

The US Administration and Israeli Arms Sales to China: A New Mercantilist Policy

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President Barak has announced to President Clinton the cancel of the arm sale to China, few hours before the vote in Congress to block funds to Israel. This capitulation comes after months that the Congress and the Clinton administration have been urging Israeli officials to cancel delivery to China of the Phalcon airborne radar system. Was this demand from the US a consequence of a new policy directed towards Israel? No, it harks back to a three hundred-year old policy known as “mercantilism”.

The mercantilist policy was nationalistic and aimed at the protection of economic national interests by the restriction of foreign competition. The concept was based on the conviction that national interests are in conflict, and that one nation can increase its trade only at the expense of the others by protectionist measures that promote exports and prevent outside competition. The British adopted mercantilism in the seventeenth century through the Navigation Acts, which were enacted in 1651. The goal of these Acts was to prohibit transport of British goods on Dutch ships, thereby deterring the development of Dutch shipping services and increasing British exports.

The present American approach towards Israel is a modern version of older mercantilist policies. When the US government has forced Israel to cancel the Phalcon contract with China, claiming national security, in fact mercantilism and protectionism was the *raison d'être* of this demand. The US aims to prevent competition with Israel in the high-tech export market.

Congressmen might claim that the US has no economic vested interests and it is only for the sake of US national security that China should not benefit from Israeli technology (the Phalcon is based *solely* on Israeli technology). The facts do not support this allegation. Shortly after coming into office in 1993, the Clinton administration undertook one of the most sweeping relaxations of export restrictions in American history (including those imposed on China). The rationale was that national security meant making the American economy the strongest in the world. Therefore, promoting high-tech exports became of prime importance to the national interest.

The relaxation of restrictions included repealing the law requiring American companies to publicly declare the name of their customers. Some new appointments in the Pentagon

were made so as to ease out the opponents of technological exports. Moreover, control over dual-use technology (a technology that can be used for military as well as civilian applications) was lifted since it restrained the international success of American companies.

The new rules enabled US companies to export many technological products without applying for a government license. The companies were required to obtain a license from the Department of Commerce only if they believed the equipment would be used for military purposes. (Surely most of them believed that they were exempt from applying and thus sold to China!) The American administration encouraged these sales as an incentive for the growth of the American economy.

From the outset of the Clinton administration in 1993, over three billion dollars in exports of technological products with some military application have been sold to China, despite the Pentagon's acknowledgment that there is no way of checking if this equipment endangers American national security. Moreover, the administration eased control on the export of computers, satellites and commercial data-scrambling devices, as well as Blackhawk helicopters to China.

Are we to believe that these sales are not endangering American national security, but a defensive Israeli radar is? The difference in attitude by the administration towards American and Israeli companies about trade with China is not dictated by national security but by the mercantilist position. The Clinton administration has always placed economic issues at the center of its agenda as expressed by the famous adage from President Clinton's first presidential campaign: "It's the economy, stupid." It is for economic reasons that the sale of the Phalcon is considered a threat and a challenge to American competitiveness in the arena of high-technology arms equipment. Israeli sales are not desirable because they will contribute to the development of the high-tech arms sector in Israel, which may lead to increased competition with American firms in the future.

When Britain reached its supremacy during the period coined "Pax Britannica," she revoked the Navigation Acts and started a policy of free trade, preached by Adam Smith and Ricardo. It is ironic that the US, which is the hegemonic power in the world, seeks to have "managed trade," and opposes foreign exports of a friendly country in order to benefit home exports. (The British had also blocked their best friend - the Dutch; apparently being good friends does not prevent from being enemies on the economic field.)

The US should recognize that free and fair trade requires that the export markets in high technology be open to competition. Let Israel compete without intervention in her economic development and without vainly referring to US national security.