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The 2012 Herzliya Assessment

Israel in the Eye of Storms

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Introduction

Israel is in the eye of storms – at home and abroad.

In the past year, a series of dramatic events and formative processes are creating game-changing developments in Israel's very own backyard. The agenda for the 2012 Herzliya Conference outlines three influential and interdependent processes that are providing new contours for Israel's strategic landscape: the world economic crisis, the social-political turmoil across the Middle East, and the global empowerment of individuals.

Anticipating a multi-system crisis event, the global economic downturn might deepen this year. The global economic crisis is both enhancing the perceptual change of the international balance of power and shaping the policies of the world powers in the Middle East. Ahead of the presidential elections, the United States is shifting its attention, limited as it may be, from the Middle East to Asia-Pacific, while Europe is maintaining a rather modest diplomatic profile while struggling to avoid an economic meltdown. The emerging Asian powers are far from displaying any interest in political or strategic involvement in the Middle East.

A year after the onset of popular uprisings across the Middle East, events on the ground are confirming the cautious and worrisome Israeli assessments voiced at the 2011 Herzliya Conference concerning the new risks emanating from the regional political turmoil. The straying of traditional global powers away from the Middle East increases regional instability, facilitates the emboldening of radical/political Islam and Iran's pursuit of regional hegemony, and denies the region the resources required to address the debilitating socio-economic under-development.

The regional political turmoil confronts Israel with intricate security and political challenges at a critical juncture of growing strategic isolation. The increasingly harsh international sanctions regime has yet to affect change in Iran's ambitions to acquire nuclear weapons and regional hegemony. Its own mounting regional isolation, might lead Iran to increase its involvement and projection of influence in Iraq and in the Arabian Peninsula. Preventing Iran from acquiring nuclear weapons is a vital strategic interest for Israel. Those discussing Iran's military nuclearization, however, should neither openly present nor imply that it is an existential threat to Israel. As Israel has the capabilities to provide strategic responses to a nuclear Iran, Israeli officials ought to reconsider their nearly apocalyptic messaging on the subject.

Both from an Israeli perspective and in face of the unprecedented regional challenges, US-Israel strategic relations are important, perhaps more than ever before. The Middle East political turmoil should have demonstrated Israel's strategic value to the US and the West, but this has not been the case. One cannot escape the impression that the US considers Israel a strategic risk rather than a strategic asset, and fears that Israel's possible measures could potentially lead the US into a strategic entrapment. The Government of Israel's image in Europe and in the US is appalling, although the criticism unleashed against it is often either unsubstantiated or unjust.

The transformation of the Middle East into a bastion of radical political Islam, reinforced by mass public support, puts an end to the expectations for Arab-Israeli normalization and for the formation of strategic relations between Israel and key countries in the region in the foreseeable future. While there is no causal relationship between the peace process and the major challenges of the Middle East, the lack of progress harms Israel's international standing and endangers the security stability achieved on the ground. It is the time to advance realistic measures towards peace, and Jordan could be a vital partner in this undertaking.

The regional political turmoil demonstrates that developments are not always predictable and that the scope and speed of change could easily outpace Israel's ability to realign its national security

and foreign policy. This understanding has direct implications for a series of Israeli policy measures, including reconsidering Israel's military force structure.

Although global and regional transformations are changing the rules of the game for Israel abroad, one must not forget that national security begins at home. The challenges facing Israel in the global and regional arenas only serve to underscore the urgent and vital need to address effectively critical items on the domestic agenda.

Widening gaps within Israel's society are harming its national resilience. These splits reflect not only the increasing socio-economic inequality within the society, but also fundamental differences regarding the very identity of Israel as a Jewish and democratic nation in which the rule of law is paramount. The widening fractures pose a considerable threat to the future of the Zionist enterprise. Against this backdrop, the summer protest movement (#J14) made a major contribution to the vitality of Israel's democracy. The challenge ahead is to preserve the unprecedented rallying of the public and to enhance civic empowerment in Israel. While bracing for the impact of the global economic crisis and providing sufficient resources to address the security challenges, the government must undertake the rather complicated task of ensuring that the lower- and mid-range rungs of the society will assume minimal consequences.

As the storm gathers and wrecks havoc, the natural inclination is to run for shelter and weather it out. In Israel's case however, sheltering itself in its current condition may not suffice. In the multi-crisis environment of Israel, passivity might endanger its future. In the emerging reality of the Middle East, self-sufficiency might seem attractive, but it is not a sustainable strategy. At these critical junctures, Israel needs a clear and consistent strategy more than ever before. Israel must predicate this strategy upon a realistic assessment and an informed, prioritized definition of objectives, matched with the capabilities to attain them by exploring alternatives or leveraging and empowering existing assets. Israel deserves a strategy that can make a difference.

The Herzliya Assessment aims to map and analyze the implications of events in the past year in a broad context, and to point out trends and potential developments in the immediate and mid-term future. The Assessment also includes policy recommendations for Israel that will set the agenda for the 2012 Herzliya Conference's deliberations. The research team of the Institute for Policy and Strategy took part in preparing this document, along with several dozen participants who took part in the pre-Conference deliberations. The authors are grateful for their contributions to this document, and for their help in shaping the detailed agenda of Herzliya 2012. Although this document seeks to capture the spirit and essence of these inputs, it does not endeavor to incorporate all that was discussed, nor does it obligate anyone but the authors.

The Global Economic Crisis: Is the Worse Still Ahead?

In its fifth year, the world economic crisis has no end in sight, and will probably deepen this year. The world economy is anticipating a multi-system crisis, similar in its effect to the 2008 American market meltdown. The most prominent, although not sole, scenario would be a sovereign debt crisis in Europe. Servicing sovereign debt at such high interest rates is unsustainable, and sovereign insolvency would severely harm the main creditors, the European financial markets. Such an event could lead to a global recession. The efforts of European leaders to head-off this scenario might not produce results, as the austerity measures could deepen the recession in Europe and create a cash-flow crisis in the European financial institutions.

Moreover, a crisis event is likely unprecedented in the sense that there are no available policy tools to address a crisis of this scope. The conventional tools – lowering interest rates, increasing the deficit, and lowering the tax burden – were used up in previous rounds of the current crisis. Further, the unavailability of these tools only serves to increase the probability of a catastrophe. In the absence of conventional responses, there is a possibility that decision-makers will opt for extreme measures, curbing the freedom of movement of capital and goods through regulation and protectionism. The application of such policy measures will not only pose a threat to the global economy, but also strategically destabilize the international system.

The deepening of the world economic crisis in the current highly interdependent system will probably harm China, India, and the emerging economies. In previous rounds of this crisis, these economies remained unharmed and contributed to the limited world economic stabilization. However, one can already detect the preliminary signs of economic slowdown in China, and policy changes aimed at reducing reliance on export-led growth by increasing domestic consumption would only serve to augment this slowdown. These measures do not bode well for the global economy.

The Strategic Implications of the Global Economic Crisis

The implications of the global economic crisis go well beyond the realm of economy. The global economic crisis both underscores the change of the international balance of power and shapes the strategies of the world powers, particularly the US and Europe, the primary casualties of the crisis. These changes have had a considerable effect on events in the Middle East and on the strategic postures of the regional players, Israel included.

The relative weakening of the US did not commence with the economic crisis. However, the crisis and the American dependency on Chinese surpluses to finance its swelling public debt have highlighted the changing balance of power. In turn, this has led to the clear preference of the US administration to engage with adversaries, even at the expense of traditional long-standing allies and clients. The goal of the US administration has been to preserve the strategic status-quo and the relative stability in different regional arenas at the lowest possible cost, unless vital interests are at stake.

China's attempt to increase its influence and projection of power in the Asia-Pacific has led the US administration to conclude that American interests in that region are indeed at stake. Consequently, the US administration and defense establishment have directed considerable political and strategic

attention, limited as it may be ahead of US presidential elections, from the Middle East to Asia-Pacific. As part of this reorientation, the US is diverting economic, military, and political resources to Asia. Under these circumstances, the US will limit its political attention to other regions, including Europe and the Middle East.

The US-declared focus on Asia-Pacific is a blow to Europe and to the transatlantic system— the foundation of US international strategy since World War II. The US has already begun redirecting military assets from Europe to Asia. Beyond the substantial policy disagreements between both sides of the Atlantic Ocean, including over the appropriate policies for dealing with the economic crisis, the recent statement of US Secretary of Defense questioning the vitality of the NATO alliance underlines the bleak international standing of Europe.

Europe is struggling in an attempt to avoid sovereign insolvency and a banking crisis, and to preserve European integration. Against the backdrop of looming national elections across the continent, the economic recession will embolden social protest and xenophobia and empower political parties from outside the European political mainstream. The solidarity among EU members might erode, although the probability of European economic disintegration remains very low.

Consequently, the EU's capability to play a major political role in the international system is limited. The difficulties in institutionalizing and implementing the changes in the management of the EU's foreign policy following the Lisbon Treaty have not enhanced Europe's international influence in the global and Middle Eastern arenas. While in the previous decade, and during a period of considerable discord between the EU and the US, the former played a major role in the Middle East. Encouraged by the Bush administration, the EU led the authorship of the Israeli-Palestinian Roadmap and heavily influenced negotiations vis-à-vis Iran under the aegis of EU+3. Curiously, under the Obama administration the EU has yet to make an imprint in the Middle East.

Nonetheless, and in contrast to the EU, the US will remain the leading world power in the international system for the foreseeable future. As opposed to the other emerging powers, China and India, the US foundations of power are multi-dimensional and relatively robust. China and India have yet to play an influential role beyond their region. Furthermore, the increasing involvement of the US in the Asia-Pacific will reinforce the Asian powers' attention to their region. Derivatively, China and India's international involvement will mainly address the security of access to goods and resources essential for economic growth, such as oil and gas. The world economic crisis mandates the world powers – traditional and emerging – to address their respective domestic agendas, which increasingly dictate their foreign policy.

Against these changes, the world economic crisis and its implications are also shaping the political turmoil in the Middle East. In the last few centuries, the major world powers – from the Ottoman Empire through Britain and France, to the USSR and the US –always set the rules of the game in the Middle East. The major world powers were an important factor in maintaining regional stability, even if not always successfully. The effective absence of the traditional powers from the Middle East increases regional instability, as it facilitates Iran's pursuit for regional hegemony and the empowerment of radical political Islam. The world economic crisis precludes the possibility of allocating sufficient resources for effectively addressing the socio-economic under-development in the Middle East.

Indeed, the US and Europe have taken unprecedented measures and imposed a growingly harsh international sanctions regime to dissuade Iran from pursuing its military nuclear program. The apparent determination of Iran's leadership to acquire nuclear weapons has so far denied the transatlantic community's objective of dissuading Iran without recourse to the use of force. Iran's decision to commence uranium enrichment in the new facility in Fordo and its threats to restrict maritime freedom in the Strait of Hormuz reflect the diminished strategic posture and projection of power and influence of the Western powers in the Middle East.

Furthermore, one cannot detect a clear and effective Western strategy for addressing the fundamental challenges emanating from the Middle East – radicalism and socio-economic under-development. Rather, the US and Europe have opted to express their hopes for a better future for the Middle East while they engage radical Islamists, who consider the West as infidels culpable for the dismal situation of the region. In addition, the US and Europe appear content with paying lip service to the promotion of the Israeli-Palestinian peace process, focusing attention on futile events and dealings. Thus, the overall impression is that the Western strategy in the Middle East amounts to a policy of "dump and hope." From the perspective of those seeking to promote progress and development in the Middle East, the timing of the unprecedented popular uprisings and regional political turmoil could not have been worse as far as the global balance of power is concerned.

A Different Middle East

Regretfully, events on the ground are confirming the cautious and worrisome Israeli assessments concerning the new risks emanating from the regional political turmoil. Western policy communities criticized the Israeli stance, but their optimistic appraisals have proven wrong.

The advancement of radical political Islam across the Middle East, evident not only in countries that have held elections, is a source for deep concern regarding the future of the Middle East. Conditions on the ground do not seem conducive for promoting political and socio-economic development, perhaps with the exception of Morocco. Regional security and stability are at stake, and one ought not to take for granted the territorial integrity of Middle East countries, including Syria, Iraq, Lebanon, and Yemen. In most cases, disintegration of countries will bear substantial regional consequences.

The civil empowerment and protest movements, led by brave young people seeking a better future for their nations, deserve respect and admiration. The very fact that the Arab-Israeli conflict was all but ignored during the protests except for one regretful event – the riots and attack on the Israeli embassy in Cairo – reflect a sea change in the attitude of the young, educated middle-class exposed to the globalized world. Novices in the realm of politics, the young generation of the popular protests have failed to attain their objectives. The sole political alternative for the ancient authoritative rule across the Middle East is the Islamist movements, which publicly appear as uncorrupt and empathetic to the plight of the mass underprivileged citizenry.

Thus, a year after the beginning of the popular uprising across the region, not only is there no progress in addressing the two major Middle East challenges – under-development and radicalism – the region has regressed. The two challenges are intertwined. One cannot eradicate radicalism without socio-economic development, while the latter is an anathema of the former. However, by engaging with the Muslim Brotherhood and Islamist movements, the US and Europe are providing them with international legitimacy. The US and Europe are seeking to convince, particularly themselves, that these movements could deliver democracy, liberal politics, and social welfare. In reality though, these theological, hierarchical, and disciplined movements, governed by the strict code of the *Sharia*, and which have fostered terrorist networks, are not likely to advance development in the Middle East. Furthermore, assuming that the new governments will not be able to tackle the socio-economic malaise, the Islamist movements will use all measures to retain their rule and will forcefully crush any displays of public disorder and trample civil liberties. Noteworthy, there is no precedent for an orderly post-election democratic transfer of power from an Islamist led-government, and there is reason to believe that one will probably not witness such an event. In engaging Islamist movements and future Islamist-led governments in the Middle East, the West is

facilitating regression rather than progress, and allowing these movements to deepen their involvement in the Muslim Diaspora in Europe and North America.

Egypt, once considered the leader of the Arab world, is on the brink of political chaos. The power struggle between the military establishment, the Muslim Brotherhood, and the young liberal protesters has yet to resolve, while the economy is in dire straits. Without immediate and far more substantial financial aid, which is not available, the Egyptian population is economically unsustainable, growing by one million people every nine months. Hunger may breakout in Egypt. The new government to be formed after the presidential elections will face a mission impossible. Therefore, social protest and public disorder are likely to persist and even amplify, and consequently will deteriorate the Egyptian economy even further. In the face of such an eventuality, the military establishment, whether in collaboration with the Muslim Brotherhood or not, will probably impose authoritarian rule.

The future of Israel's two northern neighbors, Syria and Lebanon, is unclear. At this point, the Assad regime, with the active assistance of Iran and Hezbollah, and with the political backing of Russia, is using all measures and resources at its disposal to retain power. Most of the assessments indicate that the Assad regime is nearing an end; it is only a matter of time. The absence of an adequate international response to the brutality of the Assad regime is not only a moral bankruptcy but is also doubling the determination of the Assad regime to use all means to quell the revolt. Against the backdrop of discord among the Syrian opposition, coupled with its inferior military performance, the bloodshed will likely continue. Without an international military intervention, which does not seem forthcoming, toppling the Assad regime will be a difficult and lengthy undertaking. Since the beginning of the revolt, Turkey has provided refuge, as well as military and financial resources to the rebels. In so doing, Turkey is positioning itself as the main power broker in post-Assad Syria, but Turkey cannot assure the territorial integrity of Syria.

The disorder and future regime change in Syria will directly affect Lebanon, considered by many nationalist Syrians a province of Syria. Hezbollah has transferred its munitions, stored so far in Syria (to shield them from an Israeli attack), confirming the assessment of the eventual downfall of the Assad regime. As the inner-Syrian warfare persists and the Assad regime collapses, Hezbollah might seek to demonstrate that its own power has not diminished. Hezbollah's projection of power could be inner-Lebanese, but also directed to Israel.

More than anything else, the zigzagging strategy of Turkey in the past year reflects the regional instability. The attempt of Turkey to position itself as a regional power through its "zero problems" strategy has failed. Aspiring for regional hegemony, Turkey is facing a dilemma of choosing between the US and Iran. A combination of two principal concerns inform Turkey's strategy – to preserve the economic success that landed Turkey a seat in the G-20 and the implications of the future course of its two southern neighbors, Iraq and Syria, on its regional posture.

Prior to the crisis in Syria, Turkey's warm relations with Iran were apparently based on a series of explicit or implicit understandings concerning Iraq. Events in Syria have created a rift between Turkey and Iran. Turkey's closer relations with the US (but not with Europe) were reflected in Turkey's agreement to station American elements of an anti-missile system on its territory; understandings concerning Iraq also likely underwrite these closer relations. The Turkish-US strategic rapprochement is causing deep concern in Iran. Despite Iran's attempts to showcase "business as usual" with Turkey, Iran's regional isolation is on the rise.

Iran's regional isolation coupled with the intensifying international sanctions regime that is taking a considerable socio-economic toll have yet to dissuade Iran from pursuing nuclear weapons and regional hegemony. It is important to recall that the clerical, ruling elite are not the sole proponents of Iran's strategic ambitions; the internal opposition forces also support these strategic ambitions. Presumably, and from an Iranian perspective, a new balance of terror has emerged vis-à-vis the

West. The rulers in Teheran seem to believe that the Western powers, significantly harmed by the economic crisis, are reluctant to reach an all-out confrontation with Iran out of concern that it would cause a spike in oil prices. In other words, the Iranian leadership does not appear to consider sincere the Western statements and publicly asserted intentions that indeed "all options are on the table." In this context, one can appreciate the Iranian decision to pursue and even accelerate uranium enrichment and to threaten the freedom of navigation in the Strait of Hormuz.

Furthermore, regional isolation might motivate Iran to increase its influence in Iraq, particularly in the oil-rich, Shiite-majority, southern provinces, and to take further and bolder steps in suppressing the Iranian-Kurdish resistance movement operating out of Northern Iraq. Iran might also seek to deepen its influence in the Persian Gulf countries through the Shiite communities in Bahrain and Saudi Arabia. In addition to the so-called "Arab Spring" Shiite uprising in Bahrain, in the past few months there are repeated reports of public demonstrations among the Shiite communities in the Eastern Provinces of Saudi Arabia. One cannot underestimate the strategic importance of these reports, as this region is not only the main hub of Saudi oil fields and facilities, but also has a majority Shiite population, which traditionally opposes the Saudi Royal family.

Events and developments in Iraq and Syria will also significantly bear upon Israel's eastern neighbor, Jordan. The decision of Saudi Arabia and the Gulf countries to retract the invitation they extended to Jordan to join the Gulf Cooperation Council (GCC) is a major affront. In addition to its current dire economic situation, the repeated sabotage of the gas pipeline from Egypt to Jordan in Sinai forces Jordan to stem an imminent energy crisis. In this troublesome context, Jordan's recent active involvement in the Israeli-Palestinian peace process seems to reposition the Kingdom and to strengthen its posture vis-à-vis the US, Europe, and the Palestinians. Israel ought to encourage Jordan's new constructive role.

While it may be too early to assess the effectiveness of the Jordanian involvement in the peace process, it does seem that there will not be a breakthrough in negotiations this year for a host of regional and global reasons. However, Jordan's involvement is strategically important due to the rise to power of the Egyptian Muslim Brotherhood movement, the forefather of Hamas. The Hashemite Kingdom could offer some political backing to the non-radical elements in the Palestinian camp, modest as it may be. Israeli-Palestinian negotiations and dialogue could allow the parties to manage the conflict and establish certain arrangements and understandings that might prevent unintended and undesired escalation. In the emerging reality of the Middle East, one should not take for granted modest progress and the stabilization of relations along the Israeli-Palestinian track.

Israel's National Security and Foreign Relations in the Eye of Storms

The emerging Middle East trends and processes set Israel back – they do not favor its regional posture nor do they advance its important national interests. The regional political turmoil is confronting Israel with intricate political and security challenges. Strategically, Israel is more isolated than ever, and a considerable element in European and American policy communities consider some of Israel's policies illegitimate. Against this backdrop, Israel's defensive/reactive response to the changing strategic environment is self-defeating in the sense that it further undermines its regional posture.

At this point, two major trends pose a considerable threat to Israel's national security: the Iranian nuclear threat and the changing US strategic orientation and influence in the Middle East. First, Iran's quest for regional hegemony and military nuclear capabilities is the primary threat to Israel's security. In recent months, Israel's declaratory policy (assuming that the Israeli escalatory chatter is policy-guided) has made a considerable impression, evident in the increasingly harsh international sanctions regime and the ever-resolute and direct Western discourse against Iran's nuclear program. Although it may not be an existential threat, Israel ought to do all that is in its capacity to disrupt Iran's acquisition of nuclear weapons. Israel, however, ought not to take exclusive responsibility for this undertaking. Israel's optimal policy option is to have the US pursue its lead in dissuading Iran or in thwarting its nuclear program by means of diplomacy, sanctions, and if necessary, the use of force. To ensure the viability and reliability of the "American option," Israel ought to invest all its resources in strengthening its unwritten alliance with the US.

There is no doubt that preventing Iran's acquisition of nuclear weapons is a vital Israeli interest, but Israel's decision-makers must also take into consideration that there is a premium on their declaratory stance vis-à-vis Iran. The near-obsession with Iran and defining Iranian nuclear capabilities as an existential threat comparable to the Jewish Holocaust in Europe is understandable but highly problematic. The Israeli and international discourse on Iran bolsters the latter's perception of power and deterrent image well before it has come close to enriching uranium to military grade, let alone assembled a nuclear device and adapted it to means of delivery. Moreover, it would be wrong to ignore the possible scenario that Iran might covertly and unexpectedly achieve a nuclear breakout. Under this scenario, Israel's apocalyptic discourse might become self-defeating, severely undercutting its strategic posture and deterrent image, and depicting Israel as facing an unbearable situation. Therefore, Israel ought to reconsider its messaging and the discourse it promotes in the international community and not present Iran's nuclear program as an existential threat, or make it appear as such implicitly. Furthermore, one can safely assume that Israel can operationally address a nuclear Iran by means of a sufficient strategic offensive and defensive force structure that could reasonably assure Israel's security.

In face of the regional strategic instability and political turmoil, the importance of US-Israel relations cannot be exaggerated from an Israeli perspective. For more than four decades, and well beyond addressing Iran's nuclear program and regional aspirations, the US-Israeli alliance is a building block of Israel's national security doctrine and deterrent image. At a time in which US attention to the Middle East is more limited and the perception of US regional power and influence is dwindling, Israel ought to not only invest in intensifying the strategic partnership with the US, but also support the US regional posture. Israel cannot passively sustain its strategic reliance upon the US. A "strong" US in the Middle East is a vital strategic interest of Israel.

The Middle East turmoil should have underscored the strategic value of Israel for the US, but it has not. One cannot escape the impression that the US considers Israel more of a strategic risk than a strategic asset, and fears that Israel's possible measures will potentially lead the US into strategic entrapment. The current US administration's intensifying security cooperation and coordination

with Israel and the measures against Iran appear to be more informed by a strategic risk management approach than by a sense of strategic partnership with Israel.

The strategic discourse in the American liberal media and among think tanks associated with the Democratic Party raises considerable concern regarding the future of US-Israel relations. Regretfully similar to the dominant discourse in Europe's policy communities, the US liberal/Democratic critical discourse directed at Israel questions Iran's intentions and the implications of Iran's acquisition of nuclear weapons, advocates engagement with radical Islamist elements, including Hamas, and delegitimizes Israeli policies and self-defensive security measures.

This discourse is profoundly embedded throughout Europe's policy communities and in growing parts of the left-wing in the US. Advocates of this discourse appear to posit that the main problem in the Middle East is the Israeli-Palestinian conflict; that the main, if not the sole, factor for the protraction of the conflict is Israel's policies; and that the resolution of the conflict would instantly and progressively transform the Middle East. This discourse appears to disregard other significant regional factors, including the rise of radicalism in the region, Iran's hegemonic ambitions, and the regional social, economic, and political under-development. This discourse imposes standards and expectations on Israel that are not required of other countries facing similar challenges, ignoring the intricacy of Israel's security challenges and oblivious to the resemblance between Israel's measures and those of Western militaries operating in the Broader Middle East (Afghanistan and Iraq). From a strategic perspective, this discourse poses a threat to Israel's national security. Proponents of this critical discourse are indisposed to listen to Israel's claims, and rather opt to delegitimize its actions.

Furthermore, the image of the Government of Israel in the US and Europe is appalling. The current government faces harsh criticism, and not always fairly so, in the US and Europe. This is true in spite of the fact that it was the first Likud-led government to endorse unequivocally the two-state solution and to support the establishment of a Palestinian state, and was the first government to issue and implement a full freeze on settlement activity and has since limited the expansion of settlement activity. For the Government of Israel, this is a diplomatic debacle, the worse of all possible worlds.

The transforming of the Middle East into a bastion of radical political Islam, reinforced by mass public support, puts an end to the expectations for Arab-Israeli normalization and for the formation of strategic relations between Israel and key countries in the region in the foreseeable future. While this assessment raises considerable questions regarding the relevance of advancing the peace process, it is equally important to underscore that escalation in the Israeli-Palestinian track is bad for Israel. Although the prospects for achieving a breakthrough in the current negotiation process are slim at best, their very existence is notable. Israel ought to appreciate and encourage Jordan's role in this process and to cultivate its relations with the Kingdom. In this respect, Israel should consider providing gas to Jordan from the new discoveries in the Eastern Mediterranean. Closer relations with Jordan will not offer a panacea to all of Israel's strategic concerns, but nonetheless, this should be an important Israeli objective.

While there is no causal relationship between the peace process and the major challenges of the Middle East, the lack of progress harms Israel's international standing and endangers the security stability achieved on the ground. The peace process – and particularly the Israeli-Palestinian track – plays an important role in bolstering the US regional posture and in deepening the strategic relations among US allies in the region, Israel included. Clearly, there are no guarantees that an Israeli-Palestinian negotiated arrangement will prevent radical forces from assuming power in a future Palestinian state or additional countries in the Middle East. In promoting the peace process, the US, Israel, and Jordan will have to take measures to foil this potential scenario that has already unfolded in the Gaza Strip, and to address the possible implications of a radical Palestinian state between Israel and Jordan.

In managing the Arab-Israeli peace process, the US and Europe have ignored a four decade long track record – when international or regional actors took the initiative and lead in trying to reach a comprehensive agreement, the negotiations failed. The Egyptian-Israeli peace treaty and the Israeli-Palestinian Oslo Accords were the result of the negotiating parties' initiative and reflected the interests of the parties in the negotiated agreements. Furthermore, the inability of Israeli and Palestinian negotiators to reach a comprehensive agreement in successive rounds of negotiations indicates that substantial differences remain between the parties.

While the likelihood of reaching formal, interim agreements between Israel and the Palestinians is low, there is room for a series of coordinated (implicit or explicit) measures by both parties and possibly involving Arab countries as well. These measures could include the fulfillment of the parties' obligations in accordance with the Roadmap and a commitment to avoid unilateral measures and campaigns in the international arena. The time has come to advance realistic measures and to set aside the somewhat presumptuous ambition of severing the Gordian Knot of the Israeli-Palestinian conflict in one bold blow. Jordan could be a vital partner in this undertaking.

The Middle East political turmoil is shaping Israel's security doctrine and sets before Israel new security-military challenges. For instance, the uncertainty concerning the future of Syria poses a serious security risk for Israel because of Syria's enormous weapon arsenal, which includes ballistic missiles and a large cache of chemical weapons. Securing Syria's weapon arsenal and preventing the transfer of chemical weapons and missiles to third parties, such as Hezbollah, is a highly important security interest and requires Israel to be prepared to address such contingencies.

The governance chaos in the Sinai Peninsula is also creating new security risks, which might bear strategic implications. Facilitated by the Bedouin tribes, global terror networks and transnational crime networks trafficking narcotics, arms, women, and refugees operate unhindered. Along Israel's southern border, the Peninsula has become a non-governed region posing concrete threats to Israel's security. Furthermore, terrorist incidents across the border from Sinai might deteriorate the fragile relationship with Egypt. Although the leaders of the Muslim Brotherhood have committed to uphold the peace treaty with Israel, and on its part, Israel has also announced its willingness to engage elected Muslim Brotherhood officials, the peace and diplomatic relations are not invulnerable.

The regional political turmoil demonstrates that developments are not always predictable and that the scope and speed of change could easily outpace Israel's ability to realign its national security and foreign policy. This understanding has direct implications for a series of Israeli policy measures, including reconsidering Israel's military force structure and the development of strategic partnerships in the Middle East and beyond.

The regional developments seem to mandate realignment of Israel's military conventional force structure. Since the signing of the peace treaty with Egypt and later with Jordan, and given the prevailing assessment that future military confrontations will not resemble classical conventional warfare, the Israel Defense Forces (IDF) incrementally reduced its conventional force structure. Recent regional developments and potential contingencies require consideration of revising of this trend. However, one must examine alternatives given the high financial cost of rebuilding IDF's conventional force in the context of the mounting global economic crisis and the social justice movement. One possible alternative is developing cyber offensive capabilities and building a force structure combining cyber and missile capabilities (offensive and defensive) along with conventional forces.

National Security Starts at Home

Although global and regional transformations are changing the rules of the game for Israel abroad, one must not forget that national security begins at home. The challenges facing Israel in the global and regional arenas only serve to underscore the urgent and vital need to effectively address critical items on the domestic agenda. Israel's ability to pursue its national interests and to bolster its power and influence depends upon domestic policy measures.

Bracing for the effect of the global economic crisis and providing sufficient resources to address the security challenges, the government must take on the rather complicated task of ensuring that the lower- and mid-range rungs of society will assume minimal consequences. It is important to recall that during the years of high economic growth, the government failed to assure the more equal distribution of the dividends of growth. The sustained economic success has only benefitted the top echelon of society, while the rate of poverty continuously expanded and socio-economic inequality steadily grew. This reality completely disproves the assertion that economic growth improves the less privileged segments of the society. These trends bear strategic implications in so far as they undermine Israel's national resilience at time in which the civilian population is a major target for Israel's enemies. Furthermore, an effective strategic approach to address the less privileged segments of Israeli society, primarily concentrated in the periphery, could also be an important engine for economic growth in face of the looming global economic crisis.

The global economic crisis is expected to deepen this year, particularly harming the Western developed economies. The biggest threat to Israel's economy is the decline in global trade volumes. After more than four years, the global crisis will probably take a toll on the Israeli export-led economy in light of its extensive commercial relations with the US and Europe. Despite the effort to diversify Israel's export destinations and a substantial increase in commercial relations with Asia, experts forecast the decline of Israel's economic growth rates and a rise in unemployment.

In addressing the effects of the crisis, the government will have to reach a fiscal decision concerning the extent of public expenditure. Similar to the 2009 policy response to the onset of the global crisis, preserving the current expenditure and taxation levels will create an "automatic stabilizer" that will lead to increasing public deficit as result of the decline of the private sector's economic activity. The very large volume of the Bank of Israel's foreign currency reserve offers the government certain latitude in policy-making and crisis management. The alternative policy option is to reduce public expenditure to prevent an increase in the public deficit. However, the latter option would place the full burden of addressing the crisis on the under-privileged segments of the society, and it could further deteriorate the Israeli economy – from a slowdown to a recession. In face of the security challenges, Israel cannot afford to harm its societal resilience. This is the time to do the opposite – bolster resilience and enhance social solidarity.

The summer social protest movement (#J14) was not foundationless. Compared to other Western developed economies, Israel has a unique (though not positive) mix of socio-economic indicators. Among OECD members in 2010, Israel recorded the highest rates of poverty and economic growth and the lowest rate of labor participation. The relative high poverty and the low level of labor participation characterize the Jewish ultra-orthodox and Israeli-Arab communities. In OECD surveys, Israel also ranks low on social inequality (the Gini Coefficient Score) and below the OECD average of government social and welfare expenditure. The social protest and the unprecedented civic empowerment underscore the fact that this situation is unsustainable and that the Israeli society will not acquiesce with either unrestrained liberal market economy policies or with a minority that is free-riding. Within the limits of the timeframe and mandate, the Trajtenberg Committee for Social and Economic Change focused on several main policy areas, including the situation of the

young middle class families and market competitiveness. However, the report falls short of comprehensively addressing Israel's socio-economic challenges.

The summer social protest movement made a major contribution to the vitality of Israel's democracy. Although the Israeli protest movement was part of the global trend of empowering individuals and protest movements, Israel can take pride in the law-abiding nature of the Israeli campaign and its messaging that transcended ideological and societal barriers. Compared to the other movements the world and region over, the Israeli case stands out in its achievements in initiating a constructive process of re-ordering national priorities. This unique example of civic empowerment may not be wasted for nothing. Therefore, the challenge ahead is to preserve the unprecedented rallying of the public and to enhance civic empowerment by providing the platforms and resources for augmenting informed citizen engagement in public policy. Such an effort could tremendously advance Israel's national resilience.

Simultaneously, Israel as the homeland of the Jewish People should reconsider and strengthen its relations with the Jewish Diaspora. Israel's resilience and national security also depend on the nature of its relations with the Diaspora. Regretfully, decisions and policies of the Government of Israel directly affect the standing and welfare of Jewish communities around the world. The timing could not be worse as research demonstrates that the affiliation and identification of Jews with Israel is on the decline, particularly among the younger generation in the West. Israel cannot afford to minimize this relationship or take it for granted. Therefore, Israel must take the lead in seeking a new global Jewish discourse with the Jewish communities around the world through creating opportunities to expand the partnership, dialogue, and involvement of the young generation on political and strategic issues. Underscoring Israel's democratic-Zionist character could provide a bridge for a new dialogue with Jewish communities around the world.

In summation, growing fissures within Israel's society are harming Israel's national resilience and security. These schisms reflect not only the increasing socio-economic inequality within the society, but also fundamental differences regarding the very identity of Israel as a Jewish and democratic nation in which the rule of law is paramount. The widening gaps pose a considerable threat to the future of the Zionist enterprise. A democratic society cannot ignore repeated attempts to undermine the rule of law and the independence of the judiciary, to practice gender segregation in public spaces, to curtail free press, and to subordinate civil law to a theological school of thought and religious practice. Addressing this challenge requires transcending political, socio-economic, ethnic, and religious divisions in society. The responsibility for taking the lead in this challenge rests with the elected office-holders and the state government, agencies, and institutions. They have to deliver a clear message and to take action to preserve the primacy of the rule of law in the Zionist democratic nation.

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Israel's premier global policy gathering, the Herzliya Conference exclusively draws together international and Israeli participants from the highest levels of government, business, and academia to address the most pressing national, regional, and global issues.

Convened by the IDC Herzliya's Institute for Policy and Strategy, the Conference proceedings, reports, and recommendations provide leaders with real, timely and authoritative assessments and policy recommendations needed to guide their organizations through challenging geopolitical, economic and social developments. As strategic and political processes and events emanating from an ever-turbulent Middle East increasingly impact the global arena, the deliberations at Herzliya cover a broad span of issues, ranging from nuclear proliferation and the Middle East peace process to world finance, energy security, and global warming.

Harnessing path-breaking methodologies, the Herzliya Taskforce reports and the commissioned studies present an accurate, coherent, and comprehensive picture of the region and the world.

The Herzliya Roundtable sessions – small interactive focus group discussions with officials, experts, and business executives, held off-the-record and by invitation only on the sidelines of the Conference – provide plenty of prospects for professional networking and relationship building; the informal exchanges that occur create unique opportunities for discourse and the discussions shape regional and international policy debates.

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The Institute for Policy and Strategy (IPS) is headed by Maj. Gen. (res.) Danny Rothschild. The Institute operates as part of the Lauder School of Government at the Interdisciplinary Center (IDC) Herzliya. Its primary objective is to engage in research activities which contribute to Israel's national policy and to the upgrading of its strategic decision-making process. The range of IPS projects encompasses a variety of issues crucial to Israel including national security and strategy; foreign policy; intelligence; the Jewish people; economics; science and technology; welfare; social policy and education.

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