

The Economic Club of New York

318th Meeting
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Yitzhark Shamir
Prime Minister of Israel

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Introduction

Chairman Dwayne Andreas

Mr. Prime Minister, ladies and gentlemen welcome to this 318th dinner in the 80th year of The Economic Club of New York. This is the second time that we have had an Israeli Prime Minister as our guest of honor here at The Economic Club. The first time as nine years ago and the Prime Minister then was Menachem Begin. This is also the second time that tonight's guest of honor has been Prime Minister. In 1983 Mr. Begin stunned the nation by resigning and he was succeeded by his Foreign Minister, Yitzhark Shamir. Mr. Shamir served as Prime Minister for 11 months. Then new elections left his Likud Bloc and the labor party stalemated. So the two rival groups worked out an ingenious experiment. They formed a government of national unity, a sort of coalition. They not only divided up the Cabinet posts, they also divided up the top job. They agreed that for the first two years the labor parties, Shimon Peres would be the Prime Minister and that Mr. Shamir would be the Foreign Minister and then the two leaders would exchange jobs. Maybe that is where our Mr. Reagan and Mr. Baker got the idea. A lot of us skeptics said that it would never last, but it did. And last October, right on schedule, Israel once again showed the strength of its democratic institutions by going through with the swap. And it has worked. Yitzhark Shamir has given his whole life to this INS movement. And as such, he is indeed one of the important founders of the state of Israel. In his native Poland while he was still a law student at the University of Warsaw, he threw all his energies into the movement to create a Jewish state in Palestine. In 1935 he left law school and he moved to Palestine. Once there, he became a leader of the militant Jewish underground. Fighting to throw off British rule he was twice imprisoned by the British and escaped. And after Israel's birth, he spent ten years as a senior officer in Israel's Secret Intelligence Service. He was first elected to the Knesset in 1973; four

years later the Knesset elected him speaker. In 1980 Prime Minister Begin chose him as Foreign Minister and ever since then, ever since 1980 he has been either Foreign Minister or Prime Minister, having now served twice in each of these posts. I am sure you will recognize, as I have, at the breakfast I had with him this morning, that he is without any question one of the best informs Heads of State in the world today. The Prime Minister was kind enough to make a last minute change in his schedule of his visit here and delayed his return in order to be with us tonight. For that I am very grateful to you Sir. And we are delighted to have you here. It is now my pleasure to present to you the Prime Minister of Israel, his Excellency, Yitzhark Shamir
(Applause)

The Honorable Yitzhark Shamir

Israel Prime Minister

Mr. Chairman, ladies and gentlemen, I represent a small country, but I dare say a very special one. The ties between giant America and tiny Israel are totally unique. The United States has many allies, but few among them are like Israel. We share so much with America. A common heritage, common values, common ideals and common interests. Israel is perhaps the only country in the west that is clearly pro America. We like America, we respect America, we seek its friendship.

After three days of talks in Washington with President Reagan, with Vice President Bush, Secretary of State Schultz, Secretary of Defense Weinberger, and members of Congress, I can say this; the relations between Israel and the United States are as close and as friendly as they have ever been. (Applause)

Apparently this fact comes as a disappointment to some of our journalist friends. Some of them have been literally trying to invent a rift between Israel and the United States. Let me say it once, this is nonsense. Our meetings were held in the warmest atmosphere between the best of friends. The mood was positive, the decisions were positive. This friendship is not passing fancy; it represents a unique alliance between two champions of liberty, the world greatest democracy and the world's foremost fighting democracy, battling on the front-line of freedom. We need each other; we help each other, whenever and wherever possible.

When I met the President, during my first term as Prime Minister in 1983 we agreed to advance our relationship by launching our strategic cooperation. Now, on this occasion we took the relationship one step further. The United States has officially upgraded the status of Israel to that of a major non-NATO ally. We are very conscious of the meaning and obligations that this strengthened alliance entails.

Israel's special relationship with the United States is vital for promoting peace. It fortifies a bastion of democracy in the heart of the Middle East. It deters aggression; it is also the central partnership in the war against terrorism. The United States and Israel lead the world in the battle

against this new barbarism that threatens our civilization reported politically, economically, militarily, we shall carry on the fight together until we remove this malignancy on the face of the health.

In the meetings with President Reagan and his advisors we discussed the current situation which our improved international position has enabled us to concentrate our efforts on strengthening our economy. We want our economy to grow and prosper. But first we have to achieve stability. Our government of national unity has succeeded in eliminating hyperinflation. We brought inflation down dramatically. Our immediate goal is to reduce it still farther. To a single digit annual level. In Washington we explained our new reform program, cutting taxes, liberalizing the capital market, and selling off government-owned companies. We believe this program will launch our economy forward. This together with the Free-Trade Agreement President Reagan and I agreed on during my 1983 visit, can do much to stimulate our exports. But let me immediately assure you, the markets of the United States are not about to be flooded with Israel goods. On the contrary, far from threatening America's industries, Israel has a great deal to offer them. Israel's economy is young. We had to start from scratch but in a few decades we have reached technological maturity. In many areas Israeli companies have reached the frontiers of technology and in some fields they run with the leaders of the bank. Part of the reason for this development is our demanding security situation. We have yet to a face the challenge of advanced Soviet technology. All too often we have had to rely on ourselves. We developed expertise in various different technologies. In various different technologies, prominent among

them are electronic countermeasures, electro-optics and avionic systems. But even more interesting is what Israel has to offer in the non-military fields in microelectronics, in computer hardware and software, in biotechnology, in medical diagnostic and monitoring equipment. In solar and other energy systems in irrigation technologies. Where only one natural resource on which we rely. It is not under the ground but above it. Our one, our only natural resource is our educated, innovative and resourceful people. To quote last month's *Fortune Magazine*, "The ultimate weapon in Israel's economic arsenal is the brain power and entrepreneurial zeal of its workforce. Israel may well have more MIT graduates per capita than any country besides the United States. This I may add comes on top of the graduates of Israel's own renowned institution such as the Technion Haifa, Weizmann Research Institute in Rehovot and the other universities in Jerusalem, Tel Aviv, Haifa and Beersheba.

How can Israel capitalize on this brain power? It is too small to make a direct impact on the world's industrial markets. It doesn't have the size and the scale to compete in conventional mass production. But this is precisely the reason why Israel should be of great interest to American business. American companies do have the production facilities impacting channels, the financial backing, but they are always on the lookout for new ideas, for breakthroughs in products and processes in fast growing markets. This is where Israeli-American joint ventures could become a great success. Combine American business know-how, with Israeli technology, what a potent combination.

Indeed, a growing number of American companies are doing just that. These companies have discovered that modern air travel and satellite communication make geographical distances less important. What is important is where you can find the people and the skills to give you a competitive advantage, thus we find leading microelectronic companies which assign research and development to Israel while turning out production in other countries. Joint venture between innovative Israeli companies, and established American products, producers have become common in microelectronics and biotechnology and computer hardware and special energy systems in office automation and the like.

Such enterprises also enjoy the extra benefit of Israel's Free-Trade Agreements with both the United States and the European common market. No other country can offer this free access to the two major markets of our world. We have to consider these possibilities. Working together Americans and Israelis can join expertise to capital research to production, new ideas to new markets; this will surely benefit both of our societies. But there is a large profit for us beyond the financial rewards. Our two countries believe in the ideals of freedom and individual initiative. If we want these ideals to spread throughout the world we must begin by strengthening them at home. An invigorated America, Israel economic partnership is just as important in protecting and promoting and promoting our common values as a corporation in the political and military fields. It can serve as a powerful example to the entire world. The reaffirmation of the success of these societies and they offer to the rest of mankind. Thank you.

QUESTION AND ANSWER SESSION

CHAIRMAN DWAYNE ANDREAS: Mr. Prime Minister, thank you very much for those thoughtful remarks. I am sure that everything we read in here in the next few weeks will be more meaningful to us because of what you have told us. Now at this point in the program it is our tradition to call on distinguished members of the Club to put questions to our speakers. We have three questioners tonight and I would like them to stand so you will know who they are and recognize them, as I call their names. David Baker. David Baker is general counsel of the Economic Club and a partner in Jones, Day, Reavis and Pogue. Harold Burson. Harold Burson is Chairman of Burson Marsteller and David Tendler. David Tendler is Chairman of Tendler Beretz Associates. Before I call on the first questioner, I want to remind you, you men that ask the questions that the Prime Minister has a reputation for giving short, concise and meaningful answers. I talked with a friend of mine from San Francisco on the phone this very morning, and he told me that he was at an occasion just recently where the Prime Minister was asked by a lady in the audience the Arabs are multiplying six times faster than the Jews, why don't the Jews emulate that? And the Prime Minister's answer was, what do you expect me to do. (Laughter) I am going to ask our questioners to rotate in order. It will be Baker, Burson and Tendler so that I don't have to use up any of our people's time refereeing. If you can keep in that order, Baker, Burson and Tendler, and we will just go in rotation. Mr. Baker...

DAVID BAKER: Mr. Prime Minister, the Eastern Mediterranean should have prospects for one of the great development areas of the world. Your country has shown what can be done.

Economic relations with Egypt have not developed to the extent some had hoped, what do you see as the possibilities of increasing economic activity involving Egypt for your country and other countries in the region and what do you see as the economic prospects of other countries in your region?

PRIME MINISTER YITZHARK SHAMIR: Well thank you for your question. We are very interested in ___ and developing economic relations with Egypt. It was our ambition since the first days of our peaceful relations to do it for the benefit of Egypt and Israel, and for developing and strengthening the peace relations between us. But I must admit, unfortunately, Egypt was for political reasons not ready for it. In spite of our readiness, it was not achieved. It was in the times of Sadat and the same happens in the times of the presidency of Mubarak. I think it is for political reasons because after concluding peace with Israel the Egyptian government thought that it would be too fast to go on with economic relations and they fear that the Arab countries, the other Arab countries will not accept it with satisfaction. Therefore, we think a great opportunity was missed. While still ready for such a development of neutral economic relations, we think it would be in Egypt's interest, we have a lot to contribute to the development of Egypt, especially of the agriculture of food production. But, it is a question I would advise you, when you will have an occasion, to put to the Egyptians. And about other countries in our region. Well every one of them has specific problems and issues. Egypt itself has many, many difficult

problems to solve for its economic development, especially the demographic explosion that doesn't permit to every real development scheme. Syria for instance has a huge army and they cannot afford to maintain it, and therefore they are not able to develop their economy. Well, on the other countries, as I said, everyone has its problems. Thank you. (Applause)

HAROLD BURSON: Mr. Prime Minister, as I am sure you have observed during your brief visit to the United States, the major preoccupation of the American press is to try to find out what happened in the Iran and later with the contras. At the beginning Israel was portrayed as the willing ally that did the bidding of the United States with the arms to Iran. More recently the press has said Israel in effect twisted the arm of the United States and got them to do this deed in Iran. What is your comment on that? What really happened?

PRIME MINISTER YITZHARK SHAMIR: Well thank you for your question. (Laughter) Well, you know, the truth is that it was a joint operation. An American/Israeli operation. The decision was an American decision. Israel helped and supported American air force as an ally and the best ally of the United States in the Middle East. It was our duty and obligation to assist the American government in these activities. Unfortunately, there are now many problems that are waiting for the solution and many questions are waiting for the answers. When several investigating bodies have been established, the United States, to investigate this affair, Israel expressed immediately its readiness to cooperate with all these investigating bodies and give all of the information we have on this operation. And we will do it. It will be done on a basis of cooperation between two

governments. Therefore, the questions of these bodies will be put before our government and we will give written answers and if it will be necessary we are ready to arrange some meetings of this committees with the representatives of our government. And well, I understand the investigations are going on. And I hope that they will arrive at which, all what is necessary for knowing all of the tools and when this will happen, it will be clear that Israel has acted in a loyal spirit of being very friendly allies of the United States. Thank you. (Applause)

DAVID TENDLER: Mr. Prime Minister, as this audience is mainly made up of American business interests, and you yourself touched on the following items I wonder whether you could elaborate somewhat further as to how you intend to implement the privatization of government owned companies. A policy, I think, you yourself announced four years ago. And whether you have any programs to attract foreign capital to Israel.

PRIME MINISTER YITZHARK SHAMIR: Well thank you. You know you have mentioned that four years ago we have announced the sale of government owned companies to the private business sector. In democracies like ours, sometimes it is necessary a certain distance between decisions, statements and their carrying out. You need time to make it right for a real operation. I think that in our government today these decisions of privatization as it is called now in the Western World will be carried out, I hope this year or in the next two years. I have decided personally as Prime Minister to be in charge of this operation, and I will do it.

DAVID BAKER: I would like to turn to the human resources that you mentioned in your speech. We note that, for example, immigrant Russian Jews seem often to choose destinations other than Israel. At least in the West there may be as many Israelis immigrating to the West as are immigrating into Israel. What incentives for immigration to Israel are being extended, particularly for this elite that you want, and what else can be done to make Israel more attractive to these people.

PRIME MINISTER YITZHARK SHAMIR: Well it is a very good question and it is one of our wars. One of our aims, our most important aims is to gather all the Jewish people in Israel, it is our ideal, it is not a subject only for economic incentives. We have fought since...a long time, since the beginning of this century, to renew our homeland, to rebuild our ancient homeland, and for this undertaking, you need financial means, political favorable conditions, the readiness to fight sometimes for this goal and you need all of your people who think and feel that this is their duty to come to their own homeland. And it is not an economic issue. I personally came to Israel in 1935 alone without my family because without any money because it was my dream since my childhood to go to Israel, to go to this land of my forefathers and do my utmost with all our other Jewish people who think like me, to rebuild this nation, to create a state of our own, to be the masters of our destiny, and I must say we have succeeded. After not a very long time, we have succeeded in achieving it thanks to the sacrifices and the idealism of our people. Now we need more people and we appeal to all the members of the Jewish people and especially to young people to join us in our country and to build together with us our economy, our Jewish life in this

country. And about people coming from Soviet Russia, it was our struggle against the Soviet authorities, against the policy, not to permit the Jewish people from Soviet Russia to come to Israel. And in the 70s, 160,000 Jewish people came to our country and they are now very well established and they are a very productive and constructive and important component of our society. But in the meantime, some people coming from Russia, getting out from Russia, with the help of Israeli visas decided to go to the United States or other places because the economic conditions there are better than in our country. And when we will think only in this dimension of economic conditions, I don't think we will be able to compete even in the future with the United States of America. We are a small country. We have to fight for our independence. Our young generation is sacrificing a lot in this struggle for our security. We have passed many wars, not by our fault, but in order to defend our country and it doesn't happen in the United States or in any European country, but our people have to do it. It is their duty. And we are educating our people in this spirit; therefore this terms of emigration of immigration have not to be looked at on this point of view of attractive economists. We try our best to improve our economy and I think we have many achievements and we will have such achievements in the future, but the main incentive for young Jewish people to come to Israel will be forever their patriotism, their devotion to their country, their readiness to fight and work for their people. (Applause)

HAROLD BURSON: Mr. Prime Minister, in years past, the United States and the Israelis tried to stabilize West Beirut. Now we learned that the Syrians are trying to take that job on, first can they ever be successful at doing it, and if so, what does it mean to Israel?

PRIME MINISTER YITZHARK SHAMIR: Well Lebanon is a permanent tragedy. There is complete chaos without knowing how to get out of this chaos. For us, as neighbors of Lebanon, it is very painful to look at this tragedy and to have the feeling that we cannot help from outside. The Lebanese people is a very good people. I know personally many of them. And they are very sympathetic people, very intelligent, able businessmen, but they are not able to leave altogether, to avoid bloody ____ among them. And well, it was a time when we tried to help them, but you cannot help people who is not able to help themselves. Syria occupies Lebanon, a part of Lebanon since a long time. They have between 20,000 and 30,000 troops and they can do it, they can do whatever they wish and they have never succeeded to stabilize this country, maybe because they are not interested in it. And now to try again, to do something in Beirut since a couple of days. We don't know what they will do there. I am sure the result of the occupation will not be a new stability of Lebanon. For getting such a stability, there is a need for Lebanese solid government of their own, it couldn't come by foreigners. We think that all of the foreign troops have to leave Lebanon and we have to help them in finding some solutions to their internal conflicts but if it is possible or feasible, unfortunately, I cannot say.

DAVID TENDLER: Mr. Prime Minister, in light of the possibility that US aid to abroad may be tied to policies toward South Africa, do you see the possibility that you may have to reduce strategic trading with South Africa?

PRIME MINISTER YITZHARK SHAMIR: (CHANGED AUDIO TO NEXT SIDE) ...many times about this issue, we are strongly opposed to apartheid. We cannot tolerate such a system. It is against our moral and cultural heritage as Jews. But Israel is a small country and we cannot lead international campaign against this country. We have developed an important Jewish community and we have to protect the interests of this community. Our ties with South Africa are of marginal importance, but we have to keep our commitments and at the same time we are sensitive to the international public opinion and we will act accordingly.

DAVID BAKER: Mr. Prime Minister you have oppose American arms sales to Arab nations. Although one must be sympathetic with your reluctance to arming your enemy, doesn't increased US influence in your region benefit your countries prospects for an acceptable peace, in particular what evidence is there that the American arms sales that have been made, have in fact been damaging to Israel security as compared with the situation that would have existed if such sales had not been made, since arms can generally be obtained from other sources?

PRIME MINISTER YITZHARK SHAMIR: Well let's say, not a new controversy between the United States and Israel. We have opposed always and we oppose now, the sales of American arms, and especially sophisticated arms, to the Arab countries who do not maintain peaceful relations with Israel. And of course, our efforts have not been in vain. And it is a fact that the United States is the only power in the area that has good relations with Israel and at the same time with Arab countries, without satisfying all the demands about American arms. We know

that new quantities of arms given to countries in the Middle East will not increase the prospects of peace in our area. On the contrary; more arms that you have, less promising will be the chances to get peace there. And we know that these countries don't need any new arms for their defense, they have enough. The Middle East is not in need of new arms. It is in need of new peace efforts but not in the need of new arms. And I hope that United States will not be persuaded to sell sophisticated arms and large quantities of arms to these countries because if you will do it, the danger of not peace will increase. We know that these arms could be directed only against Israel, not against any other country. And it is our duty and obligation to defend ourselves and to prevent new quantities of arms to these countries. And I am sure that good relations between the United States and these countries will continue because it is in their interests. They need the help and assistance of the United States and this relation will continue. Don't worry, we are sure about it; we have the experience.

HAROLD BURSON: Mr. Prime Minister, you have opposed an international conference to discuss Middle East peace. This is met with disfavor, both in Washington and within your own government. Would you give us an insight into the basis for your position on this subject?

PRIME MINISTER YITZHARK SHAMIR: It is very simple. I have not only opposed such a conference, I still oppose it. And traditionally all the former governments of Israel have opposed such a conference because who will participate in this conference about peace in the Middle East. It is the Soviet concept. It was announced ten years ago by Brezhnev. And according to this

proposal in such a conference, have to participate the five permanent members of the Security Council, it means, Soviet Russia, China, those countries they don't have any normal relations with us, Britain, France and the United States, all, they are countries in our area, and the PLO. And Israel alone. And what can bring such a conference? It will be certainly a stage for propaganda. There will be some speeches, some statements; there will not be any serious negotiations between us and the Arab countries. And the result will be, not peace, but I am sure the situation will be worse after such a conference. The Arabs immediately accepted this theory because they know the Soviets are always anti-Israel. They said, and they say now openly to the representatives of the United States, in such a conference we cannot rely on you, only on you, because you have too friendly relations with Israel. We need the Soviets in order to be supported by them against Israel. And what are their aims about Israel, we know very well. The government of the United States was always against an international conference of this kind. But now, under the pressure of so many factors, with the Soviets, the Arab countries, the European countries, and some of the Israelis, the American government, they have not changed their position about it. They have explained to me that they are ready to explore this proposal among all the other proposals and to explore if it could bring immediately to direct talks between Israel and its neighbors. Because the American government believes like we believe that the best way to get peace in the Middle East is by direct talks, face-to-face between Israel and its neighbors. And my opinion is, and I am sure I am right, that such a conference will give only to the Arab countries a way to escape on direct talks because they are not interested in it. They have to recognize Israel if they are going to such talks, they may be exposed to other hostile Arab

countries if they accept this way of negotiation with Israel. I am sure the position of the American government is closer to my position than to all the other proposals. But they are ready and they have explained it to me, the President and the Secretary of State, they are ready to explore this way and as the Secretary Shultz, said, the main thing is to get direct talks between the parties. The name of the game in his world is direct negotiations. And we want to see if really such a conference could bring to this results and the American government may have reservations about it. They don't believe in it, and I neither. I think that the position of all of us, all these interested in peace in the area is to insist on direct talks between the parties and not to give the Soviets an opportunity to be again involved in any diplomatic process in the Middle East, in a time when they don't have any relations with us, when they are not interested in peace in the Middle East, when their interests are entirely different and far from peace, and when they don't have our confidence, the confidence of Israel. It is my duty as an Israeli to do everything possible against such a dangerous step for our future. I cannot imagine that such a tribunal, such a governing of the Soviets, the Chinese, the Arab countries and the PLO will have to decide about our future. It will never happen.

DAVID TENDLER: Mr. Prime Minister, as a followup to your last statement, do I understand that you will continue to attempt direct meetings with Arab leaders similar to the one with King Hassan of Morocco and along the same lines, how do you view King Hussein of Jordan's position today?

PRIME MINISTER YITZHARK SHAMIR: Well we have invited King Hussein to come to the table of negotiations and to talk with us about peace. Without any preconditions. We know that it is in his interest, but he personally has not yet decided about coming to such direct negotiations. And for him too to participate in an international conference without being obliged to start real negotiations, direct negotiations with us, maybe it is more convenient for his personal security, for his good relations with the radical Syria and if he is given a choice, between international conference and direct negotiations, maybe he will prefer a conference, but it will not serve the cause of peace, it will not bring peace. We have our experience. The only achievement in the conflict between us and the Arab countries was that treatment of the Camp David Agreements. The Peace Treaty with Egypt. And this achievement was achieved only by direct negotiations between Egypt and Israel, with the United States' help. This is the only formula that could succeed. Thank you. (Applause)

CHAIRMAN DWAYNE ANDREAS: Now I want to especially thank David Baker, Harold Burson and David Tandler for helping the Prime Minister to make this one of the most interesting and entertaining evenings we have ever had. Now it is one of our many Club traditions is to give a Steuben Apple to our guest of honor. Here it is for all of you to see. And I hope Mr. Prime Minister that you will accept this with our best wishes and our thanks and to know how grateful we are that you stayed over. We are going to help you to make your plane tonight. And we will all remain seated while you and your party leave here. Now this meeting of The Economic Club is adjourned.

PRIME MINISTER YITZHARK SHAMIR: Thank you. (Applause)