

## Economic aid first

It is telling that West Germany and 'Israel' enjoyed full-blown economic and military relations for over a decade before diplomatic ties were established. West Germany feared that according full recognition to the Zionist state would jeopardize relations with the Arab states and lead them to recognize the German Democratic Republic. These considerations did not, however, keep West Germany from providing 'Israel' with massive economic aid. This started in 1952, parallel to West Germany's integration into the Western bloc (including NATO) and the gradual abolition of its status as a defeated, occupied power after World War II. This aid was not an entirely German initiative; nor was it based on guilt feelings. Rather, according to Feldman, «The US perceived a need for a German contribution to Western defense, especially after the outbreak of the Korean War in June 1950» (p.50).

The special relationship began in the context of Israeli demands for compensation to the Jews and their families who had suffered under the Hitler regime. This demand was actually rooted in the nature of the Zionist state. Established as a settler colony through war and expulsion of the native Palestinians, 'Israel' needed massive external aid to maintain itself and its army; it could not look to its neighbors for normal economic relations. Shinnar, head of the Israeli delegation to the initial talks with the West German government in 1952, admitted: «There can be no doubt as to the importance of our awkward economic situation in the decision to seek reparations» (p.70). Just as the Zionist movement exploited the holocaust to bring settlers to Palestine, so the Zionist state was eager to solicit funds in the name of the victims, for strengthening itself as imperialism's forward base in the Middle East.

As a result of the complementary motives of the Zionist and West German states, the two entered into talks in Wassenaar in March 1952, which ended with the signing of the Luxembourg agreement in September of the same year. West Germany hereby agreed to pay 3.45 billion German marks in reparations. Of this, 450 million were paid to the Conference of Jewish Material Claims Against Germany, but by far the greatest amount (3 billion) was paid directly to the state of 'Israel' in goods and services «to help absorb 300,000 refugees» (p.90). According to international law, 'Israel' could not claim reparations, yet it was treated preferentially.

Parallel to the Wassenaar talks, West Germany negotiated in London with 18 European countries about reparations and debt repayment. The agreement was signed with 'Israel' six months before the London talks reached agreement. The Adenauer government promised 14.3 billion marks to the 18 creditors who had brought their claims to London, while the Zionist state alone got 3 billion marks. European states wanting reparations had to postpone their claims until a future peace treaty with a united Germany would allow a final settlement. The Zionist state was the only country to receive reparations. When reparations agreements were later concluded with 12 European states, they had to pass the money on to the individuals making the claim. Together, the 12 received 978 million marks, compared to 3 billion for 'Israel' alone.

## Building Zionism's industrial base

After the Luxembourg agreement, Bonn and Tel Aviv undertook a series of measures to speed up payments, so that by 1958 'Israel' had received 95% of the amount due as of 1962. By the end of 1978, Israeli individuals had received

about 40% of the total compensation due - approximately 22 billion marks. Although the latter payments are not to the state, they helped the Israeli economy, contributing to foreign currency reserves and reducing welfare costs.

In the first years after the Zionist state's foundation, West German funds were the most important. From the total of unilateral transfers to 'Israel' in 1953-65, the West German contribution was 47.2%; that of Jews around the world was 46.9%; and that of the US was 5.9%.

After 1965, the US became the only state to unilaterally transfer funds to 'Israel', but the German government's transfers to Israeli individuals continued. From 1970-8, 41-58% of all transfers to Israeli individuals came from West Germany. The benefits to the Israeli economy from these transfers can be summarized as follows:

1. Capital imports from West Germany constituted over a quarter of capital imports to 'Israel' over a 19 year period.
2. Of all the goods and services provided, 38% were investment goods; 24% raw materials, industrial and agricultural products; 8% transportation goods and bank charges; and 30% oil. Approximately 80% of the total eventually went into investments.
3. West Germany virtually built the Israeli commercial fleet, crucial because of the lack of land access to other countries.
4. Industrial equipment which derived from the Luxembourg agreement amounted to 14% of total Israeli investment in industrial equipment.
5. From 1954-64, West Germany supplied about one quarter of the total investment in power installations, a prerequisite for industrialization.
6. Reparations paid one-fifth of the equipment imported for the Mekorot Water Company in 1954-61, which helped the Israeli irrigation program and consequently agriculture.
7. During 1954-9, West Germany supplied half of the investment in railways.
8. During 1954-9, one quarter of the capital investment in Haifa port came from reparations.
9. In 1962, 12 % of the total assets of the telephone system came from reparations (p.97).

West Germany's contribution to the Israeli economy through reparations was supplemented by other aid. When West Germany started its Development Aid Program in the early sixties, 'Israel' was among the first recipients, getting 560 million marks by June 1965. This is a unique case because West Germany has never extended such aid to any other country in the absence of diplomatic relations and written agreements. In this period, 'Israel' ranked third (after India and Turkey) among the 65 recipients of bilateral aid in absolute terms, and first in per capita terms.

After diplomatic relations were established in 1965, a formal agreement was signed in Bonn to «promote...economic relations by means of continuous cooperation.» In 1966, 'Israel' received 160 million marks as development aid and for specific projects. Normally recipients of development aid apply for certain projects and have to review their request with the Ministry of Economic Cooperation. For 'Israel', this procedure was simplified and abbreviated; aid is generally granted without negotiations.

In the years 1950-77, 'Israel' ranked in the top four among about 100 countries receiving development aid from West Germany, and first in per capita terms. Loans have been granted to 'Israel' on better than average conditions. Not until 1977 was the Zionist state regarded as a take-off country, which means loans on somewhat less favorable terms.