

ENDURING PARTNERSHIP

REPORT OF THE COMMISSION ON U.S.-ISRAEL RELATIONS



THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY

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U.S.-ISRAEL RELATIONS**

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Clinton escorts Israeli Prime Minister Yitzhak Rabin
through the Colonnades of the White House after their
Oval Office meeting.

**THE COMMISSION
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“As I arrive in Israel this evening, there are several things about which President Clinton and I are very certain.

“First, the relationship between the United States and Israel is a special relationship for special reasons. It is based upon shared interests, shared values, and a shared commitment to democracy, pluralism and respect for the individual. The ties between our two countries have proved strong and resilient, and President Clinton is determined to make them even stronger and more resilient.

“Second, I know that to understand Israel—Israel’s present and its future—it is essential to understand Israel’s past. History has cast a long shadow over the people of this Jewish state. The Israeli people have had to fight war and terrorism to defend the state. I understand this struggle for survival. That’s why the United States is unalterably committed to Israel’s security. That commitment will not change.

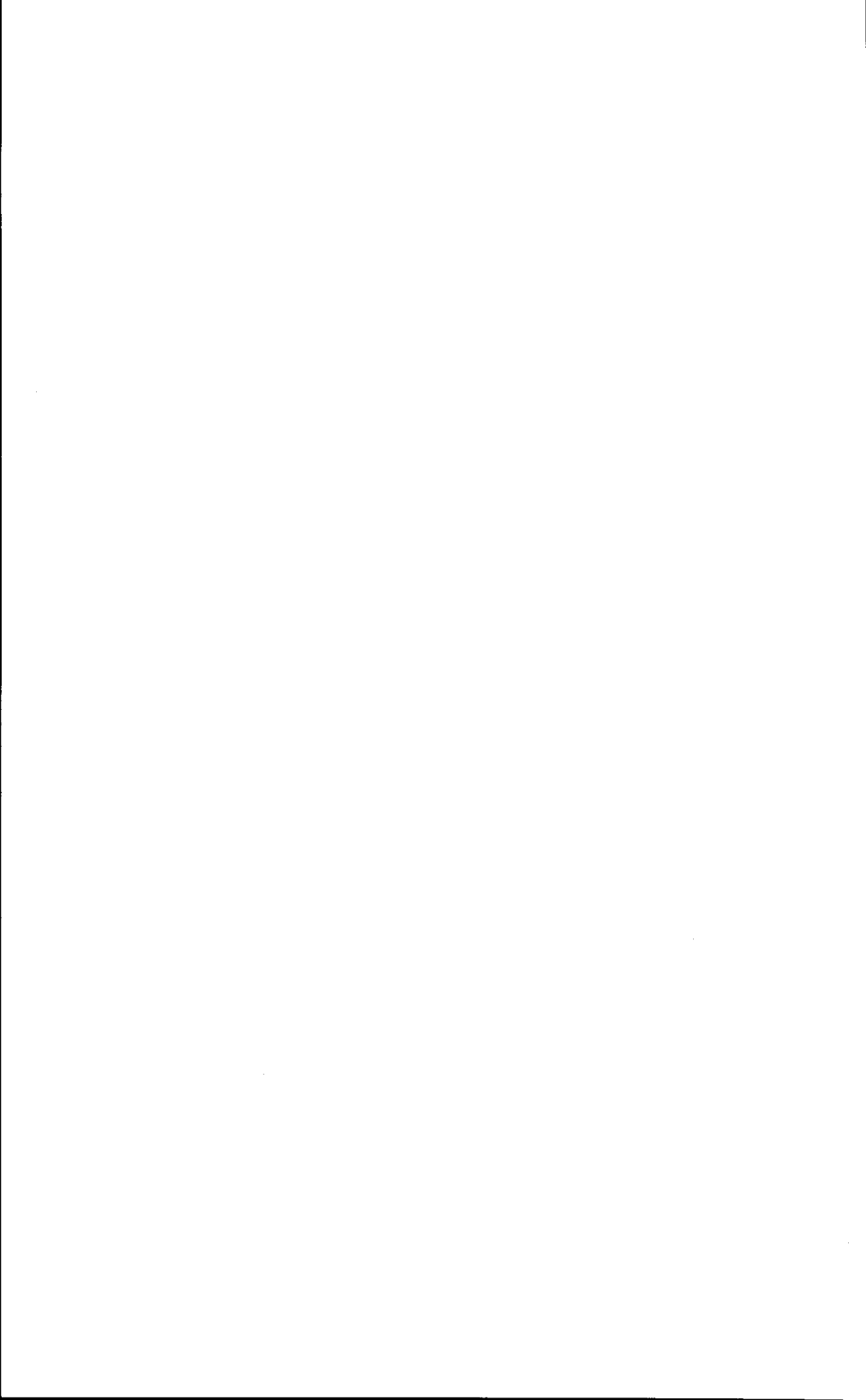
“Third, real security can only be brought about by real peace. But we also know that peace won’t be possible unless Israel is fully secure. The Israeli people want peace—not just peace meaning the absence of war, but peace reflected in lasting treaties, normalized relationships, and real reconciliation. It is with this in mind that President Clinton has sent me to this region to assess, to consult, and to focus the parties—all the parties—on the importance of resuming negotiations at the very earliest date.”

Secretary of State Warren Christopher, statement on arrival in Israel, February 22, 1993.



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PREFACE

The Commission on U.S.-Israel Relations was formed in May 1992 to examine the future of a unique and special relationship as both countries entered a new era. Its mandate was shaped by three dramatic developments that had emerged from the end of the Cold War and conflict in the Gulf:

- The demise of Soviet influence and patronage in the Middle East.
- The convening of comprehensive Arab-Israeli peace negotiations.
- The discovery of how close Iraq had come to acquiring nuclear weapons.

While the Madrid peace conference and the subsequent convening of bilateral negotiations between Israel and its neighbors raised the prospect of a broad settlement of the Arab-Israeli conflict, the continuing revelations of Iraq's multiple nuclear weapons programs raised fears of a nuclear Middle East. Paradoxically, the chances for full peace seemed to have improved at the same time that the risk of unconventional war in the region seemed to have grown. In light of these new opportunities and new dangers, the Commission was established to consider whether American and Israeli interests have changed, where they converge and how they might be best promoted.

As the Commission's deliberations began, Israeli voters replaced the Likud-led government of Yitzhak Shamir with a Labor-led coalition

headed by Yitzhak Rabin. And as the discussions continued, Americans replaced Republican George Bush with Democrat Bill Clinton as their president. These electoral decisions could be seen in part as a reflection of popular adjustment to a new era: Israelis voting for a government that promised to pursue peace and immigrant absorption with greater vigor; Americans voting for a president who promised to focus more attention on domestic economic and social concerns. With these changed priorities, these new leaders created a new context for U.S.-Israel relations that reinforced the Commission's mandate to make a fresh examination of the future of the bilateral relationship.

Over the course of nine months of deliberations, the Commission found a relationship whose foundation of shared values and shared interests should endure the promise and perils of the post-Cold War era. To do so will require the United States and Israel to adjust their relationship so that they can work together better to advance their common interests. This report provides suggestions for strengthening their "enduring partnership," a blueprint for the future of U.S.-Israel relations in the post-Cold War era.

In pursuing its efforts, the Commission's bipartisan group of veteran policymakers and Middle East experts met on a number of occasions between May and December 1992 in the offices of The Washington Institute. Its discussions were guided by the wisdom and insight of a distinguished Steering Group that included Vice President Walter Mondale, Secretary of State Alexander Haig, Senator John McCain,

Congressman Howard Berman, and Ambassador Max Kampelman.

In addition, seventeen members of the Commission traveled to Israel in August 1992 to consult with leading Israeli policymakers and analysts, representing differing views across a broad political spectrum. This extraordinary exchange did much to improve the Commission's understanding of Israel's approach to the challenges of the post-Cold War era. It also made those Israelis present more aware of the changes underway in the United States. Although not planned as such, the discussions held during the Commission's two-day retreat with Israeli counterparts in Caesaria became a model of how the Commission believes the United States and Israel ought to communicate with each other: combining candor with empathy in a relationship founded on trust and common purpose. Names of those who attended the Caesaria retreat are listed in the appendix.

Following the retreat, members of the Commission participated in a special conference convened by The Washington Institute at Jerusalem's Laromme Hotel. The conference, titled "The Future of U.S.-Israel Relations," both provided an early airing of some of the ideas discussed within the Commission and offered members of the Commission the opportunity to hear directly from Israel's top political echelon, including Prime Minister Yitzhak Rabin and Foreign Minister Shimon Peres. The proceedings of that conference were published in November 1992 by The Washington Institute.

In its deliberations in Washington, the Commission benefited greatly from the participation of advisors from the State Department, the Defense Department, the National Security Council, and the media who, because of their professional responsibilities, cannot be identified with the report.

In addition, ten Commission members have been recently appointed to positions in the Clinton administration and cannot therefore endorse the report; an eleventh, Robert Oakley, served with distinction as special envoy in Somalia from December 1992 to March 1993 and was not involved in the Commission's recent work. The text of this report bears the imprint of these members' earlier participation in Commission deliberations.

The Commission's discussions and the final report were based on and guided by policy papers prepared for the group by Ambassadors Dennis Ross and Samuel Lewis, Dr. Herbert Stein, Congressman Berman and the Honorable Stuart E. Eizenstat. Specifically, chapter one ("The Historical Setting") is drawn from thoughts presented by Ambassador Lewis; parts of chapter three are drawn from "Pursuing Peace," the final report of The Washington Institute's Strategic Study Group (September 1992); and chapter five ("Redefining an Economic Partnership") relies heavily on Mr. Eizenstat's presentation. The drafting of the text of the report was itself the work of a number of Commission members, especially Harvey Sicherman, Steven Spiegel, Robert Satloff and, prior to his appointment to government, Martin Indyk. Michael Mandelbaum, Peter Rodman, William Brown, Richard Haass, and

Robert Hunter provided valuable guidance in revising the final manuscript.

The Commission's work and the policymakers' retreat in Caesaria were made possible by a generous grant from Mr. Edgar M. Bronfman and the Seagram Fund. Additional funding for this project was provided by Mr. Monte Monaster of Chicago, IL. The Commission recognizes its benefactors' deep and abiding concern for the future of the U.S.-Israeli relationship that led them to support a project over which they would have no control or input. The Commission deeply appreciates their generosity and is grateful for their trust in the value of its deliberations. This report has not been endorsed by Mr. Bronfman, the Seagram Fund, Mr. Monaster or the Board of Trustees of The Washington Institute and should not be taken as representing their views.

It is important to underscore the limits of the Commission's mandate. The Commission was not founded to analyze overall U.S. policy in the Middle East or to devise ways to promote the Arab-Israeli peace process. Rather, it was established to examine one vital component of America's global commitments—the bilateral relationship with Israel. Readers who seek a comprehensive assessment of U.S. policy in the region are urged to consult the three studies produced by The Washington Institute's Strategic Study Group: *Restoring the Balance*, 1991; *After the Storm*, 1991; and *Pursuing Peace*, 1992.

The report reflects the broad, bipartisan consensus of the members of the Commission on U.S.-Israel Relations. Not every member endorses

every judgment or recommendation. Commission members have endorsed this report in their individual capacities and endorsements do not necessarily reflect their institutional affiliations.

The Commission would like to acknowledge the invaluable assistance provided by Carole Stern, Adam Petricoff, and the entire staff of The Washington Institute in organizing the Commission's meetings and publications.

EXECUTIVE SUMMARY

HISTORICAL SETTING

Sympathy for the Jewish return to Palestine and support for the establishment of a sovereign Jewish state runs deep in American history. Despite frequent conflicts over tactics between the American and Israeli governments, ties of religion, culture, ideals, and democratic values have long bound the two countries together.

Yet, the history of U.S.-Israeli relations also contains a paradox. Public sympathies notwithstanding, the "special relationship" between the U.S. and Israeli governments was not particularly special during Israel's first two decades. There was no alliance with Israel, no acknowledged strategic relationship and no arms sales.

The turning point for American involvement with Israel was the June 1967 War, when Israelis demonstrated that, if provoked, democracies could be decisive and victorious. From 1967 onward, the bilateral relationship moved in new directions. The United States assumed the mantle of Arab-Israeli peacemaker and it began to create a rudimentary strategic relationship with Israel.

The closer U.S.-Israeli association was severely tested by the October 1973 War. U.S. post-war negotiating efforts brought friction with Israel's government. Inevitably, the United States urged Israel to trade increments of "land" for elements of "peace" and "security" as Washington tried to manage the tense task of

improving its relations with the Arabs, while not jeopardizing Israel's security. The outer limits of this strategy were reached in the second disengagement agreement with Egypt in 1975.

President Carter instituted a different policy: a "comprehensive approach" concentrating on solving the Arab-Israeli conflict for its own sake, not as part of the Cold War contest with the Soviets. His efforts led to conflicts with Israel, especially after the Likud party assumed office in spring 1977. Anwar Sadat broke the existing deadlock with his dramatic trip to Jerusalem in November 1977, changing the focus of America's peace-making effort. The results were the historic Camp David Accords and the bilateral peace treaty, brokered by Washington. Also, the late Carter years saw a renewal of formal, though limited, U.S.-Israel strategic dialogue as a result of the peace treaty and the Soviet invasion of Afghanistan.

The Reagan administration's emphasis on the struggle against Soviet Communism brought a different perspective to U.S.-Israeli relations: a focus on anti-Soviet "strategic consensus" among Arabs and Israelis. Although this found little public support among Arabs, U.S. determination to advance strategic cooperation was welcomed by Israel and resulted in a formal Memorandum of Understanding in 1983 and the formation of a Joint Political-Military Group.

The Reagan era was also marked by U.S.-Israeli friction on a range of topics; Israel's invasion of Lebanon brought relations to their lowest point. In 1983, however, Secretary of State Shultz's attempt to resolve the crisis in Lebanon brought the two countries together again. In the

process, the Reagan administration demonstrated again the principle that U.S. relations with Israel and Arab states were not a "zero-sum game." As strategic relations were growing with Israel, the United States was able to reinforce its military arrangements with Egypt, Saudi Arabia, and other Arab states.

By the end of Reagan's second term, strategic cooperation on the military level had reached new heights. The broader strategic dialogue, however, had become hostage to the Palestinian *intifada* (uprising), which produced an attrition in American public sympathy for Israel and prompted Shultz's final effort to get peace negotiations underway.

Relations between the Bush administration and the National Unity Government started well but frictions emerged over Israeli West Bank settlement activity. Over time, Israel feared that Washington intended to pressure Israel to negotiate with PLO surrogates and to return to the 1967 borders, whereas the United States suspected that Israel was not truly interested in pursuing peace. A common strategic purpose was briefly restored during the Gulf crisis of 1990-91, but bilateral relations took another turn for the worse in 1991-92 over the issues of loan guarantees for immigrant absorption and Israeli settlement activity. When the June 1992 Knesset elections brought to power a government with changed priorities and policies, Bush agreed to support the extension of \$10 billion in U.S. loan guarantees for immigrant absorption. The election of Bill Clinton brought to the White House a man who had called for improving bilateral relations with

Israel. In 1993, the stage is thus set for reinforcing the strategic partnership.

COMMON VALUES AND COMMON INTERESTS

Shared Values

The U.S.-Israel Commission believes that, after the Cold War, shared values will again become more, not less, important in the bilateral relationship.

First, if there is to be any central organizing principle in U.S. foreign policy in the new era, it will likely be one of commitment to the promotion of democracy, which is shared by the United States and Israel.

Second, at a time when the world is horrified by evidence of "ethnic cleansing" and the proliferation of weapons of mass destruction, America's long-standing moral commitment to the survival and security of Israel becomes more, not less, important.

Third, the United States and Israel share a vital interest in the pursuit of Middle East peace in which the rights of the Arab states and the Palestinians are reconciled with Israel's right to security, recognition, acceptance, and normal relations with its Arab neighbors.

Strategic Interests

The Commission also believes that the post-Cold War era of Arab-Israeli negotiations provides a new strategic validity for the U.S.-Israel relationship. Peace could promote stability in a volatile area of vital interest to the United States

and provide the most effective way of reconciling America's stake in Israel's security and its stake in good relations with key Arab states. Achieving that strategic objective may now be within reach.

Overlapping Threats

This strategic rationale is reinforced by the overlapping threats that confront the United States and Israel era from radical regional powers (e.g., Iran, Iraq, and Libya) and terrorist groups whose capabilities may expand with the willingness of Soviet successor states to sell military hardware. Unlike much of the Cold War, when Israel wanted the United States to cooperate against the Arabs while the United States wanted Israel to cooperate against the Soviets, both countries face the same opponents.

Syria plays an uncertain, semi-adversarial role. The United States and Israel share a common interest in encouraging Syria's peacemaking instincts, while discouraging its penchant for mischief-making in tandem with Iran or through local proxies.

The most vocal and important state opponent of the United States and Israel is the radical regime in Iran, which is making a concerted attempt to disrupt the peace process. Iran and its extremist allies pose a threat to the United States and Israel—and no less to Arab parties who support the peace process—in the pursuit of a just, lasting and secure settlement of the Arab-Israeli conflict.

Overall, the new circumstances translate into much greater U.S. diplomatic and strategic flexibility. Washington no longer has to fear the

possibility of superpower confrontation. Nor does the United States face the same tension in its strategic relations with Israel and those Arab countries supportive of U.S. interests in the region.

AFFIRMING THE STRATEGIC PARTNERSHIP

To adjust the U.S.-Israel relationship to changing circumstances, the two countries should re-create a dialogue at the highest levels of leadership so that the two partners can coordinate efforts to achieve their key objectives. The starting point of U.S.-Israeli strategic coordination should be the identification of shared strategic goals. Among the most important of these are:

- A comprehensive peace based on the Madrid formula that essentially eliminates the potential for war between Israel and any of her neighbors and puts the Palestinian problem on a path towards final settlement.
- A regional military balance that, in the absence of the Arab-Israeli problem, would offer greater security at lower levels of defense spending.
- The potential to establish a truly “new” international order in the Arab-Israeli region, where diplomacy rather than force of arms is the preferred way to settle disputes.

These objectives are likely to be advanced diplomatically through two main projects: the Arab-Israeli peace process and broader regional coordination.

Members of the Commission advanced these principles as guidelines for the joint U.S.-Israeli pursuit of peace:

- The United States should act as a catalyst in the negotiations by identifying common interests and encouraging the parties to move to bridgeable positions where it might offer compromise proposals or assurances that reduce the risk of agreement.

- The United States should make clear that a stable and lasting peace is a function of Israeli-Arab agreement, not an agreement imposed by Washington.

- Neither the United States nor Israel should be bound by artificial linkages between the different sets of negotiations. Where progress can be made, it should be made.

- Agreements should be judged by whether they achieve the overall objectives: peace, security, and recognition for Israel; redress of Arab grievances against Israel; contractual peace between Israel and as many Arab states as possible; and the advancement of Palestinian political rights through an interim self-government with mutually agreed upon powers.

- The United States and Israel should try to coordinate their tactics when possible. In the current negotiations, Washington will expect Israel to be forthcoming on territorial compromise in the Golan, on genuine autonomy for the Palestinians, on the restraint of Jewish settlement activity in the West Bank and Gaza, and on the use of such policies as expulsions to deal with attempts by extremists to undermine

the peace process. Israel has the right to expect in return American understanding for vigilant Israeli actions against terrorists, Israeli insistence on a formal termination of the state of war and workable security arrangements to enforce it; and for Israel's claim to the right of Jews to reside not only throughout Jerusalem but also in "Judea and Samaria."

Regional Coordination

If properly managed, the shared strategic interests among the United States, Israel, and pro-Western Arab states can be a source of strength to the U.S.-Israel relationship. The multilateral talks on regional issues offer a useful forum for such improvements.

To develop a vision of collective security in the Middle East, the United States and Israel must face up to several important strategic issues:

- Israel needs to recognize U.S. interests in Gulf security that are sometimes served by the sale of sophisticated weapons systems.
- The willingness of the American people to spend resources in the global arena has declined. This could translate into popular pressure to reduce levels of U.S. foreign assistance and into an American reluctance to finance another round of Arab-Israeli peace accords.
- The proliferation of weapons of mass destruction and the missiles to deliver them poses strategic threats to Israel's existence and a great danger to American interests in the region.

- The Middle East has entered an era of Arab-Israeli peace negotiations in which the United States expects Israel to be actively seeking a settlement based on “territorial compromise.”

- At the same time, Israel is faced with a massive and costly task—absorbing hundreds of thousands of new immigrants as it undertakes a structural overhaul of its economy.

At the intersection of these trends is a strategic dilemma: Israel may face mounting dangers at a time when the United States may be less willing to help Israel meet them. If strategic coordination is to overcome these difficulties, then it must be based on a readiness by each party to uphold its parts of the bargain: for the United States, to reduce Israel’s risks in making peace; for Israel, agreeing to the compromises necessary to achieve peace and otherwise working closely with the United States.

PARTNERS IN MILITARY COOPERATION

The proliferation of weapons of mass destruction and the ballistic missiles to deliver them will confront Israel with an unprecedented threat to its existence. As a result, the Commission believes that the U.S. commitment to work with Israel to safeguard its “qualitative edge” must extend into the unconventional realm as well. The concept of qualitative edge must also take into account America’s concerns with the transfer of sensitive technology.

The agenda for military cooperation in the post-Cold War era is deep and broad:

- Creating a more stable balance of regional deterrence and stability based on the maintenance of strong Israeli forces and cooperation between the United States and Israel in deterring regional aggression.

- Strengthening cooperation in areas that involve the support and enhancement of America's power projection capability in the region.

- Promoting security arrangements within the context of the Arab-Israeli peace process.

- Bolstering efforts by the United States to develop formal and informal security cooperation with friendly and moderate Arab states and in broadening the security dialogue between Israel and such states.

- Combatting terrorist activity and extremist military action.

- Developing common approaches to control the proliferation of weapons of mass destruction and the transfer of conventional arms.

- Revitalizing cooperation in military technology to reflect the growing resource constraints faced by both states.

- Improving cooperation in intelligence.

- Developing responses to the threats posed by ballistic and cruise missiles and cooperating in efforts to deter and defend against the use of weapons of mass destruction.

The Commission believes that the opportunities for U.S.-Israel cooperation are ample:

- Strategic dialogue between the two countries should clarify a partnership in which each party bears responsibilities to the other. As a general rule, the United States ought to help limit risks to Israel's security margin by making available appropriate weaponry and technology.

- The shared threat from long-range missiles must be addressed through increased cooperation in such areas as the monitoring of events, sharing of intelligence, and linkage with American satellite coverage.

- The United States should continue to support efforts, such as the research and development of the Israeli Arrow anti-tactical ballistic missile program, to develop responses to the threat of ballistic missiles.

- The two governments should work together to develop joint ventures which may facilitate the transfer of investments in defense technology to the civilian arena.

- Pre-positioning of American materiel in Israel is important to both countries. The Commission endorses the \$300 million worth of pre-positioning in Israel to which the United States is currently committed.

- In light of an arms race in conventional weaponry, the Commission recommends a concerted U.S. effort with other supplier countries to negotiate a Multilateral Arms Transfer Restraint Regime for the Middle East. However, the Commission warns against a lax arms control

regime that may lead only to unilateral restraint on the part of the United States.

- The Commission believes that the United States would benefit from working closely with Israel in arms control strategy. This should include a dialogue on the future of the Israeli deterrent and the issue of nuclear proliferation.

REDEFINING AN ECONOMIC PARTNERSHIP

The Commission believes that the United States and Israel must transform their donor/recipient charitable connection into a more mature partnership. Both countries can contribute to creating the conditions in Israel for growth and self-reliance. A common objective should be to encourage an Israeli economy vital and secure enough to be weaned from dependence on U.S. economic assistance.

An examination of Israel today reveals:

- A country whose political and financial leadership is publicly committed to serious efforts at economic reform.

- A country facing two enormous economic demands: the military challenge of devising responses to long-term strategic threats and the social challenge of absorbing hundreds of thousands of new immigrants.

- A country whose main element of foreign assistance—U.S. economic and military support—has shrunk in real terms because it has been eroded by inflation. As a result, at a time when Israel's long-term needs are growing, direct financial assistance is actually declining.

- A country whose people have managed to cope with the structural hurdles facing economic growth to build an economy with a \$57 billion GDP.

At this historic moment in Israel's history, the United States has committed itself to help with immigrant absorption. Yet Israel must also understand that the United States is itself at a historic juncture. In the wake of the Cold War, there is a strong interest in refocusing American resources and changing priorities from spending abroad to dealing with unmet problems at home. In addition, as pressures to cut the U.S. budget intensify, there will also be demands to alter the foreign assistance budget by reducing either the overall total or the amount "earmarked" for Egypt and Israel, or both.

To build a new era in the U.S.-Israeli economic relationship, the Commission recommends the following:

- A government-to-government mechanism should be created to provide an institutional framework for this new relationship modeled on the Joint Economic Development Group (JEDG) created by Secretary Shultz. The JEDG should now be revived and staffed so that it functions as a permanent forum for the detailed discussion of the economic relationship and, especially, economic reforms in Israel.

- The Commission urges the Clinton administration to assign very high priority to ending the Arab boycott of Israel. The President, backed by the Congress, should make a vigorous effort to convince Arab states, especially those in the Gulf, to terminate the boycott, by using such

leverage as may be available and appropriate. The American taxpayer is indirectly paying a considerable price for the maintenance of the boycott because it deprives Israel of foreign investment, thereby increasing Israel's dependence on U.S. aid. It is time for an all-out assault on the boycott by the United States.

- The \$10 billion in loan guarantees for immigrant absorption should provide another vehicle for encouraging Israel toward further free market reforms. Loan guarantees should serve as a catalyst for reform in much the same way that emergency assistance did in 1985.

Both the United States and Israel have a material interest in the success of Israel's economic reform program. These reforms ought to include: further progress toward privatization of state enterprises; change in the land tender system of the Israel Land Authority; phasing out wage and price indexation; removing the remaining cartels and monopolies; and creating a more attractive environment for foreign investment by trimming the bureaucracy.

- Economic relationships between the two countries should be regularized. This includes ratification of the U.S.-Israel Tax Treaty and reviewing and updating the Israel-U.S. Free Trade Agreement.

- The endowment of the three existing U.S.-Israel binational funds should be doubled. These independent endowments, jointly funded by each government, are examples of foreign assistance that directly benefit both the U.S. and the Israeli economies. On the U.S. side, increasing endowments can be achieved by

reallocating existing funds. In addition, a new Industrial Development Fund should be created, financed exclusively by \$500 million from loan guarantees, to support direct industrial activities and joint U.S.-Israeli industrial ventures.

- In light of the reassessment of American economic priorities, it is appropriate for Congress and the new administration to reevaluate Israel's needs. They will find that 97 percent of the total aid package is security-related, including foreign military assistance and funds used for repayment of military loans from the Camp David era. Therefore, the Commission believes that an early attempt to decrease economic support would have a deleterious effect on Israel's security posture. Not only would such a cut come precisely when Israeli planners need to deal with threats of unconventional weapons, but it would also come when Israel is offering to make substantial compromises in real security—land—in exchange for its neighbors' commitments to peace.

Over time, the Commission recommends that the two countries re-examine the aid package. Specific options that should be explored include:

- Transferring those economic support funds not used for debt service into military assistance, either within the context of the existing aid package or by setting up a special account.

- Applying those economic support funds to enlarge binational endowments.

- Contemplating reductions in overall economic assistance, should circumstances warrant. Both partners in the U.S.-Israeli

relationship share an interest in reducing Israel's reliance on U.S. aid. Such reductions, however, should not exacerbate Israel's unique circumstances. Over time, should Israel gain the normalcy—peace, security, and recognition—it deserves and should the burdens of immigrant absorption assume manageable proportions, it will be appropriate for Washington and Jerusalem to discuss normalizing the economic relationship between the two countries as well. In that context, the Commission would recommend an examination of Israel's overall economic situation and the aid package, with an eye toward reduction of U.S. assistance.

CHAPTER ONE

THE HISTORICAL SETTING

In an America imbued with Old Testament Protestantism, with a frontier ideology and the belief that miracles were possible, the Jewish return to Palestine evoked early sympathy. A century before Britain's Balfour Declaration, many leaders of the young American republic had already endorsed the concept of Jewish sovereignty in the Holy Land. "I really wish the Jews again in Judea an independent nation," remarked John Adams in 1818.¹ In 1891—three years before Theodor Herzl, founder of the modern Zionist movement, began his campaign to establish a national homeland for the Jews in Palestine—William Blackstone of Chicago presented President Benjamin Harrison and Secretary of State James Blaine a memorial signed by 413 prominent Americans proposing that the Jews be restored to their ancient homeland. The signatories included the chief justice of the United States and the speaker of the House of Representatives. Indeed, every president from Woodrow Wilson onward endorsed the idea of a Jewish national home in Palestine.

With the end of World War II, the religious and cultural affinity of many Americans with the Zionist quest in Palestine was intensely reinforced by the Holocaust and a sense of collective responsibility for having turned a blind

¹ Cited in Steven Spiegel, *The Other Arab-Israeli Conflict* (Chicago: The University of Chicago Press, 1985), p. 1.

eye during the war. America's humanitarian instincts toward bereft refugees in Hitler's Europe strengthened this sense of identification with aspirations for the reestablishment of Jewish homeland. Despite currents of anti-Semitism that have marked American history, the vast majority of Americans understand and support Israel's unique role as a safe haven for oppressed Jewry. Those instincts remain alive today as Jews coming to Israel from countries around the world—Ethiopia, Yemen, the former Yugoslavia, and especially the former Soviet Union—demonstrate the continued relevance of the Zionist mission.

Americans have also long been enthusiastic about the idea of a democratic state in a region where dictatorship and despotism are the norm. The recent peaceful transfer of power in Israel, mirroring America's own transition, reminds Americans again of the common democratic institutions that Israel upholds despite its hostile environment. The noted historian, Bernard Lewis, put it well in a recent issue of *Foreign Affairs*. "Americans, schooled on the Bible and on their own history, can readily see the birth of modern Israel as a new Exodus and a return to the Promised Land, and find it easy to empathize with people who seem to be repeating the experience of the Pilgrim fathers, the pioneers and their successors."² Despite frequent conflicts over tactics between the American and Israeli governments on such issues as the peace process and Israeli rule in the West Bank and Gaza, these ties of religion, culture, ideals, and democratic values have bound the two countries together.

² Bernard Lewis, "Rethinking the Middle East," *Foreign Affairs*, Fall 1992, p. 110.

In fact, broad American support for the Jewish enterprise in the Holy Land predated the Cold War and survives it. A review of public opinion polling data over the past decades shows that even before Israel's independence, Americans were more sympathetic to the Zionists than to the Arab nations by more than two to one. While the particular ratio has changed over the years—from a high of about ten to one following the Six Day War to a low of about three to two during Israel's invasion of Lebanon in 1982—most Americans have never wavered from their support for Israel's quest for survival and security.³

Yet, the history of U.S.-Israeli relations also contains a paradox. Public sympathies notwithstanding, the "special relationship" between the U.S. and Israeli governments was not particularly special during Israel's first two decades. In the 1950s, Washington's official stance was friendly but distant. At times, the relationship was strained, most dramatically, but not exclusively, by the Suez Crisis of 1956. The Truman administration imposed an arms embargo after recognizing Israel in 1948 and afterwards both Truman's and Eisenhower's State and Defense Departments were concerned about complicating U.S. ties to friendly Arab regimes and those of its European allies. Thus, there was no alliance with Israel, no acknowledged strategic relationship, and no arms sales. Israel's only "strategic ally" during this time was France. Common values made the American-

³ See the compilation of polling data in Eytan Gilboa, *American Public Opinion toward Israel and the Arab-Israeli Conflict*. (Lexington, MA: Lexington Books, 1987), pp. 310-311.

Israeli relationship special even when the military-strategic connection was minimal.

The turning point for American involvement with Israel was the June 1967 war. American sponsored arrangements made in the wake of the Suez crisis, including the deployment of United Nations Emergency Forces in the Sinai, had not spared Israel from mortal danger. Nor had Israel been safeguarded by its alliance with France, which abruptly changed course and adopted a pro-Arab policy. While Americans held their breath, the Israelis achieved a spectacular military victory on all fronts, all the more impressive in America's eyes because of the frustrating conflict of Vietnam. At a moment when Americans doubted themselves, Israelis demonstrated that, when provoked, democracies could be decisive and victorious. As a consequence of the Six Day War, Americans held Israel in high esteem for many years afterward.

From 1967 onward, the bilateral relationship moved in new directions. This was accelerated by America's expanded regional responsibilities following Britain's final withdrawal from its positions in the Persian Gulf in 1971. At the same time that Washington assumed primary responsibility for the protection of Western interests there, it also assumed the mantle of peacemaker between Israel and its Arab enemies. This reflected a judgment that America's growing commitment to the survival of the Jewish state could be most effectively squared with America's interest in good relations with the Arab world if it could achieve a settlement of the Arab-Israeli conflict. In this, the United States

relied increasingly on its own diplomacy, with minimal reference to the Soviet Union or the United Nations, both at the time hostile to Israel.

During this period, the United States began to create a rudimentary strategic relationship with Israel. This trend was begun by the Johnson administration and expanded significantly during the Nixon and Ford administrations. The Cold War was at its height and Israel's strategic location, near the Suez Canal and bordering Syria and Jordan, gave it added value at a time when the United States was not only embattled in Vietnam but also facing Soviet efforts to expand Moscow's influence in the Middle East. Israel's strategic role in the Cold War was demonstrated in 1970 when it confronted Soviet-piloted MiGs over the Suez Canal and joined with the United States in helping to deter what U.S. policymakers saw as a Soviet-backed, Syrian invasion of Jordan. From that point onward, the sharing of intelligence, including Israel's battlefield experience against Soviet weaponry, became a critical element in the growing strategic relationship.

The decade after the Six Day War was thus one of transition in the way the American government and public viewed Israel. American commitments to Israel's security and survival were more vocal although, in diplomatic terms, still largely informal and implicit. But because both Presidents Nixon and Ford saw Israel as useful in the Cold War struggle with the Soviet Union, Israel assumed greater importance to American interests.

The closer U.S.-Israeli association was severely tested when the Egyptian and Syrian

armies attacked a surprised Israel on October 6, 1973. The resulting war plunged Washington—and Israel—into a crisis. While Israel was able to turn the military situation into a defeat of the Arab armies, with the assistance of an emergency resupply of U.S. arms and at the cost of high casualties, the United States also paid a high price. In just a few weeks, Washington had to deal with Israel's near defeat, OPEC's retributive hikes in the price of oil and a damaging oil embargo led by Saudi Arabia, diplomatic quarrels with its closest allies and, in the waning hours of the war, a nuclear alert with the Soviet Union.

American actions to impose a cease-fire and negotiate agreements on the separation of forces with Egypt and Syria brought friction with Israel's government, then led by the Labor party. The new American policy of mediation, devised by then Secretary of State Henry Kissinger, sought to reduce the chances of another outbreak of conflict. Inevitably, the United States urged Israel to trade increments of "land" for elements of "peace" and "security" as Washington tried to manage the tense task of improving its relations with the Arabs, especially Egypt, while not jeopardizing Israel's security. In 1975, after enduring a "reassessment" by the Ford administration following the temporary collapse of negotiations over a second stage of partial Sinai withdrawal, the United States and Israel were able to agree on a coordinated strategy. The resulting second disengagement agreement with Egypt (Sinai II) reached the apparent outer limits of Washington's "step by step" approach. On that occasion, Israel also extracted from the United States a conditional promise not to recognize or negotiate with the Palestine Liberation

Organization which, after the October 1973 War, had secured widening international support.

Beginning in 1977, however, President Jimmy Carter instituted a policy different from that of his predecessors. Carter's "comprehensive approach" concentrated on solving the Arab-Israeli conflict for its own sake. Largely ignoring any Cold War context, he attempted instead to develop a constructive partnership with the Soviets and to offer the Palestinians their own "homeland" in the West Bank and Gaza. Carter's intense efforts to promote Middle East peacemaking often led to conflicts with Israel, especially after Menachem Begin's Likud party assumed office for the first time in the spring of 1977. The Likud's vision of peace included an Israel that would retain significant portions of the territory captured in 1967, including all of the West Bank and Gaza, which the Likud regarded as inseparable parts of historic Israel. The comprehensive approach ended in a deadlock broken only by Egyptian President Anwar Sadat's dramatic trip to Jerusalem in November 1977. Sadat's direct initiative changed the focus of America's peacemaking effort, and Carter then took up the task of helping to broker agreements between Egypt and Israel. The result was the historic Camp David Accords, which included frameworks for both Egyptian-Israeli peace and Palestinian autonomy. A full bilateral treaty, as well as an Israeli-Egyptian side agreement to provide oil supplies, followed in 1979, again negotiated with President Carter's personal intervention.

In the last years of the Carter administration, the quiet strategic consultation process launched

under President Ford was renewed and a formal strategic dialogue was initiated between key U.S. policy planners and the Israeli government. This strategic dialogue was largely the result of two developments: the Egypt-Israel peace treaty and the Soviet invasion of Afghanistan. The U.S.-sponsored peace treaty, which required Israel to cede the strategic buffer of Sinai, removed Egypt—the largest and militarily most powerful Arab state—from a potential Arab military coalition. This effectively eliminated, for the time being, the Arab war option against Israel. And it symbolized a new form of U.S.-Israel strategic cooperation, with Israel taking significant military risks for peace backed by American commitments and assistance.

The Soviet invasion of Afghanistan presented a strategic threat to the free flow of oil from the Persian Gulf. The Carter Doctrine's requirement for an American force deployment capable of countering a Soviet attempt to dominate the Gulf created a further potential for U.S.-Israel strategic cooperation. This led to substantive bilateral discussions and planning on security and defense in the eastern Mediterranean. But because Gulf Arabs feared open cooperation with the United States, let alone with Israel, Carter administration officials excluded from U.S.-Israeli strategic cooperation discussion of issues directly relating to the Gulf.

Carter bequeathed to his successors, and the U.S. Congress confirmed, a greater commitment to Israel's security through involvement in the peace process. His legacy also included public quarrels with Begin and other Israeli leaders, which spilled over into American domestic

politics and the U.S. Jewish community. Military cooperation continued in the absence of a declared strategic framework.

The Reagan administration's emphasis on the global struggle against Soviet Communism brought a very different perspective to U.S.-Israeli relations. President Reagan regarded Israel as a loyal, friendly, democratic ally in a sea of antagonistic Arab states, some of which were allied to a hostile Soviet Union. Secretary of State Alexander Haig attempted to build on what he saw as an anti-Soviet "strategic consensus" in the region: a common concern by both Israel and many Arab leaders that Soviet advances near and in the region were a threat that required a concerted response. He sought to combat Moscow by developing parallel programs of military and security cooperation among the United States, Israel, and the pro-U.S. Arab states. Both Reagan and Haig were also convinced that Israel could not be expected to take risks for peace without credible U.S. policies that would strengthen Israeli security. Although "strategic consensus" found little public support among Arabs, Ronald Reagan's determination to advance strategic cooperation was welcomed by Israel and resulted in a formal Memorandum of Understanding in 1983. A Joint Political-Military Group was formed to supervise joint military planning, joint exercises, prepositioning, and maintenance agreements.

Despite this formulation of special support for Israel, the Reagan era was also marked by considerable U.S.-Israeli friction. In 1981, for example, Reagan and Begin disagreed about the Israeli destruction of Iraq's Osirak reactor, Israeli

settlement policy in the West Bank and Gaza, the sale of AWACS aircraft to Saudi Arabia, and Israel's formal annexation of the Golan Heights. Then, in 1982, the invasion of Lebanon brought relations to their lowest point: at one stage, in the absence of high-level coordination, Israeli soldiers and Marine peacekeeping units faced off in Beirut. Israel also vociferously opposed the Reagan Peace Plan of September 1, 1982, which envisioned a final status resolution of the West Bank "in association with Jordan" and sounded to Begin like an imposed settlement in the making. Under these conditions, there seemed very little left of the strategic partnership.

In 1983, however, Secretary of State Shultz's attempt to resolve the crisis in Lebanon brought Israel and the United States together again. The U.S.-brokered May 17 Agreement between Israel and Lebanon, however, was sabotaged by Syria, and the terrorist bombing of the U.S. Marine barracks in Beirut shocked Washington into evacuating its peace-keeping contingent in early 1984. These events, combined with the reluctance of the Arab states (except Egypt) to support the Reagan Plan, reinforced the post-Lebanon reconciliation. What had been a relationship of cooperation under Nixon and Ford that developed into a coordinated effort at peacemaking under Carter was now evolving into something like a formal alliance, although not expressed in a single document.

In the process, the Reagan administration demonstrated again the principle that U.S. relations with Israel and Arab states were not a "zero-sum game." At the same time as strategic relations were growing with Israel, the United

States was able to reinforce its military arrangements with Egypt, Saudi Arabia, and other Arab states—especially in the Gulf—that were fearful of the menace of Iran after the Islamic revolution.

By the end of President Reagan's second term, strategic cooperation on the military level had reached new heights. Among its notable achievements were the numerous visits of U.S. Navy ships to Haifa port, the prepositioning of materiel inside Israel, and the unprecedented number of joint military projects, including the purchase by the U.S. armed forces of high-tech military goods produced by Israel. The broader strategic dialogue, however, had become hostage to the Palestinian *intifada* (uprising), which produced another attrition in American public sympathy for Israel and prompted Secretary Shultz's final effort to get peace negotiations underway. In late 1988 came the inauguration of a formal U.S.-PLO dialogue, when the PLO, in U.S. judgment, announced its acceptance of UN Security Council Resolution 242, its recognition of the State of Israel, and its renunciation of terrorism.

Relations between the Bush administration and the Shamir-led National Unity Government began well when the United States supported the 1989 Israeli peace initiative, which, for the first time, treated the Palestinians in the territories as a negotiating partner in their own right. (The PLO was still excluded from direct participation in the process and its dialogue with the United States was suspended following a resumption of terrorism.) But frictions emerged over Israeli settlement activity in the West Bank that soured

that promising start. Prime Minister Shamir came to believe that the Bush administration intended to pressure Israel to negotiate with PLO surrogates and to return to the 1967 borders by relinquishing "Judea and Samaria" (the West Bank) as well as East Jerusalem. On the American side, President Bush suspected that the Shamir government was not truly interested in pursuing peace, but was instead intent on settling the West Bank with enough Israelis to make impossible any resolution of the conflict based on territorial compromise. This distrust permeated almost all aspects of the relationship.

A common strategic purpose was briefly restored during the Gulf crisis of 1990-91 when Prime Minister Shamir kept his promise neither to preempt nor even to retaliate for the Iraqi missile attacks on Israeli civilian targets, while President Bush kept his commitment to attempt to eliminate Iraq's offensive capabilities. Restored also was much of the American public sympathy toward Israel, as television images of Israeli soldiers suppressing Palestinian stone throwers were replaced by Israeli women and children in gas masks enduring Iraqi Scud missile attacks while Yasser Arafat sided with Saddam Hussein. In the wake of the war, Prime Minister Shamir agreed to cooperate in the convening of the historic Madrid peace conference in October 1991 and the direct Arab-Israeli negotiations which followed.

U.S.-Israeli relations, however, took another turn for the worse in 1991-92. President Bush, determined to halt Israeli settlement activity in the occupied territories, withheld loan guarantees for immigrant absorption, while complaining

publicly about the lobbying power of Israel's domestic supporters. There were disputes over the venue for the bilateral peace talks and the leaking of allegations—never substantiated—that Israel had provided Patriot missile technology to China. Against the backdrop of the end of the Cold War and the disintegration of the Soviet Union, these disputes and differences began to raise questions about the future of the special relationship in the post-Cold War era. Would the complex web of U.S.-Israeli relationships, both the shared values and the strategic interests, begin to unravel in very different times?

At this critical moment, Israelis voted for a change in leadership. The June 1992 elections brought to power a government led by the Labor party's Yitzhak Rabin, who proclaimed his priorities to be peacemaking and immigrant absorption, not settlement construction. The pursuit of peace based on territorial compromise was restored as a common basis for coordinated U.S.-Israeli action in the peace negotiations. These changes led President Bush to support the extension of \$10 billion in U.S. government-backed loan guarantees for immigrant absorption. Then the election of Bill Clinton brought to the White House a man who had called for improved relations with Israel.

In 1993, the stage is thus set for reinforcing what had become a full-fledged strategic partnership. It is clear nonetheless that if such a partnership is to endure, it must be grounded in the changed circumstances of the post-Cold War era.



CHAPTER TWO

COMMON VALUES AND COMMON INTERESTS

From its inception, the Commission confronted a very basic issue in U.S.-Israeli relations: Does the legacy of shared values and common interests persist? Or, in the wake of the Cold War, is the relationship less important, especially to the United States?

In the view of the members of the Commission, the significance of the values shared by the two nations—especially in their commitment to democracy that is largely alien to the Middle East—remains undiminished. Moreover, both have a common interest in a secure peace. And their strategic concerns overlap, whether they be threats from terrorism, fundamentalist radicalism, the interruption of world oil supplies, or the proliferation of weapons of mass destruction. At the same time, it was recognized that the impact of these interests and threats is unequal: The United States is a global superpower, while Israel is a strong but limited regional power. This reality of different perspectives calls for different roles and responsibilities within a framework of partnership.

Old and New Values

The Commission believes that the after the Cold War, shared values will again become more, not less, important.

First, if there is to be any central organizing principle in U.S. foreign policy in the new era, it will likely be one of commitment to the promotion of democracy, which is shared by the United States and Israel. Democratic Israel can serve not only as a model for other states, but also as a partner in America's efforts to promote democratic institutions and governance throughout the world.

Second, at a time when the world is horrified by evidence of "ethnic cleansing" and the resurgence of ethnic and communal violence, the bipartisan and long-standing moral commitment that the United States has maintained to the survival and security of Israel becomes more, not less, important. Nearly half a century after the Holocaust, Jewish communities in Europe and elsewhere may face growing perils in the potentially turbulent post-Cold War world, and Israel's role as safe haven for oppressed Jewry will assume even greater importance. At the same time, Israel's existence may itself be jeopardized by the proliferation of weapons of mass destruction, especially nuclear weapons, and the means to deliver them.

The third shared value is the pursuit of peace in the Middle East based on common goals and common principles. The common goal is for a peaceful settlement of the Arab-Israeli conflict in which the rights of the Arab states and the Palestinians are reconciled with Israel's right to

security, recognition, acceptance, and normal relations with its Arab neighbors.

Strategic Interests

Beyond the need for a renewed emphasis on shared values, the Commission also believes that the post-Cold War era of Arab-Israeli negotiations provides a new strategic validity for the U.S.-Israel relationship.

Even during the Cold War, the United States had a good reason for pursuing peace: it could promote stability in a volatile area of vital interest to the United States and it provided the most effective way of reconciling America's stake in Israel's security and its stake in good relations with key Arab states. Achieving that strategic objective may now be within reach, because the peace process appears to have entered a decisive phase. All of Israel's Arab neighbors are now engaged in direct negotiations with an Israeli government committed to achieving peace treaties with them as expeditiously as possible. And Israel and the Palestinians are finally engaged in negotiations for the establishment of "interim self-government arrangements" that were originally conceived in the Camp David Accords.

Overlapping Threats

This strategic rationale for the U.S.-Israel relationship is reinforced by the overlapping threats that confront the United States and Israel in the post-Cold War era. With the end of a Soviet role in Middle Eastern affairs, the United States

faces new challenges from radical regional powers and terrorist groups whose capabilities may, ironically, expand with the willingness of Soviet successor states to sell military hardware. These same radical states—Iraq, Libya and Iran—and extremist groups are determined to destroy Israel, subvert U.S. relations with its Arab allies, and undermine the Arab-Israeli peace process. Unlike much of the Cold War, when Israel wanted the United States to cooperate against the Arabs while the United States wanted Israel to cooperate against the Soviets, both countries face the same opponents. Today, the United States confronts Iraq, Libya, and Iran, maintaining sanctions of one kind or another against all three radical states.

Syria under Hafez al-Assad plays an uncertain, semi-adversarial role. While there have been significant shifts in some aspects of traditional Syrian policy—marked by Damascus' participation in the Gulf War alliance, the Madrid peace conference and the subsequent bilateral talks with Israel—much has remained the same. This includes Syria's continued patronage of Hezbollah and the alliance of Palestinian rejectionists based in Damascus, its refusal to withdraw its troops from Beirut under the Ta'if accords, and its ongoing efforts to acquire weapons of mass destruction and missile delivery systems. On dealing with Syria, the United States and Israel share a common interest in encouraging Syria's peacemaking instincts, symbolized by President Assad's commitment to a "peace of the brave," while discouraging its penchant for mischief-making in tandem with Iran or through local proxies.

The most vocal and important state opponent of the United States and Israel is the radical regime in Iran. Through its support for Hezbollah in Lebanon and Hamas in the West Bank and Gaza, its sponsorship of the Palestinian rejectionists in Syria, and the training of anti-peace “shock troops” in Sudan and elsewhere, Iran is making a concerted attempt to disrupt the peace process. Its efforts are reinforced by extremist Islamic fundamentalists in Egypt and Jordan who are also bitterly opposed to the peace process and to any regime or leader committed to a peaceful settlement of the Arab-Israeli conflict. While there is evidence of cooperation, even coordination, between fundamentalist groups and regimes, the Commission does not view this threat as monolithic and recognizes that the challenges posed by Islamic extremists vary from country to country; moreover, in highlighting the threat of radical fundamentalist Islam to the peace process, the Commission recognizes that militant actions, not pious beliefs, are what need to be confronted. Nevertheless, it notes the widening connections between fundamentalist regimes in Iran and Sudan and the extremist opposition to the peace process elsewhere in the region, including the West Bank and Gaza. In so doing, it underscores the common problem fundamentalist extremism poses to the United States and Israel—and no less to Arab parties who support the peace process—in their pursuit of a just, lasting and secure settlement of the Arab-Israeli conflict.

Overall, the new circumstances translate into much greater U.S. diplomatic and strategic flexibility. Washington no longer has to fear the possibility of superpower confrontation. Nor, in

the new era, does the United States face the same tension in its strategic relations with Israel and those Arab countries supportive of U.S. interests in the region. As the Gulf War revealed and Iran's military build-up underscores, moderate Arab countries too are faced with serious long-term threats from Iraq and Iran, the same countries whose efforts to acquire weapons of mass destruction pose real military dangers to Israel. And many of these countries too are challenged by extremist movements—both radical and secular—that seek to overthrow their regimes, upset their close relations with the United States, and promote terrorism.

Summing up, shared values, common interests and overlapping threats provide a solid basis for sustaining and strengthening U.S.-Israel relations in the post-Cold War era. An understanding of this reality in both Jerusalem and Washington should bring about change in the political, military, and economic aspects of the relationship. The following sections set forth both principles and suggestions for new arrangements.

CHAPTER THREE

AFFIRMING THE STRATEGIC PARTNERSHIP

The Commission believes that the need to adjust the U.S.-Israel relationship to changing international and regional circumstances mandates the re-creation of a dialogue at the highest levels of leadership. The purpose of this conversation is for each side to gain a clear understanding of expectations and obligations so that the two partners can coordinate achievement of their key objectives.

(Many members of the Commission cited the relationship between Britain and the United States, although very different in origins and purpose, as a model of the way allies can do business together to which Jerusalem and Washington should aspire.)

Such a process of “strategic dialogue” began after the Israeli election in June and continued in August 1992 at Kennebunkport between Prime Minister Rabin and President Bush. The advent of the new Clinton administration offers opportunities to bolster this process; indeed, the quiet diplomacy from which the U.S.-Israel understandings on the deportation of Palestinian Islamic activists emerged in February 1993 may serve as a precedent for this sort of dialogue. The Commission believes that this dialogue should be expanded and deepened.

The starting point of U.S.-Israeli strategic coordination should be the identification of the two partners' shared strategic goals. The most important of these are the following:

- A comprehensive peace based on the Madrid formula that essentially eliminates the potential for war between Israel and any of her neighbors and puts the Palestinian problem on a path towards final settlement. This would remove the Arab-Israeli conflict as an obstacle to American diplomacy in the region.

- A regional military balance that, in the absence of the Arab-Israeli problem, would offer greater security at lower levels of defense spending.

- The potential to establish a truly "new" international order in the Arab-Israeli region, where diplomacy rather than force of arms is the preferred way to settle disputes.

- As tensions subside and spending on arms decreases, the freeing up of resources in order to increase standards of living throughout the region.

These joint U.S.-Israeli objectives can be advanced diplomatically through two main projects. The first is the Arab-Israeli peace process.

Members of the Commission advanced these principles as guidelines for the joint U.S.-Israeli pursuit of peace:⁴

⁴ These points are drawn in part from *Pursuing Peace*, the final report of The Washington Institute's Strategic Study Group (September 1992).

- The United States should act as a catalyst in the negotiations by identifying common interests and encouraging the parties to move to bridgeable positions where the United States might offer compromise proposals or assurances that reduce the risk of agreement.

- The United States should make clear that a stable and lasting peace is a function of Israeli-Arab agreement, not an agreement imposed by Washington.

- Neither the United States nor Israel should be bound by artificial linkages between the different sets of negotiations. Where progress can be made, it should be made.

- Agreements should be judged by whether they achieve the overall objectives: peace, security, and recognition for Israel; redress of Arab grievances against Israel; contractual peace between Israel and as many Arab states as possible; and the advancement of Palestinian political rights through an interim self-government with mutually agreed upon powers.

- The United States and Israel should try to coordinate their tactics when possible. In the current negotiations, Washington will expect Israel to be forthcoming on territorial compromise in the Golan, on genuine autonomy for the Palestinians, on the restraint of Jewish settlement activity in the West Bank and Gaza, and on the use of such policies as expulsions to deal with attempts by extremists to undermine the peace process. Israel has the right to expect in return American understanding for vigilant Israeli actions against terrorists, Israeli insistence on a formal termination of the state of war and

workable security arrangements to enforce it; and for Israel's claim to the right of Jews to reside not only throughout Jerusalem but also in "Judea and Samaria."

Regional Coordination

A second area where U.S.-Israel strategic coordination would be useful is in the broader regional context.

If properly managed, the shared strategic interest among the United States, Israel and pro-Western Arab states can be a source of strength to the U.S.-Israel relationship. It can form the foundation of a new strategic architecture for U.S. interests in the region based on enhanced cooperation with Israel, on the one hand, and with a large number of Arab states (including Egypt, Jordan, Morocco, Saudi Arabia, and other Gulf states) on the other hand.

In the past, conflicts between these friends and allies of the United States required separate strategic relationships. But the end of the Cold War and the emergence of common regional threats provide an opportunity to promote relations among these states as the United States strengthens its own bilateral relations with each. This will require close consultation and quiet coordination between Israel and the United States and between the United States and its Arab friends, especially Egypt and Saudi Arabia, as efforts to promote direct Israeli relations with Arab states removed from the direct confrontation line begin to develop.

The multilateral talks on regional issues (water, environment, arms control/security,

economic development, and refugees) offer a useful forum for such improvements. This will require an end to the Arab boycott of Israel and the promotion of regional economic cooperation. Similarly, the Israel-Egypt peace treaty provides the foundation for improvement in relations between these two U.S. allies as they work together on expanding the peace process. In this way, the basis can be laid for a broader strategic dialogue in which the United States, Israel, Saudi Arabia and Egypt begin to develop a vision of collective security in the Middle East.

For this to occur, however, the United States and Israel must face up to several important strategic issues:

- For the foreseeable future, the United States and the inter-linked economies of Europe and the Far East are likely to depend upon Gulf oil. The demise of the Soviet Union has removed one danger to the free flow of oil at reasonable prices from the Gulf, but the continuing threat of Iraq and the emerging challenge of Iran are leading to greater U.S. involvement in the defense of the Gulf and accelerated arms sales of sophisticated weapons to Saudi Arabia and the GCC states. America's willingness to participate directly in the defense of the Gulf promotes the security of Gulf Arab states, thereby serving American interests. It also enhances Israel's security by underscoring the U.S. commitment to defend America's vital regional interests. Israel needs to recognize U.S. interests in Gulf security, interests that are sometimes served by the sale of sophisticated weapons systems.

- The willingness of the American people to spend resources in the global arena has declined.

As the American economy recovers from recession, many Americans believe that the end of the Cold War provides an opportunity for the United States to pay more attention to the many economic and social problems at home. U.S. defense spending is declining rapidly and foreign aid—except for humanitarian purposes—has never been popular. This could very likely translate into popular pressure to reduce levels of U.S. foreign assistance and into an American reluctance to finance another round of Arab-Israeli peace accords, as the United States did in the Camp David era.

- A more expensive conventional arms race in high-tech weapons over the next decade is likely to be accompanied by the proliferation of weapons of mass destruction and the missiles to deliver them. Given Israel's small size and the concentration of its population, these weapons can pose a mortal threat. Four decades and five wars after its creation, Israel must now begin to prepare for a new threat to its very existence. At the same time, these weapons of mass destruction pose a great danger to American interests in the region. They threaten not only to tip the balance of power in favor of radical anti-American regimes but also to complicate severely the task of American military intervention in the region.

- In part as a result of the end of the Cold War, the Middle East has entered an era of Arab-Israeli peace negotiations in which the United States expects Israel to be actively seeking a settlement based on "territorial compromise," trading the security of land for commitments of peace.

- Israel, also as a direct result of the end of the Cold War, is faced with a massive and costly task—absorbing hundreds of thousands of new immigrants at the same time as it undertakes a structural overhaul of its economy.

At the intersection of these trends is a strategic dilemma: Israel may face mounting dangers at a time when the United States may be less willing to help Israel meet them.

One of the Israelis who spoke before the Commission members framed the issues confronting the U.S.-Israel relationship in a graphic way:

“What you Americans are telling us is that because America is turning inward and faces huge domestic problems, we have to accept that you will be cutting foreign aid to Israel.

“At the same time, because thousands of Americans are being sacked in defense industries, we have to accept that you will be selling front-line weapon systems to states still in a state of war with us while doing your best to restrict our exports of high-tech weapons.

“At the same time, because you want to mobilize the international community against the spread of nuclear weapons to Iraq and Iran, you want us to begin to look seriously at the question of giving up our nuclear deterrent.

“At the same time, to make progress in the peace negotiations, you want us to take tangible risks to our security by giving up territory.”

If strategic coordination is to overcome these difficulties, then it must be based on a readiness by each party to uphold its parts of the bargain: for the United States, to reduce Israel's risks in making peace; for Israel, to agree to the compromises necessary to achieve peace and otherwise working closely with the United States. The details of this partnership play out in the military and economic arrangements that provide the flesh and muscle to strategic political coordination.

CHAPTER FOUR

PARTNERS IN MILITARY COOPERATION

Any discussion of U.S.-Israeli military cooperation must account for the psychological impact of the end of the Cold War. Briefly stated, most Americans believe that the world is a safer place because there is no longer a danger of nuclear annihilation. And so it is. Nonetheless, conflict and warfare still afflict several regions of the world, and for many states, the post-Cold War era may bring new threats and dangers. This is certainly true for Israel.

Foremost among these new threats is the proliferation of weapons of mass destruction (nuclear, chemical, and biological) and the ballistic missiles to deliver them. More than two years after the Gulf War, the West is still learning about Saddam Hussein's multiple programs to acquire such weapons; the experience of the war already showed an ability and willingness to strike at Israel's (and Saudi Arabia's) civilian population with missiles. Together, this combination of weapons of mass destruction and systems to deliver them will confront Israel with an unprecedented threat to its existence. Defining military cooperation for the future of the U.S.-Israeli partnership must address this critical issue at the outset.

The United States has long committed itself to maintaining Israel's "qualitative edge." The

Commission has attempted to define the concept with precision. In the past, "qualitative edge" has meant keeping Israel sufficiently strong that it could deter and, if necessary, repulse any conventional threat. It has also meant that the United States would not undermine that strength by transferring to Arab governments technology and weapons that would seriously compromise Israel's advantage, or if it did, it would compensate Israel.

The Commission recognizes that the greatest source of future threat to Israel will be in the proliferation of weapons of mass destruction; therefore, the U.S. commitment to work with Israel to safeguard its qualitative edge must extend into the unconventional realm as well. This should reflect the advantage of American support of indigenously developed military technology, where possible, and of transfers of American equipment, where necessary.

In sum, qualitative edge does not focus exclusively on any particular type of threat (e.g., conventional or unconventional) or any particular country (e.g., Syria or Iraq). It involves a sober appraisal of all of the threats that Israel confronts and the means to deter and, if necessary, defend against them.

The concept of qualitative edge must also take into account America's concerns with the transfer of sensitive technology. This issue is becoming more important in the U.S.-Israel relationship, and close coordination between the two governments is essential. While the United States must be willing to provide Israel with the technology necessary to design responses to new regional threats, Israel, in turn, must be able to

satisfy legitimate U.S. concerns with the transfer of sensitive technology.

As part of their bilateral security cooperation, both countries should be attuned to signals they convey through specific actions. For the United States, positive signals, such as renewed commitments to strategic cooperation and the allocation of loan guarantees, reinforce Israel's deterrent posture by strengthening the closeness of U.S.-Israel relations. Negative signals, such as the leaked accusations concerning technology transfer of Patriot missiles, have the opposite impact, especially when the accusation has never been substantiated. Similarly, Israel must be conscious of the large and unsettling implications of some of its actions, such as controversial cases of acquisition of technology or relations with other countries about which the Washington is left in the dark, (e.g., in earlier periods, Ethiopia, Iran, and China). As the U.S. armed forces face almost draconian budget cuts, Israelis must be sensitive to the American need to nurture its domestic defense base to hedge against future military contingencies and to assist its friends in the Arab world.

Agenda for Military Cooperation

Despite these sensitivities on both sides, the agenda for military cooperation between the United States and Israel in the post-Cold War era is deep and broad:

- Creating a more stable balance of regional deterrence and stability based on the maintenance of strong Israeli forces and cooperation between the United States and Israel in deterring regional aggression.

- Strengthening cooperation in areas that involve the support and enhancement of America's capability in the region. This would flow from a recognition of the convergence of U.S., Arab, and Israeli interests in the continued American military presence in the Mediterranean and the Persian Gulf.

- Promoting security arrangements within the context of the Arab-Israeli peace process that not only preserve Israel's security but also decrease the risk of conflict between Israel and its neighbors.

- Bolstering efforts by the United States to develop formal and informal security cooperation with friendly and moderate Arab states and in broadening the security dialogue between Israel and such states. America's interests is in ensuring the security of Israel and the region's moderate Arab states. To the extent that American-sponsored negotiations bring about improved relations between the two sides, this task will be facilitated. Otherwise, the United States will have to play a traditional role of balancing between them, so that Israel's qualitative edge is assured and the stability and security of friendly Arab states are maintained.

- Combatting terrorist activity and extremist military action.

- Developing common approaches to control the proliferation of weapons of mass destruction and the transfer of conventional arms that recognize the security concerns of Israel and the region's moderate, pro-West states.

- Revitalizing cooperation in military technology (including production, modification, testing, evaluation, and maintenance) to reflect the growing resource constraints faced by both states and the need for improved institutions to ensure such cooperation. In this regard, each partner has significant contributions to make to the common effort.

- Improving cooperation in intelligence to reflect the changing threat to Israel and the special needs of a secure peace settlement.

- Developing responses to the threats posed by ballistic and cruise missiles and cooperating in efforts to deter and defend against the use of weapons of mass destruction. A common effort is needed to develop standardized, interoperable, and effective defense systems against tactical ballistic missiles, cruise missiles, and aircraft.

Proposals for Action

The Commission believes that the opportunities for U.S.-Israel cooperation are ample. Israel needs a strong deterrent; America benefits from a strong, democratic Israel in the Middle East. As long as the will and the skill exist on both sides, there should be no difficulty in developing the strategic/military dialogue between the two countries. Several steps should be taken:

- Strategic dialogue between the two countries should clarify a partnership in which each party bears responsibilities to the other. As a general rule, the United States ought to help limit risks to Israel's security by making available appropriate weaponry and technology. Specifically, this entails a commitment to share

with Israel, under adequate safeguards, technology whose prohibitive cost prevents Israel from developing it alone. This includes technology designed to respond to surface-to-surface missile threats. On Israel's part, partnership entails a commitment to safeguard this technology and satisfy American sensitivities on the issue of high-tech transfer.

- The shared threat from long-range missiles—to Israel's population and military centers, on the one hand, and to U.S. forces deployed in the Middle East, on the other hand—must be addressed through increased cooperation in such areas as the monitoring of events, sharing of intelligence, and linkage with American satellite coverage. The United States should consider offering Israel greater coverage from its reconnaissance satellites as one means to bolster Israeli security without significant new funding.

- As part of American efforts to develop technological responses to the threats of ballistic missiles, research and development work on the Israeli Arrow anti-tactical ballistic missile program should continue to be supported.

- As both the American and Israeli defense industries adjust to smaller markets, the two governments should work together to develop joint ventures which may facilitate the transfer of investments in defense technology to the civilian arena. This ought to be a key focus of the recently formed U.S.-Israel Science and Technology Commission.

- Pre-positioning of American materiel in Israel is important to both countries. The

Commission believes it is better for American interests to store some war reserve materiel, including sets of tanks and other equipment, in Israel instead of keeping it in the United States. From Israel, the equipment can reach crisis locations in the region more quickly. The Commission therefore endorses the \$300 million worth of pre-positioning in Israel to which the United States is currently committed. Also, the two countries should examine ways in which pre-positioning can best meet the needs of each side.

- In addition to the dangers of the proliferation of weapons of mass destruction, the Commission recognizes that a Middle East arms race in sophisticated conventional weaponry can itself fuel regional tensions and lead to conflict. Since the Gulf War, the five permanent members of the Security Council (United States, Russia, Britain, France, and China) have concluded arms sales to the Middle East worth more than \$50 billion. This problem of conventional arms transfer will become even more acute should succession crises or regime changes bring to power new leaders in the Middle East even more eager than their predecessors to use their lethal arsenals.

Therefore, we recommend that the Clinton administration make a concerted effort with the world's other key arms suppliers to the region to negotiate a Multilateral Arms Transfer Restraint Regime for the Middle East. However, members of the Commission warn against the danger that a lax arms control regime may lead only to unilateral restraint on the part of the United States, which would, in turn, undermine Israeli

security, not bolster it. There is little benefit to either Washington or Jerusalem in arms control which restricts only ourselves and our Israeli ally, while leaving Israel's adversaries free to shop with other suppliers.

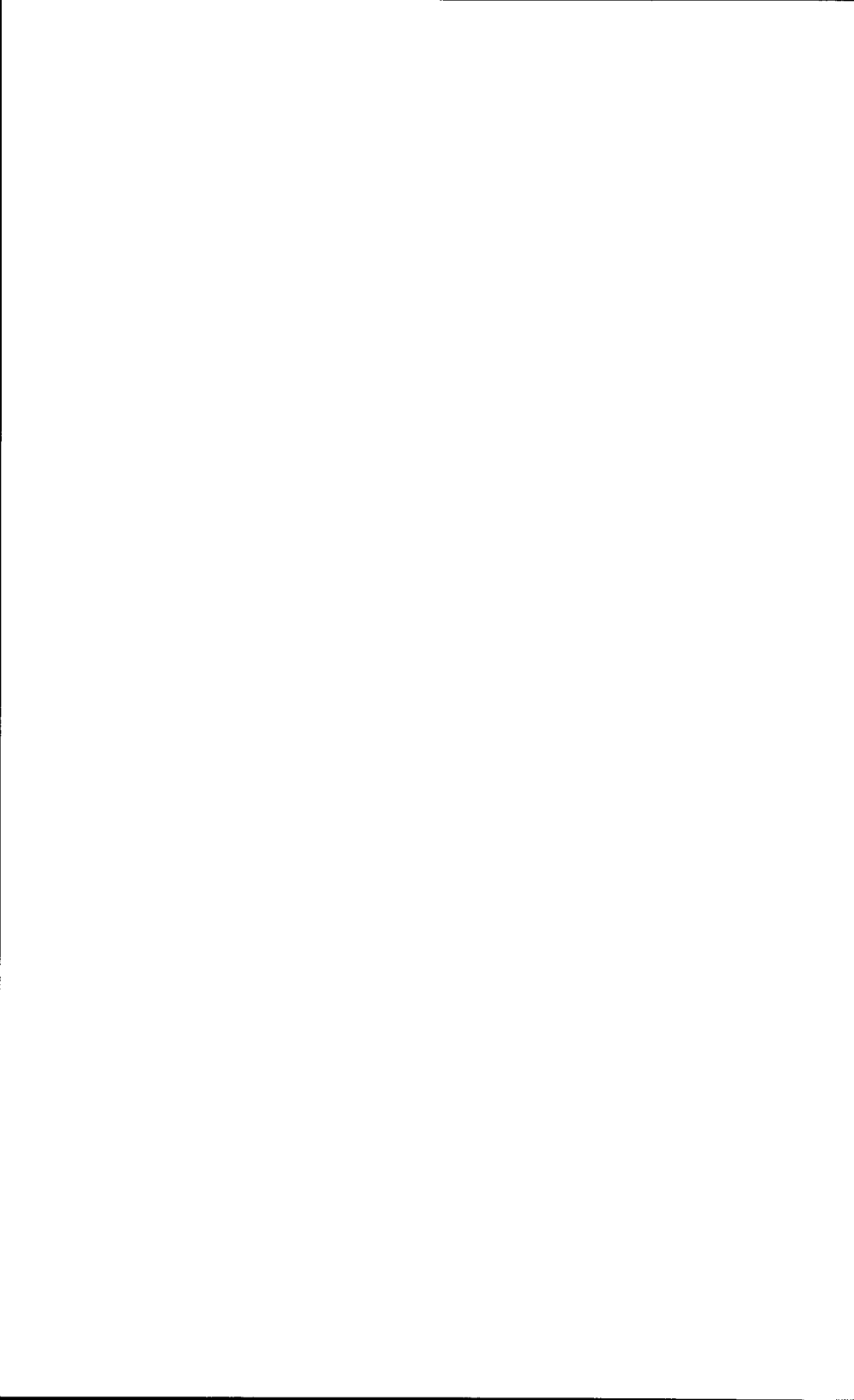
- The Commission believes that the United States would benefit from working closely with Israel in the area of arms control strategy. Israel is not only a formidable conventional power, it is also widely believed to possess a nuclear arsenal. This arsenal has been understood as a weapon of "last resort" for a small state in danger of being overwhelmed by its neighbors.

Syria and Iraq have long justified their chemical arms and Scud missile acquisitions as the Arab deterrent to Israel's nuclear advantage. More recently, Iraq, and now Iran, have sought to develop their own nuclear forces, also ostensibly to counter Israel. Thus, the prospect of a nuclear-armed Middle East has been added to the catalogue of the region's dangers.

Members of the Commission examined the role of Israel's putative nuclear forces in deterrence and arms control. Ideally, Israel would like to retain its exclusive nuclear deterrent while proliferation is prevented—either through diplomacy or joint military action or, if necessary as in 1981, action by Israel's military forces. A number of Commission members argued that it would be wise for Israel to consider limits on its nuclear program if that would help prevent nuclear proliferation in the region. It was suggested that Israel should be prepared to discuss constraints in the context of a broadly supported U.S.-led effort to create an anti-proliferation regime for the Middle East. This may include the

idea of forgoing further production of weapons-usable nuclear material, as proposed in President Bush's May 1991 Middle East arms control initiative. There was sharp opposition by other Commission members to this idea, on the grounds that no act of Israeli self-denial is likely to dissuade countries such as Saddam's Iraq or the Islamic Republic of Iran from seeking their own nuclear weapons.

While the Clinton administration should vigorously promote efforts to limit the proliferation of weapons of mass destruction throughout the Middle East, the Commission believes that the question of Israel's nuclear deterrent must also be seen in the context of the peace process, the wide-ranging political and territorial concessions Israel is being asked to make, and the fact that Israel will require guarantees to compensate for these concessions and to balance emerging technological and existential threats. Reaching this level of understanding will require the American and Israeli governments to undertake a confidential dialogue on the future of the Israeli deterrent and the issue of nuclear proliferation.



CHAPTER FIVE

REDEFINING AN ECONOMIC PARTNERSHIP

The Commission is convinced that the United States and Israel must move into a new era in their economic relationship, transforming the donor/recipient charitable connection into a more mature partnership. In this new partnership, the United States and Israel can both contribute to creating the conditions in Israel for growth and self-reliance. This will involve removing structural barriers to growth, stimulating U.S.-Israel joint ventures, and encouraging greater foreign investment. U.S. government help is needed not simply as a provider of foreign aid but as a partner in helping to build a healthier Israeli economy capable of absorbing the current wave of Russian Jews and of paving the way for a million more yet to come. Throughout, a common objective of the two countries should be to encourage an Israeli economy vital and secure enough to be weaned from dependence on U.S. economic assistance.

Building a fully productive free-market economy is a major challenge for Israel. Its main political traditions are either socialist or populist; Israel's huge defense requirements have also made the state a necessary partner to much of the country's technological achievements and industrial institutions.

Since independence, the Israeli economy has gone through four stages. First was a “nation-building” stage (1948-1973), marked by remarkable growth and the development of a modern economic and industrial infrastructure. In the later half of this stage, from 1960-1973, growth rates averaged an impressive nine percent in real terms, with only single-digit inflation. This stage also endowed Israel’s economy with an unusual combination of a semi-capitalist/semi-socialist structure featuring strong state direction, some public ownership of large enterprises, regulation of cartels and monopolies, and substantial support of domestic industry.

The second phase began with the twin calamities of 1973—the Yom Kippur War and the huge OPEC price hike, which increased Israel’s military burden and slowed its economic growth. These developments combined to produce roughly a twelve-year period of slow growth and high inflation, which reached double-digit and then triple-digit proportions. Meanwhile, the welfare state became more generous without the revenue base to support it. Aggravated by a populist economic policy in the early 1980s, there was a huge surge in inflation, a dangerous run on foreign reserves, a deepening budget deficit (which reached 15 percent of gross domestic product) and a ratio of net external debt to GDP that rose to 80 percent, more than three times the level of the 1960s.

This phase also saw the emergence of Israel’s two-tier economy. One part of this economy is overly bureaucratic, heavily subsidized, and inefficient, with one out of every three workers employed by the government and strict controls

over real estate and capital markets. The other part of the economy is the entrepreneurial engine that produces high-tech export products, from agriculture to computers to military and biotechnology, and has helped Israel achieve one of the highest export per capita ratios in the world.

Beginning in the mid-1980s, Israel's economy entered its third phase, a period of structural reform. For the first time in the country's history, the United States took an active interest in the vitality of Israel's economy beyond simply writing a check. With the help of Secretary Shultz, a Joint Economic Development Group (JEDG) was established and supported by the cushion of an emergency infusion of \$1.5 billion from the United States. Israel's National Unity Government—acting under the leadership of Prime Minister Peres and Finance Minister Modai—began to institute serious economic change. Financial regulations were reformed, permitting companies to borrow directly on capital markets. A Free Trade Agreement was reached with the United States, gradually eliminating trade barriers between the two countries. Food and transportation subsidies were phased out and budget discipline was imposed. Even the military, which usually consumes half of the government's budget, was forced to cancel unaffordable projects like the Lavi fighter. But after initial success, including the drastic lowering of inflation, the reform impulse petered out when the immediate crisis receded and the National Unity Government broke up. The last several years of the Shamir government saw little movement toward further economic reform.

The fourth phase of Israel's economic history began in late 1989 when the country faced the challenge of absorbing within a two-and-a-half year period some 400,000 new immigrants, a 10 percent increase in its population. This includes 175,000 immigrants in 1991 alone. According to some estimates, the burden of immigrant absorption confronting Israel would be equivalent to the United States absorbing the population of France. Remarkable success was achieved in the immediate absorption and housing of the immigrants, but the long-term difficulties of integrating the newcomers into the society are just beginning. While the immigrants' educational level is high,⁵ their skills are not immediately transferable. Unemployment was already about 9 percent when the massive immigration began, and despite impressive job growth, it is nearly 12 percent today as the economy simply cannot create jobs fast enough to absorb the new entrants into the labor market. Forty percent of Russian immigrants are unemployed and another 40 percent are underemployed. The Israelis estimate they will need to borrow \$60 billion over five years (including from domestic savings) to help create jobs for the immigrants and for the natural growth in the labor market in ways that will efficiently utilize the skills of the newcomers.

This period in Israel's economic life is second in importance only to its first phase of nation-building. Israel will never again have the chance

⁵ More than half the immigrants had thirteen or more years of education, with 37 percent having received advanced professional training. The immigrant pool included 11,000 physicians and 47,000 engineers, doubling Israel's existing stock in those professions.

to obtain such a huge and talented group of Jews in such a short period of time. There are more than 1.2 million Jews in the various successor states to the Soviet Union in various stages of preparation for immigration. A majority of them already hold all the necessary permits. Tens of thousands are waiting to see if Israel will have jobs for them if they come. The answer now is uncertain.

At the same time, the Israeli economy has advanced considerably despite its continuing structural problems. Given the dimensions of the country's absorption challenge, the economy is performing remarkably well. Israel's GDP rose at an annual rate of 6 percent in the second half of 1992. Inflation is down from 18 percent in 1991 to an annual rate of less than 10 percent, the first time inflation has receded into single-digits in more than two decades. Exports are up 12 percent. Israel's budget deficit, as a percentage of the gross domestic product, is smaller than the United States'. Israel's GNP per capita is nearly \$11,000, an impressive figure.

These achievements would undoubtedly be even more dramatic were it not for the continuing Arab boycott of Israel. This includes the primary boycott on Israel directly as well as the secondary boycott on companies that trade with Israel. According to one estimate, Israel has lost the equivalent of \$16 billion in investment and \$1 billion annually in lost exports because of the Arab boycott.⁶

⁶ *New York Times*, August 30, 1992.

In sum, Israel today is:

- A country whose political and financial leadership is publicly committed to serious efforts at economic reform. Much progress has been made toward limiting inflation and promoting structural reform over the past decade; with the safety net of the loan guarantees, much more can now be done.

- A country facing two enormous economic demands: the military challenge of devising responses to long-term strategic threats and the social challenge of absorbing hundreds of thousands of new immigrants.

- A country whose main element of foreign assistance—U.S. economic and military support—has shrunk in real terms because it has been eroded by inflation. Indeed, since 1986, the real value of Israel's \$3 billion aid package (\$1.8 billion in military assistance; \$1.2 billion in economic aid) has diminished by about one-third. As a result, at a time when Israel's long-term needs are growing, direct financial assistance is actually declining.

- A country whose people have managed to cope with the structural hurdles facing economic growth to build an economy with a \$57 billion GDP, rivaling several members of the European Community.⁷

⁷ Israel's 1992 per capital GNP of \$10,920 ranked above three EC countries: Ireland (\$9,550); Greece (\$5,990) and Portugal (\$4,900). The World Bank, *World Development Report 1992*, (Oxford: Oxford University Press, 1993), p. 219.

At this historic moment in Israel's history, the United States is committed to help with immigrant absorption. Yet Israel must also understand that the United States is itself at a historic juncture.

Having invested hundreds of billions of dollars over five decades to defend Europe and much of the rest of the world against Soviet Communism and its allies, the United States has won the Cold War. There is a strong interest in refocusing American resources and changing priorities from spending abroad to dealing with unmet problems at home.

There is a further complication. Since Camp David, our foreign aid budget itself has been heavily weighted toward Egypt and Israel, restricting administration flexibility in dealing with other countries. Of the \$13.9 billion in the 1993 U.S. foreign assistance budget, \$5.1 billion is "earmarked" toward just those two countries. As pressures to cut the U.S. budget intensify, there will also be demands to reduce either the overall total or the earmarking amount, or both.

Improving the Economic Relationship

In sum, the reordering of American national priorities and Israel's own economic requirements have combined to require a major change in the U.S.-Israeli economic partnership. The Commission recommends the following specific actions:

- A government-to-government mechanism should be created to provide an institutional framework for this new relationship. The analogy might be the Joint Political-Military

Group, which meets twice annually to discuss joint defense and security issues, and the Joint Security Assistance Programs, which discuss aid levels. The Joint Economic Development Group (JEDG) created by Secretary Shultz provides an even more useful precedent, but that structure was allowed to fall into disuse during the latter part of the Bush and Shamir administrations. The JEDG should now be revived and staffed so that it functions as a permanent forum for the detailed discussion of the economic relationship and, especially, economic reforms in Israel.

- The United States must intensify its efforts to end the Arab boycott of Israel and, especially, the secondary boycott that targets American and other companies that wish to do business in Israel. Many of those states that maintain the boycott have received significant aid and arms from the United States. When their survival was at stake, Kuwait and Saudi Arabia hinted they would end or relax the boycott when the Gulf War was over. These hints have not been translated into concrete action. At a time when Washington had maximum leverage on these countries—two of the most assiduous in enforcing the boycott—it did not apply it as it could have.

It is important to recognize that the American taxpayer is indirectly paying a considerable price for the maintenance of the boycott. Now more than ever—because of the need to absorb Soviet Jews—Israel's economy needs to boost exports and foreign investment. The continued enforcement of the boycott stymies both these goals and only increases Israel's dependence on U.S. foreign aid.

The Commission urges the Clinton administration to assign very high priority to

ending the Arab boycott. The President, backed by the Congress, should make a vigorous effort to convince the Arab states, especially Gulf states, to terminate the boycott. In this effort, the administration should use such leverage as may be available and appropriate. In particular, unrestricted loan guarantees that the United States annually extends to Arab states should be reviewed in light of refusal by recipient countries to terminate the boycott.⁸ U.S. officials should be instructed to remind their Arab counterparts that Americans—who died in defense of freedom in the Gulf—cannot countenance the boycott's violation of America's commitment to free trade and fair play. It is time for an all-out assault on the boycott by the United States.

- The \$10 billion in loan guarantees authorized to assist Israel in immigrant absorption should provide another vehicle for encouraging Israel toward further free market reforms. The money raised with the loan guarantees might be regarded as a foreign currency fund to help the market meet the demand of investors (foreign or domestic) to finance imports of materials and equipment. In addition, a paragraph has been inserted into the loan guarantee legislation in which Congress has indicated its understanding of the desirability of these economic reforms and has asked the President to furnish regular reports on the steps Israel is taking to implement them.

⁸ From 1987-1991, the U.S. provided over \$11 billion in loan guarantees to Arab countries, excluding Egypt. In 1991 alone, Kuwait received over \$2 billion in loan guarantees. Other recipients include Algeria, Morocco, Tunisia, Jordan, Yemen, and Iraq. See "Facts and Perspective: Aid to Israel and the U.S. Economy," Center for Foreign Policy Options, April 1992, p. 21.

These loan guarantees should serve as a catalyst for reform in much the same way that emergency assistance did in 1985. As guarantor of billions in loans, the United States has a right to seek such reforms, since they affect the creditworthiness of the country that must repay the loans to avoid the activation of the guarantees.

Thus, both the United States and Israel have a material interest in the success of Israel's economic reform program. These reforms ought to include:

- Further progress toward privatization of state enterprises.
- Change in the land tender system of the Israel Land Authority.
- Phasing out wage and price indexation.
- Removing the remaining cartels and monopolies.
- Creating a more attractive environment for foreign investment by trimming the bureaucracy.

The newly invigorated and institutionalized economic working group recommended by the Commission should oversee the operation of the loan guarantees and Israel's overall progress toward economic reform.

- Economic relationships between the two countries should be regularized. For example, the U.S.-Israel Tax Treaty, recently finalized after 30 years of negotiation, should be submitted speedily to the Senate for advice and consent. This treaty

will eliminate problems of double taxation on our respective citizens, set rules for the taxation of income, and provide for cooperation between the two nations' tax authorities. The United States and Israel should also review and update the Israel-U.S. Free Trade Agreement in light of the innovations negotiated in America's free trade agreements with Mexico and Canada.

- This new economic partnership should be invigorated by increasing the endowment of the three existing U.S.-Israel binational funds. These independent endowments, jointly funded by each government, are an example of foreign assistance working successfully as investment, not merely aid.

The U.S.-Israel Binational Research and Development Fund (BIRD) supports joint R&D projects between commercial enterprises in the United States and Israel. With a one-time U.S. investment of \$55 million by American taxpayers, BIRD-supported products achieved sales of over \$1 billion between 1977 and 1991.⁹ The Binational Agriculture Research and Development Foundation (BARD) supports joint R&D between American and Israeli agricultural businesses. From only \$55 million appropriated by Congress, it has supported R&D which led to sales of over \$500 million. The third program is the Binational Science Fund, whose \$110 million endowment—funded equally by the United States and Israel—has helped support joint efforts in basic science research at colleges, universities, and academic institutions in forty-three states and the District of Columbia. The record of these

⁹ "The Value of American Aid," Center for Foreign Policy Options, 1992, p. 28.

endowments is one of economic growth and job creation in both Israel and the United States.

Given their proven track record, the Commission suggests that endowments of each of these funds should be doubled. This can be achieved by re-allocating existing funds, not through any additional funding. The U.S. contribution could come from a one-time partial diversion of about \$200 million of Israel's annual ESF aid with the Israeli share coming from funds obtained from the loan guarantees.

- Modeled on these endowments, the Commission suggests the creation of a new Industrial Development Fund. Financed exclusively by \$500 million from loan guarantees, this fund would support direct industrial activities and joint U.S.-Israeli industrial ventures to create jobs in Israel. This effort would be patterned along the lines of the new U.S.-Polish, U.S.-Czech, and U.S.-Hungarian Enterprise Funds, which are used to upgrade industries in those countries and to promote joint ventures. In addition, a Memorandum of Understanding should be signed like that between the United States and Japan for development of advanced military technology for the exclusive use of both countries. Also, the United States can help encourage more foreign investment in the Israeli economy through more aggressive use of OPIC, the Overseas Private Investment Corporation.

- This is a period of reassessment of American policy, and it is appropriate for Congress and the new administration (in the context of the renewed U.S.-Israel Joint Economic Development Group) to reevaluate Israel's needs.

At first glance, it would appear that an economy of Israel's vitality does not need the current level of \$1.2 billion in economic assistance. Indeed, as "deficit hawks" take aim on the foreign assistance budget, Israel's economic support might seem a tempting target.

In fact, 97 percent of the total aid package is security-related; all but \$80 million of the \$1.2 billion in "economic" aid actually goes toward repayment to the United States of loans to Israel for military procurement and construction from the Camp David era. At current funding levels, it will be the year 2010 before \$1 billion in economic assistance is **not** directed toward debt repayment. (The military debt will be fully paid off by 2015.)

Given this analysis, the Commission believes that any early attempt to decrease economic support would have a deleterious effect on Israel's security posture. Not only would such a cut come precisely at a time when Israeli planners need to deal with a looming threat of unconventional weaponry. It would also come at a time when Israel is offering to make substantial compromises in real security—land—in exchange for its neighbors' commitments to peace.

Over time, as the proportion of economic support freed up from military debt-servicing reaches significant levels, the Commission recommends that the two countries re-examine the aid package. Specific options that should be explored include:

- Transferring those economic support funds not used for debt service into military assistance,

where the funds could be targeted to help Israel deal more directly with the unconventional security threats it will face. This could be done within the context of the existing aid package or by setting up a special account which Israel could draw upon as events warrant.

- Applying those economic support funds to enlarge binational endowments such as BIRD and BARD. This type of joint R&D support has been shown to be the most cost-effective form of foreign assistance; at the same time, it provides tangible benefit to the American economy.

- Contemplating reductions in overall economic assistance, should circumstances warrant. Both partners in the U.S.-Israeli relationship share an interest in reducing Israel's reliance on U.S. aid. After all, economic independence is a natural goal of any sovereign state, along with peace, security, and diplomatic recognition. The main reason for the growth in U.S. aid to Israel over the past two decades is that Israel has continued to be denied a normal existence. During that time, the threats arrayed against Israel have increased in scope and lethality, while the challenges Israel faces in its unique role as safe-haven for oppressed Jewry have assumed immense proportions. Over time, should Israel gain the normalcy—peace, security, and recognition—it deserves and should the burdens of immigrant absorption assume manageable proportions, it will be appropriate for Washington and Jerusalem to discuss normalizing the economic relationship between the two countries as well. In that context, the Commission would recommend an examination of Israel's overall economic situation and the aid

package, with an eye toward reduction of U.S. assistance.

There are other issues in the U.S.-Israel economic relationship that will have to be considered beyond the JEDG. For example, if and when there is an autonomy agreement with the Palestinians and ultimately peace agreements with the confrontation states, there will almost surely be a call for the United States to bolster the agreements, together with our Western allies, with economic assistance. In this context, the Commission recommends the establishment of a Middle Eastern Bank of Reconstruction and Development, patterned after the European Bank of Reconstruction and Development, to provide incentives for all countries willing to live in peace in the area. Israel should be a full partner in this effort.

These changes in the economic relationship are not a one-way street. A stronger Israeli economic base, anchored in structural reform, will make Israel more capable of supporting itself and of projecting those democratic and free-market values which both our countries share. Also, projects like the remotely piloted vehicle, have demonstrated Israel's capacity to provide the United States with sophisticated products at less cost than the United States can provide for itself. Israel's agricultural, computer, and biotechnological knowledge can be exported to the United States for the benefit of both countries.

It is indeed time to write a new page in the U.S.-Israel economic relationship based on shared free-market values and a determination to modernize Israel's economy and support private investment. Such a strategy will increase Israel's

non-inflationary economic growth, reduce its economic dependence on the United States, and help to create jobs in both countries.

THE COMMISSION ON U.S.-ISRAEL RELATIONS

Kenneth Adelman, director of the Institute of Contemporary Studies, served as director of the Arms Control and Disarmament Agency during the Reagan administration.

* **Madeleine Albright** is the United States ambassador to the United Nations. Previously she served as the president of the Center for National Policy and professor of government at Georgetown University.

* **Les Aspin**, former chairman of the House Armed Services Committee, is secretary of defense.

* **Samuel Berger** serves as deputy assistant to the President for national security.

Congressman Howard Berman (D-CA) serves on the House Foreign Affairs Committee and is chairman of its subcommittee on international operations.

William Brown, served as ambassador to Israel from 1989-1991. He is currently chairman of the board of the Truman Institute for the Advancement of International Peace at the Hebrew University.

* These officials terminated their membership in the Commission with their appointment to positions in the Clinton administration and do not, therefore, endorse the report. The text of the report may reflect the weight of their earlier participation in Commission deliberations.

Anthony Cordesman, assistant for national security affairs to Senator John McCain, is the author of *After the Storm: The Changing Military Balance in the Middle East* (1993).

Stuart Eizenstat served as assistant to the president for domestic affairs and domestic policy advisor to President Carter. He is a partner in the law firm of Powell, Goldstein, Frazer and Murphy.

***Leon Fuerth** is assistant to the vice president for national security affairs.

Richard Haass, senior associate at the Carnegie Endowment for International Peace, served from 1989 to 1993 as special assistant to President Bush and senior director for Near East and South Asian affairs at the National Security Council.

Alexander Haig has served as secretary of state, White House chief of staff and NATO Supreme Commander.

Charles Hill, former political counselor at the U.S. Embassy in Israel and director of the office of Israel and Arab-Israeli affairs at the Department of State, served as executive aide to Secretary of State George Shultz and as career minister in the foreign service.

Robert Hunter is the vice president of the Center for Strategic and International Studies. He served as director for Near East and South Asian affairs at the National Security Council under President Carter.

***Martin Indyk** is special assistant to the president and senior director for Near East and South Asia

at the National Security Council. He was executive director of The Washington Institute from its inception in 1985 until 1993.

Max M. Kampelman was counselor of the Department of State's delegation to the negotiations on Nuclear and Space Arms in Geneva. He also served as ambassador and head of the U.S. delegation to the Conference on Security and Cooperation in Europe.

Geoffrey Kemp is a senior associate at the Carnegie Endowment for International Peace. He served as special assistant to President Reagan for Near East and South Asian affairs at the National Security Council.

Zalmay Khalilzad served as an adviser to the Commission while serving as assistant deputy undersecretary of defense for strategy and planning in the Bush administration.

Charles Krauthammer is a syndicated columnist and a contributing editor to *The New Republic*, specializing in social criticism and foreign affairs.

***Anthony Lake** is assistant to the President for national security affairs.

***Samuel W. Lewis** is director of policy planning at the State Department. Former president of the United States Institute of Peace, he served as the U.S. ambassador to Israel from 1977 to 1985.

Edward Luttwak holds the Arleigh Burke chair in strategy at the Center for Strategic and International Studies.

Michael Mandelbaum is the Christian A. Herter professor of American foreign policy at the Paul Nitze School of Advanced International Studies at Johns Hopkins University.

Senator John McCain, (R-AZ), serves on the Committee on Armed Services.

Robert C. McFarlane, national security advisor under President Reagan, is the president of McFarlane Associates.

Walter Mondale, served as vice president from 1977 to 1981. He is currently a partner in the law firm of Dorsey & Whitney.

***Clark Murdock** is assistant to the secretary of defense for policy.

****Robert Oakley** has served as ambassador to Pakistan and as senior director for Near East and South Asian affairs at the National Security Council.

Alan Platt is a consultant at the Rand Corporation. During the Carter administration, he was chief of the Arms Transfer Division, U.S. Arms Control and Disarmament Agency.

James Roche is vice president for advanced development and planning at the Northrop Corporation. He was formerly the deputy director of the Department of State's Policy Planning Staff

****** Participated in Commission discussions prior to his appointment as special envoy to Somalia.

and of the Department of Defense's Office of Net Assessment.

Peter Rodman is a senior fellow at the Foreign Policy Institute of the Paul Nitze School of Advanced International Studies at Johns Hopkins University. He has served as deputy national security advisor.

Robert Satloff is acting executive director of The Washington Institute and editor of *Politics of Change in the Middle East* (Westview/The Washington Institute, 1993).

William Schneider, president of International Planning Services, Inc., served formerly as undersecretary of state for security assistance.

Harvey Sicherman is scholar in residence at the Washington Institute and is the author of *Palestinian Autonomy, Self-Government, & Peace* (Westview/The Washington Institute, 1993).

***Walter Slocombe** is principal deputy undersecretary-designate of defense for policy.

Joseph Sisco has served as undersecretary of state for political affairs and as assistant secretary of state for Near East and South Asian affairs.

Steven Spiegel is professor of political science at the University of California at Los Angeles. He is the author of the *Other Arab-Israeli Conflict: Making America's Middle East Policy, from Truman to Reagan* (University of Chicago Press, 1985).

Herbert Stein is senior fellow at the American Enterprise Institute. He was formerly a member of the President's Council of Economic Advisors.

Paul Wolfowitz, former undersecretary of defense for policy, is currently Distinguished Visiting Fellow at the National Defense University.

***R. James Woolsey** serves as director of central intelligence.

Mortimer Zuckerman is editor-in-chief of *U.S. News & World Report*.

APPENDIX

The following is a list of Americans and Israelis who met for private deliberations at the Dan Caesarea Hotel on August 30-31, 1992.

American Participants

Kenneth Adelman
Madeleine Albright
William Brown
Anthony Cordesman
Stuart Eizenstat
Robert Hunter
Martin Indyk
Geoffrey Kemp
Edward Luttwak
Michael Mandelbaum
Robert McFarlane
James Roche
Robert Satloff
William Schneider
Joseph Sisco
Steven Spiegel
Mortimer Zuckerman

Israeli Participants

Moshe Arens, former defense minister, foreign minister and ambassador to the U.S.

Hanan Bar-On, vice-president, Weizmann Institute, former deputy director-general, Ministry of Foreign Affairs.

Binyamin Begin, member of Knesset (Likud).

Eitan Ben-Tsur, deputy director-general, Ministry of Foreign Affairs.

Avihu Ben-Nun, former commander, Israeli Air Force.

Simcha Dinitz, chairman, Jewish Agency; former ambassador to the U.S.

Menachem Einan, former head, Israel Defense Forces, planning branch.

Oded Eran, deputy director-general for economics, Ministry of Foreign Affairs.

Ephraim Evron, former President, Haifa University; former ambassador to the U.S.

Shai Feldman, senior fellow, Jaffee Center for Strategic Studies, Tel Aviv University.

Dore Gold, director, U.S. Foreign and Defense Policy Project, Jaffee Center for Strategic Studies, Tel Aviv University.

Danny Halperin, former counsellor for economic affairs, Embassy of Israel, Washington.

Dan Meridor, member of Knesset (Likud), former Minister of Justice.

Menachem Meron former director-general, Ministry of Defense; former military attaché, Embassy of Israel, Washington.

Zvi Rafiah, former counsellor for legislative affairs, Embassy of Israel, Washington.

Ze'ev Schiff, military editor, *Ha'aretz*; associate, The Washington Institute.

Ephraim Sneh, member of Knesset (Labor); former military governor of Judea and Samaria.

Asher Susser, director, Moshe Dayan Center for Middle Eastern and African Studies, Tel Aviv University.

Gad Yaacobi, ambassador to the United Nations; former minister of economics.

Ehud Yaari, Arab affairs commentator for Israel Television; associate, The Washington Institute.

Aharon Yariv, director, Jaffee Center for Strategic Studies, Tel Aviv University.

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President Bill Clinton speaking at White House press conference with
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