

יועצי השקעות ישראל | Israel Investment Advisors

Israel's Asymmetric Security Challenges

Brian J. Friedman, CFA
March 31, 2018

The German Sociologist Max Weber (b. 1864 – d. 1920) defined a state as a political entity that successfully retains a monopoly on the legitimate use of physical violence. Americans and Europeans sometimes fail to understand that many countries in the world do not meet this minimum threshold. France is surrounded by strong and cohesive states like Germany, Spain, Italy and the United Kingdom. Israel, however, is surrounded by weak or failed states and a variety of non-state or semi-state military organizations. Modern European military history was essentially symmetric conflict between strong states. Former Israeli National Security Advisor Major General (res) Yaakov Amidror uses the word “asymmetry” to describe Israel’s security situation.

The first asymmetry is quantitative (see Table 1). The world’s 1.8 billion Muslims generally share attitudes ranging from negative to hostile toward the Jewish state of Israel. The 50 majority Muslim member countries of the United Nations routinely vilify Israel in numerous resolutions where they vote as a block. Approximately 400 million of the 1.8 billion Muslims live within striking distance of Israel’s 8.5 million people.

Israel remembers the 1948, 1967 and 1973 wars fought to defend against attacking coalitions of Arab armies. Despite peace treaties with Egypt and Jordan, Israel must assess current and future threats from these countries. Installed by military coup, the current Egyptian government is mindful that 75% of the population voted for Islamist parties when given the chance in 2012. Moreover, the Egyptian government cannot adequately contain Islamist terrorist groups operating in the Sinai desert. While the Jordanian government does successfully claim a legitimate monopoly on the use of force, it also sits on a potential powder keg of domestic Islamist opposition, millions of recently arrived Syrian refugees, and external threat from Iran and its proxies.



Source: www.cia.gov

Although the Palestinian Authority (PA) is the globally recognized governing body in the West Bank and the Gaza Strip, the PA certainly does not successfully claim a monopoly of legitimate force. The terrorist organization Hamas is the de facto government in Gaza, and well-armed family clans and militias operate freely in both the West Bank and Gaza. Rarely are state institutions such as courts or police utilized to settle clan disputes.

Iran Can Exploit Weak States While Israel Cannot

The second asymmetry is stronger states such as Iran, Turkey or Russia can exploit weak or failed states in the region, while Israel cannot. Iran now commands a quasi-empire through its political, military and religious allies in Iraq, Syria and Lebanon. The Russian military ensconced itself in a collapsing Syria, turning a losing war for President Assad into a murderous victory. Governments in Iraq, Syria and

Lebanon most certainly do not hold a monopoly of legitimate force. The same is true in Yemen, where Iran wants to build another proxy like Hezbollah but focused on its Sunni arch enemy Saudi Arabia.

As counterbalance, General Amidror says Israel must maintain an asymmetrically stronger state and preserve its alliance with the United States. Among the countries in the Middle East, Israel is the only full democracy living under the rule of law. Israel is the only industrialized economy in the region with the highest economic growth rate. Israel's Gross Domestic Product (GDP) of \$348 billion is larger than Egypt's (97 million people, 10X Israel's population). Iran is a country of 82 million people, but its GDP is only 25% larger than Israel.

The Israeli people are much wealthier than the Iranian people despite Iran's vast oil fields. Israeli GDP per capita exceeds \$40,000 vs. \$5,000 per capita in Iran. This, plus \$3.8 billion in annual military assistance from the United States, allows Israel to spend \$20 billion per year on its military. Iran's expenditures are estimated to be \$12 billion.

Although Israel outspends Iran, Iran can stretch its money further. Iran and Hezbollah joined in a Shiite coalition backed by Russia to defend Bashar al-Assad's tyrannical regime in Syria. An American-supported coalition with Kurdish forces largely defeated ISIS in Iraq and Syria, but Turkey exploited the opportunity to attack the Kurds. Iran surreptitiously filled the vacuum with infiltrated troops, weapons and military bases close to Israel's borders. Without expensive military investments, Iran can now threaten Israel in a variety of direct and indirect ways.

Just a few weeks ago, Iran directly engaged Israeli military forces for the first time, successfully downing an F-16 aircraft. This was the first time an Israeli plane was shot down by enemy fire since 1982. Israel launched a dramatic response, reportedly destroying half of Syria's air defense capabilities in a single air campaign. The goal was to restore deterrence through Israel's massive qualitative military advantage.

Economic Growth is Essential to Israel's Security

Iran and its proxies understand they cannot win a war against Israel (at least as long as they do not possess nuclear weapons). Their long-term strategic goal is to make life unbearable for Israelis, destabilizing the Israeli economy and ultimately forcing millions of Jews to leave the country. Israeli prosperity is in and of itself a victory over its enemies. Gen. Amidror says economic growth also allows Israel to afford ever-larger investments in military technology, intelligence and defensive capabilities. Perhaps more important, economic prosperity provides Israel with "strategic depth" for the first time in its history.

In symmetric warfare Israel could not afford to fight long wars. To win Israel mobilized its entire population for war, placing immense strain on the economy. In the current era of asymmetric conflict, Israel's enemies – particularly Hezbollah and Hamas – lack the industrial capacity to rapidly replenish their arsenals. While experts estimate that Hezbollah now possesses 100,000 to 150,000 rockets, Israel could sustain its counterstrike indefinitely.

Over the past 20 years, Israel steadily increased military spending while simultaneously reducing government debt as a percentage of GDP. While neighboring countries collapsed into civil war, revolution and state failure, Israel maintained 4% average annual economic growth. Recent economic

reforms passed by the Israeli government will likely allow Israel to grow at this pace in the future as well (see our IIA newsletters from 2017:Q2 and 2016:Q1 at www.israelinvestmentadvisors.com/resources).

As investors in Israeli stocks, we accept higher security-related risks, but these very same risks encourage innovation and growth-oriented economic policies. Investing in Israeli companies is a bet on Israel maintaining the qualitative edge necessary for its survival in a hostile neighborhood. In fact, investing in the Israeli markets is more than a passive bet. It is an active step that helps the goal become a reality.

Table 1	Population	GDP	GDP	Military
	(millions)	(\$ Billions)	per capita	(\$ Billions)
Israel	8.5	\$348	\$40,942	\$20
Gaza	1.8	\$3	\$1,611	NA
West Bank	2.7	\$10	\$3,630	NA
Egypt	97.0	\$332	\$3,422	\$6
Jordan	10.2	\$40	\$3,921	\$2
Lebanon	6.2	\$53	\$8,548	\$2
Syria	18.0	\$25	\$1,388	NA
Saudi Arabia	28.5	\$679	\$23,824	\$67
Iraq	39.0	\$193	\$4,949	\$7
Kuwait	2.9	\$118	\$40,689	\$6
U.A.E.	6.1	\$379	\$62,131	\$18
Oman	4.6	\$72	\$15,652	\$10
Qatar	2.3	\$166	\$72,174	NA
Yemen	28.0	\$26	\$914	\$1
Iran	82.0	\$428	\$5,220	\$12
Turkey	80.8	\$841	\$10,408	\$15
Israel's "Neighborhood"	410.1	\$3,364		\$143.9
Russia?	142.3	\$1,500	\$10,541	\$81.0

Source: www.cia.gov