



Israel Joins New Asia Bank Opposed by US

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EXECUTIVE SUMMARY: The Israeli government's decision to apply to the Asian Infrastructure Investment Bank (AIIB), despite Washington's displeasure, is an expression of Israel's strong interest in increasing its economic engagement in Asia.

Prime Minister Benjamin Netanyahu, in his capacity as minister of finance, signed a letter of application to join the Chinese-led Asian Infrastructure Investment Bank (AIIB) on March 31, despite Washington's displeasure. Fully aware of Washington's failed attempt to convince its allies not to join the AIIB, the decision to apply demonstrates Israel's understanding of the rising importance of Asia, especially China, to Israel's economy.

The new bank is viewed by many as an important indicator of the changing economic and global balance of power, appearing as a threat to the World Bank. The decision to join the AIIB is another phase in Israel's policy to improve relations with Asia. Additional moves include negotiating free trade agreements with China, Japan and South Korea.

Does the AIIB symbolize a global financial shift towards China? Is it yet another indication of the gradual decline of the United States in Asia and the global arena?

During the 1990s, there were a few failed initiatives to establish new regional economic and political organizations in Asia mainly as a result of Washington's

objections. Malaysia's prime minister at the time, Dr. Mahathir Muhamad, called for the establishment of a regional organization that would include all Asian nations and exclude the United States. This attempt was blocked by Washington and Tokyo.

After the 1997 Asian financial crisis, Japan initiated another attempt for Asian nations to establish an Asian Monetary Fund (AMF), which would attend to Asian needs in contrast to the International Monetary Fund (IMF), increasingly criticized for its lack of sensitivity to their needs during the 1997-1998 economic crisis.

The AMF initiative was thwarted by Washington because of concern that it might lead to the decline of US power through the IMF and in Asia as well. In the end, Beijing also seemed to back Washington's opposition based on the worry of the rise of Japanese power in the region.

Chinese President Xi Jinping announced the plans for the AIIB in a speech to the Indonesian parliament in 2013. The bank looks to invest about \$100 billion in infrastructure projects in Asia in contrast to the World Bank, which has a global, not regional focus. Another difference between the two banks is the amount that they would invest in Asia. While the WB total work program funding for 2015 in Asia is \$172 million, the AIIB intends to invest more than \$800 million in Asia in 2015.

The AIIB will boost China's role in the global economy beyond what is currently reflected in the voting mechanisms of the IMF and World Bank. It will also allow China to enhance its soft power in Asia. The AIIB might, as suggested by Washington, have transparency and technical problems, but the fundamental issue for the Americans is that it challenges its global hegemonic position.

Washington's allies, mainly in Asia, were faced with a dilemma: to join or follow Washington's recommendation not to. While the United States is undoubtedly an important ally for many countries, China's importance as a major trading partner and ally also carries substantial weight.

For example, South Korea found itself in a dilemma, stuck between Washington's request to abstain from joining the AIIB and to deploy the American Terminal High Altitude Area Defense (THAAD) anti-missile system. On the other hand, Beijing asked Seoul to join the AIIB and abstain from deploying THAAD. In the end, Seoul decided to join the AIIB and delay its decision on deploying the sophisticated anti-missile system. One possible reason why Seoul decided to join the Chinese led bank could have been to assist infrastructure projects in North Korea which would decrease Pyongyang's incentive to initiate military provocations.

Besides South Korea, many other US allies decided to join the AIIB in spite of Washington's objections. These include Britain, France, Germany, and Saudi Arabia. Tokyo and Washington are the two main economic powers that have so far decided not to join the new bank. However, based on Washington's past record of opposing Asian regional initiatives at the beginning, only to later reverse its decision, it is likely that Washington and even Tokyo will also join in the long run.

The AIIB is another indication of China's growing economic growth and willingness to challenge American power on the world stage. And although Washington and Beijing do not see eye to eye on political, security, and economic issues, both states are economically interdependent, which could serve to constrain their rivalry over the balance of power in Asia.

The Israeli government's decision to apply to the AIIB, despite Washington's reticence, shows that it understands that it cannot afford to be left out of Asia's economic rise. Once its application is approved, Israel will be able to initiate projects in Asia through the AIIB and assist Israeli companies in the process, thus increasing its relations in Asia.

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