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SUBJECT: ISRAEL: Peres's Foreign Policy Agenda

NESA M#86-20079

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DATE 5/28/86

DOC NO NESA M 86-20079

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Central Intelligence Agency

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

28 May 1986

ISRAEL: Peres's Foreign Policy Agenda

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Summary

During his last five months in office, Prime Minister Peres probably will focus on three key foreign policy issues: his proposal for a regional development fund; quality of life issues in the occupied territories, including greater Palestinian self-rule in the Gaza Strip; and, concluding the arbitration compromise with Egypt on the Taba border dispute.



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Peres's program nonetheless faces formidable political obstacles from outside Israel. Despite initial mild encouragement for his regional development plan from several European leaders, others have been skeptical and Arab countries will find it hard to join a program initiated by Tel Aviv. Peres will also have difficulty securing Egyptian, Jordanian, and Palestinian cooperation in increasing self-rule in Gaza.

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When he took office in September 1984, Prime Minister Peres set three objectives that he hoped to accomplish before handing power over to Vice Premier Shamir. His immediate priorities--which have been largely accomplished--were to draw

This memorandum was prepared by the Israel-Jordan-PLO Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. Information as of 28 May 1986 was used in its preparation. Questions and comments should be addressed to Chief, Arab-Israeli Division, .

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down Israeli forces in Lebanon and to address Israel's serious economic problems. He also hoped to achieve visible progress toward peace negotiations with Jordan, but this goal has eluded him. [redacted]

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Peres nonetheless appears determined in the time he has left in office to focus on unilateral steps to improve the atmosphere for eventual Israeli-Arab peace talks. We believe he will concentrate on promoting his proposal for regional development, giving West Bankers and particularly Gazans greater autonomy in administrative matters and improving their living conditions, and concluding the terms of reference--the compromise--for arbitration of the Taba dispute with Egypt. [redacted]

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Regional Development Fund

The idea of a Middle East regional development fund dates back to Israeli and Egyptian discussions following conclusion of the 1978 Camp David accords. Peres also alluded to the idea during the Knesset election campaign in July 1984. Some media reports alleged at the time that he had discussed financing the fund with Saudi businessman Adnan Khashoogi. The Prime Minister publicly reintroduced the idea in March 1986, expressing concern that the drastic fall in oil prices and the current recession in the Middle East threaten to unleash growing radicalism and to destabilize Israel's moderate Arab neighbors, Egypt and Jordan. [redacted]

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Peres wants the industrialized countries to recycle some of the savings generated by the fall in oil prices into a fund for regional development. The fund is envisioned to total \$20 to \$30 billion in aid over a ten-year period. One-third of the funds would come from the industrialized countries of Western Europe, the United States, and Japan. The rest of the money would be raised from multilateral financial institutions, development banks, businesses, and even individuals--through bond purchases. [redacted]

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Investments by the fund would be used to relieve the economic consequences of the recession and enhance regional economic cooperation; indirectly, fund activity would aid political stability and lay the groundwork for an Arab-Israeli peace settlement, according to Peres. He proposes that the fund focus on regional development projects in Egypt, Jordan, the West Bank, Gaza, and perhaps Lebanon and Syria. Although Israel was originally mentioned as a potential recipient and partner in some regional projects, Peres has stated that Israel would stand aside if its participation would doom the idea. [redacted]

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[Redacted]

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Peres closely monitored Shawwa's visit to Cairo in early May to gauge Egypt's interest in cooperating on the "Gaza first" scheme. According to a source of the US Embassy in Tel Aviv, Peres told Shawwa he favored full autonomy for Gazans, in which Israel would retain responsibility only for "strategic security." Israel would not involve itself in internal security but would keep its Army bases in the area. Peres reportedly said he favored forming a committee of Egyptian, Israeli, Jordanian, and Palestinian representatives to oversee implementing the plan.

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[Redacted]

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Peres already has taken steps to increase Gazan control of local affairs. In late April, the Israeli civilian administration in Gaza transferred 20 office directorships from Israelis to Arab employees who had completed an administration course at an Israeli university. The ceremony marking the transition was attended by Defense Minister Rabin, who gave a highly publicized speech outlining the government's intention to "Arabize" the civil administration.

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On the West Bank, Peres continues to work on improving living conditions, and he still harbors hopes that more Arab mayors can be appointed to replace Israeli incumbents.

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[Redacted]

[Redacted] Israel has taken other quality of life measures recently including: reducing fees for visitor permits for West Bankers wishing to bring relatives across the Jordan River bridges; reducing fees for trucks transporting agricultural and industrial goods from Jordan into the West Bank; and expressing a desire to cooperate more closely with the United Nations Development Program and refugee projects.

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[Redacted]

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Taba and Relations with Egypt

The unresolved border dispute at Taba remains an obstacle to Peres's efforts to improve relations with Egypt. Negotiations on the arbitration compromis are continuing, but the two sides still do not agree on the phrasing of the question to be submitted to the arbitral panel.

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Pitfalls Along the Way

We believe Peres will not be seriously constrained from pursuing his agenda by domestic political opposition in Israel.

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Shamir is likely to oppose more strongly Peres's plans to unilaterally increase Palestinian self-rule because they conflict with Likud's contention that autonomy should only be applied

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according to the Camp David accords, which call for prior negotiations with Egypt, Jordan, and the Palestinians. Nevertheless, he almost certainly will not risk a coalition crisis over this--or any other issue--that could lead to the breakup of the unity government. 

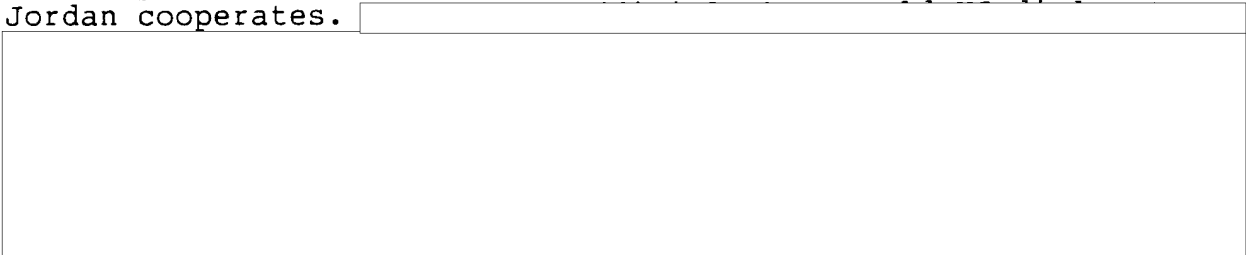
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Peres will face more formidable constraints as he seeks to achieve other elements of his foreign policy action plan. His proposal for regional development is likely to run afoul of donor country reluctance to contribute funds unless assured that there will be no significant opposition from the major Arab states--a most unlikely prospect. Recipient countries will not want to be associated with a plan even indirectly tying them into cooperation with Israel. They also will not want to be involved in development projects in the West Bank and Gaza that they would see as strengthening Israel's control over the two territories. 

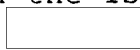
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Egypt and Jordan appear receptive to Peres's regional development idea, but they are not enthusiastic about his plans for greater Palestinian autonomy. Egyptian officials have indicated their willingness to discuss "Gaza first," but only if such a proposal comes from Gazans themselves--not Israel--and if Jordan cooperates. 

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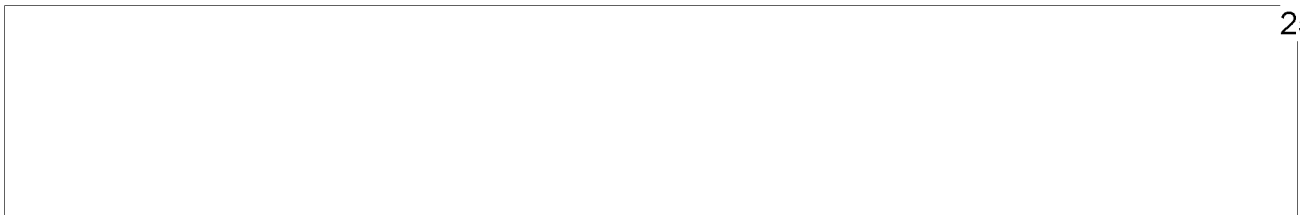


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Palestinians also will be reluctant to cooperate with Peres's plans for greater self-rule. Some will oppose what they see as an attempt to deny them self-determination. Others--taking a lesson from the murder of Nablus Mayor al-Masri--will be unwilling to become too closely associated with the Israelis because of concern for their personal safety. 

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Outlook



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Prime Minister Peres also will persevere with the gradual transfer of municipal authority to Gazans, and to a lesser extent with West Bankers. Peres has the support of Rabin, who as Defense Minister is responsible for administering Israel's policies in the occupied territories. They have wide authority to make changes in Israel's administration of the territories without getting the approval of the national unity Cabinet. Peres probably also believes Rabin can continue this program after the rotation because he will remain Defense Minister.



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