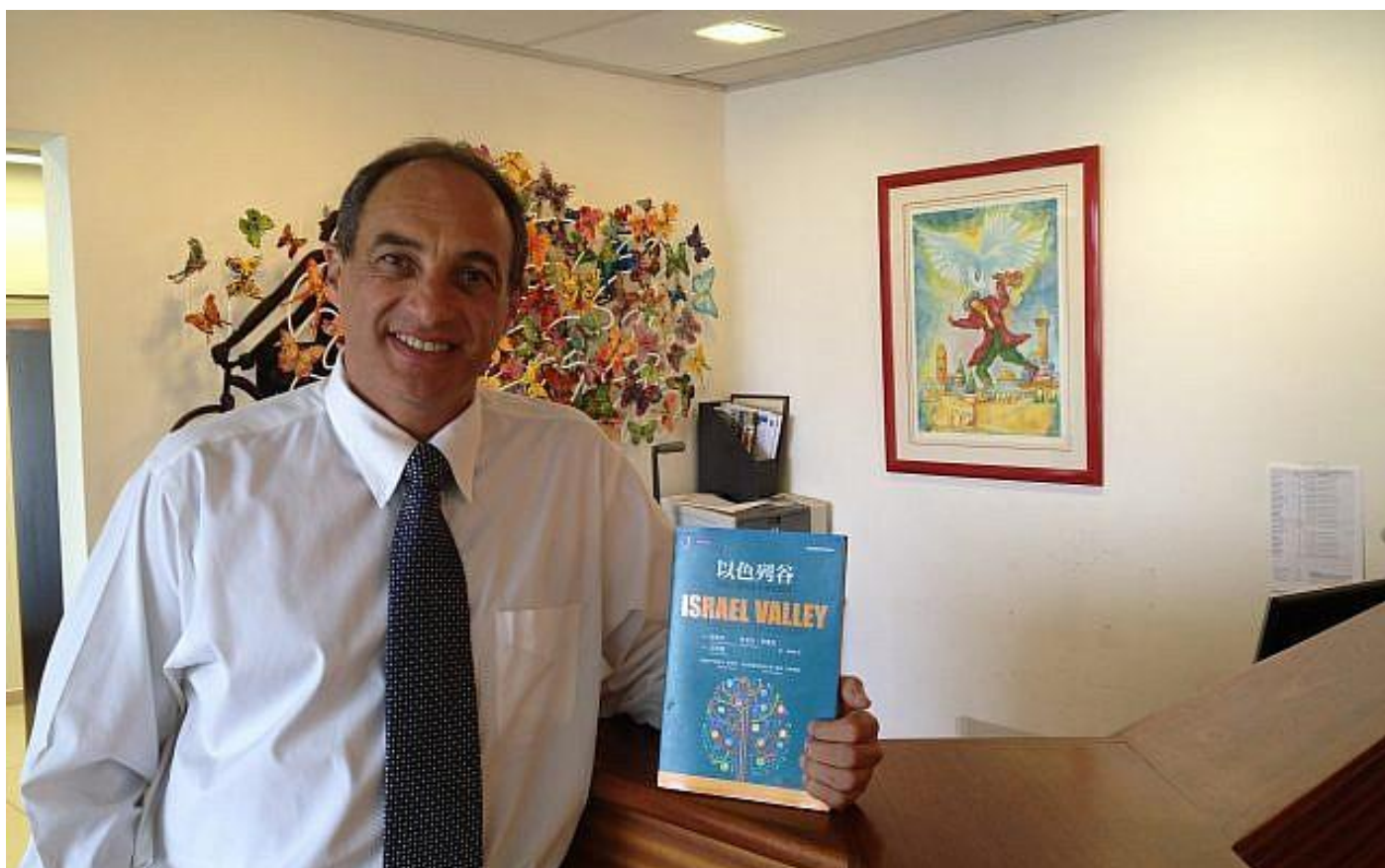


“For an Israeli company, especially a high-tech company, receiving Chinese investments, might have certain implications in the US market,” said Yoram Evron, an Assistant Professor in the Department of Asian Studies at the University of Haifa. “This is something that any Israeli company should consider before receiving investments.”

## **Bulls, not elephants**

Sitting high above Tel Aviv in his 23rd story office, businessman Edouard Cukierman said fears over doing business with China are being overblown, and the trade war actually represents an opportunity for Israel.

Cukierman, chairman of Cukierman and Co. and founder of Catalyst Funds, has played the role of matchmaker for many in the relationship, bringing Chinese investors and Israeli businesses together since first putting together a Go4China conference in Tel Aviv in 2012.



**Edouard Cukierman holding a copy of his book 'Israel Valley,' translated into Chinese. (Courtesy)**

In 2016, he began holding the summits in China, first in Wuhan and Shanghai, then Fushan and now in Jinan, an economic hub of some 7 million people about 400 kilometers (250 miles) south of Beijing.

According to organizers, some 100 Israeli companies will participate in the conference, meeting with over 1,000 investors from Shandong province and elsewhere. (Full disclosure: Cukierman and Co. is paying travel expenses for a Times of Israel journalist to cover the event.)

Most of the companies are involved in green technology, agriculture, healthcare, water tech and the like, companies that Cukierman says Chinese investors are most interested in with regards to the Israeli market.

He and others say that the only Israeli companies that really need to worry about losing business by being involved with China are those involved in making products dealing with cybersecurity or any other sensitive technologies that might have military applications.

“These startups are increasingly concerned that if they have Chinese investors or a strategic agreement with Chinese firms this could endanger their prospects in the US,” said Dorian Barak, CEO of Indigo Global, which advises strategic investors and funds, principally from China, on investments in Israel, Europe and Africa.

The CEO of a cybersecurity firm confirmed that “absolutely” companies like his are concerned about Chinese investments endangering their business with the US.

“We turned down a Chinese investment offer for this reason. We were afraid it would stop us from getting deals in the US,” said the CEO, who spoke on condition of anonymity because of the sensitivity of the topic.



**In this Feb. 24, 2017, file photo, factory workers assemble the cases of air conditioners on an assembly line at a factory in Jiaozhou, eastern China's Shandong Province. (AP/Mark Schiefelbein)**

According to researcher Shira Efron, who recently authored a report on China-Israel ties for the Rand Corporation, another issue is that many tech products could have military applications without even intending to.

“It’s becoming hard to distinguish what is dual use,” she said.

The [Rand report](#) listed a number of areas, from semiconductors to artificial intelligence, that can easily fall into the dual use category. And it noted that many Israeli venture capital firms, including Catalyst, OurCrowd and others, have both Chinese investors and investments in dual use technologies, which could be potential areas of concern.

For now, though, that does not seem to be an issue for many in the business community, so long as the companies involved are solidly on the civilian side of things.

Medved noted that OurCrowd has a health tech firm, which he declined to name, in which the two largest investors are China’s biggest insurance company and the US Department of Defense.

“If the company is in agtech or healthtech or in things that are not dual use ... then there really is no problem. And that is true for food, agriculture, games, healthcare medical devices, there is no issue,” he said.

Among the firms traveling to China to hunt for investment will be Jerusalem’s HIL Applied Medical, which combines nano-technology with ultra-high intensity lasers to create a high-performance proton beam therapy for cancer treatment and is planning on selling to the US.

“Until now the fact that we have a Chinese investor has not bothered us. I hope it will stay that way,” said CEO Sagi Brink-Danan.

## Jaundiced eye

Less than 20 years ago, Israel learned the hard way about trying to maintain a security relationship with the US while also selling military hardware.

In the late 1990s and early 2000s, the issue came into sharp focus when the US demanded Israel Aerospace Industries cancel separate deals with China for Phalcon airborne early detection radar systems and Harpy drones. Israel complied both times, after numerous threats from the US, and agreed to stop selling military hardware to China, drawing anger from Beijing and damaging ties.

It was only in 2016 that IAI returned to China in any public capacity, setting up a joint venture with Lingyun (Yichang) Aircraft Maintenance Engineering Co., for an aircraft maintenance center in Hubei Province.

Today, the failed deals continue to color the relationship, making the idea of Israel selling arms to China seem a non-starter.

Along with much of the West, Israelis have viewed Chinese investments with a jaundiced eye, even as they climb on for the ride. In 2014, when China's Bright Food bought a controlling stake in dairy giant Tnuva for \$2.5 billion, the nativist outcry was voluble, though the company had previously been owned by a British conglomerate.



Farmers protest against plans by Apax Partners to sell Tnuva to China's Bright Foods outside Apax's Tel Aviv offices. The demonstration took place a day ahead of an emergency meeting of the Knesset Economic Affairs Committee on the matter (Roni Schutzer/Flash90)

Today's bugbear is the Haifa port, one of two dockyards Israel has on the Mediterranean, which came under scrutiny after the Shanghai International Port Group contracted to begin managing operations there.

Israeli officials have spoken out about the dangers of allowing China to run the port, and a US general even hinted that the US military could stop using it to dock warships.



**The British Royal Navy amphibious assault ship HMS Bulwark anchored in Haifa port, Israel, Tuesday, Nov. 22, 2016. (AP/Ariel Schalit)**

“We warned that this would be an issue,” a senior government source told The Times of Israel last year, speaking on condition of anonymity. “This issue is part of a broader concern that the Americans have about our relationship with China. Their concerns are legitimate.”

After the outcry, the government agreed to look into creating a formal mechanism to screen foreign investments, with a focus on China. Such a body could have a chilling effect on bringing Chinese money and infrastructure projects into Israel, but many say it is necessary to protect the country from potentially harmful foreign interests.

And it will make the US, which has its own mechanism to do the same, happy. But movement on the issue has been halting.

Though Prime Minister Benjamin Netanyahu reportedly told senior officials in Washington in March that his government was in the midst of hammering out the details of such a panel, a report in financial daily The Marker this month indicated that rather than set up a permanent oversight body, officials were recommending cases be considered on an individual basis.

Thus Israel would be able to keep an eye on foreign investments without making a public declaration that it does not trust Beijing.

Avi Simhon, the prime minister’s economics adviser who is among those looking into the idea, denied the report and said it was a “sensitive issue.”



Prime Minister Benjamin Netanyahu visits a technology exhibition in Shanghai at the start of an official state visit. May 6, 2013. (Avi Ohayon/GPO/Flash90)

Zeffert welcomed the idea of creating the body to study foreign investment in strategic assets as “long overdue,” but insisted that China should not be singled out.

“It’s a consideration for any foreign interest in the Israeli economy,” she said

Cukierman downplayed the need for such a body, or that such regulation could even be implemented, noting that few industries in Israel had government oversight regarding foreign trade.

“One of the strengths of the Israeli economy, one of the major successes of the Israeli government, they understood that in order to have a successful high-tech industry they cannot intervene,” he said. “They don’t have the capability to screen companies to define which one is strategic and which one is not.”

Another area of concern for Israeli firms is China’s reputation for not respecting intellectual property, or IP, rights.

“Israeli firms like those all over the world who have IP, want to protect it and thus I think when they think about Chinese investments, some of the companies use their common sense,” said Luvton.

Brink-Danan, of HIL Applied Medical, said his firm declined a significant investment by a Chinese investor who demanded they move their R&D activities to China. “We would not move our R&D to China,” he said, “because we are very cautious about our IP. In the end we got an investment from another Chinese VC firm in Shanghai who invested like a Western VC fund, without making demands about our R&D.”

All of this bad buzz has led to what some describe as a dampening toward Chinese investments.

“You already have this chilling effect about enthusiasm around doing business in China,” said Efron.

## **They don’t care about our politics**

Overall, however, the trade relationship has grown massively in recent years. According to Cukierman, who originally put together investment conferences solely in Europe, there is more interest than ever in going to China for investment, describing a country that offered Israeli entrepreneurs “red-carpet treatment.”

According to publicly available data, in 1992, bilateral trade between Israel and China was just \$51.5 million. By 2016, it had risen to \$11 billion. The only country it did more trade with that year was the US.



**Demonstrators protesting outside the Spanish government delegation in Barcelona, October 20, 2015. (Albert Llop/Anadolu Agency/Getty Images)**

While Israeli business are simply following the money, they are also going where they are wanted, and in China have found a massive market not hobbled by political concerns or threats of boycotts from Pro-Palestinian activists.

“They care about one thing, their interest. They are very practical,” Cukierman said. “They don’t care about your politics, and the government looks at Israel as a strategic partner for innovation that can help them boost their economy.”

“China’s interest is China, and it’s not in China’s nature to get involved in the conflicts of other regions,” said Zeffert.

At the same time, China has sought to insert itself on the world stage, mainly through its Belt and Road Initiative. While the creation of a modern Silk Road may give Beijing some more political muscle, at the end of the day “their interest is mostly economic,” said Efron.



“They want to be on good terms with everyone and miraculously so far it works,” she said.

Any political benefit is just an added bonus, said Evron. “They would not compromise economic benefit” for political ones, he said. “They care less about political issues in the Middle East.”



**A sign in Shandong province advertising the GoForIsrael conference. (Courtesy)**

Shandong, a province of 100 million people which is co-sponsoring the conference through its investments arm, already has one of the highest GDPs in China, but it sees in Israel a gateway to upping its tech game.

“Shandong has an economy the size of Russia’s. It is a hub for agriculture, not to mention some of world’s leading tech corporations,” said Zeffert.

But for the province, which is known as the home of Tsingtao beer (a throwback to the port of Qingdao’s German past), and electronics firms Haier and Hisense, hosting Israeli businesses means gaining access to Israeli know-how.

“Our main challenge is to introduce innovation into the area, where it is relatively low,” Yu Shaoming, the head of the province’s investment sector, said in a statement.



**A previous GoForIsrael event in China. (Courtesy)**

For Cukierman, Shandong, and all of China, is perfectly ripe for investment in Israel and willing to pursue it to boost their own position.

“They need access to the best innovation there is in the world in order to be more competitive locally and globally,” he said. “They look at us as a strategic partner even though we are a tiny country and they are a huge market.”

### **It’s all Chinese to Israel**

While China is steaming ahead, Israel, like much of the rest of the world, appears to be still trying to figure out how to react to the country’s meteoric rise.

Efron pointed out that Israel has traditionally paid little attention to China and should invest in trying to understand both the country and how it wants to deal with it.

“Based on our research and others’ there is not a very deep understanding in policy circles in Israel of China’s motivations and strategies,” she said. “Does Israel want a world that helps China become bigger than the US. That topic is not on the agenda.”

“It’s important to decide to decide what exactly is of strategic importance, and I’m not sure Israel has,” said Evron.

Medved said it’s a problem that “ there is just no playbook or rule book.”

But he also cautioned against getting too worked up about tensions driven by the daily news cycle.

“We are committed to building strong ties with China and Chinese companies and opening up all kinds of trade,” he said. “I think that is good for Israel, it is good for China, it is good for the world but we are also very cognizant of the fact that Israel’s core relationship is with the US and we should not think to jeopardize that – but that doesn’t mean that when there is a momentary flare up or tension one needs to go completely hysterical.”