

Impact of Israel's War on its Economy

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Abstract:

The recent conflict between Israel and Hamas has drawn global attention, with diverse economic repercussions beyond the immediate conflict zone. The economic consequences of armed conflicts are profound, and news outlets contribute significantly to shaping public perception of these impacts. Understanding how different nations perceive and report on Israel's economic state post-war is crucial for a comprehensive analysis. This analysis focuses on articles from Russia and the United States to understand how distinct geopolitical perspectives influence the portrayal of Israel's economic aftermath. The articles chosen for this analysis provide insights into the nuanced ways in which the financial aftermath of the Israel-Hamas conflict is covered in Russia and the United States.

Keywords: Economy, War, conflict

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Russian Perspective: Elizaveta Yakimova's Insights:

Elizaveta Yakimova's article from the Valdai Club examines Israel's economic landscape amid the conflict with Hamas, emphasizing critical facets and historical parallels. Yakimova highlights the difficulties confronting Israel, specifically noting a substantial 60% decline in foreign investment and an 80% decrease in the average valuation of Israeli start-ups upon acquisition by foreign companies (Yakimova, 2023). This reduction and a significant decline in interest from Israeli investors in the local market suggest economic vulnerabilities (Yakimova, 2023). Yakimova relates these economic markers to past events, drawing comparisons with the Al-Aqsa intifada from 2000 to 2005.

Yakimova's analysis goes beyond economic statistics, exploring the labor market risks in the aftermath of

the conflict. She links these risks to the enduring consequences of the COVID-19 pandemic, noting a refusal to hire Palestinians during periods of terrorist attacks, increased solidarity among Israeli Arabs with militants' actions, and a massive call-up of reservists. These factors collectively threaten an already tense labor market (Yakimova, 2023). Additionally, Yakimova discusses the impact of protests against judicial reforms as a prominent factor negatively influencing the external perception of Israel's public administration system. The article suggests that these demonstrations carry substantial risks for upcoming Worldwide Governance Indicators (WGI), a metric the World Bank employs to assess political stability, government effectiveness, rule of law, and corruption (Yakimova, 2023).

American Perspective: Gian Maria Milesi-Ferretti's Insights:

Gian Maria Milesi-Ferretti's article from the Brookings Institution provides an American perspective on the economic repercussions of the Israel-Gaza conflict, focusing on global financial implications. Unlike the Russian perspective, Milesi-Ferretti's analysis centers on broader themes, particularly energy markets (Milesi-Ferretti, 2023).

The article emphasizes the immediate global economic significance of energy, highlighting concerns about potential disruptions in oil prices and market instability. Milesi-Ferretti points out that the oil prices were already high before the conflict, amplifying the likelihood of supply disruptions, especially if the crisis involved Iran or unrest affected production in Iraq. Despite no apparent impacts on oil production, the onset of the conflict has led to a rise in oil prices, indicating apprehensions within the market. The article discusses potential outcomes, citing

IMF estimates suggesting a 10% rise in oil prices may lead to a 0.15 percentage point decline in global growth (Milesi-Ferretti, 2023).

Milesi-Ferretti continues her investigation into the effects of shocks to energy prices on economic activity, highlighting the challenges central banks worldwide confront in combating inflation. The article discusses the possible drawbacks of a 10% increase in oil prices worldwide, speculating that it would cause a 0.4 percentage point rise in inflation worldwide (Milesi-Ferretti, 2023). The discussion extends to the impact on gas supplies, acknowledging production stoppages in Israel's Tamar field and the subsequent upward pressure on European gas prices (Milesi-Ferretti, 2023).

Additionally, the article touches upon the broader impact of rising geopolitical tensions on global risk sentiment, financial markets, and external vulnerabilities of emerging markets. While acknowledging the resilience of the Israeli economy and its strong position globally, Milesi-Ferretti provides a comprehensive view of the potential consequences of the conflict on a global scale (Milesi-Ferretti, 2023).

Comparative Analysis

In the comparative analysis of the Russian and American perspectives on the impact of Israel's war on its economy, certain key themes emerge.

Foreign Investment and High-Tech Industries:

Elizaveta Yakimova underscores a substantial 60% decrease in foreign investment, signaling a significant challenge to Israel's economic stability. This decline is attributed to the war with Hamas, reflecting global investors' apprehension about the security risks in the region. Additionally, there is an 80% drop in the average cost of Israeli start-ups when sold to foreign corporations, indicating a diminished valuation and declining investor confidence in the high-tech sector (Yakimova, 2023).

Gian Maria Milesi-Ferretti provides a broader overview, acknowledging the potential impact on Israel's economy without delving into the specifics of foreign investment or its consequences for the high-tech industry. The focus is more on the global economic implications of the conflict, particularly in energy markets (Milesi-Ferretti, 2023).

Labor Market Effects:

Yakimova's analysis explores challenges in Israel's labor market, drawing parallels with the historical precedent of the Al-Aqsa intifada. Issues such as the refusal to hire Palestinians during terrorist attacks, increased solidarity

among Israeli Arabs with militants, and a massive call-up of reservists are highlighted. The impact on retailers due to Palestinian worker absenteeism and Israeli logistics employees joining the army is considered a significant threat to the sector (Yakimova, 2023).

Milesi-Ferretti briefly mentions the impact of military mobilization on labor supply without extensively covering broader labor market issues. The focus remains on the global economic implications, with energy markets and geopolitical tensions taking precedence in the narrative (Milesi-Ferretti, 2023).

Energy Markets and Global Economic Impact:

Yakimova discusses the specific impact on Israel's energy market, emphasizing the decision to freeze the Tamar gas field due to missile strike risks. While acknowledging Israel's increased energy independence, Yakimova suggests that the conflict may hinder the implementation of a long-term industrial strategy, raising concerns about Israel's reliability as an energy supplier (Yakimova, 2023). Milesi-Ferretti broadens the focus to the global economic impact of energy markets. The article discusses elevated oil prices during the conflict and the potential for further rises due to supply disruptions. The emphasis is on the significance of energy in the short run and the potential challenges for central banks globally in managing inflation (Milesi-Ferretti, 2023).

Global Risk Aversion and Financial Markets:

Yakimova points out the potential negative effect of risks on confidence and financial markets, particularly in the context of far-right activities in Israel. The article highlights that demonstrators' actions negatively affect the public administration system's external perception, posing a short-term threat to the Israeli economy (Yakimova, 2023).

Milesi-Ferretti analyzes the response of financial markets to the conflict, observing a modest decrease in global stock prices and a slight widening of spreads. Notably, U.S. long-term interest rates have experienced an increase, potentially indicating concerns regarding the prospect of higher energy prices contributing to inflationary pressures and necessitating a more restrictive monetary policy. The article underscores the persisting risk that a further escalation and broadening of the conflict could provoke a more negative reaction in financial markets (Milesi-Ferretti, 2023).

Conclusion

By examining the Russian and American perspectives, it becomes evident that Israel faces economic challenges post-war. The Russian viewpoint delves into specific indicators such as decreased foreign investment, high-tech sector challenges, labor market risks, and energy market implications. In contrast, the American perspective emphasizes global economic ramifications, particularly in energy markets, inflation, and financial market reactions. These insights contribute to a nuanced understanding of Israel's economic landscape after the conflict. The Russian focus on detailed economic aspects complements the broader global outlook presented by the American

perspective. Together, they highlight the multifaceted impacts on Israel's economy, ranging from sector-specific vulnerabilities to global market dynamics.

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