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ISRAEL'S ARMS EXPORTS

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Israel has made important inroads in the world arms market over the past fifteen years, to emerge in the 1980s as a major weapons exporter. Official data on the character and scope of Israeli arms sales are not available, but estimates in professional literature provide a rather clear picture of this aspect of Israel's foreign policy.

Only One Percent of the World Arms Trade

In 1975, Israeli defense-related exports totalled $50 million. By 1979, this amount had reached $600 million, rising to $850 million in 1982 and $1.1 billion in 1985, according to conservative estimates. The projected value of arms sales in 1987 is expected to continue at $1.1 billion. These figures reflect the rapid growth of Israeli arms exports in recent years. Yet they have to be considered within a larger perspective.

First, in spite of the dramatic increase in its worldwide arms sales, Israel still figures more prominently as a recipient of arms rather than as a supplier. Second, Israel's arms exports constitute only about one percent of the world arms trade in the 1980s. The world arms market is still dominated by the Soviet Union (30 percent) and the United States (25 percent). The Warsaw Pact countries and NATO together supply over 85 percent of the world arms demand. Moreover, Israel has not become the major weapons supplier of any army in the world, not even to its own Israel Defense Forces (IDF). Therefore, when Israeli arms sales are viewed from the perspective of the international arms trade, the Israeli role is rather modest.

However, when these sales are viewed from the perspective of the overall Israeli economy, a different dimension emerges. Close to 20 percent of Israel's industrial workforce has until recently been employed in defense-related enterprises. Military equipment ranks second, after diamonds, among Israel's export industries. The added value in arms manufacturing is approximately 50 percent, over twice that

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involved in the processing of diamonds. In recent years, the sale of weapons abroad has constituted approximately 10 percent of total Israeli exports and about 20 percent of industrial exports. In fact, Israel has the highest ratio of arms exports to total exports among Western democracies. These figures demonstrate the key role now played by arms manufacturing within the Israeli economy.

Founded to Promote Self-Sufficiency

The initial motivation for Israeli weapons production was related to security concerns. Since its inception in 1948, the State of Israel has faced continual difficulties in procuring adequate quantities of high quality weapons. The search for weapons has been a constant feature of Israeli foreign policy. Furthermore, the prevalent "realpolitik" outlook by the political elite toward international affairs led to a preference for self-reliance. The arms market is correctly viewed as highly political. Therefore, self-sufficiency is vital to prevent dependency upon the political whims of foreign weapons producers.

The underground arms workshops of the pre-state period were converted after independence into an embryonic arms industry that initially concentrated upon the production of light arms and the establishment of maintenance and overhaul facilities for the repair of imported arms. The Uzi submachine gun, designed in 1952, is the most famous product of this period. In light of the rather limited choices available to Israel in weapons procurement, its domestic arms industry came to specialize in modification and improvement of imported weapons to suit the special needs of the IDF.

In the 1960s, Israel developed new defense production capabilities in the areas of aircraft and electronics. The French arms embargo in 1967 and the British refusal in 1969 to sell it the Chieftain tank (in spite of Israel's contribution to its development) served as an impetus for the expansion of activity in the arms manufacturing sector, resulting in the development of the Kfir fighter plane and the Merkava battle tank. The production plans of the Gabriel sea-to-sea missile also matured during this period. In contrast to the Kfir and the Merkava, the Gabriel missile was developed primarily because weapons of this type were not available at that time in the Western arsenal. The Israeli arms industry also benefited from the infusion of modern American military equipment into the IDF during the 1970s. Some of the latest state-of-the-art weapons became objects for improvement or imitation.

Politics and Economics

Following the 1973 war, Israel's dreams of weapons self-sufficiency began to fade. The war underscored Israel's dependence upon the United States. In light of the fierce regional arms competition and the realization that Israel needed a much larger military force, IDF requirements following the 1973 war grew considerably. While a more realistic goal was set of providing 40 percent of IDF acquisition needs from local production, the overall expansion of the IDF still provided a large incentive which led to increased local production. For primarily strategic reasons, substantial investments were made by the government in the defense industry. Having a strong domestic arms industry allowed a greater degree of freedom of action during a period of an arms embargo or a "reassessment." In addition, the existence of such an extensive industrial infrastructure enabled Israel to perform a high level of recycling of outdated or damaged equipment, which thereby reduced the need to purchase new items. In time of war, it is also vital to be able to make repairs quickly in order to overcome chronic quantitative inferiority. It is also claimed that a strong defense industry has economic value as a substitute for imports to save foreign currency, for profits of its own, and as a source of employment for a highly skilled workforce. However until the end of the 1970s, the economic considerations had been secondary. Only then did the burgeoning Israeli arms industry emerge as an arms exporter with an increasing share of the world market.

The arms exporter role has been adopted primarily for economic reasons, although arms transactions also serve political ends. As Israel's economy entered a period of decline, these exports were seen as an effective way to defray some of the costs involved in maintaining the arms industry. The production of weapons beyond the requirements of IDF needs and their sale abroad allows the industry to enjoy economies of scale, reducing the cost per unit. Exports also offset the costs of research and development. Marketing arms abroad is also seen as a way to reduce Israel's chronic balance of payments deficit. Furthermore, the advanced defense industry has become an important source of employment in the ailing Israeli economy. Its existence also moderates the brain drain of scientists, engineers and technicians. This greater emphasis on exports has led to the present situation in which somewhat more than one half of defense industry output goes to export.

What is Available for Export?

The variety of Israeli military equipment available for export is quite impressive. In the area of aviation, Israel offers several types of aircraft, weapons and control systems, flight control systems and airfield equipment. In the area of armor, Israel offers tanks, armored vehicles and ancillary equipment, and fire control and navigation systems. The naval field includes the sale of naval craft, weapons and various marine equipment. Israel also advertises small arms, mortars, ammunition, mines, demolition charges, and a variety of personal gear such as helmets, gas masks and tents. Israeli products in the optics and electronics markets are quite visible and include communication systems, radar, command and control systems and a variety of optical equipment. Another area in which Israeli products have captured a small share of the world market includes security items such as electronic fences and intruder detection systems.

There are over 100 Israeli companies involved in the export of military equipment. The three leading manufacturers are the Israel Aircraft Industries, the Israel Military Industries, and the Armament Development Authority. They are all state-owned and under government control. The rest are privately owned or belong to the public sector. Yet all share some kind of dependency upon the Defense Ministry. The Ministry also occasionally enters the arms market directly as it tries to sell outdated IDF equipment to offset the high cost of its replacement with more modern equipment.

Popularity of Israeli Weaponry

The Israeli success in arms sales is rather intriguing. After all, Israel is to a large extent isolated in the international community. Relations with Israel – diplomatic, cultural and economic – entail a political price that some states are not always willing to pay. Many countries in the world refrain from any transactions with Israel. Moreover, the lucrative arms market of the Arab states is closed to Israel. Nevertheless, Israeli weapons have found their way to Homeini's Iran, to Marxist Ethiopia, and to Moslem countries such as Indonesia and Malaysia. Numerous reports tell of Israeli weapons sales to the People's Republic of China. In spite of the fact that the arms market is highly politicized, it seems that Israeli arms dealers have succeeded in overcoming the political inhibitions of some very unlikely buyers. As Aaron Klieman claims in his study of Israeli arms sales, *Israel's Global Reach*, the Israelis use arms sales in an attempt to ease their isolation. Apart from hard cash, weapons occasionally produce political goodwill.

One of the main reasons for the successful marketing of Israeli weapons to all corners of the world is their battle-proven experience. This quality of the Israeli-made arsenal is very appealing to the foreign officers in charge of weapons acquisition. The fact that a certain weapon is included in the IDF inventory is the best promoter of that particular item. Israeli arms manufacturers capitalize on the IDF's image as a sophisticated and winning army. The fact that no political strings are attached to Israeli arms transactions is another advantage. Israel is a small country and the delivery of weapons from such a state seems less threatening to similar states than an arms relationship with a superpower or an ex-colonialist country. Furthermore, Israeli-made weapons seem to be competitive in price as well.

In the area of light arms and ammunition, Israel has achieved the advantages of economies of scale. In the area of weapons that are skilled-labor intensive such as electronics and optics, the cost of skilled labor in Israel is still lower than in other industrial countries, allowing Israel to offer such items at attractive prices.

Israel has been less successful in selling high cost per unit weapons. Israeli products of high cost and visibility, such as airplanes or tanks, do not often appeal to prospective buyers because of the political ramifications involved in such a deal. Even another isolated state, Taiwan, refused to buy the Kfir, which also was rejected by Austria. Similarly, Switzerland decided against the purchase of the Merkava tank. These items include American components and their sale requires American permission, which is not always forthcoming. Furthermore, such large enterprises may run into financial difficulties. Israel has used American money to produce the Merkava and to develop the Lavi combat plane.

The American Role

The American position concerning Israel's defense industry is ambiguous. Interestingly, some of the initial know-how used to produce Israeli arms in the 1950s was of American origin. At that time, this know-how was transferred to Israel because the U.S. preferred not to sell weapons to Israel and offered, instead, access to arms production technology. Since the 1970s, Israel has requested access to weapons know-how in order to ease the economic burden of its security requirements. Because of the economic and political problems involved in continuing to develop its defense industry, Israel has sought to secure subcontracts for American weapons systems supplied to Israel or to reach co-production agreements with American firms.

The transfer of technology resulting from these subcontracts could result in significant savings on research and development expenses. Furthermore, such arrangements could assist in the maintenance of the defense industry's workforce and save valuable foreign currency. Moreover, co-production could possibly diminish the chances of an American veto over its sales abroad. Israel still entertains some hope of attracting an American firm to co-produce the Lavi. When it comes to producing high cost per unit weapons systems, co-production with the Americans or others, rather than independent development, has been the defense industry's as yet unachieved goal.

Washington has expressed its interest in strengthening Israel's economy in order to ease the burden on the American taxpayer. On the other hand, it prefers an Israel which is not too strong or independent. Furthermore, the American arms industry regards Israel not only as a competitor in the world market, but also fears Israeli encroachment in the American arms market itself. Indeed, Israel has invested a lot of political energy toward loosening restrictions on Israeli arms exports to the American market. The American military's huge procurement requirements are very attractive to Israeli arms dealers. This is one of the reasons that Israel has sought "ally" status, which would lead to a greater opening up of the American market.

To Sell or Not to Sell? Who Decides?

Little is known about the decision-making process in the area of Israeli military equipment sales. Traditionally, defense matters are rarely subject to public scrutiny in Israel. Information about arms transactions is highly classified in order to ease the inhibitions of the buyers in dealing with Israel and also to protect the secrecy of the weapons procurement programs of Israel's clients.

In Israel, arms exports were rarely discussed even at the full cabinet level. If and when these issues were brought to the cabinet level, the forum that usually dealt with them was the Ministerial Committee on Defense. When this committee disappeared from the political scene, another forum was set up in the 1980s to address itself to these issues – the Ministerial Committee on Weapons Transfers. Membership in this committee is limited to the Prime Minister, and the Ministers of Defense, Foreign Affairs, and Industry and Commerce. This panel is supposed to provide the policy guidelines for arms sales abroad.

Direct administration of the arms export program is under the jurisdiction of the Defense Ministry. The responsible agency is the Defense Sales Office (SIBAT in Hebrew), which is headed by a deputy director-general of the Defense Ministry. Despite the fact that SIBAT acts as the representative of the entire defense industry and every sale of military equipment needs government approval, many firms have their own marketing network. Furthermore, the arms manufacturers have gradually developed a vigorous lobby to promote arms exports. The substantial foreign currency earnings and the great number of employees involved in the export of arms serve as very convincing arguments to procure the necessary authorization. Obviously, the political benefits that accompany certain arms deals are also emphasized. The secrecy and informality characteristic of Israeli decision-making in this area also allow arms dealers to influence governmental decisions on the basis of their network of personal connections.

The Moral Issue

A national consensus on the necessity to sell weapons abroad and a desire to acquire political goodwill for a somewhat isolated state has lowered Israel's inhibitions on selling instruments of destruction, leading to a rather permissive weapons sales policy. In all fairness, however, such lax export guidelines are characteristic of most arms exporting countries.

Israel does refrain from selling those items of secret and sensitive equipment which might fall into the hands of its Arab opponents and thereby impair the IDF's effectiveness on the battlefield. It is estimated the 80 percent of indigenously designed products are barred from sale abroad. For example, only a modified version of the Kfir was offered for sale. This obviously reduces the attractiveness of some Israeli items. Israel is also hesitant to sell equipment for suppressing domestic disturbances and certain very lethal arms. However, clear distinctions are not easy to make and the pressures to sell usually prevail.

Israel sells weapons to any interested country in the world, with the obvious exception of enemy Arab countries. A large proportion of Israeli arms are indeed destined for "problematic" countries. Israel continued to sell arms to the discredited Somosa regime in Nicaragua until its very end. Profits and sentimental attachment to the pro-Israeli Somosa family overcame political imperatives. The economic factor has been of paramount importance in arms transactions with South Africa. Only the fear of American economic sanctions led the Israeli government to decide in March 1987 to bar the signing of new defense contracts with that country.

The Future of Arms Exports

The decision concerning South Africa came at a very inopportune time for the defense industry. Recent cuts in the Israeli defense budget have forced the arms industry to look for overseas sales to prevent collapse. In spite of a steady increase in arms exports, several thousand employees in the industry have been laid off in the past two years. This reduction in the workforce is projected to continue primarily because of the shrinking local market.

The current Defense Minister, Itzhak Rabin, is known for his severe attitude toward the defense industries and has played an important role in their contraction. Military industrialization is no longer viewed as a stimulant for growth. Today the preference is to reduce the proportion of exports in the total production. Arms sales abroad are to become only a by-product of local arms manufacturing, rather than a goal in itself. Rabin and others fear that the IDF may have to divert funds from a reduced defense budget to purchase military hardware not sold abroad. They are skeptical of the chances to dramatically increase arms exports and of the wisdom of becoming dependent upon a fluctuating world arms market. Indeed, the world demand for weapons has seemed to stabilize. Economic difficulties in many countries have forced them to cut back on their original procurement plans. The Israeli readiness to sell arms production know-how will also contribute to a projected cut in orders.

The entrance of new arms producers on the world stage has increased competition and could squeeze Israel out of several markets. Both Brazil and South Korea may be viewed by some as more politically palatable arms trading partners.

Israel has undertaken vigorous military industrialization during the past fifteen years for domestic reasons, as well as to take advantage of favorable developments in the world market. In both arenas, the domestic and the international, the Israeli arms industry will surely face growing difficulties in the future.

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Suggested Readings:

Yoseph Evron, *The Defense Industry in Israel* (Hebrew) (Tel Aviv: Ministry of Defense, 1980)

Efraim Inbar, "The American Arms Transfer to Israel," *Middle East Review* 15/Winter 1982/3

Aaron S. Klieman, *Israel's Global Reach* (Washington: Pergamon-Bressey's, 1985)

Gerald Steinberg, "Israel," in Nicolle Ball and Milton Leitenberg, eds., *The Structure of the Defense Industry* (New York: St. Martin's Press, 1983)

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