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Israel's Military Industrial Complex

As a child, I remember the Commander of Palmahim Air Force Base inviting the people of Israel, through festive radio jingles, to participate in one of the key events of our independence day: the magnificent exhibition of Israel's weaponry, culminating in an air-show over the base's sky, a demonstration of our impressive aircraft. One time my parents took us. I recall the feeling of enormous pride and admiration, combined with reverence, in view of the inspiring sight of the might of our army. The thought that death, pain and horror were involved, did not even pass through my mind.

A military industrial complex is born

Israel was born out of war. Its very independence was achieved through the use of force, which endowed Israel with a victory over its surrounding Arab countries. Ben Gurion, in a speech he addressed as the war ended, praised the industrial and technological capability of the fledgling state as a factor that contributed in supplying arms to the state's army and hence had an important part in the victory. "We should nurture and enhance this advantage of ours", he stated¹. And so we did.

The building of a domestic military industry was based, at least in its inception, primarily upon fear. The Jewish state was established in the midst of a hostile environment by a Holocaust-traumatized nation that was determined to never again be led "as lambs to the slaughter"². The main preoccupation of the state was to keep the IDF prepared for any attack³. During Israel's first years as a state, France realized Israel's major dependence on arms suppliers. In June 1967, France declared an arms embargo on Israel in response to Israeli actions in the Six Day War. That was a watershed in arms production in Israel. The state decided not to rely any longer on foreign suppliers and started investing capital in establishing a large-scale arms industry. Within a few years, Israel had a highly advanced and technologically sophisticated arms industry, unparalleled amongst developing countries, an industry that could well underpin the self-reliance policy⁴.

What have we got? Inventory:

Ninety-five percent of the arms produced in Israel are manufactured by 6 companies, three of which are state-owned. The state-owned companies include Israel Aircraft Industries (LAI), Israel Military Industries Ltd (IMI) and the National Armaments Development Authority (Rafael). In the private sector the largest company is Elbit Systems. Tadiran and Elisra make good profits as well⁵.

The first military company, IMI, was founded as early as 1933. By now, the well-established industry with an ever-increasing level of sophistication consists of an impressive variety of instruments of death. The weaponry includes small arms; ammunition for heavy and small arms as well as for aircraft and helicopters; artillery rockets; unmanned aerial vehicles; aircraft; electronic and anti-electronic warfare systems; tanks; missiles boats and more. Some of the renowned products of the Israeli industry include: The Galil rifle; The Kfir fighter jet; the battle tank 'Merkava' and the Arrow, a missile defense system. In recent years, the arms producers have specialized in upgrading old weapons with advanced electronic components⁶.

*Notwithstanding its refusal to officially confirm it, Israel apparently possesses nuclear and chemical weapons. There are various estimates as to the size of Israel's capability, ranging from 75 to as many as 400 nuclear weapons, including warheads for mobile Jericho-1 and Jericho-2 missiles and bombs for Israeli aircraft⁷. An historical understanding between Israel and the U.S. allowed Israel to develop its nuclear capability as long as it maintained a low profile, and relieved pressure on it to sign the Non-Proliferation Treaty (NPT). **Israel has not signed it until today⁸.***

Why not thinking big? Exports:

As noted, the industry in its early stages was designed to keep the domestic defense system well-equipped. But in order maintain efficiency and to recoup production costs, there was a need to expand the industry through exports. Exporting weapons proved to have immense potential for economic growth and for lightening the burden of the defense budget⁹. Hence, a military equipment exports industry developed rapidly, and Israel joined the international arms market. Since then Israel has become one of its preeminent members.

Today, the arms industry in Israel is based on exports, with 70% of its output being exported, and only 30% bought by Israel's defense ministry¹⁰. It has a share of \$3.1 billion out of \$16 billion industrial export revenues in Israel per year¹¹. It was the only industry that kept flourishing during the economic crisis in the 1980s¹², and it is perceived as an industry that can reinforce the economy in the current economic recession. Since the outbreak of the Al-Aqsa Intifada, Israel's economy has suffered from a blow that severely hurt the tourism and high-tech industries. Yet arms exporting, being an industry based on foreign currency flows, can still thrive in times of crisis while at the same time meeting the domestic needs of strong armed forces¹³.

Who gives the money? Clientele:

Israel's arms industry has an excellent reputation. It is acclaimed for its high level of expertise and its innovations in state-of-the-art equipment. The missile defense system is hailed the planet's most sophisticated. Even the U.S. military considers Israel as a source of advanced technology¹⁴. In addition to its skilled personnel, Israel has another advantage over competing arms producers: Frequent wars and the ongoing conflict with the Palestinians present available opportunities to test the equipment and to demonstrate its effectiveness.

With this splendid reputation, Israel's clientele is big. LAI alone does business with 70 countries. In the last decade, the LAI has upgraded entire fleets of the air forces of Spain, Canada, Croatia, Romania and Thailand, among other countries¹⁵. The IMI and Elbit Systems have also signed numerous international deals for upgrading other countries' tanks.¹⁶ Israel's clientele consists of whoever is willing to pay—and there are many, including military juntas, civil war-struck countries and known human rights abusers. Also, Medellin drug barons in Colombia and Haiti, Nicaragua under Somoza, and the military junta in Burma (to mention but a few) were and are all clients of Israel. At times Israel has sold arms in violation of UN embargos and by so doing achieved advantage in the arms market. Such was the case in apartheid South Africa, as well as in Rwanda during the genocide in 1994¹⁷.

A special friend: the United States of America

One unique client of Israel is the United States. Israel's biggest arms producers all make deals with the giant producers in the U.S., such as Boeing and Lockheed Martin¹⁸. In 2002, Israel ordered from the latter 102 F-16s, supplementary to the 250 ones already in its possession, making Israel's F-16 fleet the largest outside of the U.S.¹⁹

The U.S. is not merely a loyal client, but it also plays a predominant role in actively buttressing Israel's arms industry. Israel was the first non-NATO country to participate in Reagan's \$26 billion "Star Wars" program, or the Strategic Defense Initiative (SDI) as it was formally called. For Israel, it meant a large source of funding for research and development projects²⁰.

The principal U.S. assistance to Israel's arms industry comes in the form of frequent grants that have replaced the forgiven military loans that the Americans have been giving Israel since 1967²¹. Israel currently gets \$3 billion a year from the U.S., two-thirds in the form of Foreign Military Assistance (FMA) and the rest in the form of Economic Support Funds (ESF)²². The latter supports indirectly the arms industry as well, since it allows the Israeli government to use part of its own budget for military programs. Furthermore, Israel is the only state that is allowed to use about a quarter of its military aid towards its own arms manufacture²³.

There are several interests behind the massive U.S. funding of an industrialized and well-off country like Israel, which has a per capita income of \$19,530²⁴. Indeed, the arms industry relationship between Israel and the U.S. is symbiotic rather than strictly beneficial to Israel. The first interest has to do with capital. Israel provides a lucrative market for the United States. The latter replaced France as the major arms supplier to Israel, in terms of both equipment and technology, following the Six Day War²⁵. Many American arms manufacturers—Boeing, Lockheed Martin, General Electric and American Ordnance, for example—benefit greatly from this alliance. In 2001 alone, Israel bought from U.S. companies \$2.95 billion in arms²⁶.

Secondly, military funding assures political benefits. Israel's strategic location makes it a desirable friend for the United States. Financial assistance, hand in hand with the consistent political backup, ensures that Israel will remain a committed ally in the political arena. The fact that Israel consults on arms sales with the U.S. and refrains from selling military systems "that upset the Pentagon" (as the director general of Israel's finance ministry said²⁷) reflects how Israel helps maintain U.S. supremacy.

Getting the full picture

The combination of the above-mentioned facts gives a clear picture: Israel, home to 6.3 million people²⁸, has a massive arms industry, now the world's 10th largest²⁹. The five biggest Israeli arms producers are ranked in the list of top 100 arms-producing companies in the 2002 Stockholm International Peace Research Institute (SIPRI) Yearbook. LAI was ranked as the world's 26th largest arms producing company³⁰. With this much capital involved, the significance of this industry to the Israeli economy is overwhelming. Military commerce makes up one third of all domestic sales³¹. It supports technologically the high-tech industry, another field of great economic importance for the Israeli economy³². The arms industry also plays a pivotal role in the aspect of employment. With as many as 60,000 employees, it makes up 20% of industrial sector employment³³. LAI is the biggest employer outside of government, with 14,500 employees³⁴. Some economists who prepared a report termed "The Military Industry as an Accelerator to the Growth of the Economy" even advise the ministry of defense to support a merging of the arms producers and thereby to create a huge company (or rather corporation) with turnover of \$4.2 billion, hence making it the tenth largest arms producing firm in the world. The size matters, they say, and they cite recent merges such as Lockheed and Martin as models of success³⁵.

The centrality of the arms industry in Israel's economy has grave political and social implications. It is a state business par excellence, with the ministry of defense governing its management. This implies an obvious relationship between politics and the arms industry, which adds to the existing overlap between the army and the state in Israel³⁶, and increases the dangerous influence of weapons barons on Israel's foreign policy. The critical role of arms exports dictates with which countries Israel chooses to have diplomatic relationships, according to arms sales considerations. It also dictates with whom Israel prefers to stay in war, whether it be cold war—as is the case with Syria—or very hot one, as is the case with the Palestinians.

The impact of the military industrial complex on policy in regard to the Israeli-Palestinian conflict is substantial. Since the arms industry constitutes a major source of capital for the Israeli economy, and since Israel is a capitalist country, it is constantly driven by the urge to expand. Expanding an export-based industry is achieved by increasing military exports. And here lies the vicious cycle: **The most effective way to increase military exports is to increase the number of orders from the domestic security system**³⁷. This cycle leads to surplus in the domestic arms industry. Fortunately, there is a way to waste this surplus. There is a live laboratory to use and test the weapons: the Palestinian territories. This is one possible line of thought that propels the continuation of the Israeli-Palestinian conflict. Absurdly, and as the conflict lingers on, powerful arms forces will always be needed, hence the domestic and exports industries will continue reinforcing each other, and the military industrial complex will persist.

The arms barons:

In order to better understand the repercussions of this situation, it is instrumental to examine who holds the senior positions in the weapons industry, in terms of their political and professional affiliation and the social circles they are part of. Here are a few examples:

- **Major General Ret. Ori Orr.:** *Chairman of the Board, LAI. Past positions: Managing Director of The Jewish National Fund, Member of the Board of Directors of IMI, a Council Member of the Israel Lands Authority, Deputy Minister of Defense, Chairman of the Foreign Affairs Committee of the Knesset (Israeli Parliament)*³⁸.
- **Colonel Ret. Jacob Toren:** *Chairman of Rafael. Holds several public positions including Member of the Executive Committee of the Electronic Industries and of the Manufacturers' Association, Chairman of the Israeli Defense Industry Forum, and board member of Elbit Systems. Past positions: Senior positions in Elbit systems and in El-Op. Has 25 years experience in the Israeli Air Force and the security system.*
- **Brigadier General Ret. Mizrachi, Arie:** *Chairman of the Board, IMI. Graduate, US Army Military School. Past Positions: Director General, Ministry of Housing & Construction, President of Armaç International Consulting Ltd*³⁹.

*These generals and other powerful position holders*⁴⁰*—along with other generals from the IDF, the foreign intelligence service (the Mossad), the General Secret Service (the Shin Bet), and the police—join together with the Prime Minister and other key political actors to create a powerful decision-making body as regards the security related issues and foreign policy.*

*One annual prestigious event that brings together the security elite and other components of the Israeli elite (academia, businessmen, etc) is the “Herzliya Conference on the Balance of Israel’s National Security”. The Chair of the event is Dr. Uzi Arad, himself a former Director of Intelligence in the Mossad. The Herzliya Conference has become a stage for announcing political agenda, culminating in the traditional Prime Minister’s speech which reiterates that agenda*⁴¹. *During the conference, think-tanks submit and discuss their reports. The arms barons naturally play an integral role in these think-tanks, and looking at the contents of some of their recommendations may illuminate their interests and perspectives. One think-tank led by Maj. Gen. (res.) Ben-Eliyahu*⁴² *submitted a position paper entitled “The Security Budget and Force Building”. The members acknowledge that the harsh socio-economic reality in Israel necessitates a significant reduction in the defense budget and the allocation of more resources to social and economic problems. However, they recommend decreasing wages of public sector, among other things, rather than decreasing arms development*⁴³. *In his paper “The Military Industries- an Indispensable Asset to the National Security of Israel and Its Economy”, Moshe Keret, CEO of LAI, holds that the economic and strategic importance of the arms industry requires it to be defined as a national infrastructure and protected accordingly*⁴⁴. *Giora Shalgi, Rafael’s CEO, goes even further, advising that the budget required by this infrastructure be guaranteed by enactment*⁴⁵; *that would mean integrating the military industrial complex into the law system.*

Having control over a predominant capital source in Israel, being backed by economists who praise the essentiality of this source to the economy, and being ex-generals with connections to senior political officials, the heads of the arms industry are extremely influential. Evidently their recommendations involve vested interests of warlords that are businessmen at the same time. They are spurring the Knesset and the government to take legislative measures to expand the arms procurement mechanism, the consequence of which would be intensify their impact on policy making. They are justifying their lobbying by arguments of economic desirability and by the sacred notion of “security reasons”, that same old notion that one is not allowed to argue with.

Apart from the evident interest in keeping their organization financially successful, apparently the arms barons share similar political world view as well. For the warlords among them, this perspective is shaped by years of serving in the army. For others, it is a standpoint molded by spending years improving the killing efficiency of their product. The

language they articulate is the fierce language of force⁴⁶. One element embedded in this perception is the conviction that there is an ever-existing danger to the existence of Israel, and that the Arab world is still far from accepting it as a member of the Middle East, if it ever will⁴⁷. Thus, “only preserving the military might of Israel could be the prerequisite for achieving peace agreements”⁴⁸. Sometimes it seems we are not talking about a powerful country closely protected by the dominant power in the world, but about the small and vulnerable state of Israel of the 1940s: “Keeping a strong security infrastructure provides indispensable deterrence capability, in a state that can not afford even one single failure”⁴⁹. The apocalyptic scenarios that the generals have been presenting since Israel was born still prevail. In Ben-Eliyahu’s view, the threat of weapons for mass destruction against Israel has waned, but is still valid, and “the clock keeps on ticking towards its possible use”⁵⁰. The implication of a situation in which the leaders of the arms industry come from “Securitistic” points of view is straightforward. Looking at last year’s budget reflects this militarist thinking. At 9.5%, Israel leads the world in military expenditure as a percentage of GDP. It is three times more than the U.S. (3.2%) and roughly four times more than the UK (2.5%)⁵¹.

The obvious interest in keeping their business profitable and the military background of many of the arms industry higher-ups encourages another conclusion (or possibly a misleading assertion)—that the Israeli-Palestinian conflict is far from being solved by political means. Giora Shalgi, CEO of Rafael, dismisses the assumption that there will be peace between Israel and its Arab neighbors as “naïve”⁵², and contends that the goal of the leaders of the defense system is to “minimize the terror to a level that we can live with reasonably”⁵³. Thus using force as a political measure and marginalizing any political process is fostered and legitimized.

These are some of the incentives that have helped hinder political progress in the Israeli-Palestinian conflict for so many years. Furthermore, the fact that Israel is a strong player in the world’s arms market provides it with the flexibility to use these arms in massive violation of human rights without being criticized by the major powers of the world and their well-lobbied arms companies, companies who have an interest in Israel as both a client and producer of arms. As Keret reveals: “Israel’s military products are appreciated in the world market...it creates opportunities to counter pressures that stem from political positions”⁵⁴. In fact, the main beneficiaries from Israel’s arms industry induce escalation of the conflict by selling Israeli arms. Moreover (and ironically), the U.S. is willing to give military aid to Israel as a reward for progress in the peace process⁵⁵.

The military industrial complex in Israel, along with the support from international stakeholders that have interest in it, creates a cycle that keeps the Israeli-Palestinian conflict going. The centrality of the arms industry also encourages legitimization of the use of force instead of focusing on political means to solve the conflict. Retaining big arms industry for the betterment of the economy, as it were, affects adversely on the very reason to keep it, since it indirectly diminishes the standard of living. The stronger the arms industry is, and the more arms available for use, the longer the Israeli-Palestinian conflict continues. As the conflict continues, the military expenditure stays high, at the expense of social warfare services. Currently, the expenditure of the Israeli government on security is 50 billion shekel (\$10.8 billion), while for education the government spends 40 billion shekel⁵⁶.

Thus a vicious cycle is perpetuated, and the high price is paid by Israelis, Palestinians and the many voiceless victims of arms proliferation.

Addendum: Several weeks ago, the ministers of finance and defense decided to dismantle the Israel Military Industries. Part of its factories will be unified with Rafael, whereas others will be offered for sale. The Israel Military Industries in the first government owned arms company that is to be privatized. During the last two decades, IMI’s profit has decreased substantially).

The privatization is aimed at increasing profit while maintaining the state’s interest by special mechanisms that will be established as a part of the selling process. Foreign investors will be

allowed to participate in the purchase as long as the control of the privatized company would be in Israeli investor's hands.

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3 Chairman of Israel Atomic Energy Commission (IAEC), Ernst David Bergmann, in 1952.
<http://www.globalsecurity.org/wmd/world/israel/nuke.htm>
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by US military aid. See: Turner, Mandy, "Arming the Occupation: Israel and the Arms Trade",
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25 In 1984, Israel became eligible to tender for contracts with the U.S. military, pursuant to the signing of a Memorandum of
Understanding between the two countries, in which Israel was formally acknowledged as a non-NATO ally with the same
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32 Ibid
33 UNDP, http://hdr.undp.org/statistics/data/cty/cty_f_ISR.html
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35 Turner
36 <http://www.endwar.net/israelnow10thbiggestarmsmerchant.htm>. Marani's words were said after Israel canceled the sale
to China of its AWACS-style airborne early warning radar planes due to pressure from the U.S.
37 http://hdr.undp.org/statistics/data/cty/cty_f_ISR.html
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SIPRI, List of Top 100 arms-producing companies, <http://www.sipri.org/contents/milap/milex/aprod/sipridata.html> . Elbit
Systems, Rafael and IMI lag behind with a ranking of 40, 43 and 83 respectively. Elisra is on the list as well, though it is
not ranked.
Keret, p. 3
Ben-Eliyahu, p. 8
Keret, p.3
Turner
Sheinin, p. 5
The military service in Israel gradually served as a springboard to politics and to social status, a phenomenon that
culminated with former chiefs of army becoming Prime Ministers (Rabin, Barak, Sharon etc). However, I will not elaborate
on militarism per se within the scope of this paper.
Sheinin, p. 3

38 <http://www.iai.co.il/site/en/iai.asp?pi=21934>. Both The Jewish National Fund the Israel Lands Authority are Zionist
organization that contribute greatly to ethnic discrimination against Palestinians in Israel, by means of exclusive land
distribution and more.

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40 Other senior position holders do not have necessarily military background, and are professionals with technical academic
education relevant to this industry. Giora Shalgi, the CEO of Rafael is one of them. However, very often they share the
same militarist political approach, as will be discussed later.

41 At the last Herzliya conference Prime Minister Sharon disclosed his plan of disengagement from Gaza.

42 Eitan Ben-Eliahu is the CEO of Sentry Technology Group, a defense technology firm, and former Commander Chief of the
Israel Air Force (IAF). This think-tank constituted also Moshe Keret, President and CEO of Israel Aircraft Industries, and
parliament member Maj. Gen. (res.) Matan Vilnai.

43 Ben-Eliahau, p. 10

44 Keret, p. 7

45 Shalgi, p. 8

46 For instance, Shalgi's words: "We should maintain deterrence ability and "painful punishment ability".Shalgi p. 6

47 Like many in Israel, they choose to ignore the Arab League Beirut Declaration, 28 March (the Saudi initiative 2002)
whereby Arab members of league declared for the first time, they will accept the state of Israel if implementation of UN
resolutions 242 and 338 will take place.

48 Knesset member Matan Vilnai, from the preface to "The Security Budget and Force Building"

49 Shalgi, p. 10

50 Ben-Eliahau, p.4

51 Ben-Eliahau, p. 15

52 Shalgi , p.10

53 Ibid, p. 4

54 Keret, p. 4

55 It was reported that the US had promised to endow Israel with further \$1.2bn if it withdraws from the West Bank according
to the 1998 Wye Accord.

56 Ben-Eliahau, p.8

5757