THE HERZLIYA INSIGHTS 2017

How should Israel Address the Mounting Power of the Iran-led Axis?

The Cost of the Israeli-Palestinian Impasse: National and Strategic Risks

Are the Israel's Democracy and Rule of Law at Threat?

Closing the Gap between a Robust Economy and a Weak Society

Threats to Israel's Identity as the State of the Jewish People

The Main Message:

Israel at Crossroads

The 17th Annual Herzliya Conference took stock of Israel's unprecedented strategic, military, and economic power. Notwithstanding, a multitude of domestic and external challenges pose a threat to Israel's national security and resilience, and could rapidly and dramatically undermine its power preponderance.

Israel's mounting principal threat is posed by Iran and its proxies. Dealing with the Iranian threat requires a comprehensive national mobilization which must unequivocally top Israel's national priorities.

Overcoming this challenge warrants an integrated, 3-tier campaign consisting of: security-military, strategic-diplomatic, and societal-moral dimensions.

The deliberations of the Herzliya Conference stressed that internal weaknesses and cleavages could harm Israel's overall ability to tackle the Iran threat. Thus, it is urgently essential to avert societal erosion and to re-embed the values of Israel's Declaration of Independence and liberal democracy into common law education systems, and public discourse.

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Preface

The Institute for Policy and Strategy convened the 17th Annual Herzliya Conference took place from June 20th to 22nd at the campus of IDC Herzliya, Israel. Over 200 speakers, of which 40 came from abroad, and 2,000 participants convened to deliberate Israel's national and regional agenda in a variety of discussion formats – ranging from keynote addresses, "one-on-one" leaders' exchanges, plenary sessions, roundtable debates, and an international simulation.

The discussions held at the Conference comprehensively explored and clarified the key challenges on the national and regional policy agendas. Conference deliberations highlighted national "lights and shadows" – the sources of power and strategic opportunity, alongside the risks and challenges facing the State of Israel as it heads towards its 70th Anniversary.

In the months since the conference, we have been reminded time-and-time-again of the dynamic instability that characterizes the global system and the ever-changing Middle East arena. For instance, the rapid escalatory nature of the crisis regarding North Korea's ballistic and nuclear capabilities was not anticipated. Nonetheless, the way in which the U.S. and the international community handle this crisis will directly affect the Middle East arms race and balance of power.

The following manuscript draws together the major insights and recommendations of the team of Institute for Policy and Strategy based on the overall proceedings of the 2017 Herzliya Conference. The insights and recommendations included in this manuscript reflect the spirit of the exchanges at the Conference, but they neither presume to include all that was said, nor do they obligate the Conference's speakers or participants. Nonetheless, one should hope that this manuscript will facilitate and contribute to a most timely and urgent public debate.

Maj. Gen. (res.) Amos Gilead
Executive Director, Institute for Policy and Strategy
Chairman of the Annual Herzliya Conference Series
IDC Herzliya

KEY INSIGHTS

⇨ Lights and Shadows – Israel's Power Assets, Opportunities, Threats, and Responses

Power Assets	Threats
• Israel's Deterrent Military Power • A Friendly U.S. Administration • Intensifying Strategic Relationships with Arab Countries – Under U.S. Leadership • Strong Economy	• The Rising Power of Iran and its Proxies – Supported by Russia • Deterioration of Israel's Socio-Economic Resilience • Israel's Democracy and Moral Resilience – Under Threat • Corruption in the Upper Echelons is a Strategic Threat

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Strategic Insights

The plans and actions of Iran and its proxies constitute Israel's primary strategic threat. Addressing the Iranian threat will be a long-term campaign that must top Israel's national priorities. This campaign requires:

- Bolstering and leveraging Israel's assets of power –
  - Israel's armed forces (IDF) and security establishment must remain focused on preserving and augmenting Israel's deterrent posture and operational preparedness vis-à-vis Iran and its proxies with sufficient allocation of resources.
  - Deepening the strategic relationships with Arab countries under the leadership of the U.S. necessitates –
    - Relaunching the Israeli-Palestinian peace process and preventing violent escalation between Israelis and Palestinians.
- Overhauling and reforming the approach to dealing with the threats at home related to social-economic resilience, democracy, the nation's moral and normative fortitude, the malaise of corruption, its identity as the nation-state of the Jewish People, and its relations with the world Jewry.

⇨ Israel's Power and Strategic Assets

Currently, Israel is experiencing one of the most positive strategic outlooks and defense situations since its establishment

Presently, Israel does not face an existential threat – not from weapons of mass destruction, nor from a coalition of Arab states that can ally and try to defeat it.

Israel's strategic power – military, diplomatic, and economic – is unprecedented, and rests upon:

- Israel's deterring military power and force;
- A friendly U.S. Administration;
- Intensifying strategic relationships with the leading countries of the U.S.-led Arab-Sunni coalition;
- A strong economy with a high growth rate, improved balance of payments and debt-to-GDP ratio, which have upgraded Israel's international credit rating.

However, Israel's current positive strategic outlook may turn out to be deceptive as it can rapidly change. The evolving strategic global and regional landscapes are creating an intricate mix of both unprecedented opportunities and emerging potential risks that could materialize to pose an existential threat.

⇨ Israel's Primary Strategic Threat – The Plans and Actions of Iran and its Proxies

Driven by an extremist ideology and relentless determination to destroy the State of Israel, the Iranian regime preserves its domestic survivability.

The plans and actions of Iran and its proxies – supported by Russia – form Israel's mounting primary strategic threat that is taking shape along two main trajectories:

Exploiting the imminent territorial demise of the Islamic State to realize the strategic vision of a "Shiite Crescent" – a contiguous territory of Iranian influence and patronage, ranging from Iran's western borders, through Iraq, and onto Syria and Lebanon – that will serve as an Iranian outpost along Israel's borders.

Acquiring nuclear weapons and developing long-range ballistic missiles – while persistently developing nuclear-capable ballistic missiles (despite American sanctions), Iran – according to its own interpretation – has been forced to suspend its nuclear program only until the expiration of the JCPOA and has not abandoned its intention to acquire nuclear weapons.

The balance of power reflects a reverse linkage – Israel's robust deterrent posture forces Iran and its proxies to refrain from the use of force; meanwhile, Iran's invests considerable resources to develop conventional and non-conventional offensive capabilities to weaken Israel's deterrent posture.

The joint Iranian effort to bolster its power through expanded ballistic capability and enhanced presence across the "Shiite Crescent" – specifically in Syria and Lebanon, and in cooperation with Russia – pose a strategic challenge to Israel. Should Iran resume its acquisition of nuclear weapons, it might pose an existential threat to Israel that would severely harm its deterrent image and expose it to waves of terror and simultaneous armed attacks on multiple fronts.

⇨ Domestic Challenges – Threats to Israel's National Resilience

> Leading up to its 70th year of independence, Israel faces a broad range of domestic challenges that pose a serious threat to its national resilience and to the future of the nation.

Israel's socio-economic resilience is weakening:
- The prevalence of poverty in Israel is the highest among developed economies.
- Income distribution remains highly unequal – economic growth has neither diffused to lower rungs of society, nor reduced inequality.
- The level of public services and infrastructure is declining, and Israel lags behind most OECD countries in terms of health and education indicators.
- Low workforce productivity is one of the main barriers to future economic growth.

Israel's democracy is under threat and its moral-normative resilience is wearing away:
- Violent discourse that scorns the essence of democracy and classifies political rivals as enemies.
- Legislative agenda that undermines the principles of freedom, equality and the separation of powers.
- The attempt to shift the balance between the founding principles of Israel as a Jewish and a democratic state – might harm the delicate societal fabric and the relations between Israel and the Jewish world.
- Corruption has reached the highest echelons of government and has become a strategic threat.

> The weakening socio-economic resilience, the threats to democracy, and the eroding moral-normative resilience significantly harm Israel's national resilience. This is demonstrated by declining public trust in public and government institutions, the legal system, and the police.

⇨ The Strategic Response

Meeting the challenge emanating from Iran and its proxies requires national mobilization for a tri-dimensional, multi-year campaign, which must top Israel's national priorities. The military-security dimension is the tip of the spear, but Israel will only be able to prevail if it deepens and leverages all of its strategic assets and effectively addresses the domestic challenges that threaten its national resilience.

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Bolstering and Leveraging Strategic Assets

- The IDF and the security apparatus must be focused on bolstering and deepening the deterrent posture and the operational readiness vis-à-vis the principal threat – Iran and its proxies – with the allocation of sufficient resources.
- Enhancing strategic relationships with Arab countries with the active support of the U.S. administration in order to bolster Israel's regional posture vis-à-vis the Iranian axis.
- Substantive progress in the Israeli-Palestinian peace process in cooperation with the U.S. and Arab countries (even if a final status agreement is not currently within reach) is crucial for deepening the strategic relationships with Arab countries and preventing violent escalation. Israeli-Palestinian armed confrontation will harm Israel and its strategic relationships, and will only serve Iran and its proxies.

Addressing Domestic Threats to National Resilience

- Increasing public expenditure cautiously to reduce the prevalence of poverty, improve public infrastructure, enhance the performance of public and government services, and upgrade the human capital of the workforce.
- Promoting dialogue among the four "tribes" that make up Israel's society (secular, national-religious, ultra-orthodox, and Arab) regarding the legislative agenda and the balance between the constituting features of Israel as a Jewish and democratic nation.
- Backing and strengthening the authority of the gatekeepers in the fight against corruption: the judicial branch and the law enforcement agencies.
- The elected political leadership must serve as an example for managing democratic debate and deliberation, while respecting differing opinions.

THE BALANCE OF STRATEGIC RISKS AND OPPORTUNITIES

Chapter 1

The Global Arena and the Middle East – The Strategic Contours

→ The nationalist-chauvinist populism sweeping across the United States and Europe is fundamentally transforming the global strategic landscape. By nurturing an inconsistent and unpredictable public opinion that recoils from international involvement, this wave has weakened the influence of the West and has increased uncertainty in the international system.

→ China and Russia seek to fill the void created by the United States and Europe by advancing their power and influence in the global and regional arenas, while bolstering their conventional and non-conventional military power and developing impressive cyber and space capabilities.

→ The level of violence in the Middle East is currently at its highest for the last 100 years. The region has become an arena for power struggles and armed conflicts involving global and regional powers, terror networks, and ethnic groups.

→ Iran is the primary destabilizing power in the Middle East and it exploits regional violence in an attempt to pursue regional hegemony by: establishing the "Shiite Crescent", developing ballistic capabilities, and acquiring nuclear weapons when the nuclear deal expires. Long-term socio-economic trends show that Iran holds an advantageous position vis-à-vis its Sunni rivals, mainly Saudi Arabia.

→ Russia is establishing its position as the main power broker in Syria and seeks to become the dominant global power in the Middle East, while the influence of the United States in the region is declining.

→ U.S.-Russian relations in the Syrian and Middle Eastern contexts will directly impact Israel's security and regional interests.

→ The uncertainty of the global system and the volatility of the Middle East arena are constantly shifting and redefining interest and power relations among the global powers, and between them and the regional powers. This intricate strategic landscape presents decision-makers with sensitive risks and threats along with unprecedented opportunities.

⇨ The Global System in an Era of Uncertainty

Nearly a decade since the outbreak of the global economic crisis, its strategic implications continue to affect the international system. The crisis became a watershed since which Asia's economies – primarily China and India – have become the global economy's center of gravity and main engines of growth. The Western developed economies – led by the United States and Europe – have faced an economic downturn on a level unprecedented since the 1920s and 1930s.

The economic crisis is the main, but not the only driver of the populist demagogic wave that has swept across many countries. The Information Revolution and the rapid proliferation of social media have empowered and intensified a populist wave of divisive nationalistic and ideological politics which glorifies nations, justifies conflicts, and makes confrontation inevitable. These processes have reshaped politics in the West and have played a role in unleashing the unparalleled violence that has engulfed the Middle East. The Israeli political arena has not been immune to these trends either.

The nationalist-chauvinist trend of populism in the West is creating a substantial change in the global strategic environment. The populist wave empowers an inconsistent and unpredictable public opinion that increases uncertainty in the international system. The outcome of the BREXIT referendum on one hand, and the sigh of relief following the electoral victory of French President Macron on the other, reflect the erratic nature of contemporary public opinion in the West.

Populism advances a narrow and short-term view of national interests that puts the ability and willingness of nations to honor international commitments and meet expectations to the test. The reluctance of leaders and public opinion to undertake international commitments, particularly those requiring the deployment of military forces, weakens the power and influence of the West.

The "Macron Effect" and the expectation that the Berlin-Paris axis will drive the European Union reflect an understanding that Europe can no longer overly rely upon the United States. Despite the notable improvement of the economic indicators of the European Union, it is premature to determine whether Europe has reached a turning point in exiting the series of crises it has experienced over the past decade. The future role of the Transatlantic Alliance, which has shaped the international order since World War II, remains elusive.

The competing global powers – China and Russia – are seeking to fill the void created by the United States and Europe by respectively expanding their own zones of power and influence in global and regional arenas. Both powers are allocating considerable resources into conventional and non-conventional military force-building enterprises and are developing state-of-the-art space and cyber capabilities.

Notwithstanding, China and Russia demonstrate notable differences in their respective perceptions of the global order. Although both powers seek to remove international norms of human rights and the principle of the "responsibility to protect" (R2P) from the global agenda, they have different takes on the global order. China appears to appreciate the fact that globalization facilitated its rapid rise and therefore wishes to maintain the current order, making adjustments according to its interests. China seeks to expand its influence within the current order, and its signature global initiative, the Belt & Road Initiative, reflects and reinforces this direction. To the contrary, Russia regards globalization as a threat to the Kremlin's ability to control the Russian market. Furthermore, the respective economic horizons of both powers are strikingly different. While China's economy is continuously ascending, the Russian economy faces considerable challenges as its reliance on energy revenues appears unsustainable. Therefore, even if China and Russia continue to expand their bilateral cooperation, the prospects of deepening their relationship towards a long-term strategic alliance are not high.

Furthermore, the strategic triangular relationship between the United States, China and Russia permits coordination and cooperation on certain matters despite the prevailing strategic rivalry. The expectations that the United States and Russia would forge closer relations following the election of President Trump did not materialize. The Russian power maneuvers and attempts to meddle in the electoral politics of the United States and Europe have limited the maneuverability of the Trump administration. Moreover, the expectations of growing tensions, and even a possible confrontation, between the United States and China, are insofar unfounded. The unclearness of the international interests and intentions of the Trump administration increase the uncertainty in the international system and could lead to inadvertent international crises.

The uncertainty of the global system prompts the constant shifting and redefining of interests and power relations not only among the global powers, but also between them and regional powers. This intricate strategic landscape presents leaders with a challenging and complex decision-making process, but creates unprecedented opportunities as well.

⇨ The Middle East –
An Arena of Violent Power Struggles

The turmoil engulfing the Middle East since the end of 2010, which started from a string of state revolutions and civil wars, has evolved into a series of violent power struggles entangling global and regional powers, terror organizations and networks, and ethnic groups.

The regional Islamic system – including both state and non-state actors – can be divided into four groups:

- Sunni pragmatic countries led by Saudi Arabia and Egypt;
- Shiite axis led by Iran and including the Assad regime, Hezbollah, Shiite militias in Iraq, and the Houthis in Yemen;
- Muslim Brotherhood movement – led by Turkey and Qatar;
- Islamic State and the Salafist/Jihadist organizations.

The destabilizing factor in this system is the growing power of Iran, which seeks to exploit the power struggle to attain regional hegemony. The expected territorial demise of the Islamic State presents a strategic opportunity for Iran to realize its vision of establishing a "Shiite Crescent" – a contiguous territory of Iranian influence and patronage ranging from Iran's western borders, through Iraq, and onto Syria and Lebanon and the Mediterranean Basin. The uncertainty regarding the intentions of the United States the day after the territorial demise of the Islamic State reinforces Iran's determination to realize this vision.

Moreover, the Iranian regime, driven by an extreme ideology, has not abandoned, but rather temporarily suspended, its aspiration to develop nuclear weapons as the basis for its regional hegemony. Russia's support of the Shiite axis provides Iran with a tailwind to its determination, and has even contributed – perhaps indirectly – to strengthening Hezbollah through advanced combat experience and building up its force in Lebanon. Saudi Arabia's inability to thwart Iran's Yemenite ally, the Houthi rebels, is another factor backing up the Iranian notion that its aspirations are attainable, despite having lost much of its influence in the countries along the eastern basin of the Red Sea – Sudan, Eritrea, Djibouti, and Somalia – to Saudi Arabia.

Furthermore, Iran holds an advantageous socio-economic position vis-à-vis its Sunni-Arab adversaries, particularly Saudi Arabia. The dramatic shifts in global energy markets have significantly reduced the revenues of oil-producing countries. Saudi Arabia's high dependency on oil revenues, which account for two thirds of its national income, renders the Kingdom especially vulnerable while Iran's fiscal dependency on oil revenue is much lower and only accounts for a third of its public expenditure. Moreover, Iran's natural gas reserves, considered the largest in the world, have yet to be extracted. Against this backdrop, the implementation of the reforms led by the Saudi crown prince (Saudi Vision 2030) will determine the future of the Kingdom as well as the power struggle between the Sunni-Arab coalition and the Iranian-led Shiite axis.

Many of the Arab-Sunni countries have been forced to reduce their long-standing subsidies on energy-related products and services, as well as on basic food products, and water. The mounting youth unemployment is expected to increase even more rapidly in years to come. Climate change in the Middle East is particularly pronounced – the region is becoming hotter and drier at an accelerating pace and the escalating water shortage is harming agricultural production and driving internal migration trends. The combination of high fertility rates and the inability of governments to provide sufficient work, food, and water will most likely lead to public protests, public disorder, and instability of Arab regimes- including those neighboring Israel. Some of these countries have also had to contend with a large influx of refugees fleeing the Syrian carnage.

While an end to the violence in Syria does not appear in the cards, the problem of the Syrian "lost generation" ensures that even once the war ends (if ever), Syria is destined to become a failed state that will destabilize its neighbors. Meanwhile, Russia has established its position as the dominant power broker in Syria. Russia has assured the survivability of the Assad regime and facilitates Iran's growing presence and influence in Syria.

The two remaining Muslim groups, the Muslim Brotherhood and the Islamic State, are currently weaker, but still relevant. The Muslim Brotherhood and its Palestinian offspring, Hamas, has lost much of its power and influence in recent years. Nonetheless, the movement's popular public support offers considerable potential political power in the face of the expectation of growing socio-economic challenges in the Sunni countries.

The Islamic State meanwhile, has lost most of its territories in Iraq and Syria; however, the group is not expected to disappear, and will continue to operate as a global terror organization and as an inspiring ideology.

Chapter 2
The Balance of Risks and Opportunities: Israel's Possible Responses

⇨ The Balance and Responses – The Main Points

→ Iran and its proxies constitute Israel's primary threat. This strategic threat mandates a long-term and multi-faceted campaign, which will top national priorities and integrate a security-military response with a strategic-diplomatic one.

→ The security-military response rests on the deterrent and operational power of Israel's armed forces (IDF):

  o Maintaining and bolstering its deterrent posture and high operational readiness, as well as prioritizing the force construction effort to overcome the Iranian threat.

  o The cyber domain is becoming a primary arena for confrontation. The cyberspace domain is advantageous for Israel due its superior capabilities, but also creates multiple risks due to high national dependency on computerized systems.

→ The strategic-diplomatic domain is no less important than the security-military response when it comes to dealing with Iran. The campaign against Iran must shape Israel's strategic-diplomatic actions:

  o Despite the declining American influence in the Middle East, Israel must leverage the profound friendship of the Trump administration and continue to deepen its unwritten alliance with the United States.

  o The alignment of Russia with Iran might embolden the Iranian threat, but Russia's interest in developing relations with Israel offers, to a limited extent, a narrow and limited window of opportunity for influencing Russia's positions.

  o Deepening the unprecedented strategic relations with the Sunni-Arab coalition led by the United States is vital for dealing with Iran and requires the resumption of the peace process with the Palestinians.

→ Relaunching and substantially advancing the Israeli-Palestinian peace process is essential for several reasons:

- o   The stability of the current status-quo is unreliable and violent escalation could play into the hands of Iran and produce severe strategic damage to Israel by:

  - Harming Israel's armed forces operational preparedness for a future confrontation with Iran and its proxies.
  - Harming the sensitive strategic relations of Israel with the Arab-Sunni coalition and possibly leading to a regional violent escalation.

- o   In the long term, if an arrangement separating Israel and the Palestinians cannot be reached, the "one state" bi-national solution will become almost inevitable, posing a strategic and existential threat to Israel as a Jewish-democratic state.
- o   Without an arrangement with the Palestinians – backed by the United States and the Arab-Sunni states – Israel will not be able to realize the full potential of the new opening in its relations with the Arab world.

→ Reforming and repairing the Israeli decision-making process in top strategic issues is a necessary step for effectively addressing the challenges in the global and regional arenas.

⇨ Addressing the Iranian Threat

Israel is currently experiencing one of the most positive strategic and security-defense outlooks since its establishment 70 years ago. At present, Israel is not facing any existential threat – not from weapons of mass destruction, nor from a coalition of Arab states that can ally and try to defeat it. However, Israel's current positive strategic outlook may turn out to be deceptive as it can rapidly change. The evolving strategic global and regional landscapes are creating an intricate mix of both unprecedented opportunities and emerging potential risks that could materialize and pose an existential threat to Israel.

The power-building of Iran and its proxies that targets Israel is the primary strategic threat. This power-building process is based on two parallel trajectories. First, Iran is bolstering its axis of proxies in the "Shiite Crescent" zone by exploiting the looming territorial demise of the Islamic State. Iran seeks to turn Syria into a forward military base for launching its operations against Israel. This would facilitate intensifying the military force construction of Hezbollah in Lebanon and in Syria and even allow for establishing a new military front against Israel along the Syrian Golan Heights border.

The second trajectory, which is mostly suspended at this time, is Iran's acquisition of nuclear weapons. Driven by extreme ideology, the Iranian regime is determined to develop nuclear weapons despite being forced to freeze its plans. Nonetheless, and despite American sanctions, Iran unrelentingly continues to develop long-range ballistic missiles that could also carry nuclear warheads.

Should Iran pursue both trajectories successfully, Israel will face an existential threat. Iran's acquisition of nuclear weapons will severely undermine Israel's deterrent posture and expose it to waves of terror and violent confrontations, possibly even on multiple fronts simultaneously (the Israeli-Syrian border, the Israeli-Lebanese border, and the Gaza Strip). Iran, therefore, is vigorously supporting and advancing the military force construction of Hezbollah in Lebanon and Hamas in the Gaza Strip. Future violent confrontations with Hezbollah and/or Hamas will extract more painful costs from Israel as compared to previous rounds of violence.

Addressing the Iranian threat requires Israel to pursue three parallel efforts:

- Prudent management of its relations with the global powers engaged in the Middle East.
- Leveraging its evolving relationships with the Arab-Sunni coalition and advancing the peace process with the Palestinians.
- Maintaining and bolstering the force, readiness, and deterrent power of its armed forces.

Israel and the Global Powers in the Middle East

The engagement of the global powers in the Middle East has become a key factor in the regional balance of power. The Trump administration has demonstrated its friendly predisposition towards Israel and the leaders of the two countries have a long-standing friendship. The United States and Israel see eye-to-eye on the Iranian threat. President Trump's declared ambition to promote the peace process alongside his backing and support of the Arab-Sunni coalition constitutes a strategic asset, which should be leveraged by Israel to deepen its unwritten strategic alliance with the United States.

Notwithstanding, Israel must come to terms with the declining influence of the United States in the Middle East. Consequently, U.S.-Russia relations – especially in the Syrian and Middle East contexts – will directly affect Israel's ability to maintain its security and regional interests.

In recent years, especially following Russia's intervention in Syria, Israel has sought to more closely cooperate and coordinate positions and policies with Russia. This interest is despite the fact that Russia has clearly demonstrated its strategic alignment with Iran and its support of the Assad regime. On its part, Russia has made it clear – both in words and in deeds – that it appreciates and respects Israel's interests in the Syrian arena. This relationship properly reflects the complex regional reality that creates both risks and opportunities. The Russian alignment with Iran might exacerbate the threat posed to Israel by Iran and its proxies; however, Russia's apparent interest in relations with Israel (as well as with the key countries of the Arab-Sunni coalition) create an opening, limited as it may be, to try and influence Russia's positions. In turn, a dialogue with Russia might perhaps make it more difficult and costly for Iran to establish its aspired "Shiite Crescent" and turn Syria into its forward military base.

While Europe's involvement in the Middle East is at an all-time low, its exposure and vulnerability to threats and risks emanating from the region has only increased due to illegal migration and Islamic State-inspired terrorism. Despite its strategic and diplomatic weakness, the European Union played a critical role in establishing the international sanctions that forced Iran to come to the negotiating table. Regardless of the deep controversies between Israel and the European Union regarding the Palestinian issue, Israel ought to leverage the European interest in counter-terrorism cooperation and to maintain an ongoing dialogue regarding the overall dimensions of the Iranian threat. In pursuing this course, Israel could rely on its special strategic relations with several members of the Union, including its geographically-closest European neighbors, Greece and Cyprus, with whom Israel maintains a close trilateral relationship.

Israel, the Arab-Sunni Coalition, and the Peace Process

In recent years, Israel has established unprecedented relationships with key countries of the Arab-Sunni coalition, which is backed by the United States. These relationships are essential for a broad strategic confrontation of the principal threat shared by Israel and the Arab-Sunni coalition – Iran and its proxies.

One cannot exaggerate the depth of the shift in Israeli-Arab relations – its strategic value and its far-reaching potential. The Arab-Sunni leaders appreciate Israel's capabilities and the potential utility of relations with Israel. These bilateral relationships, which vary in terms of their respective strategic levels, are all based on common interests and threats that include Iran and its proxies along with radical Sunni factors – the Muslim Brotherhood, the Islamic State, and Salafi/Jihadist organizations.

Arab leaders recognize the value of Israel as an ally, and Israel appreciates the contribution of Arab countries to its national security. Israel's defense cooperation with its immediate Arab neighbors, including the Palestinian Authority, spares both blood and treasure. The security relationships with Egypt and Jordan have reached a very high level of cooperation. Practically, Israel's eastern defense border stretches across Jordan's border with Iraq.

Despite the substantial benefits and the immense potential of Israeli-Arab relations, this relationship is not deeply embedded and is vulnerable to storms of regional turbulence as if it is a tree with only one root. However, it appears that some senior Israeli officials attribute unrealistic capabilities to these relations. The Arab countries are indeed keen to promote and back the peace process, but contrary to the wishful thinking of several senior Israelis, the sensitivity of Arab leaders to public opinion prevents them from being able to impose an arrangement upon the Palestinians or to advance concrete normalization with Israel without substantially advancing the peace process. Therefore, Israel must lead the effort to advance the peace process together with the backing of the Trump administration and the Arab countries.

Relaunching and advancing the peace process is essential for three critical reasons. First, the stability of the current status quo is unreliable and probably unsustainable. Although the likelihood of reaching a comprehensive Israeli-Palestinian arrangement remains low, the absence of a political-diplomatic horizon steadily increases the likelihood of a violent outbreak. A violent escalation would hinder the readiness of Israel's armed forces to contend with, and focus on, the Iranian threat. Furthermore, an Israeli-Palestinian confrontation could harm Israel's sensitive relations with the Arab world and lead to a regional violent deterioration. This contingency would play into the hands of Iran and weaken Israel.

Secondly, in the long-run, if an agreed separation between Israel and the Palestinians cannot be reached, the "one-state" bi-national solution could become an unavoidable outcome. Clearly, the "one state" option is not a solution, but rather a strategic and existential threat for Israel in terms of its identity as a Jewish state. It is thus not surprising that quite a few influential Palestinians believe that such an outcome would better serve the Palestinian interest. Furthermore, the historical experience of the ethnic conflicts in the Balkans suggest that reaching the point of no-return in separation between Israel and the Palestinians might lead to harsh destabilizing violence.

Thirdly, in the absence of an Israeli-Palestinian arrangement – supported by the United States and the Arab countries – Israel will not be able to realize the full potential of the profound shift in its relations with the Arab world. Furthermore, Israel will not be able fully leverage these relationships to confront Iran and its proxies. Moreover, these relationships, along with the American support, create a unique opportunity to resume and advance the peace process.

Notwithstanding, the time has come to revisit the guiding conception of the peace process and to assess the lessons learned from prior efforts to advance the peace process. The last three American-led initiatives were designed against the harsh criticism regarding the phased approach of the Oslo process. These more recent efforts sought to reach a comprehensive arrangement by resolving all outstanding core issues at once. For instance, Secretary Kerry's initiative tried, and failed, to break the impasse on several core issues including the status of Jerusalem, security arrangements in the Jordan Valley, and mutual recognition. Because Israeli and Palestinian leaders are averse to risk-taking, the likelihood of yielding such a comprehensive agreement is low. Nonetheless, the peace process will remain in the focus of diplomatic attention in the near future.

The Readiness of Israel's Armed Forces vis-à-vis the Threat of Iran and its Proxies

Israel's principal asset in confronting Iran and its proxies is its armed forces. The power and readiness of Israel's armed forces create a robust deterrent posture that affects the considerations of Iran and Hezbollah in waging direct armed confrontation with Israel. Apparently, Israel's deterrent posture also affects Iranian prudence in Syria. This deterrent posture allows to assess that the likelihood of an initiated war is low. However, the regional instability increases the likelihood of miscalculations and inadvertent escalation.

Therefore, Israel's armed forces are required to preserve and bolster their deterrent image as well as their high level operational alertness and readiness, and to prioritize force construction to most effectively deal with the major strategic threat, including new areas of operation.

The cyber domain is becoming a major and unique arena for military operations that could directly affect Israel's security and welfare. Israel's advanced technological and scientific capabilities place Israel in an advantageous position in this arena. However, Israel's high dependency on computerized systems also constitutes a major risk in today's cyber era.

Strategic Decision-Making Process

Israel's impaired strategic decision-making process adversely affects its ability to deal with regional and global challenges. At the end of the day, the process shapes and determines the outcome. The structure of the Israeli strategic decision-making processes reflects the dominance of the defense establishment on one hand, and the weakness of the National Security Council and of the Ministry of Foreign Affairs on the other. Thus, the security-military perspective dominates the process, while the diplomatic aspects take a back seat. In several instances, the professional teams do not present more than one option to the decision-makers. As a result, cabinet decisions are not based upon full information.

The structure of the defense-diplomatic cabinet does not weigh positively on the process of informed decision-making. The current cabinet includes ten members, of which only two – the Prime Minister and the Defense Minister – deal with security and diplomatic issues on a full-time basis. The other members do not have the time or tools to be meaningful partners in the decision-making process. Furthermore, a ten-member cabinet with additional "observers" is too big a forum for holding informed strategic discussions without risking leaks to the press. Therefore, the structure of the cabinet decision-making process must be overhauled.

Chapter 3

Strong Economy and Weak Society
A Rich Country with many Poor Citizens

The "Herzliya Indices" show an ongoing improvement in Israel's economic resilience, despite the fact that this improvement across several indicators is marginal. Compared to the slowdown in economic growth in 2015, the growth of Israel's GDP recorded 4% and the GDP per-capita 2% in 2016. These growth rates were higher than most of the OECD member-states. The surplus in the balance of payments (3.9% of the GDP), low unemployment (4.8%), and the declining debt-to-GDP ratio (62.2%) reflect the robustness of the Israeli economy. The improved balance of payments and debt-to-GDP ratio have led to the upgrading of Israel's international credit rating, which in turn has reduced the burden of servicing the debt.

Notwithstanding, the trajectory of narrowing the gap between Israel and the OECD economies has halted. The global economic crisis that hit the United States and Europe in 2008 facilitated the narrowing of the gap. However, the improved economic performance of Europe's economies in recent years has preserved this gap. Furthermore, the main driver of Israeli economic growth in recent years is the constant growth in the rate of employment of the overall workforce reaching 76.2% (ages 25-64). This growth, however, which stems primarily from increased participation in the workforce among Ultra-Orthodox Jews and Arabs now appears to have run its course.

Israel's lagging workforce productivity appears to be one of the major impediments to narrowing the economic gap between Israel and the OECD economies. Over the past two decades, the disparity between Israel and the developed economies in terms of workforce productivity has increased. The near total freeze in workforce productivity seems to reflect the fact that most of the newcomers to the workforce – Arab and Ultra-Orthodox Jews – do not possess the skills required for working in an advanced economy. Furthermore, without an attempt to improve the state of human capital, Israel's workforce productivity rates might even start to descend as the relative size of the Ultra-Orthodox community as a whole is growing to an expected 30% of the population in 2035

Against this backdrop, the general direction of Israel's national economic policy over the last few decades appears unsustainable. Without direct intervention of the government, aimed at allocating resources to education, vocational training, and public infrastructure upgrades, we will see a declining workforce productivity which could harm economic growth and the economy's robustness. Increasing workforce productivity is the only key for continued and sustainable economic growth.

Increasing workforce productivity requires a close examination of the allocation of public expenditures. Considering that the rate of public expenditure in Israel is close to the OECD average, but the quality of public services and infrastructure is deteriorating, it appears that the problem lies in inefficient allocation of public resources. As a result, Israel trails behind most of the OECD countries in education and health indicators. For instance, Israel "leads" the OECD in the rate of infections in hospitals and lags behind most of the OECD countries in terms of the number of hospital beds and nurses per capita.

The improved debt-to-GDP ratio and the near-zero inflation rate permits a cautious increase in government expenditure. The additional resources should not only be allocated towards increasing workforce productivity, but also towards tackling the nation's poverty prevalence. The fact that Israel leads the OECD in the prevalence of poverty is an intolerable disgrace. The socio-economic indicators of the "Herzliya Indices" demonstrate a considerable gap between Israel and the OECD economies. The national economic policy over the past decade has relied on the presumption that the ongoing improvement of macro-economic indicators will "spillover" and trickle down to reduce inequality and poverty rates. In practice however, this theory has not been validated and the prevalence of poverty and the rate of inequality warrant direct policy attention.

In increasing public expenditure, fiscal responsibility must be upheld. Yet the government must reduce the gap in public expenditure on infrastructure. It is possible to maintain a reasonable fiscal deficit that could be modestly increased to invest in infrastructure, while maintaining the debt-to-GDP ratio, a balanced economic strategy, and improving the performance of the public service.

In addition, the government must adopt a long-term socio-economic policy that aims to reduce the prevalence of poverty, decrease the inequality rate, and improve the human capital of the workforce. This policy should incorporate concrete societal benchmarks and include short-term practical measures such as "reverse" income tax and subsidizing childcare. Consistent and continuous implementation of this long-term policy approach will not only improve the societal resilience of Israel, but will also become a critical engine of economic growth.

Chapter 4

The Eroding Moral Resilience of Israel – The Danger to Democracy and the Threat to Israel's Identity as the Nation-State of the Jewish People

Israel's liberal democracy is eroding and under threat. This disconcerting trend is clearly reflected by declining public trust in public and government institutions, the legal system, and the police. The wave of populism and demagogy that is sweeping the world demonstrates that democracy cannot be taken for granted. The evolution of the Israeli democracy- marked by the preservation of democratic and Jewish values despite contending with a 120-year-long religious and national conflict- is a remarkable achievement that is now facing an existential threat.

A dangerous de-legitimizing campaign has been launched against the judicial branch, the press media, and civil society organizations. The campaign includes a systematic distribution of negative and distortive images and exploits an incendiary and extremist public discourse that displays contempt to democracy, freedom, equality, human rights, and the separation of powers. This discourse negates the basic values of the State of Israel as expressed in its Declaration of Independence and in the visions of the founders of the state from across the political spectrum – Herzl, Jabotinsky, Ben Gurion, and Begin. Such inflammatory discourse tags the country's gatekeepers of law and order and supporters of freedom and equality as enemies and traitors.

While the information revolution and the prominence of social media encourage transparency and involvement in society, it also provides a platform for the expression of populism and demagogy that threaten representational democracy and the national institutions. Israel stands too close to the edge of the cliff overlooking the abyss of anarchy and it should exercise caution not to become a nation of the "people's will".

Since the last parliamentary elections, the legislators of the 20th Knesset have been promoting a legislative agenda with the potential to harm the supremacy of democratic and liberal principles without making room for serious public debate. Proposed legislation might disrupt the balance between the constitutive features of the State of Israel as Jewish and democratic state. This legislation might harm freedoms of expression and association, the democratic process, and the principle of equal rights to all the citizen of the country.

At the same time, there is struggle over defining the balance of the character of Israel as a Jewish state or as the nation-state of the Jewish people. The Ultra-Orthodox parties are seeking to establish, by law, the authority of Rabbinical courts to address civil law cases. This proposal contradicts the fundamental principle of one law for all. A modern liberal democratic nation cannot sustain or maintain two parallel systems of Civil Law that are based on different rules and norms. Furthermore, this attempt appears to be a turning point in the conduct of the Ultra-Orthodox political leadership. In the past, Ultra-Orthodox leaders sought preferential rights and entitlements that would maintain the status-quo autonomy and self-segregation of the Ultra-Orthodox society from the general public. By promoting this legislation, they are now attempting to impose their norms and way of life upon the general public.

Furthermore, the legislative initiatives of the Ultra-Orthodox parties regarding Jewish conversion and the praying arrangements at the Western Wall might exclude much of the American Jewish community which belongs to the conservative and reform movements. These measures could be interpreted as having Israel turn its back on the vast majority of the Jewish world, harming the vital relationship between Israel and the American Jewry, and undermining the identity of Israel as the nation-state of the Jewish People.

Furthermore, the actions and measures of the leaders of the Orthodox-National Jews could also undermine the delicate balances within the Israeli society. Apparently, the leadership of the Orthodox-National Jews is not satisfied with the disproportional allocation of funds – in their favor – to their school system. Rather, they seek to promote their religious beliefs and values within the secular school system, allegedly demonstrating the superiority of their values.

The Orthodox-National community is also advancing its vision of Jewish sovereignty over Greater Israel. This community and its representatives is seeking to create an irreversible reality that will preclude the separation between Israel and the Palestinians despite the fact that a majority of the Israeli public supports the "two states" solution.

The growing political influence of the Ultra-Orthodox and Orthodox-National Jews demonstrates the transformation of the Israeli society to which President Rivlin drew public attention to in his "four tribes" speech. The evolution of the four "tribes" (secular, orthodox-national, ultra-orthodox, and Arabs) which are becoming more equal in size, is creating a political rift that intensifies the tensions and hostility among and between the tribes. In September 2018, half of the first-grade pupils in the Israeli school system will come from homes that do not endorse the Zionist ethos. Although the "Shared Israeliness" Index shows

the increasing participation of Ultra-Orthodox Jews and the Arabs in the workforce, economic disparities persist. The representation of Arabs in the public sector is increasing as is their patriotism and optimism regarding the future of Israel. Notwithstanding, the Arabs and Ultra-Orthodox Jews are still under-represented in the Judicial branch, the public service, and the media. This under-representation is one of the main factors behind their low level of trust in the state institutions and law enforcement agencies.

Against this backdrop of incendiary and extremist discourse in legislative agenda, it is extremely difficult to promote dialogue and understanding between the tribes. However, the government can and should counter this by promoting practical policies to increase the representation of Arabs and Ultra-Orthodox Jews and to reduce the socio-economic gaps. Inaction will only widen the gaps, deepen the hostility between the tribes, and distance dialogue and understanding.

The standing and impact of the free press are challenged by the anti-democratic and anti-liberal public discourse, while the executive branch of government is seeking to increase its control over press media outlets – both directly and indirectly. The financial dependency of the public broadcasting service upon the executive does not ascertain its independence.

Another manifestation of the eroding principles of democracy is the public indifference to rampant corruption that has reached the top of the government echelons. While it is also pervasive among leaders of local government (mayors and councilors) who have great direct access to public planning and building, the decline in overall public trust has been directed towards all state institutions. Criminal prosecution has become the main tool for tackling corruption and criminal law has shaped public norms regarding corruption. One can only hope that legislators seeking to weaken the judicial branch are not also seeking to challenges the anti-corruption norms.

In light of the challenges Israel is facing both at home and abroad, it is necessary for government and society to strengthen the principles of Liberal Democracy at all levels – legislation, government policy, and the school system. Internal weakness – stemming from societal gaps or the eroding of the nation's moral and normative fortitude – could harm the national resilience and the ability of Israel to tackle the external threats it faces.