

**The Annual Edmond Benjamin de Rothschild
Herzliya Conference Series**

on

**The Balance of Israel's
National Security**

**THE NEW STRATEGIC LANDSCAPE:
TRENDS, CHALLENGES
AND RESPONSES**

**CONCLUSIONS AND
PRINCIPAL POLICY DIRECTIONS**

Preface

The Third Annual Baron Edmond Benjamin de Rothschild “Herzliya Conference” on the Balance of Israel’s National Security took place during Hanukah, December 2002. Against the backdrop of transpiring strategic developments in Israel’s political and security environment, due to, *inter alia*, the anticipated war against Iraq, the conference discussed Israel’s evolving strategic landscape, the challenges it presents and available policy options.

Among the themes the conference debated were the modalities of long-range military campaigns, Israel’s Homefront and the diplomatic campaigns on the international and regional fronts. The demographic problems of the Jewish world were also widely addressed in the conference. Along with these questions, the conference flashed out the domestic issues of government and governance in Israel and the future and competitiveness of its economy in the face of social and technological changes. In addition to the task forces’ reports, the conference produced an extensive list of recommendations and options for Israeli policy. In so doing, the conference contributed to the public debate and presented Israeli policy-planners and decision-makers with a richer menu of options than was previously available.

During this year’s conference, a pioneering effort was made to draw up an integrated quantitative balance of Israel’s national security through the “Herzliya Indices”. This represented a first step in developing a methodology for assessing and ranking Israel’s military and civilian standing over a given timeline and in comparison to relevant regional and international arenas. With further development, the “Herzliya Indices” will become an integral part of the Herzliya Conference.

As in the past, this year’s conference convened Israel’s senior leadership along with senior diplomatic representatives, who chose the dais to deliver major policy addresses. Notably, Prime Minister Ariel Sharon’s address was the first detailed exposition of his “Road Map” for the Israeli-Palestinian process.

The executive summary was written by Brig. Gen. (Ret.) **Amos Gilboa** with the assistance of Dr. **Shmuel Bar**. The document compiles and digests the ideas, analyses, and policy proposals raised during the conference, though it does not presume to cover them all. While this is not an official summary, and therefore should not be considered binding on the conference participants, it seems that this review could be of value, and hence, it is presented for your perusal.

Dr. Uzi Arad

Herzliya Conference Chair
Herzliya, February 2003

Main Points

General

The current situation is one fraught with extreme difficulties, dangers and threats, but not without opportunities and glimmers of light. There is a certain asymmetry between the two pillars of this situation:

- **Israel's strategic positioning within the global and regional strategic environment is relatively favorable and opportunities seem to be opening up.**

Her strategic relations with the American Administration are stronger than ever and this facilitates Israel's war against terrorism in general, and against Palestinian terrorism in particular. An expected American offensive against Iraq will remove the most hostile and dangerous Arab regime to Israel; Israel maintains its deterrence and relative power vis á vis its neighbors. Meanwhile, the challenges have not changed: the risk of a wider military escalation and deterioration as a result of the ongoing confrontation with the Palestinians; the question of a political settlement with the Palestinians, the developing Iranian nuclear threat, which Libya is now joining; threats of "mega-terror" attacks, and a new form of Anti-Semitism.

- **As to the basic fundamentals of national life - the society, economics and governance - the picture is gloomy:** the Israeli economy is in a severe recession, partially due to policy shortcomings and an inadequate market structure; government and public services are on the verge of collapse; social inequality is growing; the public has lost its faith in government (except for the police and security defense agencies) and in the political

system. Nevertheless, Israeli society has proven its resilience in the face of more than two years of constant terror.

There is a clear and tight relationship between these two pillars. In both, Israel is called upon to make difficult decisions - first and foremost in the basic fundamentals of the State, but also in its strategy towards the settlement with the Palestinians.

The Strategic Battles

Iraq

- The anticipated American attack on Iraq holds a certain threat for Israel; this threat, however, can be coped with.
- The deposal of Saddam Hussein will be a positive strategic watershed for Israel: the removal of a potentially existential threat; Iraq will be taken off the arena as a potential military threat; the far-reaching changes that will take place in the Middle Eastern strategic landscape – such as the isolation of Syria and the weakening of Iran – will improve Israel’s national security balance. **The removal of Saddam Hussein- a positive strategic watershed event for Israel**
- As to the ramifications of the war with Iraq for the settlement with the Palestinians, there are various opinions: one raises the possibility that Saddam’s demise will encourage the Palestinians to end the terror and try to reach a settlement based on compromise. Another proposes that there will be no change in the Palestinian positions and in their terrorist policies.
- According to one approach, after the war in Iraq the American Administration may turn its attention to the Israeli-Palestinian settlement and this may cause friction between the Administration and the Palestinians. However, President Bush’s normative approach that terrorism must not be rewarded will continue to be the rule. In any case, the Israeli-Arab conflict will not top the Administration’s Middle East policy priorities, as it did after the 1991 Gulf War when the Madrid Conference was convened. **After the war with Iraq, the Israeli-Arab conflict will not top the American agenda as it did after the 1991 war**

The Wider Context of the War against Terror, Dictatorial Regimes with Weapons of Mass Destruction (WMD) and Radical Islam

- Israel has a vital interest in the success of the United States in this “trilateral” war. Never in the history of these two countries has there been such a convergence of interests between the United States and Israel. Therefore, American capabilities and intentions have become a component in the balance of Israel’s national Security.
- Consequently, Israel must examine its foreign policy in light of the interests and needs of the United States.

Radical Islam poses a severe threat to Israel

- Radical Islam poses a severe threat to Israel. The fight against it must be ideological in essence and must be led by the United States.
- Currently, international terrorism is characterized by the growing ability of a small number of individuals to cause increasingly vast damage to humanity- first and foremost to Western economy. Israel will consider “mega-terror” launched against it as a breach of the existing “rules of the game” and the reprisal will, no doubt, be commensurate.
- Biological terror has become international terror's most lethal, inexpensive and easy-to-use WMD. The 20th century was, to a great extent, the century of physics, whereas the 21st century will be the century of the biological information sciences. **Bio-terror has become the most lethal and available WMD**
- The 21st century will also be a period of a “gray area” between war and peace, in which there will be no differentiation between non-combatant civilian populations and combatant forces and in which a decisive victory will be more difficult to attain, leading to a transformation of the military's classic role. Consequently, this will be a century in which vision and long-range foresight will be crucial.
- In the domestic American context: The United States is learning to cope with terrorism; to realize that terror is not going to disappear quickly and that it must be uprooted. Therefore, the United States needs assistance from a variety of players, including Israel.
- The American strategy is not to allow terrorism to acclimatize itself in the global community and to acquire financial and political assets.
- One of the main issues that the Administration is at present dealing with is how to protect the economic infrastructure – and especially the power and communication infrastructures which comprise about 90% of it – from terrorist attacks including attacks on cyber-electronic systems. According to the previous approach, security should no longer be considered a 'cost', but rather an 'investment' for guaranteeing the economy. **We must secure our economy from terrorist attacks**
Security should no longer be regarded as a cost but as a guarantee

The Violent Confrontation with the Palestinians

- **The balance**, after more than two years of violent confrontation including some positive aspects. First and foremost, the Palestinians have failed to achieve their goals. **two years of confrontation, the Palestinians have not achieved their goals**

achieve their goals. Arafat has lost his political legitimacy in the eyes of the American administration and there is growing criticism within the Palestinian society against his policy of violence. The terror has been reduced but not overcome. Israeli society has demonstrated, up to now, endurance, and its national resilience has not been eroded. On the negative side, Israel has endured enormous losses in life and property. The direct loss has been approximately NIS 14 billion per annum. Investments have plummeted and Israel's international status – especially in Europe – is problematic.

- **There are two main approaches** concerning the response to Palestinian violence. The dominant approach emphasizes putting an end to terror as a *sine qua non* of any political

progress. This approach calls for a constant offensive initiative that will bring home to the Palestinian consciousness the understanding that terror has failed to achieve any benefit and that its price has become untenable. The second approach does not argue with the necessity of combating terror, but is convinced that there is no way to defeat it and that there is no military solution. Consequently, according to this approach, ending terror is not a condition for holding negotiations for a political settlement.

Forms of Political Settlement

- This issue's point of departure is that the changes that the Israeli and Palestinian societies have undergone since the inception of the Intifada in September 2000 have seriously reduced the prospect of reaching an Israeli-Palestinian settlement. **The chances of settlement are reduced due to changes in the Israeli and Palestinian societies**
 - As a result, the gamut of proposals for such a settlement is wide-ranging:
 - The "Road Map" that President Bush presented in his June 2002 speech appears to head the regional agenda, but has yet to be finalized or officially published. The "Road Map" includes two main building-blocks. The first is the normative demand that the Palestinians totally refrain from terrorism and combat it, implement fundamental reforms in the Palestinian Authority and replace their leadership. The second is the operational part that stipulates that if the Palestinians fulfill the normative part, they will be a
- The "Road Map" is the main option on the agenda**

to establish a provisional state and to achieve a fully independent state in 2005 based on the end of the 1967 Israeli occupation. The map has three main versions: one emphasizes the Palestinian implementation as the condition for the transition from a provisional state to the final settlement; the second emphasizes the interim period; and the third underlines the commitment of the Arab states to put an end to Palestinian terror.

- Unilateral separation from the Palestinians without an agreement by creating areas of separation (buffer zones).
- “Trusteeship” based on an international agreement to an American mandate on a provisional Palestinian state. In this case, an American force would be stationed in the area to confront Palestinian terror.
- Settlements which reject the idea of a Palestinian state in the West Bank and propose a solution of a Palestinian state in Jordan or Sinai.

International Law and New Anti-Semitism

Over the last few years, two new significant international challenges have confronted Israel in addition to the continuing media campaign:

- **A wave of new anti-Semitism** or “New anti-Jewism” based on the der the right of the Jewish people to live as an equal member of the fair nations.
- **International Law** – a new international legal order that incorporates tl legitimization of the State of Israel and an attempt to incriminate its le and military commanders.

**Israel faces
new
international
fronts: modern
“anti-Jewism”
and the
international
legal front**

Along with defensive responses to these challenges, several offensive strat and proposals emerged.

The Fundamentals

Defense Doctrine

- The long-range threats originating mainly from Iraq and Iran and perhaps Libya, and particularly the non-conventional threat, call for modifications in the classic concepts that shaped the Israeli defense doctrine.
- The **Air Force** will bear the main burden in dealing with the long-range threats.
- The **Navy** will have a complementary role and may offer, along with the Air Force, an integrated response to long-range threats.
- **The comprehensive response** must include four complementary building blocks: direct offensive against the threats, a comprehensive strategic offensive, active defense (ABMs), and passive defense.

The Air Force, supported by the Navy will bear the main burden in dealing with long-range threats

Government

- Israel's system of government is incapable of dealing with the challenges ahead. It lacks the tools for long-range decision-making and implementation of strategic planning that require synergy of public and government aspects.
- There is a wide consensus that the executive, legislative and Civil Service are in dire need of reform. However, there is no agreement regarding the essence and content of such reform.
- One of the tabled options is a **revolutionary regime change: introduction of a presidential regime**. The President, according to this plan would be elected directly every five years; The President would form a cabinet without needing a vote of confidence in the Knesset; The office of the President would centralize the ministries' operations which would be drastically reduced in number and size; a portion of the Knesset would be elected in district elections; The threshold percentage for representation in the Knesset would be raised to 5 percent; A 2/3 majority of Knesset members would be

Israel's system of government is in need of a comprehensive reform

required for a vote of No-Confidence in the President or for a veto of governmental decisions.

- A second tabled option was aimed at an **improved parliamentary regime**. According to this option, the head of the largest party would automatically be appointed Prime Minister; the minimum percentage for representation in the Knesset would be raised; the mandate in the Knesset would belong to the party and not to the individual Member of Knesset; a referendum mechanism would be instituted for select issues.
- The proponents of both options agreed on the necessity of comprehensive **reform in the ministerial structure and the Civil Service**. The main proposals included: a reduction in the size and number of government ministries; reinforcement of the office of the head of the executive (president or prime minister), reform of the national budgetary mechanism; forming a Civil Service along the lines of the European model and reform of the educational system.

Economic and Social Aspects

The Israeli economy is at present deep into a recession. The roots of this state of affairs are not only the security situation and the global crisis in the Hi-

The Israeli economy is at present deep into a recession

- A **high public expenditure**, relative to the GDP that is on the rise since 2008.
- A **low rate of economic growth**, inter alia, due to the low rate of participation in the work force - particularly in the Arab and ultra-orthodox sectors. As a result, the gap between Israel and the Western world is growing.
- A **high and growing domestic debt, a lack of fiscal flexibility** due to the security situation, an already **high tax burden** on the citizens and the government's debt-financing burden have a negative effect on Israel's credit rating which affects the government's ability to invest in a growth-producing infrastructure. Israel has an acceptable foreign debt but the domestic debt is extremely high. Without reducing the domestic debt, the government will eventually encounter difficulties in servicing and financing the foreign debt.

- **The deterioration in the economic situation increases social inequality.** Israel is rated third among the developed nations in economic inequality. The high rate of poverty in the Israeli-Arab and ultra-orthodox sectors poses a serious social and national challenge and bears an inverse effect upon the Israeli-Arab community's attitude towards the State of Israel.

Despite the recession, there is a vast difference between the economic crisis in Israel and in Argentina, to which there is a tendency to draw a parallel. Unlike Argentina, is a strong democracy with solid legal institutions, with a strong economic basis and with a high level of Hi-Tech. Moreover, Israel's debt is for the most part, domestic, whereas Argentina's is foreign.

There is no correlation between the economic and governmental systems in Israel and Argentina

The Response to the Economic Crisis

- A plan for **fiscal consolidation** based on: defining the national priorities and building a ten-year budgetary framework that will entail a reduction of the components in the public expenditure. By the end of the decade, the government should achieve a number of goals: reduction of government spending; reduction of the internal debt; reduction of government intervention in the economy; downsizing of the public sector and lowering the tax burden.
- **Supporting the Hi-Tech industry** despite the world crisis in this sector because of its great potential for profitable export and the large existing market for its special products. The main problem in developing this sector is that the education system does not produce enough scientists and engineers and there is an annual 'deficit' of about 2,000 professionals in this sector. This problem can be solved by an annual investment of US\$1.3 million for a few years in order to produce the professional cadre necessary for promoting the Hi-Tech sector.

A fiscal consolidation plan and support of the Hi-Tech are ways out of the crisis

Israel's Homefront Defense

- As opposed to most of the past wars that Israel has had to fight, the next regional war will probably entail attacks on the Israeli homefront with conventional and non-conventional weapons along with military skirmishes along the borders or even in its absence.

The homefront will be attacked, but there is no central coordinating body for all homefront

- Today there is no central body with responsibility and authority to coordinate and direct all the agencies operating in the homefront arena, namely the IDF Homefront Command, the Emergency Civil Service Agency, the Red Magen David (Israel's national Red-Cross Organization), the Fire Brigades, Israel Police and the local authorities.
- The fundamental, revolutionary and comprehensive response to this situation includes a number of stages:
 - Stage 1: Transfer of the IDF Homefront Command and the Emergency Civil Service Agency from the Ministry of Defense to the Ministry of Internal Security.
 - Stage 2: Legislation of a “Service for All” Act that would stipulate two tracks of national service for the entire citizenry: military/security service and national civilian service. Those who will serve in the national civilian service will support the Homefront apparatus. Later, a “national guard” will be formed that will assume responsibility for the entire Homefront system and for operating the civilian national service”.

The Jewish People

- Recent surveys and studies clearly show a disquieting trend of diminution of the Jewish People. At present, the Jewish people amount to approximately 12.9 million 'hard core' Jews, as compared to 11 million fifty years ago the Holocaust. The main reasons for this situation are assimilation, marriages and low procreation rates.
- **Violent Anti-Semitism** has become rampant among Jewish communities throughout the world.
- In 2002, only 35,000 Jews immigrated to Israel. There has been a significant drop in the aliya (immigration to Israel) from the former Soviet Union; however, there has been an increase in aliya from France and South America.
- **Aliya** remains a vital interest of the State of Israel and the main means to guarantee the future of the Jewish people. The State’s character and quality, it’s prioritizing of aliya and the willingness of the Israeli society to absorb

Studies show a gradual diminishing of the Jewish people

Education for Jewish Identity is central for guaranteeing the future of the Jewish People

the immigrants is all elements which can encourage aliya. The potential exists.

- **Jewish Identity Education** is a major element in guaranteeing the future of the Jewish people. Israel ought to assume the mission of the education of Jewish youth throughout the world.

Part One: The Strategic Battles

The Global Campaign

Main Features

In the wake of September 11th, 2001, a new global age dawned, exposing a new strategic landscape. That day symbolizes the passage from the promising decade after the end of the Cold War to a period of war. Many, especially in Europe, underestimated the importance of the change and found it difficult to adjust. Curiously, President Bush and his novice team of advisors, including the National Security Advisor, who had little experience in foreign relations, found it easier to adjust to the new state of affairs and to rise to the challenge.

The essence of the challenge is the war that the United States feels has been declared against it. There is a certain similarity in this to the Cold War, which posed the greatest challenge to President Truman, who came to presidency, like President Bush, with no prior foreign policy experience. This war, actually, is comprised of three levels:

- The war against Terror.
- The war against dictatorships that are developing weapons of destruction (WMD).
- The war against Radical Islam.

The US is waging a campaign against dictatorships developing WMD, terror and radical Islamism

A result of this war is the beginning of a campaign for imposing democracy as one of the main responses to these three wars. Consequently, the Middle East is at the nucleus of this campaign.

The United States is stronger than ever in this war, though at the same time is far more insecure for a number of reasons:

The U.S. is stronger than ever, but less secure

- The United States has come to symbolize "Globalism", and as such at the envy of much of the world.

- The availability of WMD, particularly biological weapons, significantly enhances the threats.
- The United States is no longer certain, as in the past, of the unequivocal support of its NATO allies in future wars.
- In contrast to the Cold War, the present situation presents an ambiguity in identification of friends and foes.
- It is difficult to combat terrorism when it has no clear 'address'.

Terror

Along with its obvious characteristics, contemporary international terrorism is characterized by the ability of a decreasing number of individuals to increase damage and even extreme damage to the Western economy. Today, 100 to 200 people can kill one million human beings and shortly, fifty people with bio-technological know-how will be able to kill ten million. We are on the cusp of a watershed in human history that will motivate a far-reaching revolution in international relations, international law, strategy and military doctrine. **The necessity to fight against terrorism will be the main component of defense policies throughout the world.**

In modern terrorism, a few individual terrorists are able to wreak more damage

In these circumstances, biological warfare becomes the terrorists' WMD of choice. It is inexpensive and diversified, it can be used without sophisticated delivery systems and the fingerprints of its distributors are hard to trace. Twelve countries are currently suspected of developing biological weapons. The former Soviet Union holds the largest stockpile of biological weapon agents.

Bio-terrorism is an available WMD

Notwithstanding, because of the inability of the international community to define what constitutes an act of terrorism, terrorism has yet to be defined as a crime by international law.

In the American war against terrorism, we can discern three salient points:

- The struggle is not just against the al-Qa'eda organization or against the Taliban regime that ruled Afghanistan, but against each and every terrorist organization in the world. This approach enjoys a wide consensus in the United States. A short time ago, the CIA performed a "targeted killing" operation against a group of terrorists in Yemen and it received presidential approval. Were such an operation to be performed five years ago, it would

America's war against terrorism is not limited to al-Qaeda

most probably have been followed by powerful protests in the United States and across the world. Along with other elements, the war against terror will be a central building block of American policy in the next decade or two.

- The necessity to threaten states that harbor terrorist organizations and to force them to choose sides. In this context, countries that do not host terrorists are expected to act against those who do.
- The necessity to change the focus of American Middle East policy on the basis of the understanding that the Middle East is a nucleus of terror and states that are developing WMD and is not defined only by the Israeli-Arab conflict. This was implied by President Bush in his speech of June 24th in which he stressed the terrorist aspect of Arafat and the Palestinian Authority's conduct. The result of this speech is the "Road Map" (see the chapter on political settlements below).

War Against Dictatorships that Develop WMD

This war is linked to the war against terror and its rationale is as follows: if terrorism and the countries supporting it are a serious problem, then the serious damage could be incurred by the WMD that dictatorial regimes are developing. Therefore, the campaign of counter-proliferation of WMD is one of the most important challenges for the United States, particularly if weapons reach terrorist organizations. This is the basis of the "axis of evil" concept.

The U.S. links the war against terror to the struggle with dictatorships seeking WMD

This is also the reason for the sea-change in American strategy that is now based on a deterrence doctrine but on pre-emption – the willingness to use force in order to pre-empt the development and manufacturing of WMD by dictatorial regimes. The model for this strategy is Israel's 1981 attack on the Iraqi nuclear reactor. Furthermore, the present case is not one of removal of a nuclear reactor of one sort or another, but of the invasion of a country such as Iraq and the removal of its regime as the only available means to disarm it (see chapter on Iraq below). It is clear that just as Afghanistan was not the last case of the use of force in order to remove a regime that supported terror, Iraq will not be the last case of war against a regime in order to eradicate its WMD potential.

This does not mean that the United States will automatically opt for military intervention everywhere in the world in order to achieve this goal. The United States will employ diplomatic pressure, sanctions, and covert action for destabilization of the regimes that are developing WMD. However, when there is no other option, the United States will employ military force. Another approach, presented by Democratic circles in the United States, holds that the United States must, of course, maintain military force as an option, but should refrain as far as possible from unilateral use of force, and should not exaggerate its use in any case. This approach prefers American intervention within a multilateral framework and the formation of international bodies that would accord legitimacy and validity to the values that the United States intends to defend.

The Campaign Against Radical Islam

Radical Islam is currently on the rise. Its main tenets are:

- Islam is the solution for all problems and the nation-state is unacceptable.
- The Koran - and not a thousand years of Islamic civilization, civil law or the law of the State - is the sole source of authority.
- "Jihad" in its meaning as a "Holy War" is a central duty for each and every Muslim. The goal is to impose Islam on the entire world and to rule the world through a theocratic dictatorship.
- Extreme intolerance towards anyone who does not accept its principles - whether Muslim or not.
- The West is perceived as a degenerate and waning civilization, which will be inherited by Islam.

Radical Islam is, therefore, a universal dystopic and apocalyptic weltanschauung. Like dystopic ideals that preceded it, such as, Nazism, Socialism and Communism, it poses a threat to the world, but, unlike them, it is scattered and decentralized.

Radical Islamism presents a dystopian apocalyptic world view. It should be tackled on the ideological level

The Struggle Against Radical Islamism

Just as Fascism and Communism were defeated, so should radical Islamism. However, since terrorism is only a syndrome of the phenomenon, the fight against

it cannot be restricted to military campaigns and attacks on specific targets. It must be led by the United States and conducted more comprehensively:

- An ideological war of ideas must be waged in order to achieve international de-legitimization of the ideas of radical Islam. The international community must place the war against evil and murderous ideas at the focus of moral imperatives of our times and to modify international law accordingly.
- The Muslims themselves must lead the ideological struggle. The United States must motivate Muslim states to stand up to radical Islamist extremism.
- At the same time, the United States must take the lead in organizing an international system for restricting the operational living space of radical Islamist organizations throughout the world.

Iran and Saudi Arabia have competed for years in cultivating radical versions of Islam. One tabled approach asserted that the United States would eventually have to stand up to Saudi Arabia and its radical Wahabbi brand of Islam, if the House of Saud persists in its export.

The Democratization Process

In President Bush's June 2002 speech and in the later Grand-Strategy document, submitted to the U.S. Congress in September, the Administration stated that instituting democratic principles across the world is possible and committed itself to a campaign to bequeath these principles to the entire world. The roots of this new approach in American policy lie in the Administration's conviction that the source of terror is the venomous political culture of Middle East regimes that are based on paranoia, violence, dictatorship and the denial of freedom in general, and free elections in particular.

The goal that President Bush set is the attempt to 'export' democracy to the Middle East as a cure for the plague of international terror. The success of this policy is unclear, however, policy-makers in Washington recall the case of Japan after World War II. Then, all professional experts claimed that it would be impossible to democratize Japan; but they were wrong. Where in the Middle East will this experiment begin? There are those who believe that the removal of Saddam Hussein's regime in Iraq will be the first step.

The U.S. sees democracy in the M.E. as the cure for the scourge of terror and recalls the case of post WWII Japan

Iraq

The removal of Saddam Hussein, the replacement of his regime and disarmament of Iraq of its non-conventional weapons are not meant to solve a local problem alone. The wider intent is to send a worldwide message to all dictatorships that the United States will not acquiesce to WMD in the hands of dictatorial regimes. The removal of Saddam Hussein will make clear to countries in the Middle East and Asia that development of WMD will not go unpunished. North Korea, for example, will be made to realize that it will not be allowed to develop nuclear weapons and to threaten South Korea, Japan and Taiwan. It is clear to the Bush Administration that dictators cannot be trusted to comply with arms control agreements and that if the United States does not act against Saddam Hussein today, within a decade the world will be full of dictators and theocrats with nuclear weapons.

One assessment is that the removal of Saddam Hussein's regime and the formation of new political institutions and elites in Iraq will serve as a catalyst for profound changes in Iran as well. Such a development may have ramifications for the rest of the regimes in the Middle East leading, with American support, towards democratization. A more pessimistic assessment doubts the prospects of democratization, or, at least, views the process in terms of decades before it comes to fruition. In any case, the question arises: if the democratization experiment in Iraq succeeds, does that mean that Iraq will be ruled by its 60 percent Shiite population supported by Iran?

The central question is who will succeed Saddam Hussein and which country will take Iraq's place as the radical focal point? Will it be Syria, who will feel more isolated than ever? Or Iran, who will be distanced from the Arab States that border Israel by an American and international buffer?

The removal of Saddam Hussein will be the first step in democratization of the M.E.

Ramifications for Israel

In the Iraqi context, the American attack contains a certain danger for Israel. However, this danger is counterbalanced by the benefits of the removal of Saddam Hussein, which would constitute a positive strategic watershed for Israel:

- An existential threat to Israel would be removed by destroying Iraqi nuclear potential and the rest of Iraq's arsenal of WMD.
- As a country that has taken part in all the wars against Israel and has been the central component in Israel's eastern front as well as a key supporter of Palestinian terrorist organizations, Iraq will no longer constitute a threat to Israel.
- Profound changes in the strategic landscape of the Middle East, such as the isolation of Syria, the weakening of Iran and the establishment of a pro-Western regime in Iraq, will bear a considerable positive effect upon Israel's balance of national security.

The removal of Saddam Hussein will eliminate an existential threat to Israel and enhance its strategic situation

What will happen if Saddam Hussein is not deposed? What may then be expected in the Israeli context? What will be the consequences for Israel's national security? This issue was not addressed but methodologically, it was asserted that the scenario of American success should not be the only one considered.

The Conflict with the Palestinians and the Peace Process

If the Iraqi regime is removed, will the Palestinians realize that the United States is leading the world toward a sea-change and that this is the time to lay down the weapon of terror and to return to the negotiation table? Or will they follow under Arafat in the strategy of terror in order to test the international community? Will the developments encourage Israel? The replies to these questions were diverse:

After Iraq, the Palestinians might realize that they should move towards a Peace Process

- According to an optimistic viewpoint, a momentum may form among Palestinians - especially among the "reformists". Encouraged by the changes in Iraq, they may well feel that change is possible. At the same time,

Israel might regain the hope that all is not lost and that a negotiated settlement with the Palestinians is still possible.

- The pessimistic viewpoint is that the demise of Saddam Hussein will not have an effect on Palestinian terror, which will continue. The Iraqi regime change will not have a compromising effect on the Palestinian positions.

Notwithstanding, the question as to whether the regime change in Iraq might provide legitimacy for Israel to impose a regime change within the Palestinian Authority, including the replacing of Arafat,

was also addressed.

Another question that arises from the current situation: Are we to witness a repetition of American pressure upon Israel regarding the Israeli-Arab conflict as was the case in the aftermath of the first Gulf War in 1991 – pressure that led to the Madrid Conference? The conventional wisdom holds that the 1991 case will not repeat itself in 2003. In 1991, the Israeli-Arab conflict was perceived in Washington as the key to stability in the Middle East. The approach today is different. The Israeli-Palestinian conflict does not top the American agenda and is no longer central to American policy. Albeit, there will be tension between Israel and the United States, but this will take place in a completely different strategic environment from that which prevailed a decade ago. The American Administration currently considers Israel an ally in the same struggle in which it finds itself involved.

The model of “the Madrid Conference” in 1991 may not repeat itself

The Israeli-Palestinian issue no longer tops the American agenda and is no longer central to American policy

As to the Wider Consequences

- Israel has a vested interest in the success of the United States in its protracted war because of its location in the nucleus of the arena in which the United States is waging war. Never in history has there been such a convergence of Israeli and American interests. Consequently, America’s capabilities and objectives have become a component of Israel’s national security balance. Israel must, therefore, examine its foreign policy and take into careful consideration the interests and needs of the United States.
- Until September 11th, 2001, it was possible to distinguish between three forms of confrontation: low-intensity warfare against the terrorist; a comprehensive war that had the potential of deteriorating into a regional conflict; and non-conventional war. Since then, the United States has created a linkage between international terror and states harboring terrorism.

After 9/11 the risks of escalation of low-intensity wars have grown

organizations and between low-intensity warfare and comprehensive war. The transition from the first type of war to the second could be extremely rapid.

- Radical Islam poses an existential threat to the Jewish people. Israel is perceived as the spearhead of the corrupted West. Israel, therefore, must mobilize the Jewish people and its organizational apparatus to form international coalitions, led by the United States, in order to cope with this danger.

The Strategic Environment and its Threats

Main Features

In the balance of regional strategic stability, the following stabilizing factors are notable:

- Most of the regional actors are not interested in regional deterioration to their perception of their strategic inferiority vis á vis Israel and c their inability to form a united front against it.
- Egypt and Jordan have a profound interest in maintaining their resp peace agreements with Israel and in the peace process.
- The United States continues to have a deep commitment to Israel's security and to maintain bilateral strategic cooperation, evident in their ongoing political, economic and defense security support.
- The image of Israel's power strategy preserving the status quo.

Most of the actors in the Middle East are not interested in escalation

On the other hand, there are the following **destabilizing elements**:

- The conflict with the Palestinians and its potential for deterioration, possible linkage to an outbreak in Lebanon and escalation to war with Syria.
- The tension between Islamic culture and Western values, which mag the misery of the Arab world and challenges most of the Arab countries
- The anticipated American attack on Iraq, the expected opposition to it most of the regional actors and its aftermath.
- The deep animosity towards, and ongoing incitement against, Israel on the part of most of the regional societies.

In the confrontation with the Palestinians there is a risk of general escalation

- The Arab attempts to challenge Israel in order to turn the balance in their favor and to take advantage of what they perceive as Israel's weaknesses: Limited staying-power in protracted armed conflicts; reluctance to use full force and capacities in low-intensity conflicts; intolerance of a high casualty rate over a long period of time; and limited resources.

What are the variants that might affect the strategic trends and the balance of stability in one way or another?

- The course and outcome of the American campaign against terror in general, and against Iraq in particular – this will be the main strategic determiner.
- Significant progress towards achieving a military nuclear capability by one of the countries in the region.
- A perception in the Arab countries that there is no credible political prospect in continuing the conflict with Israel.
- Israel's regional image of power and strength.

The main friction points that might potentially generate military escalation are two low-intensity conflicts: the Israeli-Palestinian conflict and the conflict with Hezbollah over defining the "rules of the game" in Lebanon.

The stability of regimes in the region is a fundamental problem. As opposed to the relative stability of the regime in Israel, the other regimes in the region possess a 'stability of graveyards'. Israel's stability is achieved by the democratic transition of governments, by engaging in public debate of collective concerns, anxieties and ideological positions based upon a free market of ideas and economy. The other regimes in the region, however, achieve stability through effective political suppression and denial of political freedoms. The West, and the United States in particular, are slowly finding these regimes intolerable. It seems, therefore, that we are entering an uneasy regional transition period, in which the challenge will be to get past this period and to manage it effectively through means such as the American use of force, ideological conflict with radical Islam and changing the West's economic policies towards the region.

The demographic environment – The Middle East is home to the highest natural growth rate in the world. The lowest growth rates in the region are in Iran, Turkey and Egypt, where they are the result of governmental policies.

Demographic trends in the region have a destabilizing effect

providing de facto sanctions on large families and benefits to families with fewer children. The highest growth rates are in Saudi Arabia and among the Palestinians. Syria, Jordan and Iraq are in the middle. Consequently, the region is in the throes of social and economic decline. The population growth is expected to cause even further deterioration and to increase poverty in the region during the coming 10 to 15 years.

Another typical socio-economic characteristic of the countries in the region is the low participation rate of women in the work force. This fact, along with high birth rates, lowers the overall employment rate and subsequently, the income and product per capita.

As opposed to a GDP of approximately US\$1,000 per-capita in most of the Arab countries, Israel has a GDP per capita of approximately US\$15,000, the lowest infant mortality rate in the region and the highest life expectancy. As a result, Israel is a social and economic misfit in the region.

Clusters of Threats and Challenges

Terror – along with the “mundane” Palestinian terror with its typical characteristics and goals, two new forms of terror have emerged:

- **“Mega-terror”**, such as the attempt to shoot down an Israeli airliner in Mombassa, Kenya last November. This attempt must be considered as if it had succeeded and ended in real tragedy. The execution of this form of terror changes the “rules of the game” and the national mood, and generates a revolution in Israel’s foreign relations.
- **Non-conventional terror** through the use of ‘off-the-shelf’ chemical or biological agents.

Both types of terror respect neither geographical nor moral boundaries and exploit the free world’s resources against it.

Israel is confronted by a series of threats within three concentric circles:

The ‘Inner-Circle’ Threats – The continuing confrontation with the Palest is a major factor in determining the course of day-to-day life in Israel ar

Israel is threatened in three concentric circles: an inner circle – the Palestinians, a middle-circle – Syria and Lebanon, and a distant circle

public's actual and perceived personal security (see chapter on the conflict with the Palestinians).

The 'Middle-Circle' Threats – The main threats to Israel derive from the potential for escalation on the northern front as a result of the challenge that Hezbollah poses from Lebanon. This threat emanates from the thousands of rockets directed at the north of Israel and that could even reach Haifa and Hadera. This possibility widens the area of potential friction and is meant to impose intolerable 'rules of the game' upon Israel. The Lebanese front is inexorably linked to the Syrian front. The Hezbollah militia has become a Syrian tool – whether it is in order to threaten Israel or to serve as a Syrian response to Israeli actions.

The 'Distant-Circle Threats' – The major actors in this arena are Iran and Iraq. The heart of this threat is the link between WMD and these two radical states. Within a few years, Iran might acquire a military nuclear capacity. This could change the regional balance of power and pose an existential threat to Israel. Lately, it appears that Libya has joined this circle. Another aspect of these threats is their regional destabilizing potential and their abetting of the low-intensity conflicts in the Lebanese and Palestinian arenas.

Israel's main challenge is the low-intensity conflict with the Palestinians, due to its escalatory potential and its spillover potential to the other circles of threats, particularly on the Lebanese front, even to the extent of an overall regional escalation, exacerbating a threat to the Israeli homefront.

The non-military threats and challenges along Israel's borders include five main processes:

- Growing concentrations of Arab populations proximate to Israel's borders, most of it poverty-stricken. For example, 50,000 people currently reside in Aqaba, compared to 400 in 1948; 300,000 people live along the east bank of the Jordan Valley, as opposed to a few hundred in 1967; on the Syrian side of the Golan, hundreds of thousands of people live there today, as opposed to a few tens of thousands in 1967. In the next twenty years, the population in close proximity to Israel's borders will reach up to 30 million people, all living in poverty.

Large concentrations of poverty stricken Arab populations are along Israel's borders

- This development will be accompanied by a hastened process of urbanization that will change the natural landscape around Israel's borders and that will be the source of various military ramifications.
- This will require the construction of a large number of water-producing projects.
- These areas might become havens for criminal organizations and networks profiting from drug trafficking and larceny.
- The first three processes will cause severe ecological problems. The poverty-stricken "third world" congregated along Israel's borders is expected to be indifferent to ecological concerns and this burden will most likely fall on Israel. This will constitute a real challenge.

The Strategic Response

Vis á vis terror

- The struggle against terror must not be considered as Israel's alone, but as the struggle of the entire free world. This means that Israel must cooperate with the international community under the leadership of the United States in all areas.
- The response to "mega-terror" must go beyond any previously acceptable response; it must commit a breach in the 'rules of the game', but, at the same time, it must enjoy broad international legitimacy.
- Civilian airliners must be equipped with 'defensive shields' against surface-to-air missiles. The required R&D and manufacturing must be carried out in collaboration with the United States and other advanced countries in order to achieve a reasonable cost for this equipment.
- In all actions and operations, Israel must maintain the high moral ground.

Vis á vis the regional threats – the main challenge in the formulation of a response is to find a balance between creating the appropriate response to low-intensity warfare and investment in construction of a military force to meet the long-range strategic threats emanating from the 'distant circle'.

Regarding the conflict with the Palestinians – the response should be based on continuous military pressure on the terrorist infrastructures on the one

The response to the confrontation with the Palestinians – maintain military

and humanitarian relief for the population on the other hand as a lever for generating public soul-searching. The goal should be to make the Palestinians understand that terror will not bring them closer to achieving their goals (see the chapter on conflict with the Palestinians).

Vis a vis the 'Distant Circle' – the response is replete with constraints, such as: buffer states, large distances, the high probability of superpower intervention, extremely diverse scenarios of possible confrontation and the problem of international legitimacy. Therefore, the response must be built on a number of complementary building blocks:

- Political and operational disruption of the build-up of non-conventional capabilities by the 'distant circle' states.
- Strategic early-warning capabilities regarding the existence of conventional capabilities and for operational early warning of launch of WMD.
- Direct offensive capabilities aimed at reducing the WMD potential and eliminating WMD launching capabilities, along with indirect offensive capabilities geared at retaliation.
- Capability of intercepting missiles in flight.
- Passive defense through personal protection and medical treatment.
- Deterrence of the non-conventional missile threat.
- International and regional cooperation in order to improve offensive and interceptive capabilities.
- The Air Force is the primary branch for providing these responses, but the Navy could well augment aerial capabilities. The Navy's operational functions should, therefore, be expanded.

The response in the distant Circle – disruption of WMD capabilities, deterrence, CBM and a retaliatory option

America's response towards the 'Axis of Evil' and the anticipated attack on Israel are central building blocks in disrupting the attempts of the 'distant circle' to achieve strategic capabilities.

The Air Force is the primary arm against the distant Circle threats, to be complemented by the Navy

The challenge of providing a strategic response depends upon Israel's capability to integrate the three spheres of its capacities - military, economic and political - in a manner that will bring forth Israel's military strength and enhance deterrence, especially towards terrorist organizations. It may be necessary to

Israel may find it necessary to replace indirect deterrence with direct deterrence

necessary to replace indirect deterrence with direct deterrence through direct threats against adverse leaders and their allies.

Israel's Military and Civilian Balance – The Herzliya Indices

This year's Conference inaugurated a unique and novel attempt to assess Israel's military and civilian standing vis-a-vis neighboring and Western countries and to develop a quantitative and objective series of indices.

Israel's military power was measured in contrast to an Arab coalition – including Egypt, Syria, Jordan and a contingent of the Iraqi army – along a timeline from 1992 to 2002. This measurement was conducted in two spheres: classic military power and 'qualitative' power indicators (sophisticated weaponry, quality manpower, and force multipliers such as inter-branch cooperation, Command and Control systems, readiness, leadership and intelligence products). The salient findings, were:

- Israel's general edge over the Arab coalition (2002) is 131 to 100.
- Israel's qualitative edge over the Arab coalition (2002) is 155 to 100.
- Between 1992-2002 Israel's relative power increased by 6% in the general index and by 15% in the qualitative index.
- The conclusion from these findings is that Israel has expanded its qualitative gap in its favor, with the most significant sphere being qualitative manpower.

Israel's military power has grown extensively relative to its strategic environment

In the civilian domain, three indices of national security comparing Israel, the OECD countries, Iran, Egypt, Syria and Jordan on economic, social and political dimensions was presented. Specially compiled databases, deriving data from authoritative sources, produced indices that compared national performance in each dimension since 1990. **The findings** were:

- In the **economic** sphere, Israel made formidable progress over the last decade. The gap between Israel and the developed countries decreased while the gap with the other countries in the region increased.
- In the **social and political** spheres, Israel did not make progress in the last decade.

Advances over the last decade have been exclusively economic

- **In 2001 Israel regressed in all areas.** The economic, social and political indices fell. The gap between Israel and the developing countries widened, while the gap between Israel and the regional countries narrowed. In 2002, further regression has been apparent in the economic area.

The Violent Confrontation with the Palestinians

Main Features

After more than two years of confrontation, it has become clear that this is a struggle over territory but a total and existential conflict between two civilizations in which the leaders of the Palestinian struggle are adamant to continue the struggle until they fully achieve the Palestinian national goal. They see them. In their eyes, justice, rights and honor were stolen from them at the time when Great Britain granted the Jews the right to found a national homeland in the Land of Israel and Zionism turned this vision into a reality. Therefore, their goal is not to reach a compromise but to regain what they perceive as a right stolen from them.

The confrontation with the Palestinians seems to be now for the “problem of 1948” and not the “problem of 1967”

The Palestinians initiated the present confrontation because they believed that in all their violent struggles since the Oslo accords, such as the incidents in the wake of the opening of the Southern Wall in 1996, their choice of violence worked in their favor. Violence is meant to achieve what they could not achieve at the negotiating table where compromise is the rule.

The present confrontation is taking place on three levels:

- The military level, with the Palestinian suicide terror and the Israeli countermeasures at its core;
- The social level, in which the Palestinians attempt to erode the basic endurance of Israeli society vis á vis the continuing endurance of the Palestinian society;
- The “ideological” level of legitimacy concerning the means of struggle, leadership and faith in the legitimacy of each side’s actions. In all these levels, **the media** have an important role (see chapter on the media).

The present conflict is in the military, social, ideological and media arenas

The Balance

Two years of violent confrontation have disproved the basic axioms of the Oslo Accords. The Palestinians and they have not achieved the goals that they set for themselves: the internationalization of the conflict, the destabilization of the peace between Israel and Egypt and Jordan, placing a wedge between Israel and the States and the rest of the world, dragging the region to war, ruining the society and strengthening the Palestinian steadfastness. Meanwhile, the Palestinian leadership experiences a crisis and growing criticism of Arafat's policy of violence. These developments might give rise to an alternative Palestinian leadership – more sober and pragmatic and – most important – more trustworthy. The terror itself has not been defeated, but it has been reduced, and its infrastructure, substantially damaged.

Israeli society has shown till now steadfastness and its national resilience has not eroded. A survey of positions of the Israeli public, held in October 2002, was remarkably consistent with four previous surveys since the outbreak of the Intifada in showing that:

- The Israeli public shows a willingness to cope with life in the shadow of terror and demonstrates national resilience in difficult times.
- The public is apprehensive of the continuous terror and of the disruption of day-to-day life.
- Notwithstanding, the public demonstrates patriotism and a desire for strengthening the bond with the country and has faith in the future of the State of Israel.
- At the same time, the threats to the national resilience have a social effect of a constantly falling level of confidence of the public in the political and social institutions, such as the media, the Knesset and the political leadership. The IDF and the other agencies of the defense and security establishments, however, enjoy a high level of confidence.

Nevertheless, two main factors have a detrimental affect on the national resilience:

- Public apathy towards political participation.

The Palestinians have not achieved their goals: internationalization, copying the Lebanese model and eroding the Israeli public

The Israeli public shows an ability to cope with terror but the conflict with the Palestinians, the lack of confidence in the political and social institutions and the economic situation are detrimental to its strength

- Social divides within Israeli society, the widespread poverty and the unequal allocation of the burden of defense.

On the negative side of the balance we find the following salient points:

- Enormous loss of life in terrorist attacks – over 700 killed and 5000 wounded.
- A deteriorating economy, the signs of which are a direct annual loss of approximately NIS 14 billion, rising unemployment, negative growth and a decline in investments.
- Confusion and breaches within Israeli society regarding the proper strategy in the conflict with the Palestinians. The consequent tensions reduce the effectiveness of the war effort.
- A “problematic situation” in Israel’s foreign relations, especially in Europe.

Principles of the Response to the Confrontation

Two basic approaches were proposed:

- The first approach did not dispute with the necessity of combating terrorism but was convinced that there is no way to defeat it and has no military solution. Consequently, according to this approach, an end to terrorism is a condition for holding negotiations for a political settlement. **According to one approach, terrorism cannot be defeated without political negotiations**
- The second approach rejects the essence of the first and emphasizes the need for a stop to terrorism as a *sin qua non* for any political progress. **A second approach stresses an end to terrorism as *sin qua non* for negotiations**

Ever since the “Defensive Shield” operation, the second approach has become prevalent and shapes the current Israeli military operations and will continue to do so in the foreseeable future. Accordingly, the following principles define Israel's policy and military operations:

- Security is top priority. Israel is solely responsible for the safety and well-being of its citizens. Hence, cessation of terrorism is a *sin qua non* for any political progress. Any step towards political progress while terrorism continues will be considered a prize for the terrorist strategy and will encourage further acts of terrorism.
- A constant offensive initiative must be implemented and not just disruptive defensive acts against the terrorist leaders, operatives and infrastructures.

- Distinction between terrorist elements and the civilian population by providing humanitarian relief to the populace, such as passage of goods and people and granting work permits in Israel.
- The need to 'win over' the Palestinian consciousness, i.e., to bring home to the Palestinian consciousness the understanding that terror has failed to deliver any political gain, that its price has become unendurable and that the Israeli society is not about to collapse. To achieve this goal, the Israeli public must demonstrate an adamant posture and willingness to suffer the difficulties and to contribute to the national effort. The 'we-feeling', and a sense of equality in sharing the burden and of rightness are a basic condition. This struggle, in contrast to conventional warfare, will be conducted gradually and the factors shaping it will not be only military ones, but also economic, social and communication factors.
- The need for international legitimacy for the Israeli narrative of a struggle against implacable terror along with a strong desire for peace.

Directions for the Political Settlement

General

- **The point of departure** regarding the political settlement with the Palestinians is that its prospects have seriously diminished as a result of profound changes that have taken place on both sides of the Palestinian divide: **The chances of a final settlement have diminished due to changes in the Israeli and Palestinian societies**
- **On the Arab-Palestinian side** - a demonization of Israel and the Jewish people feeds off the anti-Western wave that is sweeping the Arab world. The collective frame of mind dims the prospects of a historic compromise with the Arabs accepting the legitimacy of Israel's existence.
- **On the Israeli side**, the mainstream of the political map has begun to internalize the narrative that the Arab hostility towards Israel does not only derive from Israel's occupation of the territories since 1967, but has to do with the 'problem of 1948'. The Israeli mainstream and the entire society are profoundly disturbed by the Palestinian apathy towards the destruction of their own society and their admiration of the suicidal terrorists.

The basic question is: Is it at all possible to reach a real and durable peace in a region in which there are states that seek the destruction of Israel? Can Israel make concessions under the threat of terror or while some states continue to hold WMD?

- Several **conditions/demands for the renewal of the political negotiations** put forward:
- The removal of Arafat, replacement of the entire current Palestinian leadership and profound reforms in the PA that will produce a pluralistic democratic Palestinian society.
 - Complete cessation and renunciation of terror by the Palestinians.
 - Beginning rehabilitation of the refugees by the Palestinian international leadership.
 - Mutual acceptance and recognition of both sides.
 - The Palestinians will have to accept an extended period of “probation” to examine their 'good behavior'.
- Three approaches: one sets conditions for a renewal of negotiations, one sees no chance at all and a third calls for unconditional negotiations.**

The Conference also heard **diametrically opposed opinions**. Some argued that the present point of departure is so hopeless that there is no reason to even try to prepare the ground for political negotiations. Conversely others argued that Israel should resume negotiations with the present Palestinian leadership even 'under fire'.

These differences were practically expressed in a variety of possible settlements set forth. These may be categorized as follows:

- The “Road Map” with various versions, all of which are based on an agreement with the Palestinians.
- Unilateral separation from the Palestinians.
- “Trusteeship” based on an international agreement that will grant the United States a mandate for a future Palestinian state. This model also has a number of versions.
- Settlements that reject the idea of a Palestinian state in the West Bank and propose a Palestinian state in Jordan or Sinai.

The “Road Map”

The “Road Map” is the result of President Bush’s speech of June 24th 2003. From that date this is the major official international framework for achieving progress towards an Israeli-Palestinian political settlement. In his speech, President Bush did not refer to the possible components of a final settlement, but he presented a guide for achieving progress, based on the following:

- The Palestinians, if they wish to establish an independent state, must completely desist from the use of terror and reform their institutions. This demand is a fundamental change in the traditional American paradigm of the peace process.
- The Palestinians deserve a better leadership, since their leaders have misled and betrayed them. In other words, Arafat’s political role is over. This is a fundamental change.
- Progress in the process is conditioned by the situation on the ground, the implementation of the parties' obligations, and not according to a timetable.
- Unilateral steps are unacceptable. All unilateral steps, including settler actions, must stop.
- The humanitarian needs of the Palestinians must be addressed.
- If the Palestinians prove through their actions that they are worthy of an independent Palestinian state, such a state may be created within three years and a provisional state might be established before that.
- An end to the Israeli occupation of 1967.

Until now, the detailed Road Map with the list of both parties' obligations has yet to be presented or even finalized. The implementation remains unclear. However, the Road Map is the departure point for the American and international efforts. Its limitations, which may be temporary, are:

- Almost all of its clauses are open to different interpretations and the document lacks clear criteria for implementation. For example, the Palestinians are required to end incitement against Israel, however there is no definition of incitement.

The Road Map is the main option on the agenda today for a process

The Road Map’s contents: reform of the PA; stop to terror; a provisional Palestinian State and finally a final status agreement

- While Israel is called upon to accept clear strategic suppositions, such as an end to the occupation and the acceptance of a Palestinian state, such suppositions were not placed before the Palestinians. The Palestinians are called upon to put an end to terror, however the Road Map, as it stands today, does not demand that the Palestinians accept strategic principles such as the total illegitimacy of terror and violence, or the principle that violence and terror are not a legitimate way to achieve a Palestinian state.

Versions of the “Road Map”

Prime Minister Ariel Sharon's version includes three stages. Progress, that is moving from one stage to the following one, is performance-based and depends upon the implementation of all obligations in the previous stage. These are:

- **Stage one:** The emergence of a new responsible and uncorrupt Palestinian leadership, without Arafat; fundamental reforms in the structure of the Palestinian Authority, and particularly in the security apparatus which will be dismantled and reconstructed; the terror will stop and the Palestinian regime will fight it; all the illegal weapons will be collected and destroyed and terrorist organizations will be outlawed; civil-economic cooperation will be developed; the Palestinians will put an end to incitement and will begin education for peace. Meanwhile, Israel will ease the military pressure, will allow a territorial continuum between the Palestinian centers of population and will ease day-to-day life. To these components, one may add the beginning the rehabilitation process of the Palestinian refugees under American auspices as a supreme test of the new Palestinian leadership.
- **Stage two:** The proclamation of a Palestinian state with provisional borders in areas A and B, except for security areas. The state will be completely demilitarized and have only a police force armed with light weapons. Israel will continue to be in charge of the external border control and checkpoints and the air space. The Palestinian state will not be allowed to sign treaties and form alliances with third countries that do not maintain peaceful relations with Israel.

The Israeli version: a new Palestinian leadership without Arafat; a Palestinian state in areas A and B and final status negotiations

- **Stage three:** Commencement of final status negotiations. The negotiations will determine the final status of the Palestinian state and its permanent borders.

Israel will not allow to proceed from one stage to the next until the Palestinians will not restore calm, reform their regime and reestablish co-existence.

Another version of the Road Map assumes that in the aftermath of the ousting of the Iraqi regime, President Bush may be under Arab pressure to propose a new initiative. The components of such an initiative may be:

- Support of a Palestinian state that will not be “born in violence”.
- The leaders of the Arab world will take responsibility for Palestinian non-violence.
- The leaders of the Arab world will declare that they see Arafat as someone who has served the Palestinian cause but whose time has come and he must make place for new leaders.
- The Arab leaders will have to say to the Israeli public that they are willing to have normalization with Israel.

In this scenario, the Arab leaders will be called upon to bear a heavy burden of responsibility, but Israel too will be asked to make painful concessions.

Another version stresses a “package of conditions” for an interim settlement:

- First condition: a change in the Palestinian leadership.
- Second condition: economic aid to the Palestinian Authority after a change in leadership.
- Third condition: Complete de-militarization of the territories controlled by the Palestinian Authority and Israeli control over the external border crossings.
- Fourth condition: rehabilitation of the Palestinian refugees under American auspices, with unambiguous relinquishment of the “right of return”.

Unilateral Separation

This option’s point of departure is that even if the Palestinian leadership is replaced, the conflict will not end and the parties will continue to be un-

The concept of unilateral separation is based on the assumption that there is no Palestinian partner at present,

reach a political agreement; the schism between the two sides is too deep and for now, Israel has no 'partner' on the Palestinian side. Nevertheless, the proponents of this option assert that Israel has a vested interest in preserving the democratic character of the state with a solid Jewish majority and, hence, in setting the borders of the state. Therefore, according to this approach, Israel must take a strategic decision of unilateral separation from the Palestinians, based on the following principles:

- The separation borders will primarily reflect security and demographic considerations.
- Israel's national and religious wishes will, where possible, be addressed.
- Buffer zones will be set up.
- The door to future negotiations will remain open if and when a Palestinian partner will emerge. The basis of the negotiations will be the establishment of a Palestinian state through a conditional process and without granting the right of return to the Palestinian refugees.

The salient advantages of this option are:

- In the short run, separation will enhance security and allow Israel to reallocate resources to the civil agenda (especially education and social issues), which lay at the heart of the national strength.
- In the long run, this will allow for maintaining the state with both a Jewish identity and democratic regime.

The implementation is entirely in the hands of Israel and is not dependent on the Palestinians.

A variation on this direction calls for immediate negotiations with the present Palestinian leadership. If, after a certain period of time, there are no positive results, the unilateral separation will be performed. In any case, Israel will withdraw from the Gaza Strip.

Trusteeship

Like the unilateral separation, this model is also based on the supposition that there is no partner for negotiations. However, the proponents of this model cite a number of disadvantages in the separation option: it leaves behind

**Trusteeship:
American forces
will fight terror
in the PA area**

ungoverned and violent territory and it does not motivate the Palestinians to cooperate.

The underlying assumption of this concept is that the final status agreement implemented at the end of the trusteeship, will provide for a fully independent Palestinian state. This concept is based on precedents of trusteeships in East Timor and the present trusteeship in Kosovo. A study of this concept shows that while it does not promote a solution to the fundamental problems of the sides to the conflict, it helps create an atmosphere for negotiations. The main components of this concept are:

- An international summit conference, chaired by the United States, will declare the establishment of a provisional Palestinian state with provisional borders, the territory of which will include areas A and B with another 10 percent to create territorial continuum. Settlements will have to be removed in order to create the continuum.
- The summit conference will hand over the territory of the interim state to an American led mandate regime.
- The trusteeship regime will have a clear authority to supervise the implementation of institutional reforms across the board, that will include installing a democratic constitution and a body of legislation, establishment of a legislative branch and holding free elections. The regime would also be responsible for administration of the economy, including the implementation of a "Marshal Plan". Finally, the regime will be in charge of security and counter-terrorism operations.
- Special military force will be at the disposal of the trusteeship regime to conduct counter-terrorism operations aimed at uprooting the terrorist organizations and disarming them.
- The trusteeship regime will be appointed at first for a period of 2 to 3 years but it will be in force until such time as the Palestinian side will be capable of taking full responsibility.
- While the trusteeship is operating, Israeli and Palestinian delegations will meet to discuss the final settlement on the basis of the principles to be set by the summit conference.

The obvious advantage of this concept is the presence of an American force on the ground as part of the campaign against global terrorism. This force will also bring the Israeli 'occupation' to an end and will relieve the IDF of the tasks of policing the areas. The present Palestinian Authority and its head will be replaced and a reliable body will be appointed for economic reconstruction of the territories.

The disadvantages are: It is not the Palestinians who bear responsibility but the trusteeship regime. This raises the question how they will take responsibility later and this raises doubts regarding the prospects of the plan. Of course, there is no guarantee that the Palestinians themselves will agree to such a mandate. Moreover, this line of thought is, at the moment, not prevalent within present American Administration.

Versions of this Concept Include:

- A transitory period of three years during which the United States, Egypt and Jordan will manage the Palestinian Authority, with the emphasis on economic reconstruction, dismantling of the refugee camps and a complete change in education and the political system. Security matters will remain in Israeli hands. After three years, elections will be held and the elected leaders will negotiate with Israel over the final status agreement.
- The concept of an associated state: An 'associated state' is typical internationally recognized small state with full independence, membership in the United Nations that cedes part of its sovereign authority to another sovereign state. An example of this relationship is that of the Marshall Islands and the United States. A suggestion was made to implement such a relationship between Israel and the Palestinian state. **In an Associated State - Israel will keep certain elements of sovereignty in the Palestinian State**

'Regional' Solutions

One line of tabled solutions rejected the very notion of a Palestinian state in the West Bank and called for the realization of Palestinian statehood in the neighboring Arab states:

- In Sinai, on the basis of an agreement with Egypt.
- In Jordan, which will accept the Palestinians now living in areas A and B. These areas, according to this plan, would be linked to Jordan by four

corridors. The Palestinians in Gaza would belong to this state and some of them would be resettled in the El-Arish area.

The plethora of proposals testifies to the complexity of the problem, which has no magic solution, and to the basic problem of a lack of political will on the part of the Palestinians to proceed to a compromise.

Regional Cooperation for Promotion of Political Settlements

It was widely agreed that regional cooperation – mainly economic – can succeed and promote political settlements. However, two opposed approaches prevailed regarding the precise goal of such cooperation and the ways to promote it.

Regional cooperation can promote peace, but is the goal promoting relations or promoting the economies of the neighboring countries?

One approach claims that:

- The goal of cooperation is economic – investments in neighboring countries especially through industry will raise the GDP of those countries. This will result in an increase in the dependence of those countries on Israel.
- Jordan and Turkey could be considered eligible candidates for such effort, though it would be preferable to pursue this program in a low profile.
- Reducing economic difficulties could also moderate the animosity towards Israel and build support for peace with Israel.

A second approach claims that:

- The goal of cooperation is first and foremost to promote peace and not to raise the GNP of the neighboring states.
- Low-key profile might be good for business, but does not promote peace.
- The parameters for cooperation should be public and benefit both sides and not only one of them. As a rule of thumb, American aid to an Arab country that has peaceful relations with Israel should allocate funds for joint projects with Israel.

Regarding the Palestinians, there are a few lessons from the past, which should be implemented in the future when the peace process will be revived:

- Money that is invested in the Palestinian Authority should pass through international business people and not through the Palestinian institutions.
- Investments should be channeled to infrastructures and Israel should maintain a low-key profile.
- Economic cooperation should not be managed by the respective security establishments, rather by the economic and academic establishments.

Future cooperation with the Palestinians should take place between economic bodies and not security establishments

The cooperation between Israel and Turkey was presented as a successful model. Since 1996, when the then President of Turkey, Suleyman Demirel visited Israel for the first time, 37 agreements and protocols were signed on trade, culture, political and military cooperation. Presently, there are various ideas on the table: to form Israeli-Turkish-American common industrial areas; Israeli-Turkish common tourism areas; import of water from Turkey to Israel.

Other Fronts in the International Arena

The process of globalization has brought to forefront four new arenas, which have a profound effect on Israel's international status, on the conflict with the Palestinians and on the Jewish people, namely:

- The media.
- International law.
- NGOs
- The new anti-Semitism or "anti-Jewism".

The Media Front

In the conflict with the Palestinians, maneuvering the enemy's 'opinion' in order to win over his mind is no less important than the use of military force. The media is not a mere conveyor of information, but rather determines the stage and settings and occasionally even assumes the roles of lead-actor and judge.

The **main problems** that Israel has to deal with in this context are:

- Along with its professional interests, the media reflects – perhaps primarily – the economic interests of its owners abroad and the personal-career interests of the journalists in Israel.

- The plethora of media outlets and use of photography, its ubiquity and penetration- all create an avalanche of information. The result is ignorance and a dilettante approach.
- In the campaign for international legitimacy, the Palestinians have many advantages: they are perceived as 'David' fighting against the Israeli 'Goliath'; the message of 'occupation' is amplified by the sight of the Palestinian populace against Israeli tanks. The Palestinian message is monolithic and clear: a struggle against 'occupation' for an independent state. Israel, however, does not have one message, but many contradictory voices.
- The lack of enthusiasm of senior Israeli officials to appear before the foreign media - in stark contrast to the willingness of senior Palestinians to appear before the foreign press;
- Israel has no strategy for the 'media front' and there is no government agency authorized to coordinate the '**information warfare**'.

What should be done?

- Israel should carry out an offensive and proactive media strategy; a defensive and reactive approach will not suffice.
- An offensive approach calls for an inter-disciplinary and inter-agency including academicians, intelligence officers, and legal experts. Reactions when required, have to be swift, reliable, coordinated and suitable for specific audience. **In the struggle against hostile media, Israel should take the initiative with various methodologies and not only defend itself**
- The initiative has to be continuous and the product of long-term strategic planning. There are various ideas regarding the appropriate coordinating agency to operate the media campaign: the Prime Minister's Office, National Security Council, the Foreign Ministry, or a NGO that is specially-formed for this purpose.
- The meaning of "initiative" is that Israel should turn the international spotlight towards issues such as the Arab-Palestinian incitement, corruption of leaders and the way that terrorists take advantage of the Palestinians.
- Use of 'force multipliers', such as the Jewish NGOs and humanitarian organizations.

- An appropriate approach to international journalists living in Israel.
- Co-opting the media campaign into the IDF planning.
- Intensive use of cameras for documentation. The camera is the cannon of the 'media front'.

The International Law Front

Three processes Israel's legal front affect: First, the international especially in Europe and the UN – does not accept the Israeli claim that at war with terror. Second, the de-legitimization of Israel in UN organs the globalization of criminal law.

Israel is threatened with legal de-legitimization. The response should be to take the initiative in both the legal and the political arenas

Taken together, these processes along with developments in international law put forward five main challenges for Israel:

- To explain and persuade, the international community that Israel is in a state of armed conflict and therefore it is entitled to the right of self-defense.
- To wage a defensive and offensive campaign against the de-legitimization of Israel in the UN Committee for Human Rights and in Europe.
- To wage a defensive legal battle against the attempts to incriminate Israeli leaders and senior military and security officers by taking advantage of the alleged criminal universal authority (such as the indictment against Prime Minister Sharon in Belgium or the warrant against the Defense Minister Mofaz in the UK).
- To wage an offensive legal battle by suing senior Palestinian and Arab leaders in European courts for their support of, or association with, terror. Such a policy might make Belgium realize that its adoption of the legal universality principle may not only affect Israel adversely, but could also create problems for itself.
- To deal with the politicization of the International Criminal Court.
- To garner support for an anti-terrorism international treaty that will refer specifically to suicide-terrorism and provide for legal and criminal procedures against terrorists in other countries. Today, terror is not considered an international crime against humanity since the international community has failed to agree on a definition of terror. This inability stems

primarily from the refusal of the Arab countries to agree to a definition that might implicate Palestinian actions as acts of terrorism. They, of course, consider the Palestinian terrorists as 'freedom fighters'. Dealing with this approach is, in itself, a challenge.

The arenas of international media and international law are inter-related. The defamation of Israel's image in the international media sets in motion the use of exceptional legal instruments against it, applying the principle of universality, which is growing root in the West. Both of these fronts reflect upon Israel's very right to exist. Until now however, Israel has not paid sufficient attention to these issues and have been occupied, by and large, with reactions and apologetics. There is, therefore, a need for a policy initiative and a joining of forces from the various disciplines into an official coordinating body directed by the top political level. This body should have the task of coordinating the defensive and offensive media-legal battle.

The New "Anti-Jewism"

We are witnessing recently a growing and widespread phenomenon of modern "anti-Jewism", reminiscent of Europe in the 1930s. The modern "anti-Jewism" is distinct from classic anti-Semitism in that the latter discriminated against individuals and denied them the right to be equal members of a free society. **The new phenomenon is directed against the Jewish people and its goal is to deny the Jewish people the right to be an equal member of the family of nations.**

Modern "anti-Jewism" deals with the denial of the right of the Jewish people to self-determination and justification of its destruction

There are a number of criteria for identifying the modern Anti-Jewism, the ones bring:

- **Existential or genocidal anti-Semitism** - this is characterized by open calls for the destruction of the State of Israel and the Jewish people. For instance, the charters of terrorist organizations, such as Hamas, call upon Iran to destroy Israel and issue *fatwas* in this spirit. The West seems to tolerate these phenomena as just one more element in the political conflict between Israel and the Arabs and such positions do not disqualify their proponents as interlocutors of the West.

- **Political anti-Semitism** – this phenomenon is characterized by denial of the right of the Jewish people to self-determination, denial of the right of the State of Israel to exist and the demonization of the State of Israel.
- **Ideological anti-Semitism** is characterized by ‘criminal’ condemnation of the State of Israel as an ‘Apartheid’ State or a ‘Nazi’ State, and thus warranting its dismantlement and removal from the political map.
- **Anti-Jewism in the international arena** and denial of the right of Israel for equality before the law. This approach was apparent in the Durban Conference, which turned into a Conference of racism against Israel, in the U.N. Committee on Human Rights, which dedicates 40 percent of its resolutions to condemnation of Israel, while the most notorious violators of human rights enjoy total immunity, in the UNWRA’s active facilitation in turning the Palestinian refugee camps into terrorist bases, and in denying the Magen David Adom (Red Star of David - Israel’s national Red Cross organization) from the International Federation of Red Cross and Red Crescent Societies (IFRC).

What can be done? The phenomenon is hard to deal with as it represents a totally new conceptual system. Therefore, Israel and the Jewish people’s reaction must be conceptual and principal in making it clear to the world that:

- Israel seeks to be part of the revolution in human rights and international law that is sweeping through the Western world. However, Israel will not countenance a so-called ‘revolution’ that effectively outcasts and discriminates Israel alone in the international community.
- The phenomenon should not be seen as merely an international wave of discrimination against Israel, but as a threat to the very regime of international humanitarian law. Tolerance of international discrimination will not remain limited to Israel and eventually the same weapons will be used against other states faced with a hostile majority.

Part Two:

The Domestic Building Blocks

The Block of the Government

Main Features

The battles and campaigns that Israel is facing have left their marks in various areas as well. Conventional wisdom holds that the **patterns of governance**, regardless of the party in power, are not commensurate with the needs of the State of Israel; and that dangerous disparity lies between the dangers and opportunities that Israel is likely to face in the future, on the one hand, and the government's ability to function and to shape the future, on the other hand.

Wide circles of academicians, executives, economists and politicians are aware of the urgent need of reform in government. This consensus is apparent in public opinion as surveys continuously show the public's dissatisfaction with the functioning of the legislative and most of the executive branches. Furthermore, there are those who claim that given the present structure of the government, any attempt to reform is doomed to failure.

A focused effort of the government requires a high level of coordination and convergence of interests between the various ministries and governmental agencies. However, the present societal structure creates ever more serious 'social ghettos'. As a result, the system of government features popular sectorial management. An important rule of democracy is also neglected: the separation of branches between the legislature and the executive. This situation limits the ability of any government to make long-term decisions or to implement strategic plans that require the synergy among the governmental agencies and ministries and relevant public actors.

The elements of governance, which are in need of reform, are:

- **The Knesset**, which must improve the quality of its legislation and its oversight capacity of the executive branch in a way that will guarantee stability.

Patterns of governance in Israel do not provide stability or ability for long-term planning

There is an urgent need for governmental reform in the executive and legislative branches and in the civil service

- **The Executive** – reinforcing the Office of the Chief Executive (Prime Minister or President), so that it would have the capacity to centralize and effectively coordinate the operations of the subsidiary ministries and agencies and direct strategic planning.
- **The structure of the government** ministries and the Civil Service.

However, while there is a wide consensus that government system is inadequately equipped for dealing the economic and social predicaments, there is no meeting of minds regarding the proper solutions. The proposals for reform run on a gamut between the following:

- **Reform in the present system of government and building an improved parliamentary regime.**
- **A governmental revolution based on transforming the regime into a Presidential one with a strong central presidential staff.**
- **In any case, a reform of the Civil Service and ministerial structure is the order of the day.**

The “Revolutionary” Option – a Presidential Regime

This proposal is based on converting Israel’s system of government into a presidential system for all intents and purposes. Its proponents believe that it will rectify the shortcomings that led to the failure of the experiment of direct election of the prime minister. In their opinion, the experiment failed because it was, in essence, only a ‘half-way’ presidential regime. Therefore, in order to benefit from the advantages of such a regime, it must be fully instituted and granted sufficient time to overcome infancy inadequacies and to establish itself. The basic fundamentals of this plan are:

- **The President** will be elected every five years in direct popular elections to be held separate from the elections to the Knesset. The president will head of the executive branch and be the Head of State. A President may not serve more than two consecutive terms of office.
- **The office of the President** will centralize the subsidiary ministries and agencies.

- **The cabinet** will be formed by the President who will have the authority to appoint and dismiss ministers without being obliged to seek parliamentary confirmation. The ministers will not be Members of Knesset.
- **The ministries** will be reconstructed leading to their reduction in number and in size and to more efficient operation. A cadre of professional senior Civil Servants will be recruited for the reformed civil service and government administration.
- **The Knesset** will be reformed by raising the threshold percentage required for representation in the Knesset to five percent of the valid votes. One quarter of the members will be elected directly in regional elections receiving at least one third of the valid votes in their constituencies. A majority of two thirds of Knesset members will be required to pass a non-confidence motion against the President, overrule a presidential veto, or reject a presidential nomination of a Minister. Should such a non-confidence motion pass, new elections will be held for the presidency and for the Knesset. In addition, on demand of one third of the Members of Knesset, the President and ministers will be obliged to submit policy papers and work plans within half a year. The President may dissolve the Knesset once in a term in office without having to stand for elections oneself. If the Knesset dissolves itself by legislation, this will not affect the presidential term in office.

The supporters of system assert that the **advantages of this system** are:

- **Enhancement of the separation of powers** between the executive and legislative branches by rectifying the existing situation whereby a number of Knesset members also hold ministerial positions, or interests in government ministries.
- **Enhancement of the executive branch's centralized coordination**, economic and efficiency.
- Releasing the head of the executive branch from **parliamentary constraints** that presently impede functioning.

A presidential regime could strengthen the separation of powers and give power to the executive branch.

The Conservative Option –Improved parliamentary Regime

The opponents of the presidential system point at Israel's bitter experience with the direct election of the Prime Minister. They claim that it is possible to generate the necessary revolution leading to an efficient civil service by appropriate modifications to the existing system of government. They caution that the proposed presidential system will require the development of new checks and balances and granting excessive power to the Executive negative consequences that Israel cannot afford at the present time. The idea of holding regional elections for part of the Knesset members also has reservations, and it was claimed that such a system would be counterproductive to the spirit of the reform – enhancing the cooperation between Knesset and the Executive on the basis of national interests. Such a move would increase the trend towards local particularism as opposed to national interests neglecting the interests of underprivileged (and under-represented) constituencies.

A proposal to improve the existing parliamentary regime to achieve stability

In light of the drawbacks of the presidential system, the tabled alternative of an improved parliamentary system was based on four principles:

- **The modification of the electoral system** would include: the automatic appointment of the largest party's leader as Prime Minister; raising the threshold percentage required for parliamentary representation to 5 percent; determining that the seat in the Knesset would belong to the party and not to the MK; implementing a "constructive non-confidence" procedure—obliging a MK who votes non-confidence in a government to vote simultaneously confidence in an alternative government and selective use of a referendum system.
- **Parties will enact a code**, which will require internal integrity and transparency.
- **Government will be reformed for enhancing efficiency.** This would include: a chief executive office; reducing the number of ministries, a civil service reform; and improving transparency and accountability.

According to this proposal's proponents, this system would bring about a number of positive changes – first and foremost it would contribute to parliamentary and government stability through:

- Reducing the number of small sectorial parties in the Knesset and creating blocs of large parties, as a result of the automatic nomination system.
- Making it difficult for MKs to sell their votes and to migrate from one party to another in return for political or other rewards.
- Reducing the likelihood of ad-hoc 'strange bedfellow' coalitions from right and left solely aimed at toppling a government.

Reform in the Civil Service

Governmental reform cannot be restricted to changing the relations between the executive and legislative branches. **A fundamental and comprehensive reform in the ministerial structure is also indispensable. The need for such a reform derives from Israel's aspiration to be in the same "club" as the West European countries in matters of public expenditure, the size of the public sector, government intervention, outsourcing and privatization of public operations when possible and strengthening democracy by bringing the public sector closer to the citizens, to be considered its 'clients'.**

The main recommendations, which seem to be the order of the day, whether or not a general reform of the government system is implemented:

- Reducing the size and number of ministries.
- Enhancing the capacities and authority of the Office of the Prime Minister.
- Reform in the budgetary system and mechanism.
- Construction of an efficient civil service.
- Reform in the Israeli Lands Administration (ILA).
- Reform in the educational system.

Reduction of the Size and Number of Ministries

Economic theory does not provide an answer to the question of the optimal size of the governmental sector. However, it is widely accepted that this sector in Israel is far larger relatively than other developed countries that Israel would prefer to model itself after. It is therefore recommended:

- To drastically reduce the number of government ministries to no more than thirteen.

- To delegate government functions, authority and resources to bodies better equipped to perform those functions by implementing the European Union's principle of subsidiarity. Accordingly, private firms and local authorities may serve as 'sub-contractors' of the central government.
- To strengthen the local authorities and to improve their efficiency by halving them in number (through the merger of existing municipalities), privatization and changing their budgetary system.

The central government will set unified standards, supervise these authorities and reserve the right to expropriate those powers and to intervene when it deems fit in order to protect the public interest.

Strengthening the Office of the Prime Minister

A pivotal principle in all the proposals is the strengthening of the role of the Office of the Prime Minister (or President). This 'super-ministry' will centralize, coordinate and oversee the operations of the ministries, government agencies and engage in strategic policy planning. The duties of the Office of the Prime Minister according to this framework would be:

- To coordinate government agencies of public health, agriculture, communication and welfare.
- To manage a small number of inter-ministerial national projects of primary national interest.
- To run a Policy Planning Staff that will focus on long-term strategic issues and be comprised of a new National Security Staff that will replace the National Security Council and a Domestic Policy Staff that will deal with issues such as economy, welfare, infrastructure, education, science and technology.

A centralized "Prime Minister's Office" and transfer of authorities to the private sector and to local authorities

Reform in the Budgetary Mechanism and Methods

Another area that requires urgent reform is the national budgetary mechanism and the methods. Such a reform could commit the government to its budgetary goals and to reaching the predetermined goals of improved efficiency. Organizational reform should be implemented along with a comprehensive program of fiscal consolidation (see below) and should include the following:

Adoption of multi-year activity budget and financing of goals - not government bodies

- Adopting a budgetary system that integrates multi-year activity planning and allocates resources and funds according to specific goals and targets along various timelines, instead of the existing ministerial-based budgeting system.
- Transfer of the Budgeting Department from the Ministry of Finance to the Office of the Prime Minister. The department will focus on the main items in the budget and delegate the detailing to the various ministries and agencies.
- Passing a Budget Law based on a tri-annual framework that will include the details of the annual budgets and be based on an activities plan. The Knesset will then pass the national budget as a regular law. If the budget is not passed by the beginning of the fiscal year, the government's monthly expenditure will be one twelfth of the previous annual budget, yet limited to servicing and financing national debts previously incurred and to operating essential services that were included in the previously approved budget.

Building an Efficient Civil Service

It is proposed to pass a "Civil Service Law" and to re-examine the structure of the Civil Service, its human resources' management policy and implementation measures. Specifically, it is proposed to: reduce the salaries of the senior staff; to introduce achievement-based salary increases; to allow greater autonomy to senior managers; and finally, to introduce a systematic performance assessment of organizations and individuals and to reward them accordingly.

An efficient professional civil service should be built

Reform in the Israeli Lands Administration

A comprehensive reform is long-due in the Israel Lands Administration through the establishment of a national planning authority. The Israel Lands Authority should discharge some of its powers and authority and reduce its contact with the public.

Reform in Education

In all the analyses of government, society and economics, the importance of a reform in the educational system stands out. The proposed improvements are as follows:

- Decentralizing and delegating operational **authority** and responsibility for results and achievements to the local authorities and to the individual schools on the basis of differential budgeting for each pupil.
- Controlled expansion of **elective subjects** in addition to allocation of resources for **differential study**.
- Implementing a **feed-back** process in the system, providing **personal computers** to each teacher and pupil and raising the quality of teaching.
- **Improving the teaching of sciences**, which is essential for economic growth. Currently, Israel is ranked 26th in the world in pupil's mathematics and science achievements, whereas not so long ago, Israel was among the leading countries in this category.

The Social and Economic Blocks

Main Features

The economic indicators show that the Israeli economy is in a deep recession. The gravity of the situation is undisputed. While the direct causes for this situation are the security situation and the worldwide crisis of the Hi-Tech industry, the crisis is exacerbated by inherent shortcomings in the economic policy and the market structure. Israel cannot allow itself to hang on to the traditional patterns of government and economic management at a time when the personal economic situation of Israeli citizens is declining and unemployment is gnawing away at the very social fabric of the country.

The malaise of the Israeli economy is focused in three areas:

- A high public expenditure relative to the GNP.
- A low rate of economic growth.
- The domestic and external debt and their effect on credit ratings.

Since the implementation of the 1985 economic stabilization plan and until 2000 the strategy of all the successive governments was based on gradually reducing level of **the public expenditure** relatively to the GNP. The peace process and the relaxation of the arms race following the demise of the Soviet Union and consequent reduction in defense spending allowed for the reduction in defense spending. This strategy produced impressive results in stabilizing the inflation and the balance of payments, reducing the domestic and foreign debt and possible certain economic reforms. However this strategy reached its limit as a result of the security situation and for the last two years it is not enforced.

The public expenditure and the domestic and foreign debt should be reduced to revive growth

In the past two years the economy is suffering from negative **growth**. Despite high level of public spending, the government has

not been able to sustain an appropriate welfare policy or to promote plans for growth. By comparison - **Israel's average annual per capita growth since 1986 was 1.4% in contrast to 1.8% in the United States and 1.9% in the European Union.** This means that the gap between Israel and these countries has grown in the last decade by 14%. Despite the rise in the standard of living in Israel, the gap between Israel and the Western countries is growing.

Regarding the **debt**, ostensibly, Israel has a reasonable foreign debt of about 2.5-3% of the GNP and ample foreign currency reserves (\$23 billion) to service and finance this debt. However:

- The domestic debt is about 7% of the GDP and is constantly rising.
- For the last two years the government has failed to meet its budget deficit goals.
- Israel suffers from a lack of fiscal flexibility due to the security situation, the high tax burden and the government's high debt financing burden that is twice or three times the norm in the West. In the 2003 budget the debt financing burden has reached NIS 33 billion without accounting for inflation and different exchange rates. This amount comes close to Israel's defense budget without the American aid and is 50% higher than the entire education budget.

The domestic debt, therefore, creates continuous pressure on the budget, forces the government to maintain the high burden of taxes and drastically reduces flexibility in allocation of funds to other goals, including to encouraging growth.

Under these circumstances, **there is occasionally a tendency to compare Israel to a number of countries in South America and Southeast Asia.** However, according to all the above criteria, we may reach the conclusion that Israel is not at all similar to the Argentine or other South American countries, which have been plagued by economic crisis. The basic indicators of the Israeli economy show that Israel enjoys sources of economic strength that were absent from these countries: the United States's support; a strong and reliable legal system that preserves private property; a stable democratic regime; an open economy; a developed Hi-Tech industry; about half of the GDP is directed to exports; and finally, most of Israel's debt is local (as opposed to the Argentinean case in which most of the debt was in U.S. Dollars).

The Hi-Tech industry is a major generator of growth for the Israeli economy:

- The national income per employee in the electronics sector is an admirable US\$230,000 annually.
- This sector employs only 2.5% of the total work force but is responsible for about 50% of the total Israeli export.

- The Hi-Tech sector receives 65% of the foreign investment in Israel.
- Israel leads the developed countries in terms of the Hi-Tech R&D/GDP ratio and in the number of scientists and engineers per capita.

On the other hand, this sector is **extremely susceptible to brain drain**. The Hi-Tech working force and the companies themselves are extremely mobile and find it relatively easy to relocate abroad. Israel is rated 23rd in the world in the tendency of scientists and engineers to remain in their native country.

The social-economic block is composed of a number of dimensions:

- The demo-economic dimension.
- The fiscal dimension and the problem of credit rating.
- The social dimension
- The possible responses:
 - A plan for fiscal consolidation.
 - Using the Hi-Tech industry as a lever for growth.

The Demo-Economic Dimension

Israel's stunted economic growth is not only the fault of ephemeral security and economic conditions, but due to fundamental demo-economic facts of life. The proportion of the population in Israel that is involved in the work force is much lower than that of the United States or the European Union. This difference has various explanations: the military service of 18-21 year olds, which excludes them from the work force; the low participation of the Arab and the Jewish ultra-orthodox sectors in the work force due to the low number of working-women and the high number of dependants under 15 years old in these sectors. While Israel also suffers from a 10.5% unemployment rate, it hosts approximately 200,000 foreign workers, which is the highest ratio of foreign workers in the work force in the Western world.

The low level of participation in the work force is the main factor that impedes the reduction of the gap in GNP per capita between Israel and other developed countries. The high growth rate of the Jewish ultra-orthodox and Arab communities on one hand and the low average household income in these sectors on the other hand, lay a heavy burden on the majority of the population – a burden which is liable to continue growing over time. However, **The difference between Israel and the OECD countries is due to the low level of participation in the work force**

- In the present situation, enlarging the workforce to “American” dimensions would add about 620,000 unemployed, for whom creation of work places would cost approximately NIS 150 billion.
- Therefore, any attempt to widen the ranks of the workforce must be augmented by **accumulation of capital (investment) in the various economic sectors in order to create work places.**

To change the situation, there must be a change in the ultra-orthodox and Arab sectors

The Israeli economy has now reached a ‘window of opportunity’ in terms of the dependency ratio (the ratio between the working force and the dependent under 15 and over 65). During this period,

the decline in the natural growth rate causes a relative growth of the working age group that can contribute to the national product and support dependent groups. This ‘window of opportunity’ began in the 1990s and will continue until 2040. From this year on, the dependent age group will relatively grow, particularly that of 65 year old and over, while the workforce will descend. **One of the challenges that Israel faces is, therefore, to take full advantage of this period and to make the most of the investment potential before this condition changes.**

In the long-term, until 2020, there are three possible scenarios of demographic development with different ramifications for economic growth:

- **A declinal scenario** – no change in the work patterns of the Arab and Jewish ultra-orthodox communities. In this case, the present growth rate of the population and the trends of the various sectors will not change, the present rates of participation in the workforce will be maintained, the level of productivity will be stable and the vulnerable sectors will continue to account for relatively low income. Consequently, Israel’s economic gap with the OECD countries will grow. In this scenario it is to be expected that:
 - The proportion of the Arabs and Jewish ultra-orthodox in the population will reach 37%.
 - The per capita GNP will grow by an annual average of 1.5%.
 - A gap of 13% in the GNP per capita between the United States and Israel will develop.

- The added annual burden on the majority households will be about 4% of their wages or about 15.4 thousand NIS per annum. However the total tax burden will decline.
- **A stability scenario** - in this scenario the rate of participation in the workforce will reach the European level - 58% and there will be a decline of about 25% in the growth rate of the Jewish ultra-orthodox and Arab communities. Such a situation will mean that by 2020:
 - The Arab and Jewish ultra-orthodox in the population will reach about 33%.
 - The GNP per capita will grow by an annual average of 2.4% and the decline relative to the United States will be stemmed.
 - The addition to the burden of the majority households will be 0.7% of the wage or NIS 9.9 thousand per annum.
 - Israel will have to drastically increase public and private investments in order to supply employment for the larger working force.
- **A progressive scenario** - in this scenario there will be a decline of 25% in the growth rate of the two sectors, while their participation in the workforce will increase. The result will be a growth of 2.7% in the GNP per capita and the gap between Israel and the United States will contract to about 6.3%.

The Fiscal Dimension and Credit Rating

Israel's credit rating and the ratings of its banking system is one of the most important indicators of the Israeli economy. The national rating is a ceiling for the banks' rating - the banks can never have a rating that is higher than the national rating. Therefore, if the government wants the private sector to be able to muster favorable credit lines abroad, the national credit rating has to be as high as possible. **In October 2002, two credit rating companies announced they are lowering the rating of the government's domestic debt, yet changing the rating of the external debt.** This announcement came after Israel's credit rating had been improving since the 1980s and stable since 1995.

Israel's banking credit rating can never be higher than the national credit rating

The key of national credit ratings is the willingness and capacity of a given country to service its debt entirely and on time. **There is no doubt regarding Israel's willingness to repay its debts. The doubt, if such exists, is regarding**

Israel's capacity. The considerations that shape and determine a country's credit rating are:

- Political and security risk;
- The country's economic strength, transparency and the level of democracy;
- The structure of the economy – whether or not it is a market economy, the income gap within the society, the efficiency of the public sector, the flexibility of the work force, savings and investment, inflation and employment levels.
- The government's ability to service and finance its debts and the level of fiscal flexibility, i.e., to what extent the country is capable of dealing with a crisis.

The distinction that the credit rating companies draw between the external and the domestic debts is noteworthy. As noted above, Israel has a manageable external debt and the resources to service and finance it. However, from the point of view of the credit rating companies, **Israel's problem does not derive from the external debt, or from the level of inflation, but rather from the domestic debt and the absence of fiscal flexibility.**

Nevertheless, the external and domestic debts are not completely disconnected. At the end of the day, a standstill in economic growth, a decline in foreign investments, drawing out of foreign currency deposits of non-residents, a growth in the deficit in the balance of payments and an increased risk range of government bonds (compared to similar U.S. bonds) will all bring about a growth in the net external debt. It is still unclear how Israel will finance the external debt for 2003 at the amount of US\$4 billion. Therefore, there is no real significance to the distinction between the external and domestic debt. For all intents and purposes, since the law does not allow the Bank of Israel to local currency in order to finance government expenditure and if government does not want to – or cannot – arrange foreign currency sources will have to finance the purchase of foreign currency with local currency. Consequently, Israel's ability to service and finance its debt in foreign currency is identical today to its ability to service and finance the domestic debt in currency. **Refraining from dealing with the domestic debt problem**

The domestic debt causes pressures that will ultimately impair the ability to finance the foreign debt and impair the credit rating of the country

eventually have a detrimental effect on Israel's credit ratings concerning the external debt as well.

The Social Dimension

Israel is ranked third among the developed countries, after the United States and United Kingdom, in economic inequality. Economic inequality in the Israeli society is not merely an economic problem; it is a threat to the Israeli public's social resilience.

The budgetary restraint that the government has had to implement exacerbates this situation. In the past, the governments raised significantly the budgets directed at supporting vulnerable social sectors in order to prevent an unacceptable growth of poverty and in order to reduce the inequality. However, the fundamental problems were not solved. Under the ever-hardening constraints of the budget, even the policy of minimal support for vulnerable sectors is hard to carry out and we are witnessing increasing social inequality.

The high rate of poverty among the Arab and Jewish ultra-orthodox sectors also presents social challenges. Israel is ranked 44th in the world in the minorities participation in the work force. This rating has an effect on the identification and long-term loyalty of the Arab sector to the country. There is no available solution to the problem in both these sectors since poverty is, so to speak, 'culturally dictated':

- **In the Arab sector** – the low participation in the work force is due to the low participation of women.
- **In the Jewish ultra-orthodox sector** – the low participation is out of choice.

In both these sectors the percentage of people in need of the state welfare support is much larger than in the rest of the population. However, relative to the Western countries, to which Israel seeks to emulate, the Israeli 'welfare state' is rated at the lowest rung of generosity to its unemployed and low-income population. The political and social consequences, i.e., a sense of alienation, are obvious.

The **education gap index** is indicative of the way inequality is transmitted to the next generation. Israel holds the dubious first place in the gap among its own students in mathematics and science achievements. In other words, there is a

sector in society that receives a significantly lower quality of education than the rest of the population. Goes without saying, the quality of education has a positive relation with the probability of finding profitable employment in the future, the salary level and ultimately the contribution to national economic growth. Furthermore, there is a clear causal relation between education, and particularly women education, and population growth. As the level of education rises, the birthrate declines and the participation in the work force rises due to the growing participation of women.

Possible Responses

Fiscal Consolidation

Since Israel's point of reference is the OECD countries, the West European process is of interest. Until the Maastricht process, the Western European countries shared a budgetary deficit similar to Israel's current one. But the Maastricht process and the EU monetary union demanded liquidation of deficits. **Today, most of the Western European countries have close deficits; Sweden even has a budgetary surplus.**

A fiscal consolidation plan similar to the EU can stabilize the economy

The European reduced their deficits by applying a plan of consolidation. This plan, should Israel adopt it, will offer a new operational socio-economic strategy that will entitle a detailed ten-year plan of economic and social policy. The implementation of such a plan may bring to renewed economic growth, which is a *sin qua non* for effective treatment of the social and economic problems. The plan should identify national priorities and build an appropriate multi-annual budgetary framework. According to this concept, each component of public expenditure such as defense, social and economic services, and financing expenses should ultimately contribute to the reduction in the public spending. In other words, the reduction of the public spending cannot be based on reducing defense or social welfare spending as in the years 1985-2000.

The central goals of the plan for fiscal consolidation are:

- Reducing the government spending/GDP ratio to a level of 47% (2% than the European average).
- Within 10 years the public spending, the debt, the tax burden and the size of the public sector can all be reduced**

- Reducing government intervention in providing services and enhancing economic efficiency.
- Reducing the public debt/GDP ratio to a level of 73%.
- Reducing the number of public sector employees to 26% of the general work force.
- Maintaining economic stability through a low deficit and reducing the tax burden.

The national product is the criterion for setting the goals of fiscal consolidation. The rate of economic growth should determine the expansion of the macro-economic aggregates, including government expenses. The goals of the plan have been set on the basis of a projection of an average annual growth rate of 4%. A raise in the government spending will allow maintenance of a specific level of services according to the growth rate. The faith of the public in the plan is indispensable in order for the public to compensate for the reduction in government spending with its own economic activity.

The Hi-Tech Sector – An Engine for Growth

The Israeli Hi-Tech industry is the main 'engine' for economic growth. It holds the potential to extricate the economy from its present doldrums. The Israeli Hi-Tech industry focuses on three main areas: communication products, electronic components/chips and software. A support plan for the Hi-Tech industry could be promising since:

- The products in which the Israeli Hi-Tech has a clear advantage also have a large market concentrated by a few small firms. This situation can be advantageous for Israeli firms.
- The income necessary in order to close the deficit in Israel's trade balance is about \$7 billion. Export of \$9 billion over seven years can achieve that.
- Despite the crisis in the international technology market and the contraction of several technology hedge funds, the capital market is still active. The Israeli Hi-Tech sector will continue to attract foreign investment.

Assuming that the present level of output will not change, in order to achieve the goal of increasing exports by \$9 billion, the industry will require 40,000 new

Growth of the Hi-tech sector can extricate the economy. To do so, the technological education must be increased

workers, of which 25,000 university graduates. Increasing the size of the work force in this sector calls for appropriate organization of the academic system in the colleges and the universities – an effort that will bear fruit only in a few years. Today, the Israeli education system produces 6,000 high school graduates in technological-scientific fields. Increasing the number of Hi-Tech related high school graduates by 2,000 a year will cost US\$1.3 million a year and will create a work force that will be able to close the gap in the balance of payments within seven years.

In order to encourage investment of foreign companies in Israel instead of transferring Israeli professionals abroad, the investment in Israel must be made more attractive from the professional, and the financial (taxes and special R&D promotion packages) points of view. **In this context, a number of pitfalls in the existing law should be rectified to improve the profits of the Hi-Tech companies and prevent them from contemplating moving their activities abroad when the situation in the global Hi-Tech industry improves.** These pitfalls are:

- The cancellation of tax benefits for companies in the central regions of the country. This is the area where most of the potential workers of the Hi-Tech industry reside.
- The 2002 decision to remove the ceilings for national insurance and health tax that raised the tax margins to 63%.
- The 6% tax on wages of senior employees.
- The R&D Law that demands unreasonably that firms benefiting from governmental grants will provide the government equity in case of the sale of an R&D product abroad.

Education is the key to creating an advanced technological work force. The solution is not to be found in the size of the budgets, but in the way they are spent. Any reform plan has to take into account a comprehensive and total structural change in the education system.

The Jewish People

The Demographic Question

Main Features

We are currently witnessing a worrying process of decrease in the number of Jews in the world. The identity and continuity of the Jewish people is the great challenge for the 21st century.

The following statistics, based on large surveys and studies, show that:

- The core of the Jewish population in the world – those who identify themselves as Jews and the children of Jewish parents who may not identify themselves as Jews but have converted – reaches today 12.9 million. **The world Jewish population is declining. It numbers 12.9 million**
- After the Holocaust, the number of ‘core’ Jews was 11 million. Their growth of no more than 2% over fifty years, at a time when the population of the world grew by 60%.
- In the last decade the Jewish people lost hundreds of thousands in the United States and a few tens of thousands in France.

The Main reasons for the Process are:

- **A high rate of mixed marriages** – reaching 40% to 50% in the United States and up to 80% in Russia. Mixed marriages usually cause a higher rate of children leaving the collective of the Jewish people. **The causes for the decline: mixed marriages and low birth rates**
- **Low birth rates** – the following finding is illustrative: in the years 2000-2005 more than half the Jewish women between the ages of 30-35 in the United States do not have even one child. Another finding – in 2000, 8,200 Jews in Russia with Jewish identity cards died, whereas only 600 were born. This is due to both a low birth rate and a low birth rate and mixed marriages.
- A dialectic process of **Jews in the Diaspora succeeding in gaining equality**. This process holds a special danger for the continuity of the Jewish people. Jews in the United States are torn between two diametrically opposed desires: integrating and merging into the surrounding non-Jewish society as individuals; and collective survival as Jews. A similar phenomenon exists in

the CIS countries: a search for the Jewish identity, which was lost under the communist regime, on one hand, and assimilation and social adaptation into the non-Jewish society to the extent of losing part of the Jewish identity, on the other hand.

- It is possible that the **daily anti-Semitic violence**, which has begun in a number of Jewish communities, brings many Jews to keep away from the synagogues and to refrain from sending their children to the local Jewish youth club, where they may be targeted. There is also a danger for assimilation and it seems that the wave of violent anti-Semitism also contributes to reducing the number of Jews.

Changes in the demography of Jews in the world – in the last twelve years dramatic changes have taken place in the demography of the Jewish world:

- Today there are two main centers, concentrating 81% of the Jews in the world: **North America** – the United States and Canada with 5.7 million (5.3 in the United States) and **Israel** with 5.1 million Jews. **81% of all Jews are in Israel and the United States**
- In **Western and Eastern Europe** there are today about 1.5 million Jews.
- In **South and Central America** there are about 400,000 Jews.
- In the **rest of the world** there are 200,000 Jews, half of which live in **Australia**.

Assuming the continuation of the present trends in birth rates and mixed marriages, **the fifty-year outlook regarding the size and demography of the Jewish people**, is:

- The total number of core Jews will be more or less like today and may reach 14 million.
- **8.2 million will live in Israel and 6.2 million in the Diaspora.**
- This means that for every 1000 Jews alive today, in another fifty years there will be 750 Jews. For every 1000 Jews living in Israel today there will be 1650 Jews. This is a dramatic change.
- **In 50 years the Jews will be only a small majority of 55% between the Jordan and the Mediterranean due to the high natural growth of the Palestinians.**

The contraction of the Jewish People will have a detrimental effect on Israel's national

The contraction of the Jewish People will have a detrimental effect on Israel's national strength:

- There is a correlation between the number of Jews and their total power.
- In the case of small communities, there is a question of continued existence once the number goes beneath a certain line.
- The trend will have a negative influence on Israel's internal and external image.
- The potential reservoir for future immigration (Aliya) to Israel will grow smaller.

Aliya and Education – the Picture

Aliya – In 2002, only 35,000 Jews made Aliya to Israel. There is a significant decline in the number of immigrants from the former Soviet Union, but it seems that this decline is temporary. At the same time, there were a number of salient encouraging developments this year:

- The number of immigrants from France doubled.
- There was a growth of 400% in the number of immigrants from Argentina and Uruguay.

Jewish education – Today, more than 50% of the Jewish children in the world are not receiving Jewish education and the majority never even visited Israel.

Responses

In any strategic planning of the response to the above, three dimensions will have to be addressed:

- The identity dimension – in an open world without barriers, how can we cause a person to freely remain a Jew.
- The political dimension – the problem of a Jewish majority or minority in Israel.
- The socio-economic dimension – Aliya, absorption of immigrants and the quality of life in Israel.

Aliya is the most important element and is a vital interest. The more we can promote Aliya, the greater effect it will have on the total national strength of the Jewish people. Every Jewish youngster who makes Aliya to Israel purchases an 'insurance policy' for his or her Jewish future and that of their children. Moreover, they lessen the problem of assimilation and the need to maintain a Jewish identity in a non-Jewish environment.

Currently, there is a great potential for Aliya of hundreds of thousands from the former Soviet Union, tens of thousands from South America in the coming decade and tens of thousands from France in the next few years. The prerequisites for success in taking advantage of this potential are:

- If there will be no world catastrophe that will affect the Jews, Aliya will have to be more a matter of 'pull' from Israel, than a matter of 'push' from the outside Diaspora. In the past it was mainly distress and catastrophes that gave impetus to Aliya.
- A government policy that will put Aliya at the top of its priorities and the willingness of the Israeli society to absorb immigrants and help them.
- The nature of the country and its economic situation – if we create a country with a quality of life and with significant Jewish

life, there will be more Jews who will want to raise their children here.

Jewish education – the State of Israel has the main responsibility for the education of the Jewish people. The point of departure is that we cannot make a distinction between Israeli children and Jewish children in the Diaspora. A Jewish child who will not receive Jewish education today means that in 10 years his or her children and grandchildren will not be Jews or Israelis. On national terms, they will simply disappear. Just as the Jews in the Diaspora invest resources year after year in Israel, Israel too has to invest in the Diaspora.

The State of Israel needs to increase its involvement in Aliya and Jewish education in the Diaspora

Another idea that was brought up – **since most of the Jews in the world are 'secular', the Jewish youth should be provided with 'secular' Jewish education in order to keep them part of the Jewish people.**

We need to provide Jewish education to secular Jewish youth in order to preserve Jewish continuity

Violence and anti-Semitism – the response has to be in a number of areas:

- Israel has to support communities that experience anti-Semitic outbreaks, including a comprehensive diplomatic effort vis á vis the countries of residence.
- World Jewry, led by Israel, should demonstrate solidarity with every Jew who is attacked. It is imperative that Jewish communities under pressure not feel themselves isolated.

The last point brings us back to the fundamental question: will Israel be a focus of identity, which will strengthen and preserve the Jewish identity of the next generations of the Jewish people?

The Home Front

Main Features

In contrast with most of Israel's previous wars, in the future regional war, the Israel's homefront will be part of the battlefield. The main threats are rockets, conventional and non-conventional Surface-to-Surface Missiles, air raids, including chemical munitions, and various forms of terror. In the long range of a few years, the threat of nuclear weapons will be added.

The term 'homefront' refers to the entire territory of the State of Israel proper, excluding the area directly adjacent to the 1967 borders. The heart of the homefront is comprised of the dense urban areas of Tel Aviv metropolitan area, Haifa and the North.

The Homefront system has to be prepared and ready to respond to the threats that may emerge in times of emergency. However, today there is no authoritative definition for such a system. Conventionally, the following bodies are included:

- The IDF Homefront Command that operates in times of crisis.
- The Israel Police that is subordinate to the Ministry of Internal Security.
- The Emergency Civil Service Organization operated by the Ministry of Defense that has responsibility for operating the civilian sectors and essential industrial units in times of emergency.
- The Fire Brigade, which is subordinate to the various local authorities and coordinated by the Chief Fire-fighting Supervisor.
- Magen David Adom (Israel's national Red-Cross organization) operated by the Ministry of Health.
- The local authorities that are supervised by the Ministry of the Interior.

The vulnerabilities of this complex are:

- There is no one agency with full responsibility and authority for overall preparation and operation of the homefront systems applying an integrated national perspective - both in times of emergency and during periods of routine life. **There is no central body with authority to operate the homefront in time of crisis**
- There is no 'Homefront Law' or 'State of Emergency Law' that would define and organize the functions, tasks, responsibilities and relationships between all the relevant agencies and organizations.
- Generally speaking, the current homefront complex is deployed, prepared and well practiced for a state of emergency and for conventional emergency incidents. However, the entire complex lacks technical-technological means for dealing with non-conventional incidents.
- The Ministry of Defense tasked with operating the Emergency Civil Service organization and the IDF should be dedicated in time of war to their main task - the war at the front and the defense of the borders. Under these circumstances, the homefront may not get the required attention.
- Civil Defense is a civilian oriented function. The dominant role of the military in this area is an anomaly.

Possible Answers

In order to overcome these vulnerabilities, a long-range comprehensive organizational concept was prepared and tabled, based on two stages:

- **Stage one:** - Transfer of the responsibility of the Homefront Command and the Emergency Civil Service Organization from the Ministry of Defense to another, civilian ministry.
- **Stage two:** Forming a civil national service and a National Guard that will take over all the agencies and organizations operating in the homefront complex.

Transfer of responsibility from the Ministry of Defense:

- The IDF Homefront Command will be transferred to the Ministry of Internal Security.
- Later, the Emergency Civil Service Organization will be transferred to Ministry of Internal Security.
- The advantage of the above is to designate a government agency that have responsibility and authority for operating the homefront in time emergency and thus to allow the Ministry of Defense and the IDF to fulfill their main functions.

**The solution:
Transfer of the homefront command to the Ministry of Internal Security, passing a law for "service for all" and forming a "National Guard"**

Instituting a national service and establishing a National Guard:

- In the first stage, a "General Service Law" will be enacted that will make compulsory for every citizen to serve either in the "defense service" as it exists today, or in a "civil/national service".
- The targeted population of the "civil/national service" will be those who cannot or will not serve today in the military track such as minorities and ultra-orthodox Jews.
- The "civil/national service" will help the various agencies of the homefront such as the Homefront Command, Magen David Adom, the Fire Brigade, and will give aid to the civilian population and to other public agencies and organizations in the health, education, welfare, Aliya, Environment and reconstruction sectors.

- In a later stage, a National Guard will be formed. Its task will be to take over the command of all the elements of the homefront and to operate the civil national service.

Home Front Defense is a national challenge of the top priority that the government and public of Israel have to deal with. In light of the high probability that in a future regional war, the homefront will be hit along with fighting in the North, the government should take a stand on this issue.

The Agenda of the Herzliya Conference

Monday, December 2, 2002

17:00 First Session: The Balance of Israel's National Security - Assessment and Comparative Measures

Chair: Maj. Gen. (res.) **Yitzhak Hoffi**

Introduction to the Conference

Dr. **Uzi Arad**, Conference Chair and Director, Institute of Policy and Strategy, The Interdisciplinary Center Herzliya

"The Balance of National Security"

Mr. **Ephraim Halevy**, Head of the National Security Council

"The Composite Herzliya Indices: Objective Dimension", Task Force Report

Prof. **Rafi Melnick**, The Arison School of Business, The Interdisciplinary Center Herzliya

Col. (res.) **Dr. Shmuel Gordon**

"The Composite Herzliya Indices: Subjective Dimension" Task Force Report

Prof. **Gabriel Ben-Dor**, Chair, National Security Studies Center, Haifa University

Discussion

Opened by: Prof. **Gabriel Sheffer**, The Hebrew University of Jerusalem and the Interdisciplinary Center Herzliya

19:15 Opening Ceremony

Chair: Mr. **Avraham Bigger**, Deputy Chair, The Caesarea Edmond Benjamin de Rothschild Foundation

Greetings:

- Prof. **Uriel Reichman**, President, The Interdisciplinary Center Herzliya
- Ms. **Yael German**, Mayor of Herzliya

Lighting of the of Hanukkah candles

Rabbi Israel **Meir Lau**, The Chief Rabbi of Israel

Dinner

Chair: Ambassador **Ronald S. Lauder**
“America’s Sense of Purpose”
Mr. **William Kristol**, Editor, The Weekly Standard

“From Geopolitics to Global Politics”
Mr. **James B. Steinberg**, Vice President, Brookings Institution

Tuesday, December 3, 2002

08:30 Second Session: The Gulf Theater - Threats, Readiness and Responses

Chair: Maj. Gen. (res.) **Eitan Ben-Eliahu**

“Biological Threat”

Ms. **Judith Miller**, Senior Correspondent, The New York Times

“Conflicts in the Second and Third Circles”

Maj. Gen. **Amos Yadlin**, IDF Colleges’ Commandant

“Long Range Naval Power”

Maj. Gen. **Yedidya Ya’ari**, Commander of the Navy

“Dilemmas in the Use of Force in the New Strategic Environment”

Dr. **Ariel Levite**, IAEC (Stanford University)

Discussion

Opened by: Ms. **Thérèse Delpech**, Head of Direction of Strategic Affairs,
French Atomic Energy Commission (CEA)

Lt. Gen. **Moshe Ya’alon**, The IDF Chief of General Staff

11:30 Third Session: The Homefront - Threats and Readiness

Chair: Maj. Gen. (res.) **Amos Yaron**, Director General, Ministry of Defense

“Threats Assessments and the Homefront”

General (ret.) **Charles G. Boyd**, President & CEO, Business Executives for National Security (BENS)

“The Homefront - Threats and Preparations”, Task Force Report

Maj. Gen. (res.) **Herzl Shafir**

Maj. Gen. (res.) **Shmuel Arad**

Discussion

Opened by: Col. Dr. **James A. Davis**, Deputy Director, US Air Force
Counter-proliferation Center

Lunch

Chair: Ms. **Shula Bahat**, Associate Executive Director, The American Jewish Committee

Lt. Gen. (res.) **Shaul Mofaz**, Minister of Defense

14:45 Fourth Session: A View of the Future - Regional Trends and Processes

Chair: Dr. **Yael Benjamini**, Chief of Staff Administration, Bank Leumi

“Regional Demographic Trends and their Implications”

Dr. **Itzhak Ravid**, Center for Military Research, Rafael

“Future Trends in the Vicinity of Israel”

Prof. **Arnon Sofer**, National Security Studies Center, Haifa University

“Exporting Democracy to the Middle East”

Prof. **Joshua Muravchik**, American Enterprise Institute

“Democracy as a Foundation to Peace”

MK **Nathan Sharansky**, Deputy Prime Minister and Minister of Housing and Construction

“Trends in Fundamentalist Islam”

Dr. **Daniel Pipes**, Director, The Middle East Forum

Discussion

Opened by: Col. (res.) Dr. **Eran Lerman**, Director of Israel and Middle East Office, The American Jewish Committee

16:45 Fifth Session: Options for the Middle East Negotiating Process

Chair: Ambassador **Yoav Biran**, Acting General Director, Ministry of Foreign Affairs

“Israel’s Policy: Alternatives and Decision”

Maj. Gen. (res.) **Uzi Dayan**, Head, The Forum for National Responsibility

“Alternative Courses for American Diplomacy in the Middle East Negotiations’ Process”

Ambassador Dr. **Dennis B. Ross**, Director, The Washington Institute for Near East Policy

“International Participation in Conflict Management”, Task Force Report

Ms. **Orit Gal**, Project Manager, Economic Cooperation Foundation

“Trusteeship for the Palestinians”

Ambassador Dr. **Martin S. Indyk**, Director, The Saban Center for Middle East Studies, Brookings Institution

“A Southern Palestinian State”

Brig. Gen. (res.) **Ephraim Eitam**, Minister of National Infrastructures

“Palestinian Statehood and Bounded Independence”

Ambassador **Peter R. Rosenblatt**, Heller & Rosenblatt; Board of Governors, The American Jewish Committee

“A Regional Solution for the Israeli-Palestinian Conflict”

Mr. **Israel Harel**, Head of the Center for Religious Zionism, Hartman Institute

Discussion

Opened by: MK **Yossi Sarid**, Chair, Meretz

Mr. **Dan Scheuftan**, National Security Studies Center, Haifa University and the Shalem Center

19:00 Sixth Session: The Role of Regional Cooperation in Promoting Stability and Political Arrangements

Chair: Mr. **Israel Michaeli**, Deputy Head, National Security Council

“Leveraging Mediterranean Regional Cooperation for Development and Change”
Mr. **Stef Wertheimer**, Chairman of the Board, ISCAR Ltd.

“Turkish-Israeli Relations and Regional Peace”
Mr. **Hikmet Çetin**, Former Deputy Prime Minister and Minister of Foreign Affairs, Turkey

“Economic and Social Aspects of Regional Cooperation”
Prof. **Avishay Braverman**, President, Ben-Gurion University

Discussion

Opened by: Mr. **Mati Kochavi**, Chairman, Optical Solutions, Inc.

20: 30 Dinner

Chair: Maj. Gen. (res.) **Meir Amit**, Chair, Center of Special Studies

Greetings: Mr. **Howard P. Berkowitz**, HPB Associates

“Roadmap and Roadblocks: A Practical Approach to Peacemaking”
Ambassador Dr. **Daniel C. Kurtzer**, US Ambassador to Israel

Wednesday, December 4, 2002

**8:30 Seventh Session: A New Strategy of Governance
In memoriam of Prof. Ehud Sprinzak**

Chair: Prof. **Uriel Reichman**, President, The Interdisciplinary Center Herzliya

“A Government Reform”
Prof. **Yehezkel Dror**, The Hebrew University of Jerusalem and Founding President of the Jewish People Policy Planning Institute

“Fiscal Consolidation”
Dr. **Rafi Melnick**, The Arison School of Business, The Interdisciplinary Center Herzliya

“Reforming the Public Service”
Col. (res.) **Mordechai Shapira**, CEO, Israel Federation of Independent Organizations

Discussion

Opened by: MK **Haim Ramon**, Chair, Knesset Foreign Affairs and Defense Committee

10:15 Eighth Session: The Future of the Economy in the Face of Demographic Trends

Chair: Mr. **Dan Halperin**, CEO, Iftik

“The Implications of the Demographic Trends for Israel’s Economy”, Task Force Report

Mr. **Yossi Hollander**, Chairman of the Board, JACADA

Dr. **Yaacov Sheinin**, CEO, Economic Models

“Equilibrium and Disequilibrium in the Israeli Economy”

Dr. **Momi Dahan**, The Hebrew University of Jerusalem

Discussion

Opened by: Mr. **Gidi Grinstein**

12:00 Ninth Session: Competitiveness, Growth and the Future of the Economy

Chair: Dr. **Leora Meridor**, Chair of the Boards of Bezeq International and Poalim Financial Markets and Investments

“High-Tech Industry as the Chief Driver of Israeli Economic Growth”, Task Force Report

Mr. **Eli Ayalon**, Chairman of the Board & CEO, DSP Group, Inc.

“A National Policy for Economic Growth”

Mr. **Aharon Fogel**, Chairman of the Board, Ness Technologies

“Economic Competitiveness in the face of Security Challenges”

Dr. **Daniel S. Goldin**, Senior Fellow, Council on Competitiveness and Former NASA Administrator

Discussion

Opened by: MK **Yosef Lapid**, Chair, Shinui Party

Lunch

Chair: Mr. **Eitan Raff**, Chairman, Board of Directors, Bank Leumi

Mr. **Benjamin Netanyahu**, Minister of Foreign Affairs

Maj. Gen. (res.) **Amram Mitzna**, Chairman of the Labor Party

15:00 Tenth Session: Israel’s Credit Ratings and Economic Resilience

Chair: Mr. **Eitan Raff**, Chairman, Board of Directors, Bank Leumi

“The Relationship between the International Rating and the Banks’ Rating”

Mr. **Eitan Raff**, Chairman, Board of Directors, Bank Leumi

"Determining National Rating and its Impact on Economic Policy: The Latin American Experience"

Dr. **Graciana del Castillo**, CEO, Macroeconomics Consulting Group (MAG)

"The Distinction between Domestic Debt and External Debt: The Rating Firms' View"

Dr. **David Klein**, Governor, The Bank of Israel

"A Comparative Assessment of Sources of Weakness and Strength in Israel's International Rating"

Mr. Eldad Fersher, Deputy General Accountant, Ministry of Finance

Discussion

Opened by: Prof. Amir Barnea, The Arison School of Business, Interdisciplinary Center Herzliya

16:45 Eleventh Session: The New International Frontlines

Chair: Mr. **Shabtai Shavit**, Merhav Group

"Israel in the New International Media Environment", Task Force Report

Brig. Gen. (res.) **David Tzur**

Brig. Gen. **Ruth Yaron**, IDF Spokeswoman

"The International Legal Revolution: Implications for Israel"

Prof. **Irwin Cotler**, O.C., M.P.

"The Jewish World Approach to Anti-Semitism from the Arab World"

Prof. **Yehuda Bauer**, Academic Adviser, "Yad Vashem"

"The Policy of Israel and of the Jewish People in the New International Environment"

Ambassador Dr. **Dennis B. Ross**, Director, The Washington Institute for Near East Policy and Chair, Jewish People Policy Planning Institute

Prof. **Yehezkel Dror**, The Hebrew University of Jerusalem and Founding President of the Institute

Mr. **Avinoam Bar-Yosef**, Director of the Institute

Discussion

Opened by: Ambassador **Alan Baker**, Legal Advisor, Ministry of Foreign Affairs

Mr. **Nimrod Barkan**, Head of the Diaspora Branch, Ministry of Foreign Affairs

19:00 Twelfth Session: Trends in the Jewish World and their Consequences

Chair: Maj. Gen. (res.) **Giora Rom**, General Director, The Jewish Agency for Israel

"Demographic Shifts in the Jewish World - Forecasts and Implications", Task Force Report,

Prof. **Sergio DellaPergola**, Harman Institute of Contemporary Judaism, The Hebrew University of Jerusalem

Ms. **Carole Solomon**, The Board of Governors' Executive Committee, The Jewish Agency for Israel

Discussion

Opened by: Maj. Gen. (res.) **Giora Rom**, General Director, The Jewish Agency for Israel
Mr. **Felix Posen**, The Posen Foundation

20:30 The Closing Session

Chair: Ambassador **Zalman Shoval**, Chair, Governing Council, The Institute of Policy and Strategy, The Interdisciplinary Center Herzliya

Prof. **Uriel Reichman**, President, The Interdisciplinary Center, Herzliya

Mr. **Sallai Meridor**, Chairman of the Executive of The Jewish Agency for Israel and the World Zionist Organization

The Prime Minister of Israel, MK **Ariel Sharon**

Dinner

Closing Remarks,

Dr. **Uzi Arad**, Conference Chair and Director, Institute of Policy and Strategy, The Interdisciplinary Center Herzliya

Task Forces and Working Groups

The Composite Herzliya Indices: Objective Indicators

Civilian Indices

Prof. Raffi Melnick, **Head**

Dr. Uzi Arad

Leah Achdut

Prof. Asher Arian

Prof. Yoav Benjamini

Dr. Michel Strawczynski

Dr. Zalman Shiffer

Tommy Steiner

Military Indices

**Col. (res.) Dr. Shmuel L. Gordon,
Head**

Avi Ifergan

Brig. Gen. (res.) Giora Goren

Maj. Gen. (res.) Shlomo Gazit

**Brig. Gen. (res.) Dr. Alon Dumanis
Imri Tov**

Maj. Gen. (res.) Aviezer Ya'ari

Col. (res.) Dr. Ephraim Laor

Brig. Gen. (res.) Dr. Shlomo Markel

Prof. Zeev Maoz

Dr. Zalman Shiffer

Dr. Martin Sherman

The Composite Herzliya Indices: Public Opinion

Prof. Gabriel Ben-Dor, Head

Dr. Ami Pedahzur

Daphna Canetti

A New Strategy of Governance

Prof. Uriel Reichman, Head

Prof. Yehezkel Dror

Dr. Raffi Melnick

Prof. Amnon Rubinstein

Col. (res.) Mordechai Shapiro

Col. (res.) Yoash Tsiddon-Chatto

International Participation in Conflict Management and Resolution

Orit Gal, **Head**

Dr. Yaarah Bar-On

Gideon Grinstein

Pinhas Meidan-Shani

Nancy Pomagrin

Ron Shatzberg

The Implications of the Demographic Trends on Israel's Economy

Dr. Yaacov Sheinin

Yossi Hollander

The High-Tech Industry as a Leverage for Growth

Eli Ayalon, **Head**

Yehuda Zisapel

Ilana Treston

Doron Kochavi

Yair Srosi

Israel in the New International Environment

Brig. Gen. (res.) David Tzur, Head

Dr. Uzi Arad

Adv. Daniel Taub

Brig. Gen. Ruth Yaron

Col. (res.) Dr. Eran Lerman

Prof. Natan Lerner

Daniel Seaman

Niva von Weisl

Jeffrey Kahn

Prof. Arie J. Kochavi

Ron Prozor

Adv. Irit Kahn

Col. Daniel Reisner

**The Homefront - Threats,
Preparations and a View to the
Future**

Maj. Gen. (res.) Herzl Shafir, Head
Maj. Gen. (res.) Shmuel Arad
Brig. Gen. (res.) Abraham (Avi)
Bachar
Maj. Gen. (res.) Aviezer Ya'ari
Dr. Yoram Luninski

**Demographic Shifts in the Jewish
World - Forecasts and Implications**

Dr. Irit Keynan, Head
Prof. Sergio DellaPergola
Dr. Vladimir Zeev Khanin
Prof. Steven M. Cohen
Prof. Vladimir Shapiro

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The Interdisciplinary Center (IDC) Herzliya, the first unique and innovative private educational institution, was founded in 1994. Modeled on distinguished private universities in the United States, IDC is a non-profit corporation taking no direct government subsidies, and dedicated to the pursuit of excellence in research and education. Founded by renowned Israeli scholar Professor Uriel Reichman, IDC aims to create an Israeli university where personal achievement goes hand-in-hand with social responsibility.

IDC's innovative approach is fundamentally different from other academic institutions in Israel due to its interdisciplinary spirit and strong commitment.

Three-thousand students are currently enrolled at the IDC campus in Herzliya. Bachelor's and master's degrees are awarded by the IDC's five internationally recognized schools: the Radzyner School of Law, the Arison School of Business, the Efi Arazi School of Computer Science, the Lauder School of Government, Diplomacy and Strategy and the Raphael Recanati International School.

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The Lauder School was founded in 1999 by Ambassador Ronald S. Lauder. Lauder School objectives are to offer future leaders relevant and appropriate government education for the 21st century and to educate dedicated students for positions of leadership, responsibility and public service.

Formerly founded and headed by the late Professor Ehud Sprinzak, the Lauder school prepares students with the skills to provide lasting solutions in national and local levels of government in Israel.

The Interdisciplinary Center seeks to train Israel's leaders of the future, to nurture a business, political, technological and judicial leadership of the highest caliber.

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The Institute of Policy and Strategy

The Institute of Policy and Strategy (IPS) is part of the Lauder School of Government at the Interdisciplinary Center Herzliya. Established in 2000, the Institute deals with the following issues of national import, whose study may be expected to contribute to policy making and implementation: diplomacy and foreign policy; security and strategy; intelligence and policy formulation; natural resources and geo-politics; economy and technology; regional systems and globalization.

Under the Institute's auspices a wide range of ideas and opinions are nurtured, its contribution being in its interdisciplinary approach, its forward looking orientation, its placing of issues in their broad contexts, and its focus on an integrated perspective. The Institute convenes senior executives' meetings and high-level symposia, paramount among them being the Edmond Benjamin de Rothschild Herzliya Conference Series on the Balance of Israel's National Security.

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