

The Middle East Strategic Balance 2007-2008



Institute for National Security Studies

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The Middle East Strategic Balance 2007-2008

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Preface

Veteran observers of the Middle East scene are understandably prone to skepticism about the prospects of any fundamental transformation in regional realities. After all, the sense of dynamism and change that characterizes developments in Asia or Latin America is virtually absent from reviews of the Middle East. Instead, it seems that the same themes of instability, terrorism, political authoritarianism, socio-economic stagnation, enduring intra- and inter-state conflict, and the crucial role of oil that dominate current analyses were those that prevailed in analyses two, three, or four decades ago. Hence the somewhat jaded view that in the Middle East, there is nothing new under the sun.

It is easy to exaggerate the degree of stasis. A closer look at the concerns of policymakers and opinion leaders as well as of interested publics and extra-regional actors does reveal some significant changes. This is certainly true of the longer term. Issues like great power rivalry in the region or the rising tide of radical Arab nationalism that preoccupied those who were involved with or merely trying to understand the region in the 1950s and 1960s have simply faded away. It is even true of shorter term perspectives. In the first decade of the twenty-first century, the commitment (or at least lip service) to democratization was a central theme in the early aftermath of the September 11, 2001 attacks; within a couple of years, it had practically disappeared from the regional agenda. It is also the case that some discrete events – such as the 1979 Islamic Revolution in Iran or the 2003 American-led ouster of Saddam Hussein in Iraq – have had effects that could fairly be described as convulsive.

These reservations notwithstanding, there remains a certain repetitiveness to the list of topics included in an annual review of strategic developments. Indeed, the contributors to the 2007-2008 edition of the *Middle East Strategic Balance* address the bulk of those recurring issue-areas. At the same time, it could be argued that two of these topics seem particularly familiar: the continued prominence of the Palestinian issue and the simmering crisis over Iran's nuclear activities. In the first, the most noteworthy developments in the period under discussion were the forceful takeover of Gaza by Hamas and the subsequent escalation of violence across the Israel-Gaza demarcation line. These events encapsulated some of the themes that have characterized the Israeli-Palestinian relationship over the course of almost 100 years, including the interactive dynamic between unresolved conflict and fragmented Palestinian leadership; the prominence of Islamic themes in the history of Palestinian nationalism; the centrality of force in the politics of the issue; and Israel's inability to disengage from the conflict, either unilaterally or through agreement, psychologically or physically. Hamas/Gaza developments overshadowed the Annapolis meeting convened by the American administration in late 2007, which many hoped would provide an antidote or at least alternative logic to Hamas/Gaza. In the longer sweep of history, Hamas/Gaza represents continuity in the Palestinian-Israel relationship while Annapolis represents the prospect of change. The relationship itself will clearly remain at the core of Israel's strategic agenda in the coming years. It is less clear whether the essence of that relationship will be continuity or change, but to the extent that one can extrapolate from events of 2007-2008, the former seems more likely.

In the second issue-area – that connected with Iran's nuclear ambitions—it is more difficult to point to distinct events that dramatized persistent trends. Instead, it was the continuing preoccupation of Israel, the region, and the international community with the Iranian challenge that embodied larger themes: the assertiveness of Iran and the increasing suspicion by others of Tehran's hegemonic aspirations;

the growing salience of confessional – i.e., Sunni and Shiite – identities (exacerbated by post-2003 developments in Iraq); Iranian appeals to and support for sub-state/non-state actors; and more generally, the shift of the regional center of gravity to the Gulf (only partly symbolized by the rapid rise in the price of oil), and Iran's increasing assumption of the role once widely attributed to Israel – nexus of regional affairs to which everything else in the Middle East is linked in one way or another. Barring another domestic revolution similar in magnitude to that of 1979, Iran will continue to be a source of major strategic concern to Israel and to occupy center stage in the strategic agenda of both most other actors in the Middle East and the outside world that remains perforce engaged in the region.

Readers who have consulted *The Middle East Strategic Balance* over the years will know that this edition is the latest in an annual series stretching back to 1983. They will also note a change in format. Since its inception (as *The Middle East Military Balance*), the volume included an analytical survey of events during the period under review as well as a detailed database of military forces in the region. This year, for the first time, *The Balance* confines itself to the analytical survey. The database no longer appears in hard copy once a year but is instead constantly updated and permanently accessible on the Institute's website: www.inss.org.il.

In addition to the authors of *The Middle East Strategic Balance*, several other people made indispensable contributions to this volume. In particular, I would like to thank Moshe Grundman, Director of Publications at INSS, who helped coordinate the project and carry it through, and Judith Rosen, whose editing skills are apparent on every page of the text. Finally, a word of thanks to Gallia Lindenstrauss, who provided invaluable substantive and organizational assistance despite urgent other demands on her time and energy.

Mark A. Heller
April 2008

Chapter 1

Israel and the International System

Roni Bart and Limor Simhony

On the whole, the international system that influences Israel most, led by the US, the European Union, and Russia, adopted an amicable approach towards Israel in 2007. Regarding Israel's three key regional issues – the Israeli-Palestinian conflict, Iran, and Syria-Lebanon – Israel's positions enjoyed considerable international backing, whether in practice or in principle.

The US

The US's staunch support for Israel remained intact in 2007. Rumors that disappointment over Israel's performance during the Second Lebanon War would harm the perception of Israel as an important ally proved unfounded. The administration acceded to Israel's request to increase financial aid by 25 percent, to a sum of \$30 billion over a period of ten years; security and intelligence cooperation seems to be continuing at least at the previous level; the Sixth Fleet resumed its visits to Haifa Port after a seven year hiatus; the US chief of staff arrived for a visit to Israel for the second time in the history of relations between the two countries; and the US secretary of defense arrived for the first time in eight years.

In the political sphere, America continued its support for Israel's positions vis-à-vis the Palestinians, including the isolation of Hamas

and refusal to negotiate with the unity government. When the Annapolis process was started, the US accepted Israel's stance that consolidating the political horizon would not supplant the need for implementation of Phase 1 of the roadmap, which should at least occur simultaneously. Thus, the joint declaration of the Annapolis conference did not deal with the elements of a permanent settlement, as per Israel's preference.

With regard to Iran and Syria, Washington and Jerusalem are in basic agreement. While Israel's estimated timetable for Iranian acquisition of a nuclear military capability is shorter than the administration's, the seriousness of the threat and the imperative to deal with it are not in dispute. The US National Intelligence Estimate (NIE) published in December 2007 did not change the administration's position that Iran continues to constitute a threat, since Iran could restart its military nuclear program (if it was indeed interrupted) and Tehran is working to undermine stability across the Middle East. With regard to Syria, the differences are minimal. If Israel's response to President Asad's calls for peace seems hesitant, Washington is apparently even more resistant. The two countries view Damascus as an adversary that must be contained. Hence, their apparent coordination on the alleged Israeli air strike in northern Syria.

Finally, Israel's standing among American public opinion and on the political scene is as firm as ever. The good relationship Ehud Olmert enjoys with George Bush is seemingly one of the strongest ever between an Israeli prime minister and an American president. As in the past, all presidential candidates are positioned within the heart of the American consensus, viewing Israel as a strategic partner in a relationship based on shared values. Over 60 percent of the American public believes that the US must stand by Israel, while 50 percent have a negative opinion of the Palestinians. The pro-Israel lobby emerged unscathed by the Walt-Mearsheimer book and closed its year with considerable success.

The European Union

Notwithstanding Europe's traditionally greater sensitivity to Arab/Palestinian positions, 2007 was a good year for Israel-EU relations, in part because Israel demonstrated more openness to European involvement in the region. Despite apprehensions about regional deterioration, the Europeans remained faithful to the Israel-US-Quartet position, i.e., no contact with the Hamas government and no reason to forge ahead in political negotiations as long as Hamas refuses to fulfill the Quartet's basic conditions. Since the Hamas takeover in Gaza, the Europeans have also been partner to the isolation of Hamas and to support for negotiations between Israel and the Palestinian Authority within the Annapolis framework. At the same time, the EU remained critical of Israel over the humanitarian fallout from its Gaza and West Bank policy. Furthermore, the official policy does not always reflect the anti-Israel sentiments within the public at large. According to a public opinion poll conducted in several EU countries in June 2007, only about 20 percent of respondents expressed sympathy for Israel, compared with 28 percent who were sympathetic with the Palestinians. This trend was reflected in a number of initiatives for specific boycotts against Israel.

The economic-civilian dimension in general and the humanitarian aspect in particular were stressed by the Europeans. To them, rehabilitating the Palestinian economy and building a functional government authority will advance the welfare of the Palestinians; strengthen Abu Mazen and the political process, thereby rebuffing Hamas; and oblige Israel, because of its improved security situation, to fulfill its obligations under Phase I of the roadmap. This emphasis was demonstrated at the December 2007 conference of donor states held in Paris, where EU countries pledged \$1.7 billion to the Palestinian Authority.

Israel and the EU have closed ranks on other issues as well. European diplomats, and certainly the leaders of the three principal countries, view Iran's nuclear program as a danger that must be contained. Hence the leading role the EU-3 has assumed (particularly

under the leadership of former French President Jacques Chirac), as well as public statements following the publication of the NIE. In a joint press conference, German Chancellor Angela Merkel and French President Nicolas Sarkozy called for increased sanctions against Iran. Referring to the NIE, the spokesperson for British Prime Minister Gordon Brown said: "It confirms that we were right to be worried about Iran seeking to develop nuclear weapons [and] shows that the sanctions program and international pressure were having an effect in that they seem to have abandoned the weaponization element." Actually, the report hardly changed the European position. True, from Israel's vantage, Europe is dragging its feet over extra-UN sanctions. Nonetheless, Europe does not have to be persuaded that a nuclear Iran is not Israel's problem alone but rather threatens the entire world. This is particularly evident in the French position, where senior spokespersons have declared how a situation of "either an Iranian bomb or bomb Iran" must be avoided. The need to apply economic-diplomatic pressure has translated into the continued decline of EU exports to Iran since 2006. In the first half of 2007 there was a further drop of approximately 16 percent in exports compared to the first half of 2006.

With regard to Syria-Lebanon, there is likewise sound agreement. European commitment to UN Resolution 1701 is reflected in European representation (more than 50 percent) among the 13,000 UNIFIL troops. Particularly striking is France's attitude to the Asad regime. The previous French president spearheaded the international offensive against the regime and its Lebanese allies following the assassination of Rafiq Hariri. In early 2007, newly elected Sarkozy, against the backdrop of Lebanon's ongoing political crisis, launched intensive political contacts with Damascus and Hizbollah, but with time, he, too, demonstrated undiplomatic firmness towards Syria. In late 2007, following a further postponement of Lebanese presidential elections due to Syrian manipulations, Sarkozy announced, "France will not have any more relations with Syria until Damascus shows it

is willing to allow Lebanon to conclude the current leadership crisis and appoint a new president.”

Sarkozy’s positions in relation to Iran and Syria-Lebanon are part of the shift in France’s foreign policy toward a pro-American and Western-oriented approach and a balanced Middle East stance. Sarkozy has indeed stated that France does not and will not automatically support the positions of Israel (or the US). On the other hand, his statements such as “Israel’s security is a clear red line that is not negotiable” or “The establishment of the State of Israel can be called a miracle” reflect a positive change in France’s approach towards Israel. In fact, there has not been such a positive roster of leaders of the chief EU countries, as far as Israel is concerned, in a long time. Already in past years Merkel displayed a more sympathetic attitude towards Israel than her predecessor Gerhard Schroeder. As for Britain, if there were apprehensions upon the departure of Tony Blair in June 2007, they have thus far remained unsubstantiated. True, his successor, Gordon Brown, does not demonstrate the same warmth as Blair (and not only regarding Israel), but there is no sign of any distancing from Israel.

Russia

Relations between Israel and Russia are cast both by observers and by the two governments as good, apparently since Israel has distinguished between bilateral relations and the detrimental aspects of Russia’s Middle East policy. Russia was the second non-Arab country (after Turkey) to host an official Hamas delegation following the movement’s electoral victory in 2006. In 2007 as well, Moscow argued against isolating Hamas, both before and after the movement’s violent takeover of Gaza. Russia has for a long time supplied Syria with arms and recently sold it up-to-date surface-to-air missiles. The Kremlin has refrained from taking restrictive measures in this sphere, even in the face of Israeli charges that some of the arms are transferred from Damascus to Hizbollah. Indeed, Russian-made anti-

tank missiles and 220 mm rockets (manufactured under license in Syria) were used by Hizbollah in the Second Lebanon War.

Even more problematic is Moscow's stance in relation to Iran's nuclear program. Russia is the leading opponent of harsh sanctions against Iran; had Russia joined the Western line, China would likely have done so as well. During his visit to Tehran in September 2007, President Putin declared that "Iran has the right to develop civilian nuclear technology and industry." In an exceptional response, the Israeli prime minister invited himself for an immediate visit to Moscow, which ended with Olmert's announcement that "he was leaving encouraged"; a source in his entourage explained that the Kremlin is not interested in seeing Iran become a nuclear power, and "proof of this is that nuclear fuel is still not being supplied for the reactor in Bushehr." But the prime minister's optimism was premature. At the end of the year Russia began supplying 82 tons of nuclear fuel for the reactor, and continued even after Tehran made it clear it would not cease enriching uranium for the production of nuclear fuel, notwithstanding the supply from Russia.

Russia's policies on these issues ostensibly do not stem from an anti-Israel position. On the bilateral plane there is a good atmosphere, a steady desire to improve relations, and perhaps a perception of Israel as an effective channel of influence among certain circles in the US. Nonetheless, the Kremlin has taken steps opposed to Israeli interests, because they suit its basic tack of challenging the US and provide it with a return ticket to the Middle East. Hence, also, the renewed visits by the Russian fleet to the eastern Mediterranean, Russia's ambition to mediate between Israel and Syria, and Moscow's desire to host the next peace conference. President Putin has claimed several times that "Russia will not harm Israel's security," yet there is no doubt that the implications of Russia's policy augur poorly for Israel.

What Lies Ahead

Both the UN Security Council and the Quartet have recently taken steps that are convenient for Israel. In his capacity as the Quartet

representative in the Middle East, Tony Blair stated, “What is needed is Palestinian realization that they will not have a state unless it is managed properly. If I were Israel, I would not negotiate for the establishment of a Palestinian state if I was not certain that would be the case.” Despite Russia’s proven ability to hinder processes, Moscow has not attempted to disrupt the legal-diplomatic handling of the investigation into the Hariri murder or the implementation of Resolution 1701, which ended the Second Lebanon War. In both cases, the Security Council and especially UN Secretary-General Ban Ki-Moon have demonstrated surprising persistence and determination, much to Israel’s liking and to Syria’s regret. In addition, the Kremlin has accepted the verdict of the Quartet regarding Hamas, a stance that has enabled continued international isolation of Hamas, even during the short life of the Palestinian unity government.

Israel’s comfortable situation vis-à-vis the international system should be attributed mainly to its adversaries. In the face of Hamas aggression and the weakness of the Palestinian Authority, the international community could not reasonably view Israel as primarily responsible for the deadlock. The conduct of Syria and Hizbollah has perforce focused international attention on containment rather than on Israeli withdrawal from the Golan Heights or a cessation of Israeli flights over Lebanon. And in light of Iran’s aggressive promotion of a radical Islamic agenda under Ahmadinejad, Israel has found a sympathetic ear not only for its fears over the nuclear issue but also regarding Iran’s regional allies. Israeli restraint, evident in the Gaza Strip (avoiding an extensive ground operation), in Lebanon (not seeking opportunities to capitalize on the political crisis), and in Syria (military caution on the Golan Heights, keeping quiet over the alleged air strike) has completed a picture that, in the world’s eyes, justifies a lenient attitude towards Israel.

The wider context has also helped Israel. At least to a certain degree, the fight against terror, the Sunni-Shiite rift, and Iran have bounced the Israeli-Arab/Palestinian conflict from center stage. Amid this atmosphere, there is more understanding than in the past

for Israel's situation, due to the West's ongoing confrontation with the radical jihadist wing of the Muslim-Arab world. The examples of Lebanon, Iraq, Afghanistan, and Pakistan have made it clear that here, too, there is a complex problem with no magic solution.

A number of plausible scenarios are likely to create a less comfortable future situation for Israel vis-à-vis the international system. The most likely arena for any such change is the Palestinian theater. If Israel decides to intensify its military effort in Gaza, particularly to the point of an extensive ground operation, the negative media effect will probably exact a political price. Israel will be told to limit its military activity in order minimize humanitarian suffering. If the IDF takes control of the Philadelphi route or establishes a permanent presence in a large section of the Strip, the international community will demand that Israel assume active responsibility, if not for the administration of the entire Gaza Strip then at least for the humanitarian dimension.

In negotiations over a permanent settlement, pressure on Israel to resolve core issues will likely increase. While the prime minister might personally be glad to do so, internal political considerations mandate extreme caution that will at the very least undermine Israel's standing. Moreover, as far as the issues of borders and Jerusalem are concerned, the position of the international community, including the US, is closer to Palestinian attitudes than to Israel's. As to implementation of Phase I of the roadmap, expectations of Israel are higher than of the Palestinian Authority. Already at the end of 2007, there were signs of impatience within the administration over Israel's disregard of its commitments to evacuate unauthorized outposts and freeze construction in the settlements. Concerning the outposts, President Bush said: "We've been talking about it for four years, and those illegal outposts have to be evacuated." Secretary of State Condoleezza Rice has declared that Israel must also stop building in neighborhoods in East Jerusalem, a zone that the administration avoided referring to publicly up to now. No such concrete utterances were heard regarding Palestinian commitments to fight terror. Israel

is perceived as the stronger side, able but unwilling politically. The Palestinian Authority, under the leadership of Abu Mazen, is perceived as weak and in constant need of reinforcement, eager but unable. Based on past experience, pressure on Israel will thus be stronger than pressure on the Palestinians to perform what is required of them regarding security and fighting terror.

The leading factor in pressure on Israel will, of course, be the American administration. It is generally thought that in the past Secretary of State Rice preferred intensifying pressure on Israel but was restrained by the president, and it is difficult to envision whether this favorable pattern will continue. On the one hand, Bush regards the fight against terror as a chief objective and will probably be influenced by his warm relationship with Olmert; on the other hand, the president has received from two Israeli prime ministers repeated promises that remain unfulfilled. Bush is personally committed to advancing the Annapolis process and this is his last chance to bequeath a positive legacy in the Middle East. Thus, he will presumably support Rice, especially while the rest of the international system is inclined to pressure both Israel and Bush on these matters.

Two further trends might contribute to creating a less comfortable situation for Israel. On the Iranian matter, there are no signs of more stringent sanctions; even before the NIE there was no support for such toughening. It is difficult to suppose that the Security Council would adopt a further significant resolution or that France and Britain would succeed in convincing the remaining EU countries to impose independent sanctions. It appears that the international system's basic agreement with Israel will not find greater practical expression. Furthermore, in the context of global policy, it is quite likely that Russia will try to increase its involvement in the Middle East – via an upgrade in arms sales to Syria and Iran, pressure on Israel to negotiate with Syria, or some sort of sponsorship of Hamas. In any event, increased Russian involvement would probably not work to Israel's advantage.

On the Palestinian issue, Israel closed a year of political deadlock, with responsibility assigned mainly to Hamas, and proceeded to a year in which it is primarily Israel that will be asked to take action. A year of slow progress regarding sanctions on Iran has given way to a year in which even this slow pace may be halted. To this one must also add the likelihood of disruptive Russian behavior. No conflict between Israel and the international system can be expected in the near future, but it is reasonable to anticipate less comfort, and in fact, more tension and frustration.

Chapter 2

Domestic Developments in Israel: Political, Social, and Economic

Yehuda Ben Meir and Meir Elran

An Auspicious Reality

From the domestic point of view, the year 2007 is remarkable less for what happened than for what did not happen. The Israeli public was reeling from the negative effects of the Second Lebanon War and the Winograd interim report, published in April. Morale was low, Israel's perception of its deterrent capacity was in question, and the north was recovering from the economic effects of the war. In early 2007, therefore, numerous pundits predicted that the government and certainly Prime Minister Ehud Olmert would not last long. Many experts, including ranking officials within the defense establishment itself, forecast a renewal of hostilities with Hizbollah and possibly war with Syria in the summer.

In fact, these predictions failed to materialize. While Olmert remained an unpopular prime minister, his approval ratings in 2007 rose from about 5 percent to around 25 percent, thus evincing a sense of improvement. The government not only survived 2007 but enjoyed strong political support in the Knesset (until the exit of Avigdor Lieberman's Israel Beitenu party in January 2008) with one of the largest coalitions (78 members out of 120) in Israel's history, certainly in the last twenty-five years. The government succeeded

(on December 27, 2007) in passing the budget for the fiscal year 2008 a week ahead of the deadline, a significant political feat unaccomplished in the previous ten years. Indeed, the government did not face any substantive parliamentary threat throughout 2007. The ruling party, Kadima, maintained a reasonable sense of stability and internal quiet despite a meager standing in most polls and a steady lead by the opposition Likud party, whose leader, Binyamin Netanyahu, remained the most popular politician. The opposition was split between a number of parties on the right (27 members) and on the left (15 members) and thus was quite ineffective. The stability of the government coalition most likely reflected the relative improvement in Israel's security situation as well as the continued economic boom.

The improvement in Israel's security situation – demonstrated by the low number of terrorist attacks and casualties and the complete quiet on the northern border – has, of course, major ramifications on the domestic scene. Since the end of the Second Lebanon War on August 17, 2006, Hizbollah has not fired a single shot – a far cry from the renewed hostilities predicted for the summer of 2007. Its highly visible armed presence along Israel's northern border prior to the war has vanished and gone underground. During this period there were only two incidents in the north – the firing of rockets at Kiryat Shmona and Shlomi, which were executed by fringe terrorist groups and which caused no casualties or meaningful damage. In 2007, Israel's northern border was the quietest it has been for years, even though Hizbollah steadily strengthened its military capabilities beyond the border.

Not only was there no war in 2007, but the public's concerns about Israel's deterrent capability were relieved – at least vis-à-vis Syria. According to reliable foreign sources, on the night of September 6, 2007, the Israel Air Force bombed and destroyed a Syrian nuclear reactor that was allegedly built with the aid of North Korea. Although the Israeli government and the IDF have consistently refused to comment on the reports, very few doubt that the attack did indeed

take place. The fact that Israel could destroy a strategic asset in Syria without any Syrian response – the Syrians denied the existence of a nuclear reactor but admitted that Israeli aircraft had destroyed an “unimportant” target in northeastern Syria – is clear evidence of Israel’s deterrent capacity.

The relative improvement in Israel’s security situation was not limited to the north but was also manifest in the war on terrorism. The IDF, together with the General Security Service, succeeded in minimizing suicide bombings inside Israel. In 2007, there was one suicide bombing in Eilat (January 2007), in which three Israelis were killed by a suicide bomber who crossed into Israel from the Sinai Desert. In 2007, nine Israeli civilians (three in the Eilat incident, two in Sderot from Qassam rockets, and four as a result of shooting incidents in the West Bank) and four soldiers (three in Gaza and one in the West Bank) were killed as a result of terrorist activity or in combat – the lowest number since 1999.

This picture was tarnished to a large extent by the reality in Sderot and the Israeli towns and communities in the Gaza periphery. The continuing rocket and mortar assaults from Gaza have been a problem for Israel for several years. This situation escalated following the disengagement in 2005 and assumed a new dimension in June 2007 when Hamas seized the reins of power in Gaza, confronting Israel with a difficult challenge. Even though Sderot has not suffered many fatalities as a result of the rocket attacks, the daily life of its inhabitants has been severely disrupted. The effects of the ongoing assault have been significant. According to unofficial reports, more than a quarter of the civilian population has left the city, and the general mood is characterized by alienation and a sense of desertion by the government and Israeli society at large. The problem in part lies in a combination of a weak local authority, unable to mobilize inhabitants around their common plight, and a central government that is unable to resolve the specific rocket challenge. This longstanding situation presents a serious problem that may have important bearing on the resilience of Sderot’s population.

There is no question that Israel still faces serious security challenges, not least of which is the nuclear project of Iran. Nevertheless, public opinion surveys testify to a generally positive picture among Israelis in 2007. In a survey conducted in early January 2008 among a representative sample of the adult population, 75 percent stated that on the personal level the previous year was “good” or “very good.” On the personal level, the Israeli public was also quite optimistic about the future. Seventy-eight percent of the respondents expected 2008 to be a “good” or “very good” year. The overall picture, however, was not quite as rosy. When asked to assess the year 2007 on the national level, the population was divided – 44 percent believed that it was a “good” or “very good” year, while 45 percent believed that 2007 was a “bad” or “very bad” year. Regarding 2008, Israelis were even optimistic on the national level, though not to the same degree as they were on the personal level – 60 percent of the respondents expected it to be a “good” or “very good” year. Concern and anxiety at the individual level about personal security and fear of terrorism continued to decline, although it remained quite high. In 2002 (at the height of the second intifada), 92 percent of Israelis expressed concern that they or a member of their family might become a victim of a terrorist attack. This number dropped to 83 percent in 2003, 78 percent in 2004 and 2005, 72 percent in 2006, and 69 percent in 2007.

The return of Ehud Barak to the government as minister of defense heightened the sense of security in Israel. Following the Second Lebanon War, the Israeli public clearly lacked confidence in its defense leadership. Barak (a former IDF chief of staff, prime minister, and minister of defense as well as Israel’s most decorated soldier) remains a controversial figure in Israeli politics, but few question his credentials and experience as defense minister. There is good reason to assume that the return of Barak to the Ministry of Defense and to responsibility for the IDF had a positive impact on the sense of security and confidence in the IDF among most Israelis. In a poll conducted in late March 2008, 40 percent of the Israeli

public stated that their feelings of security had risen “a great deal” or “considerably” since Barak became defense minister.

The relative improvement in the security situation was accompanied in 2007 by a robust and flourishing economy, which grew in 2007 by 5.3 percent. Growth in the business sector was 6.3 percent and per capita GDP grew by 3.5 percent. Unemployment dropped to 6.7 percent, down from 11 percent in 2002, while tourism increased by over 26 percent, with 2007 the strongest year for tourism since 2000. The boom was felt in almost all sectors of the economy, albeit not in all sectors of society. Inflation remained relatively low at 3 percent (though higher than in previous years) and for the first time in over twenty years Israel ended the 2007 fiscal year without a budget deficit. The shekel remained strong, interest rates stayed low, and the country continued to attract significant foreign capital, especially investments in Israel’s growing hi-tech sector. Initial government predictions for 2008 saw continued growth (albeit at a lower rate), price stability, and a further decline in unemployment.

The Sobering Factors

At the same time, Israel did not achieve similar success in channeling its remarkable economic growth to a consolidation of inner social standing. Israel in 2007 remained a polarized society, with a significantly widening gap between the haves and the have nots. In fact, Israel is one of the leading countries in the inequality index. The socio-economic gap not has only social and political consequences, but is manifested again and again in times of crisis, as in the case of Sderot. It provides a disturbing lesson: communities that from the socio-economic and political point of view are weak find it more difficult to withstand external prolonged security pressure.

Furthermore, several less auspicious phenomena joined the many positive indicators of the 2007 domestic scene. In addition to the socio-economic schism, the demographic balance showed signs of strain. Jewish immigration to Israel was at its lowest point in the last twenty years, mainly due to the virtual cessation of immigration

from the former Soviet Union. Negative trends of brain drain became more apparent. Civil tension between different social and cultural groups remained. The most severe rift continued to be between Jews and Arabs. 2007 saw a sharpening of this divide, manifested mostly in political-ideological proclamations of leading Israeli Arabs, who for the first time introduced a vision for their community that (at least from the Jewish point of view) challenges basic principles of coexistence between Israel's Jewish majority and Arab minority. Even though this vision does not necessarily change much in terms of the daily life of most Arabs in Israel, it does reflect their political mood and growing alienation from the Jewish state they live in. This then provides an excuse for radical Jewish groups and political parties to espouse anti-Arab positions, which in turn feeds the growing tension that is perhaps still containable but is gradually becoming more serious.

Perhaps the most significant cloud on Israel's horizon since 2007 is the ongoing leadership crisis and malaise that characterize Israeli society. Israelis have not regained confidence in the establishment in general and in the political leadership in particular – confidence that was severely shaken by the Second Lebanon War. When an early January 2008 poll asked whether in case of another war people had confidence in the political echelon, 70 percent of the respondents representing the adult Jewish population answered in the negative. Interestingly, when the same question was asked regarding the military, 70 percent answered in the affirmative. At the same time, the confidence of the Israeli public in the IDF has not recovered fully from the loss suffered as a result of the last war. A poll taken in 2007 indicated that confidence in the IDF dropped from 79 percent to 74 percent (61 percent do not trust the military statements concerning defense-related items), even though the Israeli public still feels more confidence in the IDF than any in other official institution, including the Supreme Court (which dropped from 68 percent to 61 percent). Perhaps more indicative are the findings of a survey conducted by the IDF Behavioral Science Center that suggest that notwithstanding a

small rise in the motivation of Israeli youth to serve in combat units, there is a real drop – from 95 percent in 2001 to 85 percent in 2006 – in their perception of the IDF as a professional and credible organ.

The picture of late 2007 is disturbing also with regard to other components of the political mood and potential resilience of the Israeli public. The rate of dissatisfaction with the functioning of Israeli democracy was 66 percent, 12 percent higher than in the previous year. Eighty-six percent felt that the government does not deal properly with the problems of the state. These statistics suggest that Israel is facing a serious leadership crisis. It is true that the government has proved time and again its capacity to overcome successive challenges, mainly due to the prime minister's political skills. The government and specifically the prime minister succeeded in surviving the final (January 2008) Winograd report, which was anxiously awaited by the Israeli public. However, it is far from clear whether this will suffice to render the sense of leadership Israel seeks under the challenging circumstances of 2008.

Beyond the leadership crisis, other issues potentially harbor ill for the future, namely the economic situation, the security situation, and the looming internal political rift if the Annapolis process proceeds.

Israeli sources as well as the International Monetary Fund see continued albeit slower economic growth for Israel in 2008 (in the vicinity of 4-4.5 percent). However, the economic slowdown in the United States may have a debilitating effect on the Israeli economy. This indeed seems increasingly likely as the seriousness of the American recession becomes clear. By the end of March 2008, many voices in Israel were already predicting that economic growth in 2008 would drop to 2.5 percent (0 per capita growth). The economic boom was a major factor in Israeli morale, at least on the individual level. Israel's ability to deal with its social problems is also dependent upon sustained economic growth. An economic slowdown could potentially have severe social and political consequences for Israel.

The same holds true for the security situation. The stability of the government and the generally positive outlook of the public were to

a large degree due to the relative improvement in Israel's security situation in 2007. In 2008, the situation on the Gaza front has been at best shaky. It is questionable whether the Israeli government will be able to withstand the public outcry indefinitely, especially if there is a drastic change for the worse in casualty figures. In this respect, the first few months of 2008 indicated that as the situation on the Israeli–Palestinian security scene escalates, there is a growing sense that sooner or later Israel will have to react with a large scale ground attack, in order to change the situational reality. Hence, there is a strong expectation that the coming year will be far less tranquil than the past one as far as security is concerned.

The critical interrelated factor that may play an important role is the Annapolis process. The revival of the peace process would be a positive development; the Israeli public generally seeks some kind of settlement with the Palestinians – whether permanent or long term, and a two-state solution enjoys the consistent support of a clear and stable majority of the Israeli body politic. The renewal of the peace process has additional dividends, such as resumed coordination and cooperation between Israeli and PA security services. At the same time, the Israeli public remains deeply divided as to the parameters of a permanent agreement, especially regarding the core issues of borders/settlements and Jerusalem. Should the negotiations proceed and it becomes apparent that the Israeli government is willing to make far-reaching compromises, especially on Jerusalem, the great political divide that exists on this issue will rise to the surface. The intense opposition and bitter struggle that took place in Israel regarding the disengagement from Gaza and the dismantling of the Gush Katif settlements were merely a preview of what will happen if and when the Israeli government officially announces its intention to remove Jewish residents from the West Bank or to withdraw from parts of Jerusalem. Such an agreement would, in all probability, bring down the government and force new elections. It would also cast Israel into a state of severe political and social turmoil.

In conclusion, 2007 was clearly in many respects a good year for Israel and the Israeli public. At the same time, it would seem that the Israeli government and political leadership failed to translate these positive elements into a higher level of public confidence in the national leadership and may have missed the opportunity to strengthen the social and political foundations necessary to face future challenges. Thus, it is far from certain whether Israel will be able to meet the challenges of 2008 with the same degree of success.

Chapter 3

The IDF: Addressing the Failures of the Second Lebanon War

Giora Eiland

The Winograd Report, and even more importantly, the investigations conducted by the IDF itself, underscored three principal failures in the IDF's performance during the Second Lebanon War: poor performance by the combat units, particularly on land; weakness of the high command and poor command and control processes; and problematic command norms, including a dissociation from traditional values. However, despite the criticism, insufficient attention was given to the causes of these lapses.

The poor level of combat was mainly the result of a decision to downscale the military's level of readiness. In March 2003, a multi-year plan was devised whereby the required minimum annual IDF budget was NIS 36.5 billion. In practice, the budget came to approximately NIS 34 billion. In order to compensate for the discrepancy the military preferred to cut back primarily in the area of readiness (including exercises). This was not only because it was not possible – in the midst of a difficult struggle against terror – to scale back current security operations, but also because since the end of the Iraq War in April 2003, no war was expected to erupt between Israel and its neighbors in the near future. The decision to go to war in the summer of 2006 therefore produced a strange situation. On

the one hand, the IDF made a conscious decision to run a risk in terms of readiness, and on the other hand, it “surprised itself” when it embarked on a war that Israel initiated.

Poor military thinking was demonstrated on several levels:

1. In the period leading up to the war, several changes were made that damaged the military’s ability to function at a maximum level, without the decision makers having fully analyzed their implications.
2. Noticeably absent were clear professional language, uniform procedures, and standards that were translated into professionally issued commands. Instead, too much importance was attached to the “operational concept.”
3. The command and control processes were adversely affected by the chief of staff’s preference for bypassing the war room.
4. Open-minded thought, necessary to reduce the risk of sticking to preconceived ideas and relying on unquestioned assumptions, was far too rare.

The war also revealed a weakening of values and norms traditionally instilled in IDF commanders: sticking to the mission, taking responsibility, and leading by example. The normative lapses behind the troubling phenomena that came to light probably stem from the way the officers were trained to operate rather than from any flaws in their personality or basic value-systems. More precisely, there were problems with the way the commands were issued, which did not provide the coherent distinctions between “objective,” “mission,” and “method” needed to motivate soldiers or instill in them the sense that “the fate of the war is on our shoulders.” Furthermore, there was a sense that the highest priority was to protect soldiers rather than civilians (exemplified by the fact that stopping the Katyusha rocket fire was not defined as the primary goal). Commanders also relied too much on technology (“the plasma culture”), which created the impression that it was possible to wage a tactical land battle without actually being in the field. Finally, there was an overall decline in the relative importance attributed to security, hence, in the need to invest

in and contribute to it; that message was implicitly conveyed in the government's decision in the year before the war to stop calling up reservists for operational duty and to shorten the length of compulsory military service for men.

More than eighteen months after the war, it can be said that the IDF and the government have done and continue to do much to correct the faults that came to light during the war.

Readiness

In the area of readiness, several corrective measures were implemented. First, the government approved a special budget of NIS 1.8 billion for immediate procurement of personal equipment that was clearly lacking during the war, especially for reservists. Second, exercises for regular army soldiers and reservists were stepped up, and standards were set that had not been in effect since 2000. Third, extensive efforts were made to document methodically the exercises and generate a picture of individual fitness at the brigade level. Fourth, there was large-scale procurement of unit equipment, i.e., platforms (armored personnel carriers) and munitions, which is expected to provide a far better response capability than was available prior to the war.

This program for enhancing readiness was made possible principally through budgets that were expanded from two sources. The first was a gradual increase over ten years in annual aid from the United States, from \$2.4 billion to \$3 billion. The second was the government's decision to adopt the Brodet Commission's report, which recommended a gradual increase of the defense budget, in contrast with the pre-war trend of reducing defense outlays (on the other hand, the army was also required to demonstrate improved efficiency, i.e., cutting expenditures without harming operational capabilities).

Enhancing readiness has two costs. The first is financial: more expenditures toward readiness come at the expense of other areas. Most of the cost results from the need to recruit more reserve units for operational duty in order to allow regular army units to invest

more time in exercises. The second cost is the drive to reduce the overall defense burden. The decisions designed to reduce the onus both on the regular army soldiers (by shortening military service) and on reservists (by doing away with “operational duties”) will clearly not be implemented in the foreseeable future.

Overall, the combat forces, particularly the ground forces, are better prepared than they were in the summer of 2006. Further improvements are expected in the coming years.

Thinking, Planning, and Command and Control Processes

This area is more difficult to examine, as it is more qualitative than quantitative. Nevertheless, even prior to the Winograd Report, the IDF understood that there were serious shortcomings in this area. Not surprisingly, therefore, considerable investment in this area is evident, in more advanced training, the revision of doctrines (including “operational concepts”), and a complete overhaul of the operational programs and war exercises of the high command. Will all this necessarily lead to improved functioning of the General Staff and the command headquarters and divisional commands?

Investment in other areas will lead to better outputs. One example is a proper rebalancing of the division of responsibility and authority between the chief of staff, ground forces, air force, and area commands. The changes introduced by the current chief of staff, particularly the return to the previous balance, can maximize the capabilities and relative advantages of these branches. Furthermore, much will be gained from the stringent application of operating procedures, especially regarding the *modus operandi* of the General Staff. Decades of operational experience and command exercises have spawned crucial organizational know how and a situation in which professionals are capable of operating the IDF efficiently. Adherence to correct methodology, logic, and straightforward thinking does not necessarily prevent mistakes, but it does significantly reduce two negative phenomena that were prominent in the Second Lebanon

War: the lack of coordination among commands and contradictory or unclear commands; and the failure to discuss important issues in a timely fashion, if at all.

In other areas, there is a less solid basis to predict improved performance. With respect to readiness, the message that emerged from the IDF in the wake of the war, particularly from the commanders of yesteryear, was that if the IDF can reacquire its traditional ground maneuver capabilities, Israel will win the next war. However, nostalgia and a return to “the good old ways” are not necessarily the best preparation for future wars. For example, war with Syria remains a possibility. In past wars (e.g., 1973), the ability to take Syrian territory in Syria was what eventually led to victory. Another war with Syria could be very different. Instead of a symmetrical war, Israel may find itself in a “parallel war”: Israel will overcome the Syrian army while the Syrians overcome the Israeli home front, since Israel does not possess an adequate solution to the threat of rockets and missiles. Victory over Syria in the next war requires different thinking and different priorities for different political and military operations. It is unclear just how much the army has adapted itself to a different reality. Military activity at the most senior levels is a complex intellectual challenge that necessitates a connection between a theoretical and abstract system of concepts and “the reality base.” It demands correct identification of changes, even when they occur imperceptibly. It is still too early to know to what extent the military leaders are actually doing this.

A second uncertainty concerns the thorough reassessment of basic assumptions. True, the IDF has undertaken systematic and noteworthy improvements to correct the deficiencies that were manifested during the last war. However, it is possible that some of the reasons for the army’s mediocre performance relate to outmoded decisions or institutions and habits deeply rooted in basic assumptions that seemingly required no reexamination. One example is the structure of the General Staff, particularly in wartime. In most of the world’s militaries, there is a clear distinction between staff elements and

operational units. However in the IDF, most of the generals of the General Staff also serve as staff officers and as operational unit commanders. Thus, for example, the head of the logistics branch fills three functions simultaneously: he is a staff officer (the General Staff logistics officer), the logistical command officer, and the ground logistics divisional officer – and this example is only one of many. This state of affairs generates two problems. The first is that, as in the example cited, one element “issues orders to itself.” The second problem is that the critical desideratum of a staff officer – that he work solely for his commander on the basis of the overall interest – cannot be realized. Moreover, if this phenomenon does not exist in other armies, then there might be some reason to question its existence in the IDF. This is not a theoretical issue. The IDF General Staff has not performed brilliantly in any war since 1967. It is likely that in addition to the improvement in professionalism, the structure should be thoroughly examined.

The third dimension of questionable change concerns the culture of debate. One of the problems in the Second Lebanon War was the exaggerated adherence of senior officers to the chief of staff's decisions. There is no question that the final word rests with the chief of staff, and once decisions have been made, all must demonstrate complete commitment to their implementation. However, it is the senior officers' job to argue with the chief of staff when they feel he is wrong, and this should be done assertively on the basis of professional truth as they see it. It is not clear if the silence of the senior officers in the last war was a one-time phenomenon or is a persistent attribute of the IDF.

Norms and Values

The senior command is clearly concerned over certain normative shortcomings that came to light in the war, and there is a genuine intent to improve this area. The current chief of staff now communicates the message that the IDF is in one of two conditions: either preparing for a war or fighting to win a war. This is a different message than the more

administrative approach conveyed by his predecessor. On the other hand, it is hard to discern if and to what extent change has actually taken place. The main question remains: to what degree should the army be ready and is it ready to pay the price of preparing the field officer to take more initiative and responsibility. For example, is it correct or even possible to allow lower-grade officers to plan and lead current security operations with less control from above only in order to prepare them better for a conventional war? There are no easy answers to such questions, and it is hard to say that a change can be seen. Yet one can venture that if there is significant improvement in formulating orders and defining “objectives” and “missions” more clearly, they will be more easily implemented and there will also be a clear improvement in the soldiers’ determination to stick to the mission in order to attain the objective.

In conclusion, the IDF has related seriously to the flaws and shortcomings revealed in the Second Lebanon War and it has shown a real determination to correct them. In all matters relating to the short term, much work has undoubtedly already been done. However, it is harder to be equally definitive with regard to the fundamental causes of the problems that came to light.

Chapter 4

The Regional Military Balance

Yiftah S. Shapir and Shlomo Brom

A traditional military balance compared states' inventories of main weapon systems – fighter aircraft, tanks, APCs, artillery pieces, armed helicopters, fighting ships, and submarines – as well as the number of fighting formations. These benchmarks were inherently problematic because they were based on quantitative data only. In an attempt to take qualitative criteria into account as well, analyses sometimes considered weapon systems' performance and parameters such as the quality of training and of personnel, which are much more difficult to gauge.

Two additional factors complicated a comparative analysis. First, with the introduction of precision guided munitions, the performance of the so-called main weapon systems became less important than the performance of the system as a whole – the integration of platforms, smart munitions, and C⁴I systems. Second, asymmetrical warfare erased the divide between the military and the civilian. The objective of the asymmetrical foe, usually a non-state actor, is not to destroy its enemy's military forces and occupy its territory, but to create a perception of victory by sheer survival and retention of the ability to exact costs from the enemy, especially its civilian population. In this kind of war, other parameters such as the low signature of fighting forces and survivability are more salient.

Analysts have commonly divided Israel's strategic environment into three concentric circles. The inner circle usually referred to the threat of terrorism from the occupied territories; the close circle considered the "conventional" threat from the Arab states bordering Israel; and the outer circle represented mainly the threat of long-range missiles, possibly armed with weapons of mass destruction (WMD). Current evidence indicates that these traditional dividing lines have blurred.

Rockets and Asymmetric War: Two Circles Intermingled

Israel has been involved in a low-intensity conflict with Palestinian armed organizations since the 1960s. Following the 1982 war in Lebanon, Hizbollah promoted two main instruments of asymmetric warfare: suicide bombing and indirect fire, mainly rocket, aimed at civilian targets. In the second intifada these became Palestinian trademarks as well.

The Israeli security forces succeeded in developing an effective response to suicide bombings through the construction of a barrier system (the security fence), good intelligence, and freedom of action in the West Bank, all of which facilitate interception of suicide bombers before they reach their targets. Once the deployment of the barrier in the West Bank is completed, this system will presumably be even more effective.

In contrast, the use of rockets against Israeli population centers has become a major problem. When the first Qassams were fired on Israel in 2001, they were characterized by their poor performance and short shelf life. However, the Palestinians have since improved the Qassam and turned it into what is currently their most effective weapon against Israel. It causes few casualties, but it is effective as a classic weapon of terror that fosters a sustainable threat against the civilian population, making it impossible for those within range to pursue a normal routine.

The Second Lebanon War exposed the full effect of this type of asymmetric warfare. Hizbollah's strategy was to avoid direct confrontation of forces on the battleground. Its main objective was not winning, rather avoiding defeat. Hizbollah did not try to conquer any Israeli territory, but instead continued to harass the population in northern Israel with rocket fire while exacting costs from Israeli ground forces engaged in occupying the launch areas. This enabled Hizbollah to claim victory at the end of the war.

Hizbollah's tactics involved several types of rockets: heavy rockets, fired from mobile launchers; and medium and light rockets, fired from hidden, static launchers, usually prepared in advance and unmanned during the actual firing. Hizbollah was also equipped with large numbers of anti-tank guided missiles (ATGMs), which were used effectively by small contingents against Israeli formations armed with main battle tanks (MBTs) and armored fighting vehicles (AFVs).

The war proved to Israel that airpower can deal effectively with the higher signature medium- and long-range rockets, but the only way the more numerous, smaller, and dispersed short-range rockets can be neutralized is by occupying the launch areas. Since the war, the IDF has invested much in equipping and training adequate forces for this mission. Israel is also developing active-defense systems that will intercept and destroy the short-range rockets, but it will take several years until these systems are deployed. Even then, it remains to be seen whether they can effectively counter the threat of the short-range rockets.

The Lebanon Front

While mutual deterrence, UNSCR 1701, and Hizbollah's domestic political concerns have kept the Lebanese border relatively calm since August 2006, the organization has not sat idle. It believes that its strategy proved effective, and it is preparing for a similar – but more successful – future encounter. According to Israeli military sources, Hizbollah, assisted by Iran and Syria, has amassed about

35,000 rockets and ATGMs (triple its pre-war inventory). Most are short-range 107 mm and 122 mm Grads, but the long-range arsenal has also grown and includes Syrian-made 240 mm and 302 mm rockets as well as heavier Iranian Zelzals and more accurate Fateh 110 rockets. Hizbollah has also acquired more coastal anti-ship missiles, similar to those that struck an Israeli corvette during the war. However, it seems that Hizbollah has not yet been able to replace the trained personnel it lost in the war.

Thus, stability along the Israeli-Lebanese border prevails largely due to a mutual balance of terror. Hizbollah has renewed and improved its capability to harass the population in large sections of Israel, while Israel retains the ability to cause massive damage to Lebanon, Shiite interests in Lebanon, and Hizbollah.

The Gaza Front

The Palestinian arsenal relies on smuggling from Sinai and limited indigenous manufacturing. Thus, Palestinians do not have access to the rich inventory of weapons possessed by Hizbollah. Nonetheless, Hamas forces in Gaza have tried to emulate Hizbollah by acquiring the ability to launch large numbers of short-range and longer-range rockets at Israeli populated areas and to operate a large number of well trained small units equipped with anti-tank weapons that aim to inflict high casualties on Israeli forces.

There is an ongoing attempt to upgrade the indigenously manufactured rockets. There are also efforts to smuggle additional military-grade rockets, of the original Soviet Grad type ("Katyusha"), through Sinai to the Gaza Strip. These have extended the range of Palestinian rocket fire to Ashkelon, but as yet they are limited in number. Hamas has also adopted Hizbollah tactics, such as rocket launchers dug into the ground and concealed in advance.

Recent incidents have shown that while there is some improvement in Hamas' level of fighting, it is still far from the proficiency of similar Hizbollah forces.

Syria

Syria is the best example of the mingling of the different threat circles. In the past, it represented a typical threat of the close circle – a neighboring country with conventional forces equipped to launch a land invasion, albeit in such a dismal state that they hardly pose a serious threat to Israel.

Two developments have started to change this situation. First, in December 2005, Syria and Russia ended a longstanding dispute regarding Syria's \$13 billion debt to the former Soviet Union, and in 2006 and 2007 the Syrian military began to absorb some new weapon systems. Negotiations continue over the Syrian shopping list, though unlike during the heyday of the USSR presence in the Middle East, Russia is more cautious and probably not keen on supplying Syria with every item it hopes to acquire.

Second, the Second Lebanon War showed the regime that it is possible to stand fast against the formidable Israeli war machine by adopting a doctrine of asymmetric warfare. Syria's developing strategy is composed of three elements:

1. Reliable deterrence, which aims to deter the enemy from waging war in the first place. For some decades, Syria has based this deterrence on ballistic missiles equipped with chemical warheads, and it continues to develop and improve their capabilities. In recent years it has also gained the capacity to launch large numbers of medium- and long-range rockets at civilian targets.
2. If deterrence fails and war begins, the first line of defense would be strong, dispersed, low-signature elements, which might not be able to block an attacking force altogether but could still exact a high cost.
3. At the same time, a war of attrition against the attacker's civilian population could be conducted using massive numbers of rockets and missiles.

Syrian procurement, training, and deployment of forces are shaped by this doctrine. Thus, Syria continues to invest heavily in developing its missile force, and it seeks to strengthen its defensive capabilities

against an Israeli offensive. Syria's recent acquisitions are mainly of three categories: air defense, ATGMs, and coastal defense. There has been no real effort to procure either MBTs or attack aircraft.

- Syria acquired the Strelts air defense system, followed by the new Pantsyr S-1 air defense system; these have already been partly supplied. Both are mobile, short-range defense systems and are designed for point defense of strategic installations or combat units.
- ATGMs: Syria procured more Kornet-E missiles, similar to those it had previously acquired and transferred to Hizbollah, and also the Khryzantema systems, the newest and most advanced anti-tank system in the Russian arsenal.
- The Syrian navy, which was neglected for decades, was boosted by the acquisition from Iran of more C-802 anti-ship missiles, which can be launched from both combat vessels and coastal launchers. The Syrian navy also acquired light patrol boats, likewise from Iran.

The last major manifestation of the current Syrian strategy is the deployment of vast numbers of short- and medium-range artillery rockets. As early as mid-2007, there were reports that Syria moved thousands of rockets to its border with Israel and deployed many of them in fixed, underground positions. This method of deployment was unknown in Syria before 2006.

Overall, Israel still retains a clear advantage over the Syrian military in any direct encounter between the armed forces of the two states due to its superior airpower and its dominant RMA (revolution in military affairs) capabilities – standoff precision guided firepower combined with effective C⁴I systems. It is still unclear whether the asymmetric response Syria is developing can be an appropriate solution to Israel's military advantages, taking into account that the IDF also has better capabilities of causing damage to Syria's infrastructure and civilian population. If war becomes a competition between the two states over the capacity to damage the enemy's civilian rear, it is far from certain if Syria can weather the Israeli response.

The Familiar Close Circle – Egypt and Jordan

While Syria is evolving into a complex, asymmetric threat, there are no signs of such developments in Egypt and Jordan. Both countries have channeled substantial US aid into conventional, mostly American-made weaponry, and both countries' militaries are trained for conventional wars. In terms of equipment, the Egyptian armed forces have evolved into a large and highly sophisticated military machine. With annual aid of \$1.3 billion from the US, Egypt's main objective in arms procurements is to be on a par with Israel. Its navy is much larger than Israel's and is equipped with modern frigates from US navy drawdowns. The Egyptian armed forces lag far behind Israel's in the ability to engage in the new RMA-type of regular war, though they train frequently with other modern Western forces (first and foremost, the US). The military has continued to upgrade its large air defense component by modernizing its aging Russian-made air defense systems. In addition, Egypt continues to build its military industry, where the current focus is the ongoing project of assembling M1A1 Abrams MBTs and M88 armored recovery vehicles.

Jordan, like Egypt, has relied on American-made military equipment for many years (though it has felt free to diversify its sources. For example, Jordan has been operating Russian-made SA-8 SAMs since the 1980s). Jordan also invests considerable efforts in building up its own military industry. Since the American invasion in Iraq, Jordan became a much more important ally of the US. That has positively affected the level of US aid to Jordan, which will amount to \$202 million in 2008. Overall, the Jordanian military is a relatively well trained small military force, but it suffers from acute shortages due to lack of resources and is focused exclusively on building credible defensive capabilities.

Although Israel regards Egypt and Jordan as potential military risks, both countries have peace agreements with Israel that have proven stable since they were concluded. Moreover, both countries are not only allies of the US; they are also highly dependent on US aid. The US is committed to ensuring Israel's qualitative edge, which

makes it difficult for Egypt and Jordan to achieve clear military advantages over Israel.

The Outer Circle

While Israel tends to see the regional military balance in the framework of the Arab-Israeli conflict, some of the most important developments have occurred in the Gulf region and have little to do with the Arab-Israeli conflict or balance of forces. Indeed, most of the wars in the Middle East have taken place in this very region: the Iran-Iraq War in the 1980s, the Iraqi invasion of Kuwait and the 1991 Gulf War, the 2003 Iraq War, and the subsequent American occupation. The role of the Gulf region as a main source of oil, inherent instability, and the growing threat of Iran make the military balance in the Gulf a significant issue.

Reaction to Iranian Buildup

Iran has been building up its military force since the war with Iraq ended in 1988, and it has slowly evolved as a contender for regional hegemony. Its conventional military forces are large, though equipped mostly with outdated equipment or relatively small numbers of modern equipment pieces procured in China, North Korea, and Russia. What primarily bother the other states in the region (as well as Israel) are Iran's efforts to acquire military nuclear capability, as well as its ballistic missile force buildup. Added to that is Iran's military assistance to various insurgent forces in the region.

Most of the other states in the Gulf reacted with a major military buildup of their own. An earlier wave of military procurement in the late 1990s was followed by a few years of limited procurement, as militaries in the region were absorbing their newly acquired systems and as oil prices fell. Recently – and with the surge in revenues from rising oil prices – the military shopping spree has resumed.

The two most prominent purchasers were Saudi Arabia and the United Arab Emirates. Both invested billions in new acquisitions, primarily for their air forces and navies, the military arms most

relevant for warfare in the region. The UAE and Saudi Arabia have also labored to build up their indigenous military industries, often through technology transfer and offset agreements that accompany any new arms procurement deal.

Another important aspect is the fierce competition between arms suppliers to the region, which gives countries in the region considerable leverage. Saudi Arabia, for example, whose navy traditionally relied on French systems and whose air defense is a mix of US and French systems, has connected with the UK in the Typhoon deal. Another contender in the Gulf arms market is Russia, which sold IFVs and air defense systems in the region.

Numbers of weapon systems and their performances indicate that the Arab Gulf states enjoy a clear advantage over Iran in the critical areas of air and naval power. The most important related question is the quality of these wealthy, well equipped militaries. All the Arab countries in the region suffer from a shortage of qualified manpower, and wealthy citizens rarely see their future in military service. Some of the militaries in the region still rely heavily on foreigners for different jobs, and how these foreigners would function in wartime remains an open question. It is also not clear how cohesive and motivated these militaries would be in a clash with the highly motivated, ideologically driven Iranian forces.

US military forces remain deployed in Iraq and some of the smaller Arab Gulf states. There is also a major US naval presence and pre-positioned equipment for additional units, meaning that the US presence can be increased rapidly. The US military serves as the most important counterbalance to Iran.

Conclusion

Over the years, the IDF has developed superior capabilities in comparison to its potential rivals in two areas geared mostly toward conventional warfare: the capacity to operate large maneuvering formations and the massive use of long-range standoff precision fire. Although the Second Lebanon War exposed a weakness in the

maneuvering elements, the IDF has since invested in correcting this lapse and these forces are presumably regaining their proficiency. Thus, the IDF still retains its advantages over any probable combination of Arab states engaged in a regular war against Israel.

Threats from the “outer circle,” mostly by medium-range ballistic missiles, have preoccupied Israeli planners for almost two decades, and Israel has achieved significant capability to mitigate these threats (by acquiring long-range attack capabilities and by ballistic missile defense systems like the Arrow).

Israel remains beset by a threat of asymmetrical warfare from the close circle. The basic problems are how to win a war against a non-state actor whose main purpose is to survive and retain some fighting capabilities, and how to prevent harassment of the population by enemy rockets. The IDF lacks a good solution for short-range rocket attacks other than occupation of the densely populated launch areas.

In the Gulf region, the US, with its Arab allies, maintains a balance of force with Iran that deters the latter from taking any military steps other than giving clandestine aid to the Iraqi insurgency. The region’s main concern is the possibility of a future US disengagement from Iraq that may weaken US resolve in deterring Iran.

Chapter 5

The Arab World 2007

Mark A. Heller

The use of the term “Arab world” to connote a significant force in regional and international politics became outdated many years ago. Though still invoked by aging Baathists and Nasserists in the Middle East and their intellectual acolytes in the West, the notion of the “Arab world” as a coherent political entity has long lost whatever operational potency it might have had in the golden age of Arab nationalism, from the mid-1950s to the early 1970s. Even then, effective unified action was more an aspiration than a reality, and Arab states (or regimes) were positioned on a variety of axes, where the labels widely used to frame regional political alignments – “conservative,” “radical,” “moderate,” “pro-Western,” pro-Soviet,” and so on – did not nearly do justice to extant political realities. Still, there was a hegemonic idea of Arab nationalism that the charismatic leader Gamal abd al-Nasser could employ to appeal directly to mass audiences and set a regional agenda to which others perforce responded. At the height of the phenomenon, some observers were even analyzing Arab political dynamics in a conceptual framework borrowed from nineteenth century Germany or Italy, with Egypt assigned the role of Prussia or Piedmont in a process that would ultimately lead to unification. Since then, Arabism has been increasingly challenged, not only by state-based identities but even more so by the emergence or resurgence of

competing subnational and supranational sources of political identity and loyalty—confessional or Islamic. Among the various explanations for the decline of Arabism, perhaps the most salient has been the discrediting of Arab nationalism as a result of military defeats (of Nasserist Egypt and Baathist Iraq) and the progressive weakening of the state-engines that drove the idea and the cause.

True, the idea of the “Arab world” continues to resonate in a cultural sense as well as in expressions of rhetorical solidarity with Arabs locked in conflicts with non-Arab adversaries. But even in this respect, there has been a noteworthy change, namely, a shift in the Arab world’s center of gravity from the Levant to the Gulf. The multifaceted background to this shift includes a growing preoccupation with the specter of Iranian hegemony, but perhaps even more significant is the progressive enrichment of the Gulf kingdoms and principalities due to a dramatic rise in the price of oil.

In both respects, 2007 did not witness new dynamics but it was marked by the intensification of these trends and processes.

Shadows of the Past

Perhaps the most noteworthy example of the continuing deterioration of state authority in both material and moral terms was Egypt, precisely because it had been the most important political engine of Arabism in the twentieth century. According to one analysis, 2007 was “the year of civil disobedience” in Egypt, as the country witnessed a wave of strikes, sit-ins, protests, and other forms of confrontation with the authorities. Most of these actions were concentrated in the (very large) public sector, and in almost every confrontation between workers and the state, the government backed down, as if tacitly acknowledging its fear of provoking a hitherto quiescent populace. The majority of these incidents focused on economic issues, though some activists were moved to hope that they signaled a potential for confrontation on political matters as well. In fact, however, there was little evidence that the political system was shaken in any way from its lethargy, and there was no perceptible movement in the process

of political reform. Cosmetic moves that might have suggested otherwise, such as the elimination of references to socialism in the constitution and the abrogation of the emergency laws in effect since 1981, actually served as cover for the continued stifling of democracy by other means, such as the introduction of new anti-terrorist legislation in the same spirit as the emergency laws and the elimination of judicial supervision of elections. Nor was there any real invigoration of party life. The opposition parties were unable to exploit what little maneuvering room the law allowed them because of internal disputes and rivalries, and the ruling National Democratic Party was largely preoccupied with the protracted preparation of President Husni Mubarak's son, Gamal, to succeed his father, vigorous denials to the contrary notwithstanding. Despite signs of significant macroeconomic growth (of about 7 percent), there were widespread perceptions that the benefits were largely confined to a narrow stratum of the population, and Egypt continued both to lack the resources and to project the vigor and vision needed to energize the Arab world as a whole.

The same was true for Syria. In May, Bashar al-Asad was elected to another seven year term as president, with the support of 97.6 percent of the voters. The result was hardly a proof of democratic legitimacy, but it did symbolize Bashar's success in entrenching his rule despite widespread assessments in 2000 when he succeeded his father, Hafez, that he lacked the character or experience to survive the rigors of rule in Damascus. After seven years in power, Bashar has managed to dispense with almost all of the "old guard" identified with his father and to appoint his own loyalists to most key positions. Bashar's achievement, however, was not matched by Syria as a whole. Political stability produced little in the way of economic and social development. According to a variety of indicators, Syria continues to rank very low in technological progress, economic competitiveness, and quality of life – even by Arab standards. Tentative steps to liberalize the economy have stalled, as did efforts taken immediately after Bashar took power to open up the political system. Syria

remains a focus of regional and international interest largely because of its capacity to stir up trouble, but it lacks the energy or resources to inspire others and its traditional pretensions of being “the beating heart of Arabism” have long since been deflated by a far more modest reality.

Egypt is a homogenous society, except for a minority of Copts who display no signs of a sectarian agenda. Syria is a far more fractured society but is held together by effective authoritarian rule. In most other Arab states, the reality or potential for sectarian/confessional conflict is greater. Apart from Sudan (which is beyond the scope of this review) and Iraq (which is treated in a separate chapter) the most extreme manifestation of this problem was in Lebanon.

When the assassination of former Prime Minister Rafiq al-Hariri sparked a wave of Lebanese protests and international pressure that eventually culminated in the withdrawal of Syrian forces from the country in the spring of 2005, it seemed that Lebanon might finally shed the Syrian-imposed straitjacket of stalemated politics and reassert its identity and independence. That hope was further encouraged by the aftermath of the 2006 war, which obliged Hizbollah to acquiesce in the deployment of the Lebanese army throughout the country, and by the wave of patriotic sentiment inspired by the army’s successful repression of a revolt by the radical Islamist organization Fatah al-Islam during 2007. However, none of these events was sufficient to close the sectarian rifts in Lebanese society. These manifested themselves in the crisis that beset the Lebanese political system during 2007, which was accompanied by a steady drumbeat of political assassinations (of anti-Syrian figures) and grounded in the efforts of a Hizbollah-led and Syrian-supported alliance to paralyze or overthrow the government of Prime Minister Fouad Siniora and, more specifically, to ensure that pro-Syrian President Emile Lahoud, whose (extended) term of office expired at the end of November, was succeeded by a candidate equally amenable to Syria (and Hizbollah). That crisis was not resolved by the time Lahoud had to step down, because while the main factions had tentatively agreed on a compromise

candidate (Army Commander Michel Suleiman), the opposition refused to carry out the vote in Parliament unless the Siniora camp first consented to form a broad new coalition that would effectively give the Hizbollah-led opposition a veto option on government decisions. While it was possible to attribute some of these problems to the bickering of politicians everywhere, they more fundamentally reflected the underlying fractiousness of Lebanese society as a whole, and especially the continuing prevalence of confessional loyalties and competing identities over any all-embracing sense of shared destiny. As a result, not only did Lebanon remain an object rather than actor in the interplay of regional politics; it was also unable to reclaim the role it once did have as a cultural and economic crossroads of the Arab world. Moreover, Lebanon's sectarian divides replicated a phenomenon present in many other parts of the Arab world. The most critical of these was the entrenched rift between Sunnis and increasingly assertive (Iran-oriented) Shiites. That divide was given little expression in the 1950s and 1960s, when Shiite self-awareness was much less pronounced, but of late has immensely complicated any efforts to present even a facade of Arab unity.

The Gulf Also Rises

The difficulties besetting Egypt, Syria, and Lebanon meant that the energies driving the idea of the Arab world during much of the twentieth century were no longer to be found in the traditional Levantine cradle of Arab nationalism. In recent years, a partial replacement for that center of gravity began to emerge in the Gulf, where the dramatic rise in oil prices – symbolized by the breach of the \$100 per barrel threshold – conferred on local rulers huge reserves of disposable income. This money has been used to buy a variety of assets that partially translate into regional and international influence and prestige. Modern physical and technological infrastructure and paternalistic cradle-to-grave welfare systems together with massive subsidies have somewhat blunted domestic opposition. The import of workers has created dependencies in labor-exporting countries in

the Middle East and South Asia that heighten attentiveness to the political sensitivities of the Gulf states (as investments and bail-outs by sovereign wealth funds have the potential of doing in the West). And the construction of state of the art universities and satellite television networks has seemingly shifted the intellectual magnetic pole of the Arab world from Cairo and Beirut to Qatar and Dubai; “Voice of the Arabs” and *al-Ahram* have effectively been replaced by al-Jazeera and several Gulf-owned newspapers (often published abroad) as the shapers of mass and elite opinion.

Politically, this transformation has been manifested in the progressive usurpation by Saudi Arabia of Egypt’s longstanding role as the source of whatever Arab initiatives there are. In 2007, for example, it was Saudi Arabia, not Egypt, that mediated the so-called Mecca Agreement between Fatah and Hamas that created the (short-lived) Palestinian national unity government, and it was Saudi Arabia that pushed the Arab League to reaffirm its support for the 2002 Saudi initiative aimed at enticing Israel into complying with Palestinian and Syrian terms for peace.

Ultimately, however, Gulf wealth was insufficient to instill a renewed sense of Arab dynamism. For one thing, the patina of modernity it provided could not obscure the fact that political, economic, and social reform and modernization were still in their early stages. Not a single Arab state, for example, ranked among the 25 most competitive economies in the latest Global Competitiveness Report of the World Economic Forum. Second, that wealth is not being used as an instrument to tie the Arab world together more tightly, largely because Gulf investors, cultural affinities notwithstanding, have made decisions mostly on economic grounds, and the uneven pace of liberalization in the non-oil countries has limited the number of attractive opportunities there. In 2002-2006, for example, only about 10-11 percent of Gulf Cooperation Council foreign assets (\$60 billion) were invested in the Middle East and North Africa. Finally, the massive accumulation of wealth (and weapons) was not accompanied by political self-confidence, usable military force, or an

ideological message that could resonate in the publics of other Arab countries.

For all these reasons, the Gulf countries – singly or together – were not able to become the alternative engine for unified action. The ostensible mechanism for such action – the Arab League – still existed, of course, and its secretary general could be relied on to release periodic declarations denouncing the enemies of the Arab nation and blaming them for its problems. But as a vehicle for organizing effective pan-Arab action on the most neuralgic regional issues, the League was a signal failure. Despite some highly publicized diplomacy, it achieved nothing in Lebanon, where the dominant actors, apart from Syria, were Iran and the United States. It was similarly powerless in Iraq, where the agenda was largely driven by Iran, the United States, and Turkey. It was essentially absent from Darfur, where involvement (however ineffectual) was confined to the United Nations and the African Union. In the failed state of Somalia – an Arab League member – Ethiopia was more a prominent factor. And on perhaps the most salient issues of all – the Palestinian issue and the specter of Iranian hegemony – the League was little more than a bystander.

Clearly, the Arab League's impotence is simply a manifestation of the rivalries among its member states. On most major policy issues, different states are divided by opposing approaches that reflect divergent interests. Sometimes these differences are papered over by formulaic declarations that obscure their real contradictions; that has been the case with Iraq, where rhetorical opposition to the American invasion and support for American withdrawal and the preservation of Iraqi territorial integrity conceal serious differences over the proper approach to the regime of Saddam Hussein, the Sunni-Shiite struggle within Iraq, the timing and circumstances of any American withdrawal in the future, and above all, the role of Iran. It is also the case with the Israeli-Palestinian conflict, where rhetorical support for Palestinians and, more recently, for the two-state solution outlined in the Arab initiative conceals serious differences over the precise

terms of settlement, the proper means of pursuing it, and the domestic Palestinian conflict between Fatah and Hamas. In the case of Lebanon, however, even rhetorical unity has been unattainable, and the divisions over outside involvement in Lebanese affairs are so deep that they resulted in a partial boycott of the 2008 Arab League summit held in Damascus.

The common thread in almost all these controversies is Iran, or more precisely, the alignment of Syria and several important non-state Arab actors (especially Hizbollah and Hamas) with Iran. The dominant if implicit subtext is the widespread apprehension in most Arab countries about the threat to their own domestic and national security implied by growing Iranian power and assertiveness, whether in the traditional military sense or in the support for potentially subversive Islamist movements and/or local Shiite communities. Given that the rift between the Iranian-led axis and the Sunni Arab governments involves not just interests but fundamental questions of identity, the farce surrounding the Damascus Summit will not be its last manifestation, and it is likely to dominate regional politics for the foreseeable future.

All in all, the notion of the Arab world continues to exercise a hold on the imaginations of many in the region. There is still a sense of cultural affinity and mutual sympathy, perhaps even reinforced by the spread of communications technology that often transcends national government control. In addition, solidarity with Arabs engaged in rivalries or conflicts with non-Arab adversaries remains strong. In a political sense, however, the best description of the “the Arab world” may well be “virtual reality.”

Chapter 6

The Israeli-Palestinian Arena: Dynamic Stagnation

Anat Kurz

The Israeli-Palestinian arena of 2007 was in continual turmoil, yet it did not undergo any underlying change in its principal parameters. In fact, these parameters became more clearly defined. The Hamas takeover of Gaza dramatized the process of change underway in the inter-organizational Palestinian arena over the last twenty years. Fatah disintegrated and became ever more dependent on Israeli and international support. The armed struggle between Israel and militant Palestinian factions – Hamas and other splinter groups – continued. Moreover, even though dialogue between Israel and Fatah resumed, there was no substantial breakthrough auguring an agreed settlement.

Between Gaza and Ramallah

2007 began with severed political contacts between Israel and the Palestinian Authority (PA). When Hamas won the Palestinian Legislative Council elections the previous year, the PA divided between the Hamas-led government and the presidency, held by Fatah leader Mahmoud Abbas. The Hamas-Fatah rivalry preempted various attempts by outside parties and by the leaderships of the movements themselves to rehabilitate the PA. This internal political

morass was compounded by the deadlock in the Israeli-Palestinian dialogue, given the Hamas credo that completely ruled out any resolution to the conflict based on a two-state solution – a departure from the willingness of previous Palestinian governments to reach a settlement with Israel.

Israel for its part focused its efforts on weakening – and toppling – the Hamas government. Israel played a central role in forming the international coalition that included the US and other Quartet members that imposed an economic embargo on the government. From Israel's standpoint, as long as the Hamas government remained in power and adhered to its ideological manifesto, there was no need or willingness to end the political stagnation. On the other hand, no alternate agenda was devised to promote a reasonable security milieu for Israel against the backdrop of the political stagnation or produce a solution for the immediate and future defense dilemmas generated in the Palestinian arena. The convergence plan in the West Bank was shelved in the wake of the Second Lebanon War and the deteriorating security situation in and around Gaza.

While the Gaza Strip borders remained under Israeli control, arms smuggling across the Rafah border into the Strip continued, compounded by Egypt's lack of control (if not apathy) over the situation. The imported weapons enhanced Hamas' military infrastructure, and Islamic Jihad and Hamas activists kept up Qassam rocket fire on the western Negev. Israel responded to the ongoing firing with an intensified economic embargo and heightened military activity, including artillery fire and land and air strikes.

The escalation signaled the end to the suspension of the struggle against Israel that was brokered between Fatah and Hamas in November 2006 with the aim of relieving the Israeli military pressure. The lull, along with the concomitant attempt to formulate guidelines for political coordination, was intended by the movement leaderships to pave the way for the PA's rehabilitation. Their hope was that Fatah's inclusion in the government would lead to cancellation of the international embargo. In fact, the embargo on the PA was

not comprehensive and aid reached the territories in ways that bypassed Hamas, by direct transfer to the presidency and to civilian aid organizations. Moreover, the sums that reached the territories during 2007 exceeded the monetary transfers of the previous years. However, the embargo on the Hamas government prevented Hamas from consolidating its rule, and there were protests in the territories against the PA, led by government employees who were not receiving their salaries. In any case, the lull was accepted by Fatah and Hamas; Israel was not a party to the agreement. Signs of Israeli control likewise remained in effect in the West Bank, including physical separation between inhabited Palestinian areas and Israeli settlements, and roadblocks that impeded passage within the West Bank and into Israel. In addition, Israel maintained its ongoing military activities in the West Bank against terrorist factions, which fueled efforts to escalate the struggle against Israel in the West Bank and from the Gaza Strip.

The Fatah and Hamas leaderships did not succeed in restraining the militant factions, nor did they manage to reach an agreement among themselves. Clashes between their armed forces intensified. The PA's security forces remained under Fatah's control and fought to retain whatever remained of their control of the Palestinian street. For their part, the Hamas forces were organized as a semi-structured militia designed to police the streets of Gaza and to deter Fatah from attempting a military coup that would deprive Hamas of its electoral gains. Thus, in addition to the institutional and economic collapse in the territories, there was a sense of impending civil war.

The political stagnation accentuated the regional anxiety over developments in the Israeli-Palestinian arena and their implications for the regional balance of power. Led by Saudi Arabia and Egypt, Arab states sought to curb the deterioration and establish national Palestinian representation for talks to further the Arab peace initiative, ratified at the Arab League in Riyadh in April. The month before the summit, representatives of Hamas and Fatah met in Mecca. With great inter-Arab encouragement – if not pressure that left the leaderships of

the two movements no choice – the principles of a unity government were formulated. From the perspective of the Arab League, this government was designed to help establish a regional front that would counterbalance the militant Islamic bloc led by Iran. An Arab-Israeli settlement was considered to be a means of furthering this goal, and an Israeli-Palestinian agreement was viewed as an integral precondition. However, the Fatah and Hamas leaderships, which were entangled in the struggle for domestic power, responded to the inter-Arab pressure based on the same considerations that had previously motivated their efforts to quell the inter-organizational enmity and to calm tension in the confrontation with Israel, not necessarily out of a wish to generate a national representative body for talks with Israel. In fact, the establishment of a unity government – facilitated by President Abbas' waiver of the demand that Hamas recognize Israel – obviated any chance of renewing the political process.

The creation of the unity government, however, did not herald a new era in Fatah-Hamas relations. Their leaderships did not reach agreement over the division of authority that would allow the PA to function. Moreover, Fatah's inclusion in the government did not lead to the rescinding of the international embargo on the PA but instead produced intensified Israeli and international criticism of President Abbas. Meanwhile, the military struggle between the two movements escalated further. In June, Hamas forces in Gaza overpowered their Fatah counterparts and took control of the Strip. This development, which led to a de facto split in the PA, marked another stage in the ongoing undermining of Fatah, the PLO, and the historical national leadership by territories-based forces, chief among them Hamas. President Abbas disbanded the unity government and Hamas established its own government. Abbas authorized economist Salam Fayyad, not a member of Fatah, to establish an emergency government as a counterbalance to the Hamas command. Significantly, this Ramallah-based government, comprising mostly professionals, did not have a parliamentary majority; hence its authority came from President Abbas only.

Hamas was faced with the challenge of consolidating its rule in the Strip under severe economic difficulties and constant military pressure. These necessarily impeded the movement's attempts to take over the West Bank and reduced its public support. Yet while support for Fatah increased, this did not directly translate into a stronger organizational posture or an enhanced ability to enforce policy. The loss of Gaza underscored the challenges confronting Fatah before its defeat, primarily rehabilitation of the movement and recovery of its institutional standing. In order to retain the presidency and any popular support it still enjoyed, and in order to improve the prospects of regaining control of Gaza, the movement's leadership revived its interest in the political process, namely, restoring the PA's original political and legal basis. Renewed international focus on the conflict provided Fatah an opportunity to try to further this objective.

In the wake of Hamas' takeover of Gaza, international criticism of President Abbas for attempting to reach understandings with Hamas was replaced by support for him and the Fatah movement. This turnaround reflected the concern that without massive support, the Palestinian camp that advocated an agreed settlement would lose its remaining influence in the territories. Indeed, the split in the PA created a clear distinction between those supporting a settlement and the militant Islamic opposition. Therefore, optimism about a renewed political process replaced the pessimism generated by the loss of Gaza to Hamas. In the international arena, renewal of dialogue between Israel and the Palestinians – even if only between Israel and Fatah – was deemed an opportunity to further a settlement that would both undermine Hamas' hold on the Palestinian public and wrest from the regional Islamic camp a monumental achievement. This assessment motivated President Bush's initiative to convene an international summit – or “meeting,” as he labeled it – that would advance the creation of a Palestinian state.

To Annapolis and Back

The Israeli government responded to the administration's call for the resumption of the dialogue with President Abbas in the hope that ending the stagnation would generate a new political agenda for Israel, boost the idea of a two-state solution, and strengthen the Palestinian camp that could promote it. As Prime Minister Ehud Olmert stated upon his departure for Annapolis, "[the status quo] will lead to Hamas taking over Judea and Samaria, and to a weakening – prior to the disappearance – of the moderate Palestinian element. If this latter camp does not manage to create a political horizon, the result will be fatal." Mahmoud Abbas echoed that the summit was "an opportunity that will not reappear." Arab countries, chiefly Egypt, Saudi Arabia, and Jordan, were included in preparations for the summit and assigned a key role in the process it was supposed to jumpstart. They were expected to back the sacrifices that would be demanded from the Palestinians in return for a settlement; encourage Israeli concessions via diplomatic and security incentives; and facilitate formation of the regional front that matched both the US interest and the idea underlying the Arab initiative.

Due to the difficulty in formulating an agenda that would be agreeable to all the parties involved, primarily the Israelis and Palestinians, it sometimes seemed that advance diplomatic activity was invested mostly in preventing cancellation of the summit. Before the conference, Israel released a few hundred Palestinian prisoners – a gesture that acknowledged the sensitivity of the Palestinian public to the issue and the benefit that Abbas could reap in the domestic arena from the move. In addition, preliminary meetings between Olmert and Abbas were held, demonstrating their commitment to revive the political process. However, Israel refused to commit in advance to the details of a settlement and limited itself to the formulation of common principles for negotiation. Abbas, on the other hand, strove to achieve a detailed declaration of principles and even threatened to boycott the summit given Israel's stiff resistance to such a document. His opposition ebbed with the promise made by Secretary of State

Condoleezza Rice that at the summit the United States would renew its call for the creation of a Palestinian state and her reassurance that Israel was committed – though as yet without a timetable – to withdraw from most of the West Bank. The Annapolis gathering was ultimately attended by all the sides directly involved in the conflict and by dozens of other countries. Its highlight was a joint declaration of intent read by President Bush to negotiate and formulate a permanent settlement by the end of 2008.

Prime Minister Olmert and President Abbas returned from Annapolis to their familiar home turfs, which obliged them to engage in conflict management rather than purposeful negotiations. Israel's opposition to the administration's intention to link the joint declaration with a UN Security Council resolution indicated a lack of faith in its implementation, particularly within the defined time frame. A number of tense meetings between the sides produced little progress, and their significance, like the significance of the Annapolis summit itself, was limited to the very fact that they took place at all. Continued Israeli construction on the West Bank was decried by Abbas as a threat to the future of the process. On the other hand, Israel's hope of Abbas' forces using the enhanced security aid given to them after the Hamas takeover of Gaza to combat the military infrastructure of opposition factions in the West Bank was dashed. Meantime, Israel's siege of Gaza continued – with Fatah too supporting the campaign against Hamas – as did the rocket fire from the Strip.

The siege and the threat of an Israeli invasion briefly quelled the threat of escalation by Hamas in advance of the Annapolis summit. Indeed, Hamas again requested a ceasefire from Israel but was rebuffed because of Israel's desire to wear down Hamas militarily, defeat it politically, and reinforce Fatah. Meanwhile, Egypt and Israel joined efforts to boost security coordination to prevent further smuggling of weapons into Gaza, which was undermining their fragile relationship. In January 2008, due to the prolonged economic deterioration, Palestinians breached the wall dividing Gaza from Egypt, poured into the Egyptian side, and returned to the Strip with basic goods

and other commodities. Within a few days, however, Egypt restored the closure and reaffirmed its strong reservations about assuming responsibility for the security and economic situation in Gaza. Gaza was once again placed under siege. In response to escalation of the rocket fire – during which Hamas members joined in the firing for the first time since the movement took over the Strip – Israel's economic sanctions increased even further, and the threat of extensive military action seemed ever more real.

With the faltering political process, international efforts focused on preserving Abbas' presidency and strengthening Fatah's hold on the West Bank through economic aid. In December, a conference of the donor countries convened in Paris, with the United States, European countries, Japan, and members of the Arab League among the ninety countries attending. The donor countries pledged to transfer to the Fatah government-Abbas presidency \$7.4 billion over three years. Salam Fayyad announced that the funds, most of which were designated for building infrastructure and the remainder for the Fatah-administered PA budget, would be managed in a controlled and transparent manner. His assurance that the funds would go to both the West Bank and Gaza not only indicated national responsibility but signaled an intention to use the aid to undermine Hamas' hold on the Strip. In other words, it was to help restore exclusive national leadership to the PA under President Abbas.

Looking Ahead: More of the Same

The idea of a two-state solution has long earned public and institutional support, both from Israel and the Palestinians. However, the gaps between the sides regarding the details of the arrangement have blocked progress toward realization of the vision. Repeated clashes between militant Palestinian activists and Israeli security forces in Gaza and the West Bank continued to obstruct any confidence building, and in this sense 2007 showed no departure from previous years. Israel reiterated its willingness to discuss a compromise, albeit without committing to the details or a defined timetable. President

Abbas' willingness to advance a settlement did not imply any moderation of traditional Palestinian demands and in any case, he lacked the institutional, public, and military strength that could ensure implementation of understandings. As such, recent developments in the arena, including the renewal of dialogue between Israel and Fatah, underscored the political stagnation and accentuated the obstacles toward mitigating the conflict.

In addition, there looms the danger of military escalation, particularly in Hamas-controlled Gaza. An extensive military operation mounted by Israel to stop the firing from the Strip and weaken Hamas' military infrastructure would likely arrest the political process as well. The focus in the Israeli sphere would then shift to the costs of the operation in terms of human life and the international criticism of the humanitarian suffering in Gaza. The debate over the security challenges from Gaza and the duration of an Israeli presence there would sideline talks between Israel and Fatah. For his part, Abbas will not be able to continue talking with Israel about a settlement that involves sacrifices in the face of increasing suffering in Gaza. The military pressure may force Hamas to reduce its own rocket fire, and to restrain Islamic Jihad fire as well. However, this would not necessarily attest to a weakened Hamas presence in Gaza, and certainly not to a renewal of Fatah's control there. On the other hand, practical Israeli examination of the seriousness of Hamas' proposal of a *hudna* and direct or indirect dialogue with the movement would sully the air between Fatah and Israel.

As the internal Palestinian rivalry in itself complicates progress in the political process, Egypt and Saudi Arabia, in the aftermath of Annapolis, have renewed the attempt to broker a compromise between Fatah and Hamas. However, chances of success are slim: Fatah's revived involvement in the political process came in the wake of the bloody conflict between the movements and intensified the divide between them. It is possible that with time Fatah will soften its opposition to coordination with Hamas. However, as long as Hamas adheres to its ideological manifesto there will be no rapprochement

between it and Fatah, which is the basis for establishing a national Palestinian representation relevant to the political process.

The funds that the donor countries pledged to the territories are meant to arrest the collapse of the Palestinian economy. However, without a reduction of Israeli military pressure the funds will not bring much benefit, as generous as they may be. In other words, the road to Palestinian economic rehabilitation will take as long as the road to changing the political-military reality of the Israeli-Palestinian arena, even if the donor countries fulfill their promises to the letter and a supreme effort is made to use the financial aid for the most productive ends possible.

Chapter 7

Sort of Want to, but not Really: Israeli-Syrian Relations in 2007

Amir Kulick

Looking Back

On the surface, Israel-Syria relations did not witness significant developments in 2007. The peace talks were not renewed, the Golan Heights remained in Israeli hands, and despite a certain degree of tension following the Israeli attack in Syria in September, relative calm was maintained between the two countries. Nevertheless, there were a number of important developments, primarily outgrowths of the Second Lebanon War. Syria sensed in Israel's embarrassment regarding the war both an opportunity and a risk. On the one hand, it believed that the failure would prompt Israel to take aggressive action, possibly even against Syria, in an attempt to erase the disgrace. On the other hand, the situation was also viewed as an opportunity to renew the peace process. Thus throughout 2007, Israeli-Syrian relations spanned two tracks: calls for a renewal of the political process, and military tension between the two countries. This tension was fueled by belligerent rhetoric and military buildups on the part of both countries.

In December 2006, the Baker-Hamilton report on US policy in the Middle East was submitted to President Bush. The report's recommendations included attempting to renew direct talks between

Israel and Syria as part of efforts to achieve a total solution to the Arab-Israeli conflict. After the report was released, Damascus embarked on what various commentators called “a peace offensive,” ostensibly designed to restart negotiations between Israel and Syria. In an interview to the Lebanese *Daily Star* newspaper, the Syrian foreign minister called for a renewal of talks without preconditions. Syrian President Bashar al-Asad went even further and challenged Prime Minister Ehud Olmert to call the Syrians’ bluff. Various messages were apparently conveyed secretly in December 2006 via European channels and US Senator Arlen Specter. Moreover, in the middle of January 2007, presumably with deliberate timing, a report surfaced regarding clandestine unofficial talks that had been underway for around two years between Alon Liel (a former director general of the Israeli Ministry of Foreign Affairs) and Ibrahim Suleiman (a Syrian businessman who is close to the Asad family). Asad’s regime and then-Prime Minister Ariel Sharon, it was reported, were aware of the talks, which formulated understandings for an outline of a peace agreement.

While Washington and Israel rejected Syria’s advances on various grounds, the diplomatic activity continued, though without achieving any significant results. In April 2007, Speaker of the House of Representatives Nancy Pelosi relayed a number of messages to both sides. The Turks, it was later apparent, were also involved that month in mediation efforts between Asad and Olmert, and through them, the Israeli prime minister tried to clarify Syrian intentions. The Turkish involvement continued at one level or another in the months that followed. Meanwhile, diplomatic messages were also relayed between Israel and Syria by other parties, such as Michael Williams, the UN emissary to the Middle East, and by the Spanish foreign minister, Miguel Moratinos. It seems that these indirect contacts served a number of purposes for both sides. First, they probed each side’s willingness to start talks. Second, considering Olmert’s political constraints, Asad’s suspicion of Israel’s intentions, and the lack of US enthusiasm over renewing the process, it seems that both

sides sought to discover what they could, in principle, achieve from the negotiating process. Ultimately these indirect contacts allowed the two leaders to demonstrate diplomatic activity, each for his own agenda: Asad, in view of the external pressure exerted on his regime, and Olmert, because of the internal criticism and the need to create a new diplomatic agenda following the disintegration of the convergence plan and the ongoing political stagnation regarding the Palestinian issue.

Alongside the faltering diplomatic course, military tension between the two countries increased, probably resulting from the IDF's intensive military buildup aimed at improving its operational readiness in the wake of the Second Lebanon War. To this end, a "working premise," as defined by a senior officer in the north, was adopted by the military regarding the possibility of a war erupting between Israel and Syria in the summer of 2007. The IDF doubled its forces on Mount Hermon, increased the number of exercises by regular and reserve troops, and conducted several high profile maneuvers, one even incorporating an exercise that involved capturing a model of a Syrian village.

The IDF activity was underscored by official Israel statements. For example, IDF Chief of Staff Gabi Ashkenazi said in June 2007: "We are prepared for the possibility of deterioration in the Palestinian arena as well as in the north. We are definitely preparing for such an eventuality. I hope we only have to drill, but if not, we must be ready." Israeli intelligence figures cautioned in public against the danger of escalation as a result of the Syrians misinterpreting Israeli intentions, and also against the possibility that Asad was actually planning to carry out a limited lightning offensive on the Golan Heights, aimed at jumpstarting the political process. The head of IDF Military Intelligence reported in the Knesset's Foreign Affairs and Defense Committee that the Syrians "are displaying greater readiness for war than ever before." It was also later reported that a special ministerial committee discussed the possibility of escalation on the northern front. The mood in Israel was accurately captured by

a senior military commentator, who said that the IDF had started the countdown toward the next war with Syria.

On the Syrian side of the border, Israel's behavior was interpreted as possible preparation for war. The Syrians' assessment that Israel was liable to try to cover up its military failure in Lebanon with another "escapade," as Bashar al-Asad put it, only worsened the situation. Asad himself explained to the newspaper *al-Khayat* in April that "we don't know if there will be another war, but we cannot rule out the possibility," and added that "Israel does not have any insurance policy." In addition to belligerent statements, the Syrian army, according to Israeli sources, began to beef up its deployment on the Golan Heights. The frontline units were trained, the military arrays on the front were bolstered, entrenched defenses were enhanced, and heavy rockets were advanced close to the Israeli border. Meanwhile, the Syrian army received a number of modern weapon systems, including new anti-aircraft and anti-tank missiles and more accurate surface-to-surface rockets and missiles.

Tension between Syria and Israel reached new heights following September 6, 2007, when Israel Air Force jets attacked a target in northern Syria labeled by the *New York Times* as a nuclear facility. Shortly after that, the Kuwaiti newspaper *al-Jarida* reported that people close to the Syrian president were urging him to respond to the Israeli attack with military means. The newspaper also noted that the Syrian army had launched a partial mobilization of the reserve forces. However, Asad himself relieved some of the tension when he explained in a BBC interview that "Retaliate doesn't mean missile for missile and bomb for bomb. We have our means to retaliate, maybe politically, maybe in other ways."

Indeed, within a relatively short period the tension began to lessen and was replaced by diplomatic contacts regarding the Annapolis summit. The United States wanted the summit to be a success and hoped the Syrians would attend the regional meeting. At the same time, an Arab consensus formed regarding the planned summit and the need for the Syrians to participate. Syria saw this event as an opportunity to

moderate its regional isolation and cooperated in the diplomatic game that developed around its participation in the summit. This activity helped remove the idea of an Israeli-Syrian confrontation from the agenda, and towards the end of the year relations between the two states returned to a calmer level. On the other hand, despite Syria's attendance at the Annapolis regional summit, the peace process with Israel was not revived. Syrian spokesmen, including the president himself, called for negotiations to be resumed, but their calls were once again rejected both by Jerusalem and by Washington.

Looking Ahead

Israel's and Syria's policies vis-à-vis one another are a function of the interplay between three main arenas: the domestic arena, the regional arena, and the international arena. On the international and regional levels, the US plays a central role, in terms of its influence over the parties' agendas and its ability to promote different processes that impact both on Syria and on Israel. Since 2002 and even more so since the American invasion of Iraq, the Syrian-Israeli conflict has been perceived by Washington in a wider context rather than simply a territorial dispute between two enemy states. Syria was defined as a major obstacle to the United States' democracy campaign in the Middle East because it allegedly provides refuge for the leaderships of the Palestinian terror organizations, gives active support to Hizbollah, allows terrorists passage into Iraq, and generates instability in Lebanon. The strong pact between it and Iran only serves to enhance this perception. It is no wonder, then, that President Bush, in an undiplomatic statement at the end of 2007, declared that his patience with the Syrian president had "long since run out." In recent years, the United States has maintained a policy aimed at isolating the Syrian regime and preventing it from gaining international legitimacy. In this respect, renewed peace talks between Israel and Syria are viewed by the US as an unmerited reward for Bashar al-Asad and a sort of insurance policy for his regime. Moreover, successful completion of negotiations will ostensibly bring with it additional benefits for

the Syrian regime, including enhanced relations with the United States, economic aid, and an influx of foreign investments. All these would be accompanied by the historic achievement of the recovery of the Golan Heights. It appears that with regard to the current US administration, these are untenable conditions, at least as long as Bashar al-Asad maintains his current regional policy.

The Bush administration's approach to Syria directly influenced the Israeli government's openness (or lack thereof) to Syria's advances, and provided Olmert with a convenient pretext for rejecting Asad's calls for peace. Nevertheless, the Israeli picture is somewhat more complex. It is reasonable to assume that the Israeli prime minister was looking to avoid a clash with the Bush administration, certainly when the struggle over the Iranian nuclear project tops Israel's priorities. As Olmert explained in December 2006, "When the entire international community is demanding that Damascus stop courting war, and the United States president, George Bush, is fighting against parties in all arenas who are trying to block American policy – is this the time to say otherwise?" Besides the issue of relations with the United States, domestic politics were an important consideration for the government, and Prime Minister Olmert, who since the Second Lebanon War has devoted much of his efforts to political survival, was wary of opening up a new point of domestic contention. The departure of the Israel Beteinu party from the government and threats by the Shas party to follow suit against a background of renewed talks with the Palestinians underscore that Olmert's coalition is not able to engage in talks with Syria, certainly when Damascus's price tag – return of the Golan Heights to Syrian sovereignty – is known from the start.

Olmert's coalition calculations are probably reinforced by public opinion. According to a survey in late 2006, 57 percent of the public was interested in starting negotiations but 54 percent was not willing to meet Syria's price. Moreover, the debate in the Israeli defense establishment between the IDF and the Mossad regarding Asad's intentions made it easier for Olmert to reject the Syrian president's

calls for peace. While Damascus's war rhetoric may have served as an incentive to explore the Syrian channel, the absence of any Syrian response to Israel's attack in September seemed to undermine the seriousness of the threat, or the need to forestall it by diplomatic means. Without an external incentive (US pressure or the danger of war), supportive domestic pressure, and a stable coalition, the Israeli government will probably continue to proffer excuses for deferring negotiations on the Syrian channel. Moreover, renewed peace talks with the Palestinians allow the Olmert government to demonstrate political activity to both domestic and foreign audiences and to continue claiming that it is not possible to make progress on the Syrian track and the Palestinian track at the same time.

For its part, Syria has several incentives to start peace talks with Israel. First and foremost is the regime's drive to ensure its survival. Damascus perceives the United States and France as trying to undermine Asad's regime, and Israel is deemed an extension of the United States. Taken together with Syria's concern that war might break out, renewal of diplomatic contacts with Israel would relieve Syrian distress in this area. The incentive relating to the regime's survival also has an economic dimension. In order to achieve sustainable growth, the Syrian economy needs foreign investments as well as international relief. These are unlikely to materialize in view of the American economic sanctions and the tension that exists between Syria and Western countries. Moreover, in addition to the drive to achieve economic prosperity, the Syrian regime is concerned over the decline in the country's oil reserves. According to the International Monetary Fund's forecast, this will force it to import large quantities of oil, for which the regime will need foreign currency. The significance of this is clear to the Syrians. As noted by a European mediator, the Alawi regime understands that in order to survive it has to attract foreign capital to Syria, and that no sane business will invest its capital in a country that does not live in peace with its neighbors.

To this can be added Asad's regional considerations. Starting talks with Israel will help the Syrian regime end the relative isolation it has experienced in recent years in the Arab world due to its policy in Lebanon and its close ties with Shiite Iran. Asad has taken a number of steps in recent years that harmed his relations with Arab leaders. The assassination of former Lebanese Prime Minister Rafiq al-Hariri, attributed to Syria, damaged relations with Saudi Arabia. King Abdullah was a personal friend of Hariri, and Asad's refusal to cooperate with the international committee of inquiry set up after the murder sharpened the bitterness felt in Riyadh. Asad's strident address at the end of the Second Lebanon War, in which he condemned leaders of Arab countries for not supporting Hizbollah and scoffed at their being "half men," added to the bad blood. The insult quickly became a diplomatic thorn when Saudi Arabia, Egypt, and Jordan cooled their relations with Damascus. Starting negotiations with Israel could provide an antidote and restore Syria to the heart of the Arab consensus. The economic and political dividends to be gained from such a situation are clear and might include generous Arab aid, as well as recognition of Syria's status in Lebanon.

Finally, there remains the matter of preconditions for negotiations. At times it appeared that this issue alone prevented a renewal of contacts, and on this matter, Syria has vacillated over the year between two extremes. On the one hand, at the end of 2006, Syrian Foreign Minister Walid Mualeem announced that "genuine and serious dialogue must start without any preconditions." On the other hand, President Asad made renewal of talks contingent on guarantees that the Golan Heights would be returned in their entirety to Syria. For the Syrians, it is clear that the mere renewal of negotiations would be an achievement in itself and could produce immediate returns. At the same time, the end result is also largely clear – Israeli withdrawal from most if not all of the Golan Heights. This price is clear to Israel as well, and thus it appears that insistence on receiving guarantees on the Golan Heights is no more than a political tactic.

The Israeli government has also set conditions for renewing contacts, principally an end to Syrian aid to Hizbollah, severance of ties with Iran, and expulsion of the Palestinian terrorist headquarters from Damascus. The American administration, for its part, added the closure of the border with Iraq and an end to Syrian involvement in Lebanese politics. All these, however, are serious assets for Syria. The pact with Iran, even though sometimes viewed by commentators as a tactical need, is a substantial element of Syrian's national security approach. Without Soviet backing, Iran acts as a main ally and provides Syria with strategic depth. Syria largely views Lebanon as historic Syrian property, and sponsoring Palestinian organizations in Damascus is seen by Syria as both a means of exerting regional influence and as a national asset, a "last refuge of Arabism." Thus, in Syria's eyes, resolving these issues represents an integral part of the negotiations process. In this regard, the Israel-Syria conflict does not only revolve around the question of control of the Golan Heights but is joined by a set of other substantial issues. This perspective is also clear to Washington and Jerusalem. Therefore, presenting major preconditions to negotiations is nothing more than a diplomatic means of rejecting the Syrians. If the current or next US administration decides to re-examine the matter of relations with Syria, and if the present or next Israeli prime minister takes a strategic decision to make peace with Syria, it is likely that these conditions will be moderated and will become a less serious obstacle to starting serious peace talks. Until then, it appears that Israeli-Syrian relations are fated to fluctuate between calls for peace and threats of war.

Chapter 8

Iraq in Turmoil

Ephraim Kam

The eighteen months between February 2006 and August 2007, in many respects the most difficult period in Iraq since America's military intervention there began, were particularly plagued by the changing nature of the violence. In the first two years, most terror attacks were executed by Sunni elements, mainly those loyal to Saddam Hussein's regime, and by Islamist fighters who infiltrated into Iraq. The attacks targeted primarily coalition forces and elements connected to the new Shiite-led regime. However since 2005 and especially in 2006, violence and terror pursued an inter-ethnic direction; extremist Shiite militias began to attack Sunni groups and populations, while Sunni organizations continued attacking government institutions and Shiite populations. While the number of civilians killed in Iraq from 2003–2005 was estimated at 10,000–14,000 per year, this number doubled in 2006–2007. Thus the violence in Iraq began to assume characteristics of a civil war.

Improvement from Mid-2007

The deteriorating situation in Iraq posed an increasingly severe challenge to the Bush administration. Weighing heavily on the administration was the growing acknowledgement that the Iraqi affair was a grievous and unnecessary failure, with no indication of a viable improvement in the future. That the Bush administration

was nearing the end of its term was an additional constraining factor. Furthermore, international support for the administration dwindled as most other coalition members in Iraq withdrew or downsized their forces.

President Bush's response in January 2007 was to announce an intermediate approach, called the "New Way Forward." The principal tool for implementing this approach was a "surge," namely, the dispatch of additional forces on a limited scale to help coalition forces, aided by Iraqi forces, to improve the security situation, primarily in Baghdad and the surrounding area. The beefed-up forces would presumably reduce Sunni violence, hit al-Qaeda strongholds, and disrupt the activity of extremist Shiite militias while securing areas to be cleansed. The assumption was that an improved security situation in the Baghdad region could weaken the armed militias and bring about more suitable conditions for inter-ethnic reconciliation. Accordingly, 28,500 additional American soldiers were sent to Iraq at the beginning of 2007 and stationed mainly in Baghdad and Anbar province; this brought the number of US soldiers in Iraq to more than 160,000.

From the summer of 2007, the new strategy indeed brought about considerable improvement in the security situation, especially in the Baghdad region and in western Iraq. Based on the administration's criteria, the number of terror attacks rose steeply following the attack on the Shiite Golden Mosque in Samarra in early 2006 until reaching a peak in June 2007, but then fell by 70 percent from June 2007 to February 2008, returning to the level of mid-2005.

The number of civilian fatalities also dropped sharply: the peak of 2,500–3,000 Iraqi civilians killed per month between June 2006 and January 2007 went down to 600–700 per month by early 2008. Losses among coalition forces fell to one quarter of the May 2007 peak. Between September 2006 and September 2007, American forces lost on average between 70 and 100 soldiers per month; since October 2007 this number has dropped to between 25 and 35 per month. The number of attacks on Iraqi security forces has also dropped (figure

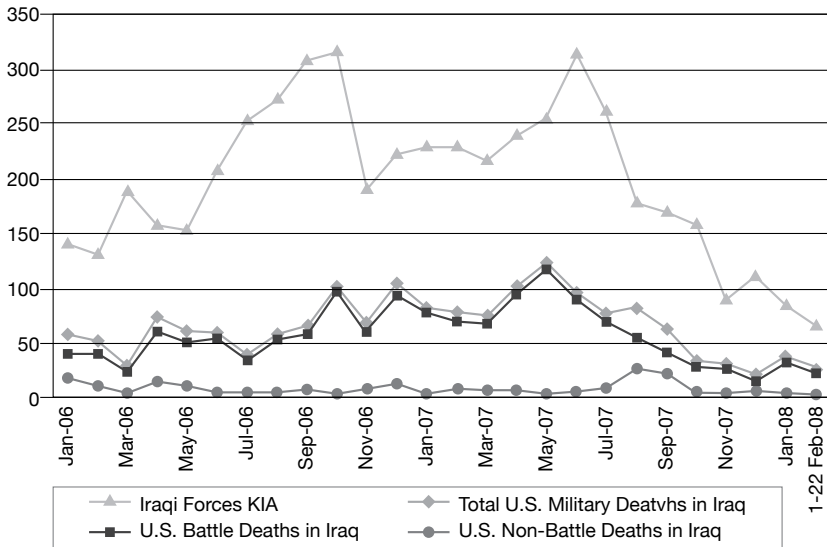


Figure 1. Fatalities among Coalition Forces, Iraqi Security Forces, and Civilians, 2006–2007

Source: US Department of Defense, *Measuring Stability and Security in Iraq*, March 2008, p. 20.

1). The more important trend is the decline in losses caused by inter-ethnic clashes. Fatalities resulting from these clashes dropped from a peak of 2,100 per month in December 2006, to 200 per month since November 2007 (figure 2).

These results in part reflect weakened al-Qaeda capabilities. Between February and November 2007, a total of 3,600 al-Qaeda personnel were either killed or apprehended, including more than 200 of the organization's senior commanders. The curtailment of al-Qaeda was the outcome of joint operations by coalition and Iraqi security forces, aided by solid tactics and improved intelligence. These operations pushed al-Qaeda back from its strongholds in Baghdad and disrupted its supply chains around the city.

In part this resulted from increased opposition to al-Qaeda activity among Sunni tribal leaders who began to realize that the organization was damaging their interests. But it also reflected

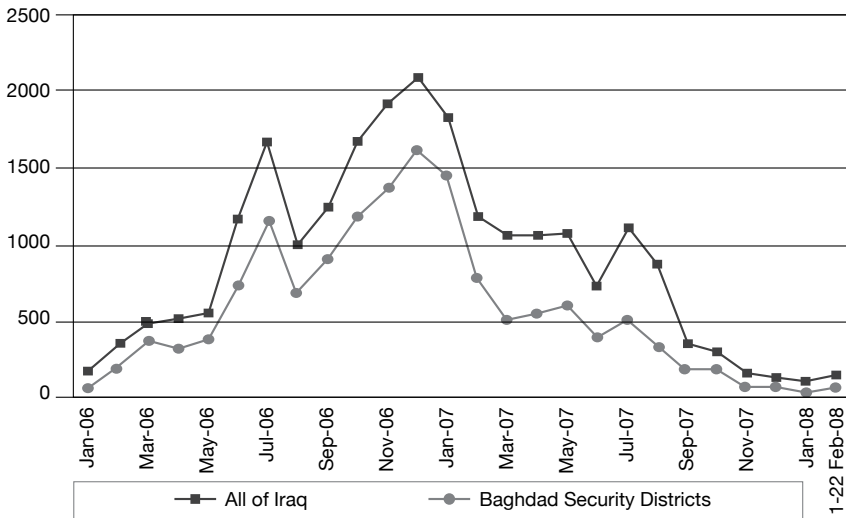


Figure 2. Deaths Caused by Inter-ethnic Clashes in Iraq, September 2006-February 2008

Source: US Department of Defense, *Measuring Stability and Security in Iraq*, March 2008, p. 21.

other changes: more aggressive operations by American forces, the activation of new methods for cleansing areas of hostile elements, which minimized the deadliness of attacks; partial disruption of the activity of extremist Shiite militias; the August 2007 announcement by Muqtada al-Sadr, leader of the extremist Shiite Mehdi army, on the freeze of activities against coalition forces; the sustained presence of coalition forces and Iraqi security forces amid the Iraqi population; the shift of populations, which while causing a refugee problem made the population in parts of Baghdad more ethnically homogenous; the advancement of civilian volunteer initiatives to help bring about calm; and a call on the part of ethnic leaders to restrain the violence.

Moreover, Iraqi security forces grew and acquired better capabilities. In February 2008, Iraqi forces numbered 531,000 trained men – 347,000 police, 181,000 in the armed forces, and 3,000 in special anti-terror forces. Future plans envision an Iraqi military of

275,000 troops by 2010 and police force of about 325,000, totaling over 600,000. In June 2005, the military had 115 battalions, of which only 24 were capable of planning and conducting operations, with or without American support. In November 2007, the number of battalions in the military grew to 175, of which 98 were capable of planning and conducting operations. Coalition forces are gradually transferring the responsibility for security in different zones to Iraqi forces; by the end of 2007, the government of Iraq was primarily responsible for the security of eight out of the country's eighteen provinces.

The decreased scale of attacks brought about improvement in other sectors as well. Shiite and Sunni leaders ceased opposing coalition efforts and cooperated more with the government of Iraq and the coalition, and specifically with the Provincial Reconstruction Teams, set up by the US in most provinces to restore infrastructure and improve the security situation. Civilians, mainly Sunni, are also – with the government's assistance – organizing and defending their surroundings against violence. The relative calm on the ground has led to the opening of schools and other social services in much of the country.

At the same time, Iraq's economic situation has gradually improved, with the help of reconstruction teams and US funding. Infrastructure is slowly being rebuilt and recovery from the war is proceeding. Real GNP growth in 2008 is expected to register 7 percent, mainly due to increased oil income and activity in the services sector. The rate of inflation dropped from 26.2 percent at the end of 2005 and 52.8 percent at the end of 2006 to 20.4 percent at the end of 2007. Unemployment continues to be a serious problem and is estimated at 17.6 percent. Oil production and exports have grown modestly (though still lagging behind pre-war levels): oil production by February 2008 was 2.4 million barrels per day (MBD) compared with 2.24 MBD at the end of 2006, and exports grew from 1.57 MBD to 1.99 MBD. Terror attacks on pipelines have disrupted oil exports, but since August 2007, increased exports and rising prices

have compensated for the disruption. Further significant economic improvement will require economic reform and increased investment in the private sector.

The Flip Side of the Coin

The security situation in Iraq has unquestionably improved since the summer of 2007. Even if the data presented by the American administration includes a certain bias, as claimed by its opponents, the trend, based on all parameters, is clearly of a significant reduction in the scale of violence and terror. Yet notwithstanding these changes, the overall picture remains more complex and less auspicious.

- Al-Qaeda strongholds have indeed been hit, but the organization remains able to increase the scale of terrorism. It is still a key agent of attacks against military and civilian targets, though it has shifted its object from coalition forces to Iraqi security forces and Sunni tribal leaders (their former allies) in an attempt – thus far unsuccessful – to curb opposition to its actions.
- Extremist Shiite militia activity and tensions between Shiite groups in southern Iraq are a growing threat to security. Shiite militia activity has increased and is responsible for a large portion of the civilian fatalities and attacks on American forces. The most important of these militias are: the Mehdi army, which has succeeded al-Qaeda as the most violent militia and has been credited with the majority of attacks against the Sunni population, and the al-Badr organization, which was first established by the Iranians. Control of the four southeastern provinces, where 30 percent of the population lives and which is the source of most oil exports, is in the hands of Shiite militias. American forces wield extremely limited influence in the south and lack a clear strategy for the region. Despite the call by al-Sadr in August 2007 for a ceasefire, attacks on coalition and Iraqi security forces continue. And notwithstanding Iran's promise to stop the flow of arms and money to Shiite militias, there has been no decrease in assistance.

- Islamist fighters continue to infiltrate into Iraq from Syria, where they receive aid and shelter. It is estimated that 90 percent of foreign terrorists reach Iraq via Syria. Towards the end of 2007 there were signs of an effort by the Syrian government to reduce the movement of terrorists to Iraq, but it is not clear whether the government has made a strategic decision to tackle this problem.
- Not only Iran and Syria are involved in Iraq. In February 2008, Turkey sent a military force into northern Iraq with the aim of destroying Kurdish strongholds there.

While Iraqi security forces have grown in numbers and quality, it is beyond their ability to conduct large operations independently. At least several more years will be needed until they are able to operate without American backing, take full responsibility for domestic security, and defend the country. A considerable portion of recruits have gone AWOL or deserted, and ethnic militias have infiltrated the ranks of the security forces and are involved in inter-ethnic violence. The Iraqi military lacks high-quality officers at all levels and is sorely deficient in terms of logistics. The police force is inefficient, infected by corruption and communal strife, and controlled by elements connected with extremist Shiite militias. If American support for Iraqi security forces stops, all progress achieved in upgrading their capability will be lost.

The main problem is insufficient progress in mitigating the inter-ethnic conflict caused by conflicting basic interests. There has been some progress in reconciliation on a local and tribal level but much less so on a national level. In order to appease the Sunnis, the Council of Representatives is working on legislation to grant pensions to former members of Saddam's regime and on an arrangement to distribute oil revenues among the ethnic communities, but it is not clear what will actually be accomplished. Under American pressure, ethnic leaders have arrived at agreements but have yet to implement them. More specifically:

- The Sunnis do not trust the government, which in their eyes was established forcibly under American occupation, is controlled by

Shiites and supported by Shiite elements with Iranian connections, and seeks permanent Shiite supremacy. The Sunnis remain divided and lack leaders able to represent the entire community and conduct a meaningful dialogue with the Shiites. The damage to al-Qaeda combined with intensified Shiite violence has left the Sunni community weak as it confronts the ethnic cleansing carried out by extremist Shiite militias.

- After generations of suppression, the Shiites do not intend to cede the historic opportunity that has fallen into their hands of consolidating their leadership in Iraq, based on their numerical supremacy. Shiite leaders are also divided over the continued American presence in Iraq and the best methods to achieve their goals.
- The Kurds remain focused on establishing their autonomy in northern Iraq and boast the largest militia, the Peshmerga. Kurds are not involved in the Shiite-Sunni conflict; but efforts to strengthen their control in Kirkuk, which include ethnic cleansing, have been a source of friction between Kurds and Sunnis.

Despite the decreased scale of violence and fewer fatalities, the number of terror attacks and casualties remains high. The number of fatalities for the entire year – 23,000–24,000 – was the second highest since the war began. One of the more credible estimates places the number of Iraqi civilian fatalities since 2003 at approximately 85,000 killed. By the end of 2007, US forces had suffered more than 3,900 troops killed. The inter-ethnic conflict has prompted ethnic cleansing in different regions, including Kurdistan, and led to a severe refugee problem. Thus far, 2.2 million refugees have fled Iraq, mostly to Syria and Jordan, while two million others have been uprooted from their homes.

Even the lower level of ongoing violence makes Iraq's economic rehabilitation difficult. Despite some improvement, the Iraqi economy is still functioning well below its potential. Some claim that the image of an improved economy is illusory, stemming partly from rising oil prices, American aid, and the fact that improvement comes from a

very low baseline and does not attest to widespread economic growth and job creation. The violence negatively influences agricultural and industrial product, especially in the oil sector. In the future, the oil sector will have to cope not only with terror attacks but also with technical and administrative challenges.

The weakness of the Iraqi government makes inter-ethnic reconciliation more difficult. The Nuri Kemal al-Maliki government does not control Iraq or represent all of the groups fighting on the ground, and it is not sufficiently ready to take reconciliatory steps. During 2007, the government partially disbanded after some of its Shiite and Sunni ministers resigned. The government's weakness hinders the achievement of an accord that could pragmatically determine the nation's political structure, lead to the establishment of effective local rule, and define a new federal structure and the relations between ethnic communities in the regions of conflict.

In order to advance real reconciliation, some essential steps – including legislative – must be taken, mainly those that would bring about Sunni integration into the government system. These steps include: distributing jobs in the central government such that Sunnis are represented in the same proportion as Shiites and Kurds and preference for Shiites is minimized; eliminating barriers to Sunni participation in the army and society, including a solution for former Baath party members; distributing oil royalties to Sunni regions, which have no oil resources; arriving at accommodations for mixed populations; and banning the existence of ethnic militias. The government indeed has taken steps in these directions – e.g., distributing oil revenues and ensuring the future of Baath party members – but divisions of opinion complicate their implementation. Yet without any real reconciliatory steps, no long-range stability can be achieved, and the limited achievements attained thus far will likely dissipate.

Iraq – Where To?

Iraq now harbors a splintered and violent society that is given to bitter rivalry and extensive crime among its ethnic components; a weak central government that does not control the country; and militia rule in the streets. These realities negatively influence the US's ability to deal with the situation on the ground, because what it now confronts is no longer only terror and insurgency, but also the much more difficult problems of a failed state and a civil war. "Surge" operations have shown that a limited concentration of American forces can improve the security situation. But such improvement will not suffice beyond the short term, because in the absence of concrete inter-ethnic reconciliation, the use of force will not generate significant long-term results. The American presence in Iraq is not large enough to establish security in all of the violent zones, even in the Baghdad region.

The Bush administration is in no hurry to remove its forces from Iraq; it has announced a limited drawdown next year but refuses to set a timetable for withdrawal. The administration has signaled that it is not about to change its Iraq policy significantly, at least until the summer of 2008 and possibly until the end of its term, unless there is some substantial change in the situation. The reduced scale of violence helps the administration persist in its approach. Even political elements in the US that demand an end to the Iraqi entanglement are for the most part not pressing for an immediate withdrawal of all forces. Instead, they demand the formulation of an exit strategy that advances a defined timetable for withdrawal, since they too understand that an abrupt withdrawal would lead to a worse situation and impair US credibility and America's international and regional status.

The reduction of violence since the summer of 2007 improves the chances for stabilizing the regime. However, if inter-ethnic reconciliation is not advanced, the prospects of success for American policy remain low. Even if there is modest improvement in the security situation, the level of violence will remain high. The flare-up of fighting in April 2008 in Baghdad and Basra between Iraqi security

forces, supported by American troops, and Shiite militias indicates how fragile the situation is. And even if there is some progress in inter-communal relations and economic conditions, stabilizing the region and the security situation will take years. However, it is doubtful whether the present American administration or its successor has years at its disposal, considering the domestic pressures to withdraw from Iraq.

In any event, Iraq will not revert to what it once was: a united country ruled by a strong central authority. At best, Iraq will become a country with a loose federal structure. The central government will be weak, since large parts of the country have already turned into ethnic provinces ruled by militias. Iraq will neither become a stable country, at least in the next few years, nor will it be democratic. The ability of the US to shape the ethnic character and the structure of this establishment will be highly limited.

Chapter 9

Nuclear Developments in Iran

Ephraim Asculai and Emily B. Landau

Overview of Iran's Nuclear Progress

2007 can be regarded as somewhat of a breakthrough year for Iran's nuclear program. During the course of this year, Iran completed the installation of some 3000 gas centrifuge uranium enrichment machines and fed into them more than a ton of uranium hexafluoride – the feedstock for the enrichment process. This was achieved despite apparent specific technical difficulties and continued international diplomatic pressure. The latter included a second UN Security Council resolution on sanctions adopted in late March, as well as pressure exerted on Iran through financial sanctions led by the US, outside the framework of the UN.

A tailwind for Iran's program was supplied by the International Atomic Energy Agency (IAEA), which failed both to sound a severe warning concerning Iran's potential to produce nuclear weapons and to condemn strongly its failure to abide by the Board of Governors' and the Security Council's demands for the suspension of its uranium enrichment program. Another – in this case, totally unexpected – source of encouragement to Iran came in the form of the US National Intelligence Estimate (NIE). The report lowered the sense of urgency with regard to Iran's nuclear program and implied that there was still time for diplomatic action that could effectively halt

Iran's quest for a nuclear weapons capability. This had the immediate effect of mitigating the pressure on Iran, delaying a third resolution on sanctions, and paving the way for more economic, energy, and military-related deals with Iran on the part of different states.

In addition, Iran's nuclear power production project at Bushehr moved forward after a long period of apparent stagnation, when Russia delivered two shipments of nuclear fuel to Iran and scheduled a completion date for sometime in 2008. Iran also made significant progress in the area of weapons delivery systems, thus significantly increasing its aggressive potential once its nuclear ambitions are achieved. All in all, at least with regard to its nuclear program, 2007 was not a bad year for Iran.

However, the beginning of 2008 saw a shift in the international attitude towards Iran, following the publication of the IAEA periodic report in late February. The senior safeguards staff of the IAEA disclosed new information about Iran's weapons development program and exposed the IAEA's confrontation with Iran over past weapons development activities. Claiming that the new information was "fabricated," Iran heightened tensions with the international community. Indeed, had it been possible for Iran to come up with even a less than iron-clad cover story for these activities, the IAEA might very well have been satisfied and closed the file on Iran's past misdeeds. Iran, however, remained adamant and chose to terminate international negotiations over the possibility of full and immediate suspension of its uranium enrichment program. This defiance was enough to reverse the ongoing delay in voting on a third round of sanctions against Iran in the UN Security Council, and a third resolution on sanctions was adopted in early March.

Iran's Nuclear Weapons Capability and Delivery Systems

Iran has demonstrated its ability to construct a major uranium enrichment facility, operate it, and produce low enriched uranium (LEU). It has also demonstrated that it has no technical difficulty in

enriching its LEU to high enriched uranium (HEU), the cornerstone of a nuclear explosive device. Although IAEA reports indicate that the rate of uranium enrichment at the gas centrifuge enrichment plant at Natanz was lower than expected (indicative, perhaps of technical problems), Iran is a country capable of overcoming its technical problems. In addition, Iran can now proceed to install new centrifuge units and thus steadily increase its enriched uranium output. As a result, Iran will have a quantity of LEU that will be sufficient for further enrichment and the production of HEU for a first nuclear explosive device within a few years.

Less in the public eye, Iran is also slowly progressing on its parallel route for obtaining the necessary material for a nuclear bomb – plutonium. Iran has been constructing its heavy water reactor at Arak, and the IAEA reports that the work there is continuing.

According to the NIE, Iran had a nuclear weapons development program that was halted in 2003. From the additional information presented by the IAEA it seems that this program included the production of the enriched uranium metal core of the explosive device, the development and testing of the explosive mechanism, and the production of a missile-capable nuclear warhead. There were also indications that contrary to the NIE, Iran either did not stop its program in 2003 or subsequently renewed it.

In addition – though the NIE did not elaborate on this – there are Iran's long range delivery systems, which join the two other critical components – the nuclear core and its weaponization – to create a full nuclear weapons system. Iran has no shortage of delivery means. It has military aircraft, including American- and Soviet-built fighter-bomber aircraft, though with limited ranges; it has medium-range ballistic missiles; and if reports are accurate, it has several cruise missiles of somewhat uncertain capabilities. The medium-range ballistic missiles are perhaps the best indicators of Iran's intention to attain a non-conventional weapons delivery capability. It can be assumed that if anyone strives to overcome the technical complexity involved and undertakes the financial outlay needed for the

development of these missiles, their intended use is not the delivery of high explosives (HE). Even when the missiles are highly reliable and endowed with a high accuracy navigation system, the 1991 and 2003 wars in Iraq demonstrated the difficulty of delivering a decisive blow to an enemy with these explosives. Consequently, it must be concluded that the purpose in developing medium- (and possibly long-) range missiles in Iran is the delivery of nuclear weapons to states not neighboring Iran. Only nuclear weapons can cause wide ranging long-term destruction and large-scale casualties that could thwart the military capability of a country to retaliate and recuperate from such an attack.

According to official Iranian sources, the Iranian missile program made significant progress in 2007. The older Shahab-3 missile has an approximate range of 1500 kilometers; the newer missile, which is called either Ghadr or Ashura, was displayed in October 2007 and declared to have a range of up to 2000 kilometers.

It has been reported that Iran is occupied with the difficult task of constructing a small nuclear warhead suitable for delivery by a Shahab-3 missile, which has limited dimensions and payload capability. A single nuclear weapon would be practically useless to Iran, since the probability of the failure of a first nuclear weapon could be significant. From all of the above, it must be concluded that Iran has a project aiming to develop several nuclear warheads that are deliverable by missiles and probably also by fixed-wing military aircraft.

The International Arena

International Efforts to Stop Iran

International efforts to halt Iran's nuclear program looked somewhat promising at the start of 2007, when the UN sanctions route was on course and the US was vigorously pursuing parallel financial sanctions outside the UN framework. Over the previous year, the international community had finally begun to tire of Iran's delay tactics on the nuclear issue, and Iran's perceived role during the Second Lebanon

War gave added impetus to those who were pressing to take stronger action through sanctions. Iran was defying all calls to halt its uranium enrichment activities, President Mahmoud Ahmadinejad was making outrageous statements, and Iran was bringing to bear its dominance in the region in the war in Lebanon. Thus, toward the end of December 2006, the UN Security Council finally mustered up the necessary consensus to pass its first resolution on sanctions against Iran. In March 2007, in light of Iran's continued defiance, a second resolution on stepped-up sanctions was quickly agreed on.

By May, however, the determination of the international community eroded, and Europe once again came on the scene with offers of negotiations. The dynamic was led this time not by the EU-3, but by Javier Solana – more representative of the EU as a whole. Solana met with Iran's nuclear negotiator Ali Larijani three times – in late April, May, and June – and their initial discussions led to a renewed dialogue between Iran and the IAEA as well, with the intent to resolve the lingering “outstanding questions” regarding Iran's past activities. While some progress was made in these talks, for Solana they ended in disappointment when he met with Larijani's replacement, Saeed Jalili, in late November. Jalili's position was that discussions must begin from the start, and Solana realized that he had no partner for continued talks.

The year ended on a sour note for international efforts with the publication of the unclassified portion of the US National Intelligence Estimate. The report did not change the basic positions of any of the major players facing Iran – those that viewed Iran with concern before the NIE continued to do so, and the same is true for those states that were less concerned (Russia and China). Moreover, a close reading of the two and a half pages comprising the report's “Key Judgments” gives no reason for complacency toward the continued concern that Iran's activities and basic motivation in the nuclear realm arouse. However, the headlines that proclaimed that Iran had halted its military nuclear program in 2003 sharply reduced the sense of urgency associated with Iran's program. The attempt to secure the

third round of sanctions that the permanent members of the Security Council had not been able to agree upon for seven months was dealt a further blow.

But in early 2008, when the IAEA periodic report was sent to its member states, and when in parallel senior US intelligence officials together with some European officials began backtracking on the dominant message of the NIE, a renewed sense of urgency arose. This, together with the new IAEA safeguards information, brought the Security Council members to reconsider their previous position and adopt a third resolution on sanctions (Resolution 1803) on March 3. This resolution further tightened sanctions against Iran, although they still fell short of the kind of action that might bring Iran to reconsider its nuclear stance.

As a member of the international front facing Iran, the IAEA has played a somewhat negative role in the efforts to curb Iran's progress towards achieving a military nuclear capability. Although its technical safeguards activities in Iran have been quite intrusive, especially given the limitations imposed by Iran on these activities, its political judgments have been lacking. Over the course of 2007, the IAEA devoted its attention to "outstanding questions" regarding Iran's past nuclear activities, most of which were not at the forefront of international concern. Moreover, according to his public statements, the IAEA director general does not consider efforts to make Iran abandon its enrichment program worthwhile, and believes that Iran should be allowed to have a small enrichment development program. The problem is that such a small program would still enable Iran to acquire the potential to manufacture nuclear weapons, albeit on a small scale, while further developing its enrichment skills.

Regional Dynamics

Over the course of 2007, Middle East states in general and the Gulf states in particular began to focus more intensively on the consequences of a nuclear Iran for their own security. Thus began a new trend whereby states in the region announced their intention to

develop a nuclear program for peaceful purposes. In December 2006, the Gulf Cooperation Council (GCC) ordered a feasibility study to investigate the development of a joint atomic energy program. Jordan also announced its plans to develop a nuclear program, and Egypt decided to revive a decades' old nuclear power program – all in reaction to Iran's worrying achievements.

While at the present stage these pronouncements cannot be viewed as a clear counter threat to develop nuclear weapons, they certainly constitute a strong message from these states that they will not sit idly by and watch Iran become the dominant power in the region. On the other hand, these states also sense a lowered international commitment to take determined action against Iran (especially post-NIE), and realize that it will be quite a while before they might achieve their own nuclear weapons capabilities. As such, some have begun – in acts of apparent appeasement – to evince a willingness to move closer to Iran. Clearly, these states are watching developments closely and hedging their bets. Ultimately, they cannot ignore the fact that if Iran becomes a nuclear state they will have to fend for themselves, and if they cannot present a credible deterrent, it is not a good idea to be on Iran's list of enemies.

Outlook for the Future

If no action is taken against it, Iran could have enough indigenously enriched uranium for a first nuclear weapon around the turn of the decade; a deliverable first weapon could be ready within another year.

It has become a common refrain among commentators on Iran to note that time to stop Iran from attaining military nuclear capability is running short. In early 2008, this conclusion is more urgent than ever, as Iran continues unhindered with its uranium enrichment activities. It is underscored further by the clear message contained in the recently exposed information that Iran's halt of its military program was not definitive, and thus the program may be more advanced than previously estimated.

And yet it is questionable, even in light of the third round of sanctions, whether the international community will be able to display enough determination and pressure through sanctions to bring Iran to the point where it adheres to the demand to stop uranium enrichment as a precondition for entering negotiations with Europe and the US. Moreover, the US – a key player in the international efforts to deal with Iran – is in the swing of an election year, and it is difficult to envision more determined US action in dealing with Iran during 2008. The next US administration will undoubtedly need at least another six months to consolidate its policy on Iran. All of this means that the prospects for determined action on Iran over the next 18 months are not high. Five years into the prolonged and drawn out effort to deal with Iran's nuclear ambitions, this is the harsh reality.

Chapter 10

Strategic Implications of the Global Oil Market

Shmuel Even

Basic Economic Data

The world's proven oil reserves are currently estimated at about 1.2 trillion barrels of oil. As the world's oil consumption is approximately 30 billion barrels a year, reserves will be sufficient for about the next 40 years, based on current production rates. This does not mean that oil will run out within a given period, as there are other reserves ("expected reserves") estimated at more than half of the proven reserves, and more proven reserves are discovered every year. Over the last two decades there has been no significant change in the ratio between proven reserves and the level of global consumption.

Sixty-two percent of the world's proven oil reserves are in the Persian Gulf region, with Saudi Arabia owning the largest reserves (table 1). The remaining 38 percent are located in the former Soviet Union (with about 11 percent of proven reserves), Venezuela, Libya, Nigeria, the US, China, Mexico, Algeria, Angola, and Norway. The oil producers in the Persian Gulf belong to OPEC (Organization of the Petroleum Exporting Countries), which possesses around 75 percent of the world's oil reserves. The proven oil reserves largely determine the status of all the oil producers in the global oil market.

Table 1. Proven Oil Reserves in the Persian Gulf

Country	Billions of barrels	% of world reserves
Saudi Arabia	264.3	22.1
Iran	138.4	11.6
Iraq	115.0	9.6
Kuwait	101.5	8.5
United Arab Emirates	97.8	8.2
Oman	5.6	0.5
Qatar	15.2	1.3
Syria	3.0	0.3
Gulf total	740.7	62.0
World total	1195	100.0

Source: Annual Statistical Bulletin 2006, OPEC

In 2008, world oil consumption was estimated at about 87 billion barrels of oil a day. The US is the world's largest oil consumer, and if it maintains its current oil production level its reserves could run out in the next decade. More likely, however, oil production in the US will decrease and imports will rise. Elsewhere, the most significant development in recent years has been the sharp rise in demand in Asia and the Pacific. Today this region consumes more oil than North America. Between 1996 and 2006, demand for oil in the region rose about 29 percent, compared with an increase of 14 percent in consumption in North America. Particularly noteworthy is a rise of 30 percent in oil consumption in China between 2003 and 2006.

Table 2. Breakdown of World Oil Consumption (2006)

Country	%
1. North America	28.9
of this: US	24.1
2. Europe	24.9
3. Latin America	6.1
4. Middle East	7.2
5. Asia and Pacific Rim	29.5
of this: China	9
6. World total	100

Source: BP Statistical Review of World Energy 2007

OPEC supplies most of the world's oil demand and about 43 percent of global oil consumption (some of the countries provide for their own consumption, partially or fully). Given the large oil reserves in the Gulf, the surplus in the oil balance (production minus local consumption) of the Gulf oil producers, and the increase in oil demand in the world, a continued rise in oil imports from this region is expected.

Oil Prices Rally

Oil prices rose significantly in 2007, and in April 2008, prices exceeded \$119 a barrel, a record price in real terms (in 1980, following the Islamic Revolution, prices reached \$41 a barrel, the equivalent of about \$100 in today's prices). This rise is a continuation of the trend that started after the 2003 Iraq War. Prices were actually expected to drop after the US victory, but the United States could not stabilize the situation in Iraq (Iraqi oil production still lags behind its level before the invasion of Kuwait) and world demand for oil has increased continually.

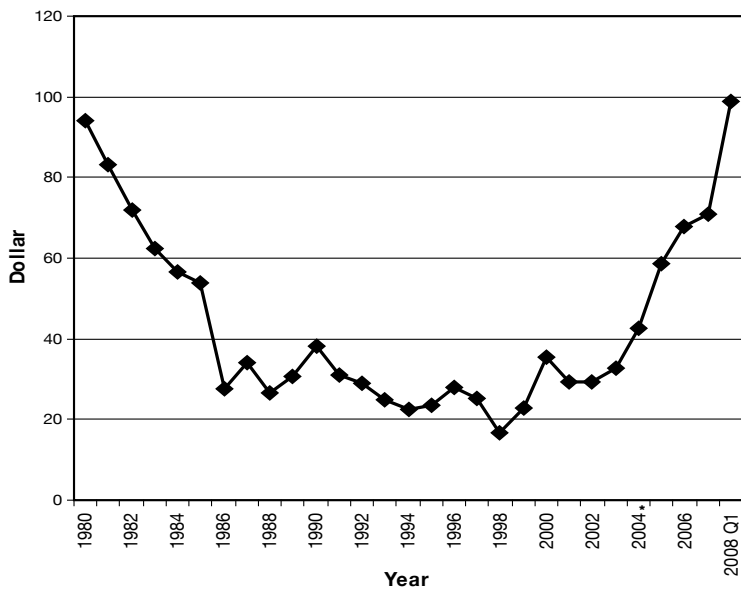


Figure 1. Real Changes in Oil Prices

(annual average cost of a barrel of oil in dollars, in fixed 2007 prices)

Source: BP Statistical Review of World Energy 2007 (through 2006); 2007 and 2008 – author estimates

The fundamental reason for the price rise is the increase in world oil demand, particularly due to marked growth in the developing countries. The level of oil prices in the world is dependent on continued growth of the global market: rapid growth will support the high price level, while a substantial slowdown in global growth will generate a drop in prices. Oil prices are currently in a state of flux, and despite the steady rise, concerns over a possible global recession prompted a slight drop in March 2008. There are different assessments of oil prices for the coming years: from \$200 a barrel, in the case of rapid growth, to \$60 per barrel if the world enters into a recession.

In addition, OPEC regulates the production level of the member countries. Led by Iran, Venezuela, and Algeria, the cartel has supported high price levels. These countries have relatively large populations,

have experienced economic difficulties over the past decade, and do not see any reason to consider the needs of oil consumers. Their policy is to maximize revenues from oil and gas exports by maintaining high prices. Iranian President Mahmoud Ahmadinejad, prior to the OPEC summit in Saudi Arabia on November 17, 2007 (when oil prices were close to \$100 a barrel), declared that oil prices should rise, as OPEC countries were subject to unjustified “heavy political and economic pressures.” Venezuelan President Hugo Chavez added that \$100 for a barrel of oil was a fair price, as it was the equivalent of \$30 a barrel in 1970s prices.

In contrast to the radical camp, it appears that Saudi Arabia and the United Arab Emirates, which possess about 40 percent of the oil reserves and have relatively small populations, fear that a sharp rise in prices will encourage the development of alternate energy technologies and the search for extra-OPEC energy sources and will accelerate a policy of energy savings. Nonetheless, these states have done nothing to block the dominance of the radical bloc.

The sensitivity of the oil supply likewise affects prices. Surplus production capacity (the ability to increase production in the short term) is very low, and as such, any disruption in oil production – be it from security tension in the Gulf, adverse weather conditions in the production areas, internal tension in oil producing countries (Iraq, Nigeria), strikes at oilfields, disputes between an oil company and a country with oilfields (Venezuela), changes in strategic stocks (Western countries) – generates a price rise.

Saudi Arabia is the only country with a surplus production capacity to speak of. As of mid-2007 Saudi Arabia produced 8.6 million barrels a day and its full production capacity is 10.5-11.0 million barrels a day. Yet this is a relatively small amount (about 2.3 percent) compared with world oil consumption, and it cannot compensate for the shortage if any major event (e.g., a military confrontation between the US and Iran) leads to a substantial drop in the supply of oil from the Gulf. In addition, there is speculative activity by financial entities that have gambled on oil prices or sought shelter from the drop in the

value of the dollar. All these have contributed to the hike in the price of oil.

The higher cost of oil creates difficulties for consumers. In the United States in 2007, for example, there was a rise of 4.1 percent in the consumer price index (CPI), compared with 2.5 percent in 2006. Most of the difference is attributed to the rise in energy prices, which was 17.4 percent in 2007. In the fourth quarter of 2007, when there was a particularly sharp rise in energy prices, the CPI rose 5.6 percent in annual terms. This was the highest rate of inflation in the United States since 1990. At the same time, there are expectations of a decline in American product growth in 2008.

The effect of a rise in oil prices on the Israeli economy has to date been limited compared with previous rises in the oil market, in part because the relative share of oil in generating economic activity is far less than in the past. A major part of Israeli product comes from technology industries that do not use large amounts of energy. Another reason is the strengthening of the Israeli shekel in relation to the currency basket, which led to a considerable drop in the price of imports into Israel and of dollar-calculated services. Thus, a large part of the rise in the energy prices in the CPI was offset.

The rise in oil prices in recent years contributed hundreds of billions of dollars to oil exporting countries. For example, Saudi Arabia's revenue from exports in 2007 is estimated to be \$218 billion, in real terms triple the revenue in 1996 and almost seven times the 1986 revenue. As a result of the increase in the price of oil, there was already a current account surplus of \$95 billion in the Saudi balance of payments in 2006 (even before the sharp rise in prices at the end of 2007), about \$50 billion in the Kuwaiti account, and about \$14 billion in Iran's account.

The rise in revenues among Arab oil states trickles down to countries that do not produce oil (such as Jordan and Lebanon), and to smaller oil exporting countries (Egypt and Syria). Oil revenues reach these countries through remittances of workers (Egyptian, Jordanian, Syrian, Lebanese, Palestinian) in Gulf states to their families in their

Table 3. Oil-Related Revenues of Arab Oil Producing Countries and Iran

(In billions of dollars, in fixed 2008 prices*)

	1966	1976	1980	1986	1996	2006	2007*	2008**
Saudi Arabia	8.74	147	269	36	76	210	227	338
UAE	1.34	32	58	14	21	76	82	122
Kuwait	8.74	35	50	13	20	59	64	96
Qatar	1.34	8	14	3	5	26	28	42
Iran	7.40	88	31	12	27	64	69	102
Iraq	4.71	35	69	14	1	31	34	51
Libya	6.72	37	58	15	13	40	44	65
Algeria	3.36	18	34	10	12	41	45	67
Total OPEC***	61	493	736	153	239	701	758	1129

Source: 1976-2006 figures from the OPEC Annual Statistical Bulletin. The figures include crude oil, oil products, and thickened and liquid gas, without offsetting imports of oil products.

* Estimate

** Forecast - based on average OPEC price of \$110 per barrel

*** including OPEC states not listed in this table

home countries, trade between countries, and funding of projects by oil producing countries in other countries. In non-oil producing countries such as Jordan, some of the impact of the oil monies is offset by increased energy costs. The oil revenue has a positive effect on the economies and internal stability of Arab countries that lack oil or are small oil producers. Nonetheless, the growing gap in wealth increases the potential of estrangement between the large oil-producing countries, which continue to amass wealth, and other Arab states. Saudi Arabia and the UAE possess around 75 percent of the oil reserves of the Arab world (about 4 percent of the world's proven reserves), while Egypt – the most powerful country in the Arab world – has dwindling reserves and will soon become an oil importer.

Political and Security Aspects

The United States' anxiety over the specter of Iran emerging as a hostile regional power with nuclear weapons that could dictate global oil supply policy is a function of oil's political and economic power. The struggle against Iran, like that against Iraq under Saddam Hussein, combines two main challenges: preventing a nuclear capacity and controlling energy sources. The Arab-Israeli political process is also perceived in part as one of the main components for achieving regional stability and ensuring the uninterrupted flow of oil from the Gulf to the West. It is not by chance that steps to bolster stability in the Gulf, contain Iraq, and advance the political process between Israel and the Arabs were packaged together by then-Secretary of State James Baker after the 1991 Gulf War.

The importance of the Persian Gulf as the world's primary energy source will make it hard for the US to withdraw from Iraq without a guarantee of regional stability. Nevertheless, the higher the oil prices, the more the US will find it difficult to intensify economic sanctions on Iran.

Al-Qaeda uses the oil lever with the claim that the US exploits the Muslims' natural resources through secular Arab regimes that kowtow to it. For example, in an interview published in December 2005, deputy al-Qaeda head Ayman Zawahiri said, "I call to concentrate efforts on the stolen oil of Muslims, whose main profit goes to the enemies of Islam, while the remainder is stolen by the thieves that control those countries." Comparable anti-American expressions were voiced by the presidents of Iran and Venezuela. In other words, some portray the struggle over oil as a clash of cultures.

The tension in the global arena is likewise reflected within OPEC. In recent years, the anti-American camp in OPEC, which includes Iran and Venezuela and Algeria to a degree, has gained in strength. These states control around one fifth of the world's proven oil reserves and about one quarter of OPEC reserves. At the November 2007 OPEC conference, Chavez cautioned the United States over

attacking an OPEC member state, and said that the price of a barrel of oil would reach hundreds of dollars if the US attacked Venezuela or Iran. Overall, the West has been hard pressed to influence OPEC to increase production in order to moderate the rise in prices.

The dependence on oil and the increasing wealth of Arab oil countries enhance their political power in the world, particularly in the eyes of oil consumers, including in Asia, whose role in the global power game has increased. Organized political use of the oil and money weapon, as occurred after the 1973 Yom Kippur War, is not expected in the foreseeable future given the fragmentation in the Arab world and relations between the oil countries and the United States. However, there will presumably be companies that prefer not to do business with Israel or invest in Israeli companies so as not to harm their dealings with certain Arab countries and with Iran. The same may be said for economic corporations with large percentages of Arab shareholders. Other significant use of oil revenue might be triggered by a serious crisis in the Middle East.

The cash reserves accumulated by the Arab oil-producing countries led to an increase in their investments in economic corporations around the world, which may also endow them with future political influence. In late 2007, Saudi Arabia announced that it was creating a government investment fund – one of the largest in the world – to invest in companies worldwide. In December 2007, the Abu Dhabi Investment Fund invested \$7.5 billion in convertible bonds of Citigroup, which grants it the right to convert the loan to 4.9 percent of the financial giant's share capital. While the deal will not provide Abu Dhabi with control of Citigroup and will not give it a seat on the management board, it provides entry into the corporation and strengthens the presence there of the Arab oil-producing countries (Saudi Prince al-Walid bin Talal is the largest private shareholder in Citigroup, with about 5 percent of the corporation's shares). Underscoring the importance of the large corporations, in January 2008 President Bush called on financial giants Deutsche Bank and

UBS (Switzerland) to limit their loans to Iran, in order to increase pressure on it to freeze its nuclear project.

Within the oil-producing countries it appears that some of the phenomena that characterized the previous rise in oil prices will recur, including an increase in ongoing consumption and the acceleration of large infrastructure projects. Investment in local production capacity will likely increase and contribute to long term growth. The dramatic rise in revenues has also led to an increase in military spending, with the regional security-political climate impacting on the size of this expenditure. Meanwhile, arms manufacturers have courted oil producers, raising the risk that weapons deals may upset the regional balance of power. Iran's ability to fund weapons deals and boost its financial support of Hizbollah and Islamic Palestinian organizations has widened. On the civilian level, an increase in consumption and infrastructure investments is expected in Iran, including in the energy field. Overall, high oil prices are encouraging the development of oil substitutes, including nuclear energy. The cultivation of manpower and infrastructure in the nuclear energy field may influence the potential for developing a military nuclear capacity in certain countries.

An increase in oil revenue potentially has an impact on inter-Arab aid. However, in contrast to the Baghdad aid (1979-88) to support Syria, Jordan, and the Palestinians in their struggle against Israel, there is now a chance that billions of dollars can contribute to regional peace and stability, if they are earmarked for projects such as rehabilitating the refugee camps in Arab countries, constructing a secure passage between Gaza and the West Bank, and desalinating water in the Gaza Strip and transporting it to the West Bank. In other words, today the question is not one of ability but of intent: do the Arab oil producing countries want to help promote a solution to the conflict using their resources? This question is more relevant than before in view of the Saudi initiative regarding the political process.

Conclusion

As long as no alternative is found, oil prices are expected to rise in the long term. On the other hand, history shows that the oil prices do not rise in a linear fashion. The current wave of price rises is unique in that it is not the result of a severe political crisis, as in 1973 or in 1979, but due to the accelerated demand for oil by developing countries such as China and India. Thus, as most of the world's oil reserves are located in unstable regions such as the Persian Gulf, an alternative to the current oil supply is increasingly important, for both economic and political reasons.

Contributors

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