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Chinese Financial Prowess in the Service of Political Ambitions

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A long period of consistent economic growth has enabled China to amass colossal financial resources, making it a veritable financial powerhouse. China's foreign currency reserves swelled to \$3.9 trillion – the largest in the world. The China Investment Corporation, which is the country's sovereign wealth fund, currently manages assets worth more than \$650 billion. These enormous financial sources have been harnessed by the political leadership for establishing China's economic and political regional supremacy.

In recent months, China has pursued the establishment of two different international banks. One is the New Development Bank (NDB), also known as the BRICS Bank, which was announced in the July 2014 meeting of Brazil, Russia, India, China, and South Africa, states dismayed by the lack of reform of the Bretton-Woods institutions, namely, the World Bank and the International Monetary Fund. Such reform would have given these five states voting power commensurate with their territorial and demographic size. Instead, the founding states decided to establish the NDB, with the authorized \$100 billion capital and a subscribed \$50 billion capital divided equally between them. Yet while the shares of the five founding partners are equal, it will be difficult to prevent China from underscoring that its economy is bigger than the combined economies of the other four.

The second bank, the Asian Infrastructure Investment Bank, is solely China's initiative, and is an impressive political achievement for China. AIIB too is a result of China's displeasure over the fact that the post-World War II institutions and the Asian Development Bank were not reformed and continue to be dominated by the US, some European countries, and Japan. The AIIB idea was raised by China in 2013 and was launched in Beijing in October 2014. It is expected to start functioning in late 2015, once all the legal, financial, and technical details are agreed upon.

A vigorous campaign mounted by the US against AIIB failed and efforts to dissuade states from joining were futile, as major Asian allies and Australia ultimately joined. However, noticeable in its absence from the ranks of those who joined the bank is Japan.

While presumably the issue was raised in the April 22, 2015 meeting between Chinese President Xi and Japanese Prime Minister Abe on the sidelines of Asian-African summit in Indonesia, it is unlikely that Prime Minister Abe gave a positive answer. The US continues to express reservations about the proposed AIIB, particularly its governance-related standards and its environmental and social safeguards. Hence the US position, namely, "The international community has a stake in seeing the AIIB complement the existing architecture, and to work effectively alongside the World Bank and Asian Development Bank."

The most ambitious financial project, however, is what is now officially called the "Belt and Road Initiative." It was first announced by President Xi in September 2013 and referred to building the Silk Road Economic Belt; one month later the maritime element was added. The strategic concept evolved further and was announced officially on March 28, 2015 as "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road." As stated, "The Belt and Road Initiative is a systematic project, which should be jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries along the Belt and Road. The Chinese government has drafted and published the Vision and Actions...to promote the implementation of the Initiative, instill vigor and vitality into the ancient Silk Road, connect Asian, European and African countries more closely and promote mutually beneficial cooperation to a new high and in new forms."

The geographical scope of this ambitious project is described clearly as covering "China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st-Century Maritime Silk Road is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other."

Cooperation priorities include infrastructure projects aimed at increasing connectivity in general transportation and land and maritime energy transportation, linking electricity grids, and constructing cross-border and transcontinental optical cables. Trade is of course a major part and the initiative aims at removing investment and trade barriers and establishing trade and mutual investment zones. Other proposals include deeper cooperation in agriculture, including agricultural machinery, farm food production, seawater desalination, and the development of renewable energy sources.

In discussing the financial integration, the Chinese propose moving to use of local currencies in bilateral transactions, opening and developing the Asian bond market, and expanding the financial institution mentioned above. In November 2014, President Xi declared that his country will contribute \$40 billion to a Silk Road infrastructure fund,

which aims to break the "the connectivity bottleneck" in Asia and will be open to other investors.

For Israel the Chinese massive effort to assert itself in Asia and beyond represents both opportunities and concerns. The increased Chinese interest in Israel and its financial capabilities has already ignited a debate as to what degree Israel is willing to allow Chinese procurement of key Israeli companies or grant Chinese infrastructure firms contracts to build railways and ports. In addition, the transparent irritation in Washington resulting from China's economic-political ambitions should not be ignored.

On the other hand, it is clear that the Chinese economic initiatives – in which it invites all relevant states, including Israel, to participate – are of great political significance to Israel, especially in view of the current efforts by the Palestinians and some states and organizations to isolate it. For example, Israel can be a major contributor to the projects included under the Belt and Road Initiative. Taking part in Chinese initiatives can be expected to open doors for Israel in Asia that are at present closed to Israeli economic entities and firms. The recently established task force for the promotion of the economic relations with China, led by Prof. Eugene Kandel, head of the National Economic Council, is evidence of the recognition by Israel's government of the significance of these relations. However, this should not replace serious strategic study of all the long term political, economic, and strategic implications of the Israeli involvement in new Chinese strategies.

