Immediate Geopolitical and Economic Considerations on the Israel-Hamas Conflict in the First Two Weeks since 7 October 2023

Bogdan Munteanu
National University of Political Studies and Public Administration (SNSPA),
International Relations and European Integration Department, Romania
bogdan.munteanu@dri.snspa.ro

Abstract

On October 7, 2023, a forceful military action of the Palestinian organization Hamas in Israel triggered dreadful humanitarian consequences for Israel, which immediately adopted resolute measures against Hamas, with subsequent impact on heightened geopolitical risks in the Middle East. The purpose of this article is to explore the historical context of geopolitical situation in Israel, the social, economic and political main challenges. The paper also discusses potential solutions that might prove adequate to restore the relations in the Middle East and appease the existing conflicts. The analysis explores the geopolitical considerations on foreign relations normalization processes in Middle East, with a focus on “2002 Arab Peace Initiative”. Furthermore, it presents the possible geoeconomic impact of the Israel-Hamas conflict on Europe, discussing the main risks for the global economy. The preliminary conclusions indicate the "two-state solution" still emerging as the most appropriate to achieve lasting peace in the Middle East.

Key words: Israel, Hamas, Geopolitical Risks, Geoeconomic Outlook, 2002 Arab Peace Initiative
J.E.L. classification: F01, F51, H12, I30

1. Introduction

The aims of the paper are to explore is to explore the historical context of geopolitical situation in Israel, the social, economic and political main challenges, in a context of recent escalation of tensions in the Middle East, and to bring into discussions the economic linkages that are exposed to the geopolitical risks, with a stance to the larger frame of the global geoeconomic impact on the global economy. The paper also analyzes the strains to normalizing relations in the Middle East and questions various viewpoints on what solutions might prove to be feasible to achieve a de-escalation of tensions and a lasting peace in the region.

On October 7, 2023, a forceful military action of the Palestinian organization Hamas in Israel triggered dreadful humanitarian consequences for Israel, which immediately adopted resolute measures against Hamas, with subsequent impact on heightened geopolitical risks in the Middle East. The Hamas attack occurred in 2023, a year marking the 75th Anniversary since the state of Israel was established.

After the Six-Day War of 1967, Israel captured the Gaza Strip (located on the Israeli-Egyptian border) and placed it under military administration. In this context, Israel has engaged in the challenging undertaking of managing the Palestinian situation, while Israel was developing settlements and strengthened its presence in this area. This geopolitical development led to the First Intifada, a name for the Palestinian uprising against the Israeli occupation. The First Intifada lasted from 1987 to 1993, and fostered the emergence of Hamas as a militant Islamist group. Over time, the Hamas gained political power as secular leftist groups such as Fatah and the Palestine Liberation Organization (PLO) gradually lost influence (Slater, 2020).

The Oslo Accords of 1993 (signed in Washington DC, USA) and 1995 (signed in Egypt), are a set of agreements between Israel (represented by the Israeli prime minister Yitzhak Rabin) and the Palestine Liberation Organization negotiator Mahmoud Abbas (Office of the Historian of the US Department of State, 2023).
The Oslo Accords ended the First Intifada and led to the creation of the Palestinian Authority as the governing body of the Palestinian people, stipulating that the PLO would recognize Israel's right to existence. Eventually, the resentment over the continued delays in implementing the Oslo Accords and the growing tensions over the Israeli's governance over the Palestinians had negative effects. The Second Intifada began in the fall of 2000, which marked an intensified Israeli-Hamas violence. Israel strengthened the border security and control over the frontier with Gaza and, in 2005, Israel had to withdraw completely from the Gaza territory after nearly 40 years of occupation (Bunton, 2013).

Following the disputes between Hamas and Fatah, Hamas took control of Gaza in 2006-2007, gradually becoming a hybrid force in the process of consolidating the acquired powers—partly a terrorist-designated organization and partly a pseudo-state political group. Hostilities between Hamas and Israel led to the First Gaza War and Operation “Cast Lead” in December 2008 (McDonald, 2009). The Second Intifada ended in 2012, with the Egyptian government brokering an agreement to end the armed conflict.

2. Theoretical background

A series of papers published until the present day on Israel’s geopolitical and geoeconomic strategic relations with the Arab countries in the Middle East, U.S.A, Russia and China discuss how the interplay of interests, including of economic nature, allowed for Israel to balance risks with opportunities, advancing to secure borders and a more prosperous economy.

A viewpoint is that terrorist actions in Israel increased in frequency and magnitude on an international conjecture where Israel seemed to make progress in international relations and openness related to Arab countries (Kydd et al., 2002).

Another stance places a greater emphasis on the concurrent situation among various Palestinian factions in the struggle to augment the political power and the strategic relevance as opponents to Israel. Exacerbating attacks on Israel seems to be a statement and a proof of political power and claim to legitimacy representing Palestine internationally (Bloom, 2004).

A different approach to researching Palestinian actions reveals that another scope of armed interventions upon Israel is to obtain significant concessions from Israel in the process of negotiating the terms and conditions for Palestinians (Berrebi et al., 2005)

Regardless of the rich literature on the historic relations of Israel and Palestinians, it seems that discussions on geopolitics and geoeconomic impact of terrorist actions in Israel are in an incipient phase, in a new paradigm of diplomatic shifts and an already undergoing process of normalizing relationships in the Middle East.

3. Research methodology

The research methodology to approach the geopolitical risks and geoeconomic implications stemming from the Israel-Hamas conflict pertains to analysis of political evolutions over time and the synthesis of documented authentic scientific and public resources, giving substance to the main findings.

The paper is developed using the following methods / techniques of investigation and analysis: (i) qualitative research, to explore from a regressive stance how the geopolitical considerations interplay with the sovereign interests in the Middle East, (ii) descriptive research and observations to investigate how the risks might affect the European economy, as well as the global economy, particularly on the energy channel and international prices of fuels, (iii) analytical research interpreting the Middle East economic relations developments, and (iv) applied research, on how potential solutions might foster a more durable peace, appeasing the diplomatic tensions, geopolitical risks and geoeconomic impact in Europe and the Global Economy, with a view on the efforts of the international community to restore previous conditions in the Middle East.
4. Findings

4.1. Israel's Economy as of September 2023

Israel's gross domestic product (GDP) grew by 3.1 percent in the second quarter of 2023 compared to the same period of previous year according to the most recent estimations of Israeli authorities on October 16, 2023. (Central Bureau of Statistics, 2023a). On components, the import of goods and services decreased by 9.7 percent, while the private consumption expenditure grew by only 0.5 percent.

Per capita, GDP growth advanced by 1.2 percent, but demand slowed as private consumption expenditure per capita dropped by 1.3 percent and in more detail, the household expenditure for products and services (including food, private services, postal services, fuel and electricity) fell by 1.6 percent. Private demand seemed to weaken in the second part of this year, after a robust economic growth of 6.5 percent in 2022.

In the public sector, the expenditure on consumption advanced by 3.8 percent in the second quarter of 2023 compared to the same period of the previous year, while the defense expenditures fell by 1.5 percent.

Israel’s economy confronted a drop by 0.7 percent regarding the investments in fixed assets in the second quarter of 2023, potentially signaling that companies prepare to limit the fixed capital and prepare for limited investments, in anticipation of a slowdown of the economy (Central Bureau of Statistics, 2023b).

As an export oriented open economy, the export of goods and services (excluding diamonds and start-up companies) increased by 0.3 percent after falling by 0.4 percent in the first quarter of 2023. The export of services increased by 1.1 percent. The export of goods from the industry sectors, excluding diamonds, decreased by 3.6 percent in the second quarter. There was also a decrease in the export of diamonds and an increase in the export from start-up companies.

In a persistently high inflationary context, the Bank of Israel raised the monetary policy rate to 4.75 percent, supporting a gradual decrease in inflation, which reached 3.8 percent per annum.

However, in the aftermath of the events triggered by Hamas on October 7, 2023, the Bank of Israel launched a program to support the foreign exchange rate of the shekel, resorting to the reserves management and a intending to sell up to USD 30 billion in order to moderate the volatility. In addition, the Bank of Israel announced the provision of sufficient liquidity to the market through SWAP mechanisms up to USD 15 billion, to ensure the continued proper functioning of the markets. In September 2023, the Foreign Exchange Reserves stood at USD 198.5 billion, potentially allowing for a resolute support of the national currency and the banking sector. (Bank of Israel, 2023).

According to IMF, Israel’s general government balance was robust in 2022, at +0.6 percent, while the public debt to GDP slightly exceeded 60 percent, while the current account excess was +3.7 percent of GDP. The GDP in nominal prices for 2022 stood at USD 475 billion and the unemployment rate of 3.8% showed an economy close to full employment status (International Monetary Fund, 2023a).

Israel launched an international issuance of war bonds on October 12, 2023 and raised $200 million, out of which around 75 percent from US local governments and 25 percent from diaspora in US (Israelbonds, 2023), despite the fact that the conflict with Hamas increased the cost of financing to around 5.5 percent and the cost of insuring Israel's debt against default in the 5-year credit default swaps market (George, 2023). to 119 basis points on October 12, 2023, from 58 points on October 6, 2023 (Investing, 2023).

Subsequent to the onset of the Israel-Hamas conflict, the global rating agencies decided to place the long term sovereign debt ratings under monitoring for review. On October 17, 2023 Fitch Ratings decided to place Israel's 'A+’ IDRs on Rating Watch Negative (Fitch Ratings, 2023), followed on October 19, 2023 by Moody’s Investor Service who placed Israel's 'A1’ rating under review for downgrade (Moody’s, 2023).
4.2. Current Geopolitical Situation and Challenges in Israel

In the more recent past, tensions between Israel and Palestine entered a new stage of escalating violence. The main risks are stemming from the onset of the armed actions in Jerusalem, the cross-border fighting between Israel and Hamas armed groups in Gaza, the marches from Cisjordania/West Bank (a relative border conventionally drawn in 1967 with Jordan) and the escalating tensions over the Golan Heights (neighboring Syria). Violence acts in cities in Israel with mixed ethnic groups - significant numbers of Jewish and Palestinian citizens - have escalated since 2021, including in the Gaza Strip.

In my view, taken in historical context, these confrontations are on track to become some of the worst kind in the recent history of the Israeli-Hamas conflict. Israel's immediate response in the Gaza Strip, after the occurrence of the armed attack by the Hamas organization on October 7, 2023, sends a strong signal regarding the need for actions to combat terrorism and to reconsider geopolitical relations.

In retaliation to the most recent Hamas actions in October 2023, Israel launched airstrikes on the Gaza Strip, and Israeli Prime Minister Benjamin Netanyahu announced that Israel is at state of war with Hamas. Chatham House experts believe that while conflicts in Gaza are not new, this war is likely to be a long and devastating conflict that may cancel any prospect of negotiations between Israel and the Palestinian Authority. In the regional context, a broader viewpoint is that the armed conflict in Israel will have far-reaching consequences for the immediate neighborhood, as well as for the Middle East and the international community (Albanese et al., 2023).

On October 15 this year, the European Council adopted a common position of the European Union on the Israeli-Palestinian conflict, whereby the European Union condemns in the strongest possible terms Hamas and the brutal and indiscriminate terrorist attacks in Israel, considering as essential to prevent the escalation of tensions regional geopolitics (European Council, 2023).

Therefore, European Union's common position underlines the right of Israel to adopt appropriate defense measures in accordance with humanitarian law and international law. In addition to the importance of ensuring the protection of civilians, the EU calls on Hamas leaders to immediately, fully and unconditionally release the hostages.

4.3 Regional Geopolitical Considerations on Foreign Relations Normalization Processes in the Middle East

In this wider framework, the armed conflict between Israel and Hamas, may have consequences upon the beginning of the normalization of Israel's relations with Saudi Arabia (Sohal, 2023) and may affect Israel’s relations with Egypt as neighbor to Gaza Strip.

At the same time, Saudi Arabia’s process of normalizing relations with Iran reflects an attempt to reach a rapprochement to reduce the regional tensions in the Middle East, as both countries are founding members in the Organization of Petroleum Exporting Countries but act as regional competitors to one another. Saudi Arabia is also in talks with the US regarding a possible civilian nuclear program (Al Arabyia, 2023).

On March 10, 2023 Saudi Arabia and Iran reached an agreement in the context of the trilateral meeting organized by China (Government of Saudi Arabia, 2023). Iran and Saudi Arabia have agreed to restore diplomatic relations seven years after severing bilateral communication. The two states mutually reopened their embassies in Tehran and Riyadh in June 2023. The agreement, brokered by China, also included the implementation of a security cooperation agreement signed in 2001 and an older pact, from 1998, to improve cooperation in trade, investment, technology and culture. The Islamic Republic of Iran and the Kingdom of Saudi Arabia affirmed the respect for "state sovereignty" and "non-interference in internal affairs". The move marked a significant easing of tensions, particularly related to the regional conflicts in Syria and Yemen.

For Saudi Arabia, this agreement with Iran represents an opportunity to orient relations with China, in the context in which Saudi Arabia and Russia ensure the co-presidency of OPEC+, and the Moscow-Beijing-Tehran axis has a strategic role in the Middle East and South Asia-East. The US State Department stated that it supports the political dialogue between the two states (US Department of State, 2023b), and Anthony Blinken discussed regional security and US policy on Iran on
September 18, 2023 during a meeting with the foreign ministers of the member states of Gulf Cooperation Council (US Department of State, 2023c).

From 2020 onwards, under Abrams Accords, Bahrain, the United Arab Emirates, Morocco and Sudan have announced the normalization of relations with Israel (Reuters, 2023a). Most recently, in 2023, the United Arab Emirates signed a trade agreement with Israel, the first of its kind between Israel and an Arab state. The normalization of relations between Israel and the Arab countries are a prerequisite for Israel to position itself on the global trade map, considering the India-Middle East-Europe trade corridor, which could bring investments in connectivity in Israel, especially with the Kingdom of Saudi Arabia (Berman, 2023).

4.4 The “2002 Arab Peace Initiative” and Lessons for the Current Conflict Easing in Israel

For the US, mediating the normalization of relations between Israel and Saudi Arabia is of particular importance, being considered a special security interest of the US foreign policy. Saudi Arabia was a big supporter of the 2002 Arab Peace Initiative (Economic Cooperation Foundation, 2023), which foresees the normalization of the relations with Israel conditional on Israel’s withdrawal from the Palestinian territory and the Golan Heights next to Syria.

The peace initiative at that time included the establishment of the Palestinian state as well as finding a "fair solution" for social coexistence. In the same vein, Israel could strengthen diplomatic ties with Saudi Arabia, but rounds of dialogue are needed as Saudi Arabia's ambitions raise strong opposition pertaining to security concerns over the Saudi civil nuclear program and precautions over the Iranian nuclear program (Times of Israel, 2023).

The geopolitical consulting firm RAND Corporation stated in a 2014 study, that the "two-state" solution in the Israeli-Palestinian space is the most feasible approach, at least from an economic point of view (Anthony et al., 2015). In the current context, the Israeli-Palestinian conflict has had reverberations in Europe and the Middle East. For example, as an immediate measure, European states strengthened security measures on civilian targets and the Jewish population (Germany, Great Britain), while demonstrations of support for Palestine took place in Turkey, Lebanon, Syria, Yemen, Iraq and Iran (Euronews, 2023), a signal of escalating tensions and an Arab disconnect with Israel.

4.5 Possible Geoeconomic Impact of Israel-Hamas Conflict on Europe and Risks to the Global Economy

There is a growing consensus that the geoeconomic impact of the Israel-Hamas conflict is expected to increase in the near future, and Europe could face renewed economic and political issues, after the Russian-Ukrainian conflict occurred in 2022 and is still ongoing. The new conflict triggered by Hamas in Israel occurred in a frail international economic recovery after the Covid-19 pandemic.

Morocco hosted in Marrakech the Annual Meetings joint IMF-World Bank meetings, in the week of October 9-13 this year. The analysis presented by the IMF in the flagship report "World Economic Outlook", shows that the global economy has not yet recovered the post-pandemic gaps. The projections in the IMF’s base scenario on global economic growth show a slowdown from 3.5 percent in 2022 to 3.0 percent in 2023. The inflation is proving more persistent than it was expected in the previous estimations in 2023 over the medium term, although it is forecasted to decline from 8.7 percent in 2022 to 6.9 percent in 2023 and to just 5.8 percent in 2024 (International Monetary Fund, 2023b).

The IMF’s chief economist estimated that a 10 percent increase in global oil prices would cause a 0.15 percent drop in global GDP and a 0.4 percent increase in global inflation (Gourinchas, 2023). A sustained oil price at or above $100 will hurt growth and contribute to the persistence of inflation as a factor exogenous to monetary policy (Tamma, 2023), so the scenario for major global central banks will span a longer period of time with higher interest rates—a "higher for longer" interest rates scenario (Adrian, 2023) which could potentially lead to a slower global economic growth and a pressure on all loans at risk of repayment.

On the other hand, the World Bank states that the phenomenon of poverty has reversed the downward trend at global level (in 2022 the number of the population exposed to extreme poverty increased by approximately 75-95 million people). In addition, conflicts such as those in Ukraine
and in Israel have the adverse effect of amplifying the factors that hinder the development and prevents the achievement of the UN's long-term sustainable development goals (World Bank, 2023).

5. Conclusions

Preliminary Conclusions on Israel-Hamas Conflict drawn in the Two Weeks passed since October 7, 2023

In this context, Hamas attacks on Israel could have repercussions on the oil market if this conflict expands to include Hezbollah or Iran as supporters of Hamas. There will likely be calls in the near future for the international community to step up sanctions on Iran's oil exports, which have increased over the past six months (Cahill, 2023).

In addition, talks to normalize relations between Saudi Arabia and Israel could be suspended amid the deepening Israeli-Palestinian conflict, closing an important avenue for US-Saudi cooperation. A key issue to watch in the near future is whether the disruption of oil supplies from Iran or a sustained rise in oil prices supported by OPEC+ has the potential to change geopolitical dynamics in the Middle East. The Secretary of the US Treasury, Janet Yellen, stated that it is premature to analyze international measures at this time regarding the actions of Hamas, as the evolution of this conflict must be followed in the near future (Reuters, 2023b).

The European Union considers the "two-state solution" as the most appropriate way to achieve lasting peace in the Middle East. In this regard, widespread engagement with the legitimate Palestinian Authority as well as regional and international partners that could play a positive role in preventing further escalation of tensions in the region is required.

6. Acknowledgement

The opinions expressed in this paper reflect the personal viewpoint of the author and do not involve, do not reflect official positions or do not engage the responsibility of any of the institutions with which the author is affiliated. The purpose of this article is to analyze data and information from available public sources as indicated in references, in a complete form and according to specified methodology. Therefore, it is not in the scope of the article to reproduce tables and charts, but to use the relevant data to answer to questions about causes, effects, time, locations, impacts, costs, responsibilities, actions, benefits. This article focuses on a very specific subject and, as broad topic, it may require future observations, analysis and in-depth surveys, remaining open for further research.

7. References


