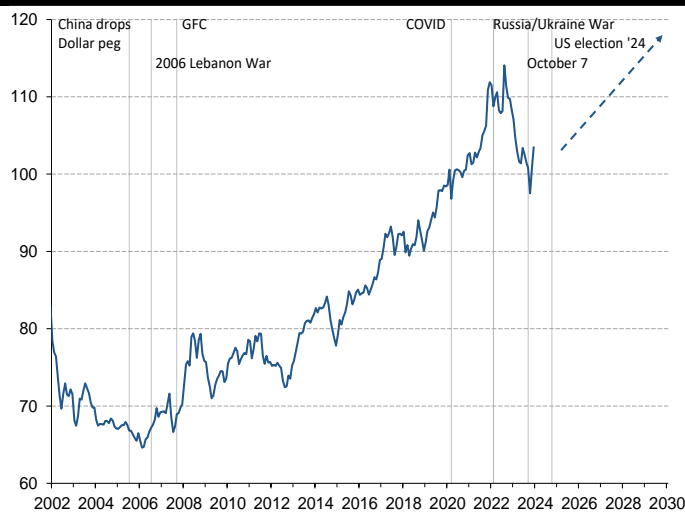


Preface

- At the time of writing, **Israel** remains in a particularly harrowing maelstrom. It is one which has seen wide ranging disruptions to its economy – from agriculture and industry, to tourism and broader service sectors – impacting activity and inflation.
- To be clear from the offset, this research in no way denies the disruptions and dislocations which have struck **Israel's** economy, and continue to consume it. It rather attempts to look through the harrowing events that have unfolded since October 7th, presenting a broad economic assessment for **Israel** out into a time when peace returns to, as it surely must.
- Since the creation of the “new state”, **Israel** has enjoyed considerable net immigration from Europe, Africa and indeed from all corners, not least from America. Propelled by recent events, and the unsavoury reactions to them, **Israel** is set to experience a **marked increase in net inward migration**; arrivals coming from far and wide, entering it with **considerable financial and human capital**, the latter in some of the world's fastest growing tech sectors.
- For a host of reasons set out more fully in what follows, **we confidently expect a sustained boost to the economy of the State of Israel.**

Chart 1: Trade-weighted Israel shekel, with forecast

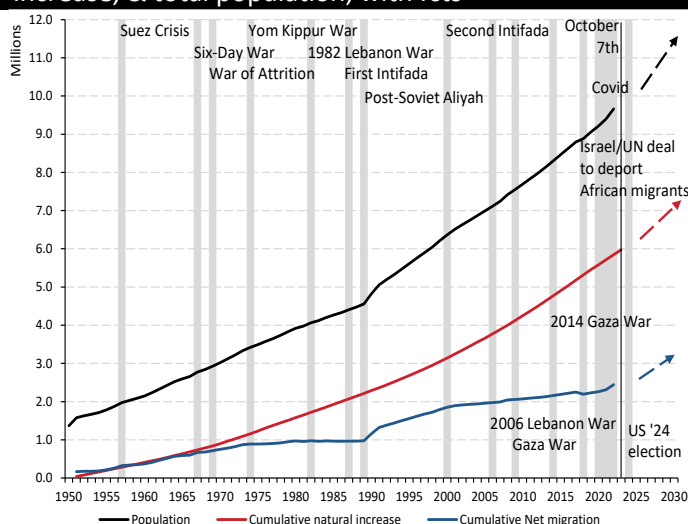


Source: Israel stat office, Bloomberg, FED data

Chart 4: Israel real GDP growth, quarterly, with forecasts

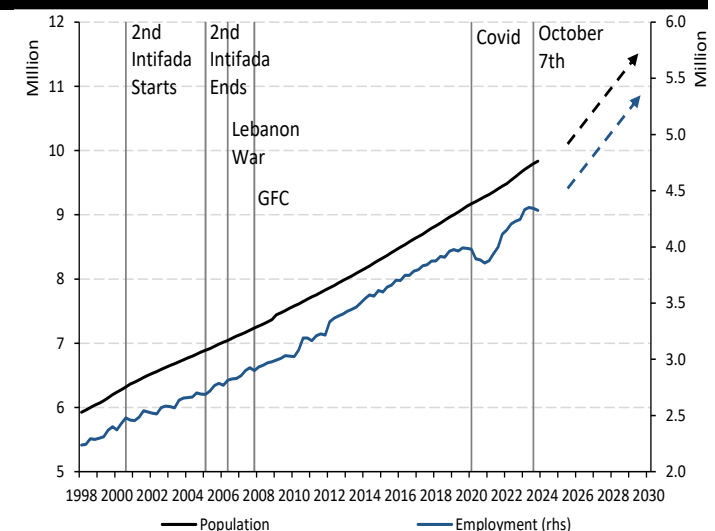


Chart 5: Israel cumulative net migration, natural increase, & total population, with fcts



Source: Israel stat office, American-Israeli Cooperative Enterprise

Chart 9: Israel population, & #'s employed, with fcts



1. Introduction

Of the world's developed nations there are very many struggling financially and so too in their fundamentals economically. Sadly, amongst the spectrum of undeveloped economies far too many exhibiting only the modest signs of meaningful real per capita improvement. Against this unpleasant backdrop to see developed economies that promises to grow in their economic and demographic scale, is a rarity indeed. Let us call these scare few, the promising Acorns.

Key to the future economic strength of growing **Acorn** nations is a dynamic demographic, or "good genes". Without this core element, NOT ONE sovereign economy can grow sustainably. To be clear, "good genes" has nothing to do with eugenics, but everything to do with a **per capita expansion in the number of productive "prime agers"**. Whilst the latter need not necessarily be linked to a rising population per se, together they are highly propulsive. Firing-up these twin economic engines requires an **Acorn** nation to record per capita income escalation, as well as the **significant arrival of those with human and/or monetary capital**. These of course are closely interlinked.

Another essence for sustained growth is an **Acorn** feeding on firm soil. After all, there is nothing less nurturing than unstable ground. This is not to claim a nation cannot flourish amidst floundering or unfriendly neighbours, merely that these don't disturb it, merely leave it at peace.

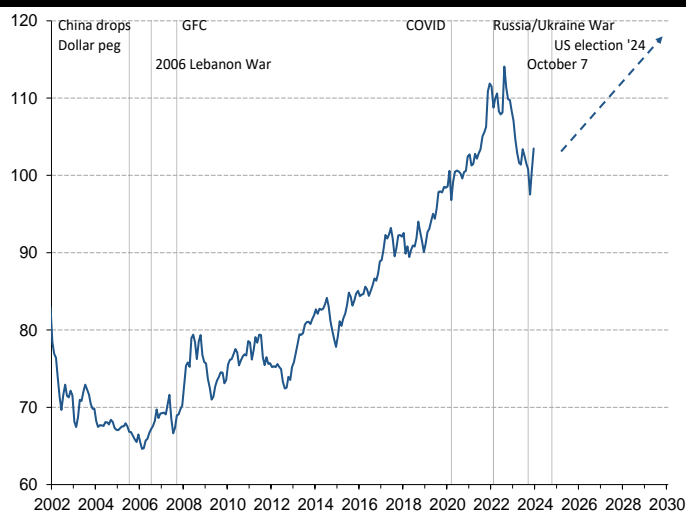
While there isn't anything controversial in the paragraph above, what follows is certain to touch nerves. As is often the case with macroeconomics, one has to be sensitive when dealing with a particularly divisive theme or region. Sensitive because certain things can be imbued with a sense that there is more at stake than economics. So, here goes an attempt to deal objectively with a very subjective issue.

Over the course of the last hundred years, few if any parts of the world have experienced such poor 'neighbourly relations' as in the Levant and wider Middle East. Indeed, whilst new borders for both nascent and old nations have, over the years appeared, and/or moved far and wide, those in this region have been particularly fluid, for which read fraught, and seldom more so than now. This brings us to the prospect that is **Israel**.

2. Real economic growth in defiance of its place in the world

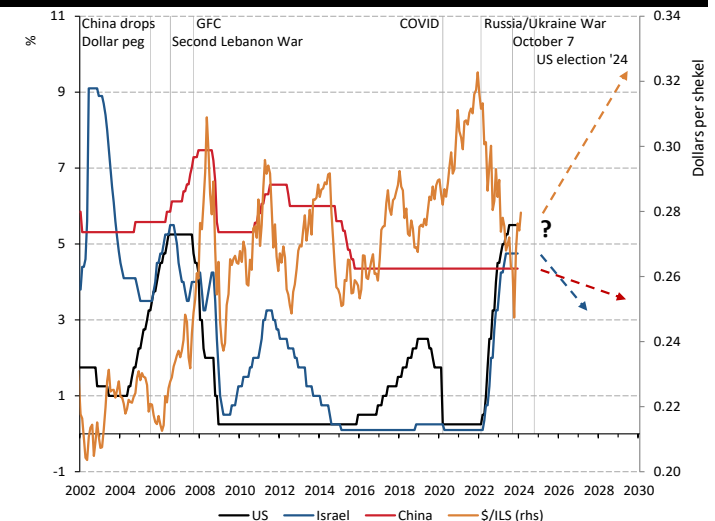
As "new nations" go, since its creation in 1948, **Israel's** economy has defied the forces acting against it.

Chart 1: Trade-weighted Israel shekel, with forecast



Source: Bloomberg

Chart 2: Interest rates (US, Israel, China), & \$ per shekel, with forecasts



Defied it because **Israel** has grown in economic scale even though its neighbours have regularly acted to disrupt and deny it. True, **Israel** has recorded cyclical economic down-swings. Yet, it is undeniable that the economy of **Israel** has enjoyed strong 'secular' (*sic*) growth (see Charts 1-4). In fact, even the short-lived war with **Lebanon** in 2006 (one of many in recent memory) did nothing to reverse the GDP of the nation (Chart 4).

Chart 3: Israel's CPI, interest rate, & 10yr yield, & fcts

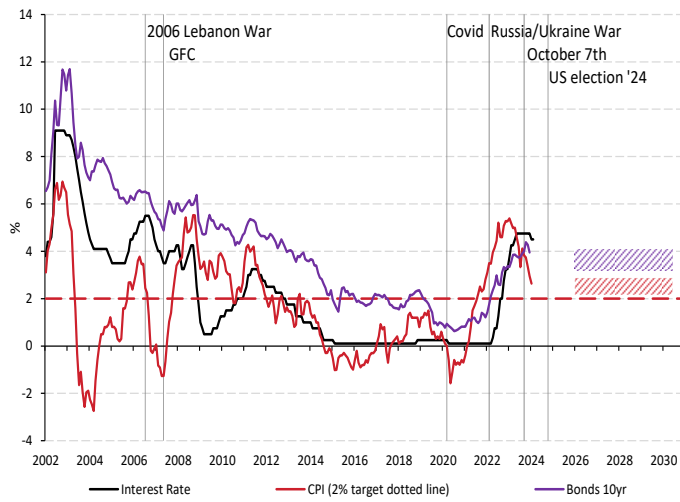
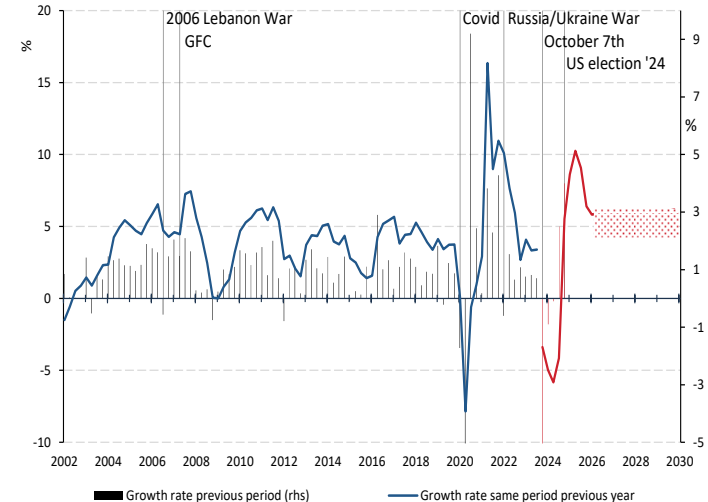


Chart 4: Israel real GDP growth, quarterly, with forecasts



Source: Israel stat office, Bloomberg, FED data

Just as **Lebanon** can be characterised as a nation that sees productive “prime agers” leave and remit back, the opposite has been the case for **Israel**. For since the creation of the “new state” in 1948 it has enjoyed **considerable net immigration from Europe, Africa and indeed arrivals from all corners, not least America. These “immigrants”** included many whose forefathers had themselves arrived/evacuated/escaped Europe to head for the US. As for young Israeli adults who do choose to leave, the ambition of the vast majority is to return with time, and not that much of it.

From its creation, and with each new conflict with its neighbours, **Israel** saw ever more Jews arrive from across nations where they felt unwelcome or threatened. From **Morocco, Egypt, Syria, Lebanon, Iraq, Iran** (triggered by the Revolution), **Ethiopia** and indeed many other nations which had long been home to large Jewish communities. Then, in the wake of the dissolution of the **Soviet Union**, a huge new wave of migrants entered **Israel**; over one million Aliyah (“Law of Return”) arrivals from **Russia** and the CIS (Commonwealth of Independent States).

Throughout the period since 1948, a great many of the almost three million people settling in **Israel** brought with them skills and talents which would have been most welcome in any economy.

The talents that arrived from the former **USSR** included cutting edge technology and cyber skills. Knowledge and expertise in defence has been an enormous asset given the turbulence in the region.

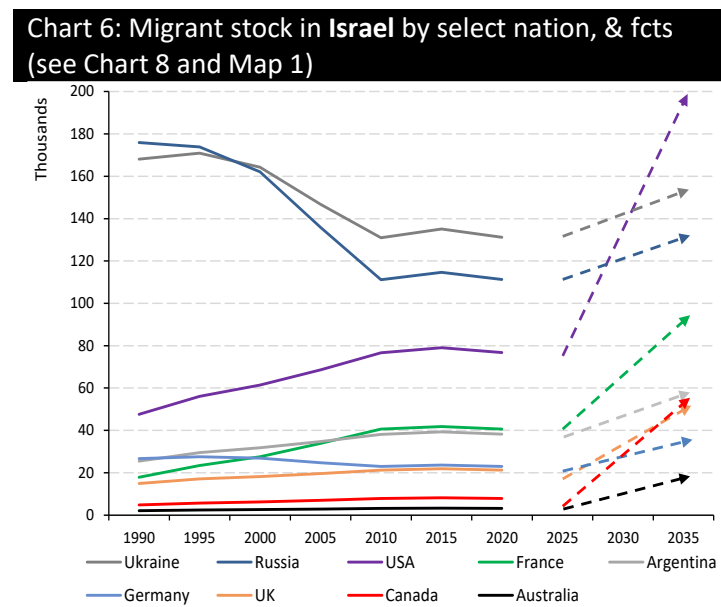
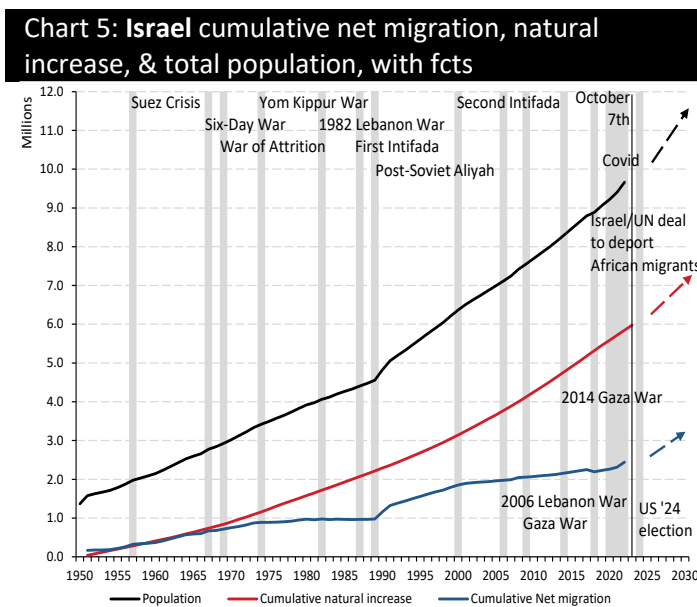
The reality is that given **Israel's** comparatively small scale, the sheer quantity and quality of incoming migrants over the last 75 years, places it in an economic growth category of its own. A unique gene of an **Acorn** growing since 1948 with no real structural interruption in sight, only escalation. Perhaps not everyone will agree given recent events. Let me patiently deal with and dismiss concerns.

3. Israeli economy: Quo Vadis?

In the wake of the October 7th attacks and the response, the question many are asking of **Israel's** economy is, “*quo vadis?*” Or “*please, where are you heading?*”

Well, whilst some will see the economic future as being of considerable concern, we see it as one filled and filling (quite literally) with **sizeable net immigration and growth momentum** (Charts 5-7).

Whether from Europe, **the US** or indeed anywhere for whom Aliyah is an option, sizeable numbers of Jews will opt to move to **Israel**. Referring again to the ingredients that make for economic growth, **Israel** will most certainly see the significant arrival of those with human &/or monetary capital. As to why, the answer is simple. Recent events and the unsavoury reactions to them will propel diaspora Jews into **Israel**, just as the behaviour towards Jews across Europe (and elsewhere in fact) in the 19th and 20th century, propelled them into **the US**. This time though, Europe migrants will be joined all the more by those from **the US**, where high-quality migrants to **Israel** originate.



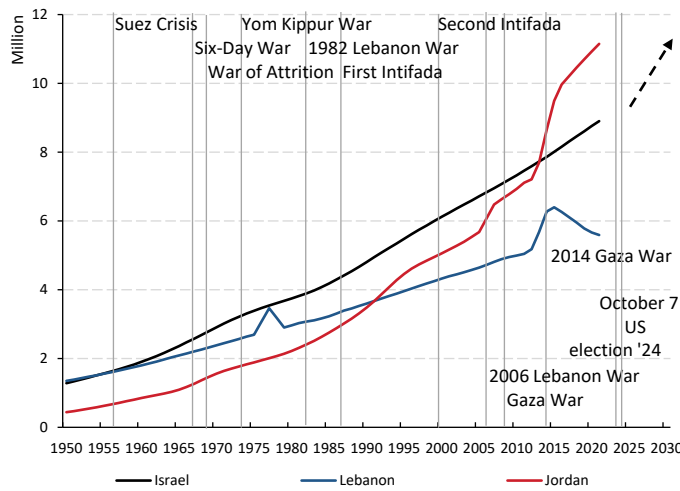
Source: United Nations Department of Economic and Social Affairs, Population Division (2020)

Whilst it may appear crass to consider recent harrowing events in terms of **Israel's** long-term economic good, one has to deal with such matters with a clinical head.

To be clear, **Israel's** economic gain will come as a loss to Europe and **America**. For if you treat “a people” poorly enough and make them feel they are not only unwelcome but threatened, they will react. React, that is, by moving elsewhere to serve their best familial social and economic interests. Choices are, after all, based on comparatives; often turning on “less-bads”. This said, to those who have moveable human and financial capital, all economies offer pushes and pulls. Those nations which aspire to be economically healthy and socially cohesive, must not push their luck with how they allow their valued human assets to be so poorly treated.

Having argued that recent events have far from created some sort of ‘Exodus’ of its nationals, **Israel** will in fact, and to repeat, enjoy the opposite (Charts 7, 9-10). We must note here the impact of a number of the young in **Israel**, having observed events of late in ‘the West’, deciding to remain ‘at home’ rather than choosing to ‘see the world’, as their comparable young adult age cohort would have so readily done in the past. Were this to indeed be the case, it would act to boost **Israel's** effective ‘net immigration’ numbers (Chart 5). After all, as those young **Israelis** already abroad return, they would not be ‘replaced’ as they once were, in the revolving door of ‘one back in, one out’. As for the question ‘will young **Israelis** overseas now be unwilling to return, fearing doing so might put them in harm’s way?’, the answer is simple enough. If these souls exist, they are the very rare exceptions to the rule of rightful return.

Chart 7: Population, Israel, Lebanon, Jordan, mn, & fcts



Source: UN, World Jewish Population 2021 (DellaPergola)

Just consider these figures: 6.0mn, 0.4mn, 0.3mn and 0.1mn. Each represents the number of those identifying as Jewish in the **United States; France and Canada; the UK, and Germany and Australia** (Chart 8). A mere 1% of these moving to **Israel** each year from today would amount to c75,000 incomers. And this is not a random sample of people either, but highly skewed to those with sizeable human and financial capital providing a very high macroeconomic delta, one that any nation would welcome with open arms.

Chart 8: Jewish population by nation, ex-Israel (see Chart 6)

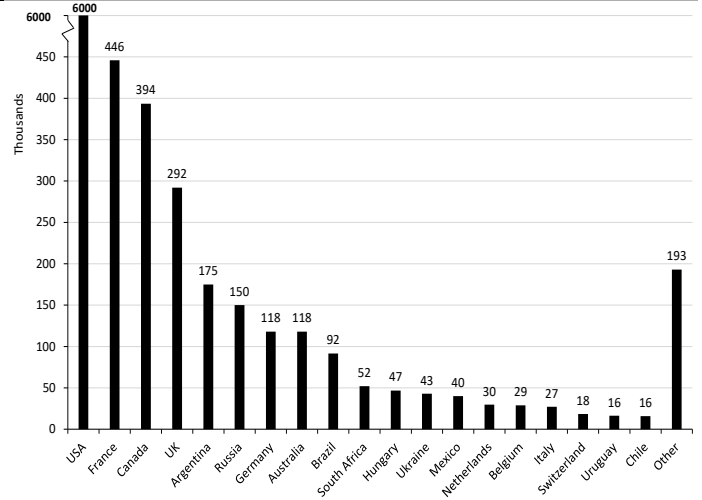
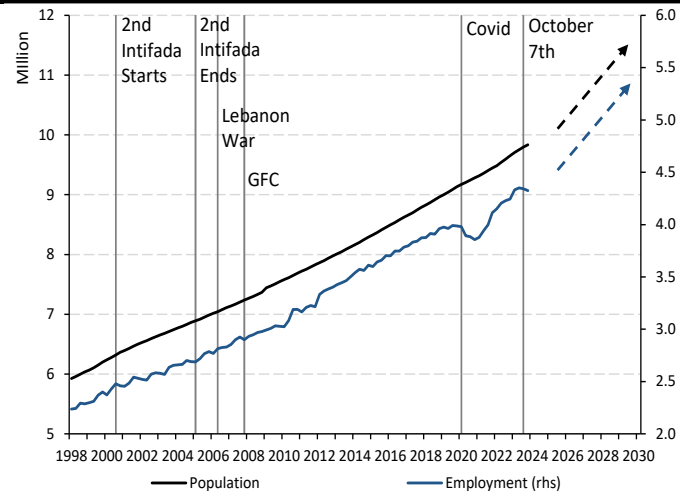
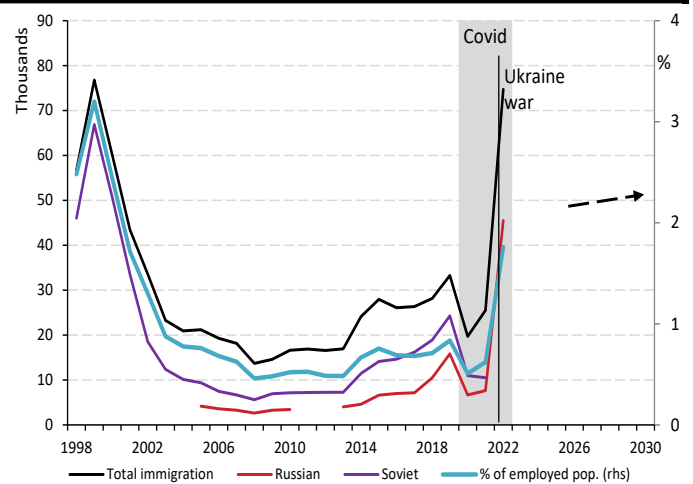


Chart 9: Israel population, & #'s employed, with fcts



Source: Israel stat office, American-Israeli Cooperative Enterprise

Chart 10: Annual immigration to Israel, with fcts

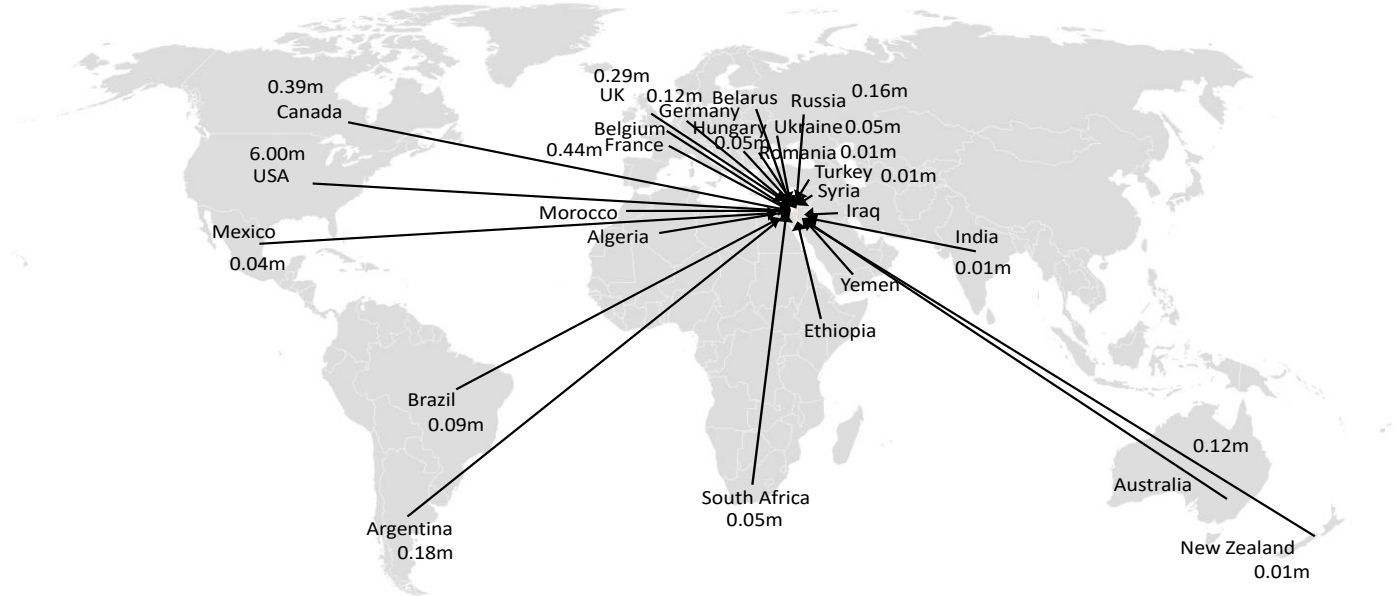


The simple truth is that no sovereign nation, aside from the much-heralded Emerald Isle, comes close to boasting a diaspora the scale of **Israel's** (it being estimated that c8.5mn around the world identify as Jewish, see Map 1, relative (*sic*) to c60mn as **Irish**). And whilst the vast majority of the c8.5mn have never been citizens of the **State of Israel**, or for that matter their immediate forebears, there are two unassailable facts. 1. As 'a people', none, including the **Irish**, have a tradition over the ages of being more peripatetic than Jews. 2. Were any or all of this vast diaspora to show an interest in making a home in **Israel**, there can be no doubt that welcoming space would be made available for them to bring with them their human and monetary capital.

Whilst being conscious of the sensitivity surrounding the subject, this piece has not shied away from addressing the clear contrast between an economy that is welcoming to migrants – to work or study – through legal 'channels', and those arriving informally (read illegally). Whilst **Israel** will welcome Aliyah, it will also find that its strengthening

economy attracts those without the 'Right to Return' keen to be granted a work visa. One must remark here that through the recent turmoil, such applications from **India** were strong enough to suggest they will only strengthen. As for 'illegals', one can trust that from NOW, NO nation will enjoy stronger borders than **Israel**.

Map 1: World map with population flows to Israel (line size not relevant, figures represent #s identifying as Jewish)



Source: QuantMetriks; see Charts 5 and 6

4. A past precedent for the unprecedented future

In this subsection, we look back in more detail at the flood into **Israel** of arrivals following the shock opening up of borders of formerly "sovietised" republics and other nations held behind the Iron Curtain. Look back and see how this provides some form of – albeit imperfect – precedent, for what is certain to be witnessed over the next few years given shocking behaviours within ostensibly advanced nations, to those identifying as Jewish.

With the collapse of the **Soviet Union** and the opening of borders which had effectively been prison walls since the early 1920s, there should have been little surprise that those hitherto trapped, chose to take advantage of the option to escape. Indeed, there could have been no surprise that those identifying as Jewish within the **USSR**, were amongst the most peripatetic. And whilst these moved widely around the world, there were two very noticeably popular destinations.

As had been the case with the emigration of Jews through the far from pleasant times of imperial **Russia**, the **United States** once more proved a popular draw. There was of course another option from 1989; one which had not been open to those Jews hounded during Imperial times, the **State of Israel**. And given its welcoming Aliyah policy, **Israel** initially enjoyed a huge wave, thereafter strong ripples of arrivals from former soviet republics. As with all such things, migration matters eventually moderated, as all those who wanted out had left, and lest we forget, because economic events within **Russia** and the former soviet republics, had improved. This brings us to the present.

Let us repeat what has been written elsewhere in this piece. We should confidently expect those identifying as Jewish across the **United States**, whose families arrived during the great waves of migration during the late 18th and early 19th century, to seriously consider the Aliyah option. We should be no less confident that more recent arrivals in the wake of the **Soviet Union** falling, are weighing up the option of moving to **Israel**. Weighing up the choices of where to live most comfortably that is, and deciding where their best interests are served in making that journey. Matters do not end here, far from it. The **United States** faces a future where whoever is elected President come November, will be feverishly rejected by close to half the population. Such a real and present danger of the most

politically polarised **US** at least since **Vietnam**, does not bode well for what social cohesion remains there. As such, it is likely that pushes coming from the **US** will grow in propulsive force; to the likes of **Israel**, but also, it has to be added, **Ireland** (on which a separate research piece has been penned).

Were all the above not enough to consider, there will be still other ongoing inflows to **Israel**. After all, in view of sanctions and other international restrictions imposed upon them, those within **Russia** identifying as Jewish have been making the journey to **Israel** as permanent settlers, this too will continue albeit on nothing like the scale of arrivals from the **United States**, and other ostensibly 'liberal democracies', in which Jews have been made to feel very uncomfortable of late. A scale not merely comparable, but quite possibly greater than witnessed in the post-Soviet 1990s. We must keep in mind that even if fewer migrants arrive now as in the past, incoming to the **State of Israel** will be a combined wealth of **human and financial capital** never recorded before. As for the implications for its economy, the answer is simply this – **unprecedentedly positive**.

5. Israel qualifies as an Acorn nation, in a way its neighbours do not

To be clear, the **US** economy was built-out and bulked-up by migrants. To be clearer still, since the torrent of 19th and early 20th century arrivals into Ellis Island, **the US** has formalised a strict Green Card process. These accepted, informal migratory floods have continued, as is clearly witnessed across its southern border. In relation to the Levant, one sees a swelling in population recorded by **Jordan** (whose dinar is pegged to the **US** dollar) being reflective of sizeable inflows of those escaping troubling conditions in **Syria** and **Iraq**; with **Lebanon** also a destination. And whereas **Turkey** has also seen the arrival of significant numbers of those escaping conflict around it, the context is a far larger population into which these poor souls are arriving; with many of course keen to quickly transit through and out of it.

The point one has to emphasise is for all the stresses placed upon it, **Israel** has over many decades recorded far more orderly levels of inward flows (even from former soviet nations and **Ethiopia**); arrivals coming in, for the most part, with human and financial capital they have been keen to sink into **Israel's** economy, as opposed to being a drain upon it.

In short, **Israel** has qualified as an **Acorn** nation, in a way its neighbours have not.

There will no doubt be those who begrudgingly accept **Israel** will indeed experience a meaningfully large influx from the considerable Jewish diaspora spread widely; those, that is, looking to relocate from nations they feel, for all sorts of socio and/or economic reasons, uncomfortable in. And accept that in moving to **Israel**, these cannot fail to bring professional and technical skills, as well as financial capital. And yet those – reluctantly – recognising **Israel** will see the arrival of those with "desk-learned" talents, will claim that in losing 'cheap' **Palestinian** labour, hitherto directed at agriculture, construction and otherwise menial work, 'the economics' for **Israel** are net-negative. The only reasonable response to this is to counter with:

1. Of the c170,000 **Palestinians** who most recently worked in **Israel**, only c10% entered daily from Gaza. And,
2. A scheme recently launched in **India** to offer work visas for **Israel**, was inundated with applicants.

An effectively growing **Acorn** economy cannot function without all forms of labour, and **Israel** will not be short of any type.

6. Where a nation is positioned geographically, so often doesn't matter a fig, economically

Now, it is true that contiguous sovereign nations, or those in close proximity, often share economic fortunes; for better and for worse. It is not uncommon, that nations sharing a common border, or which are not that far distant, experience markedly different economic fortunes; just as two fig trees closely positioned could easily bear fruit differently. In the context of national growth, one need only think here of **Japan** and its economic story since 1945.

Chart 11: China investment in Israel

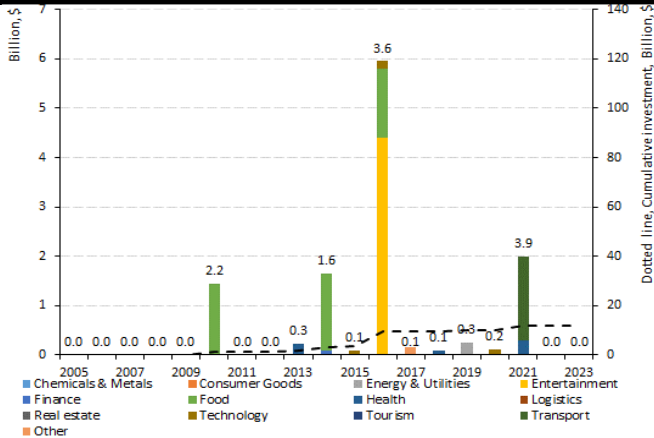
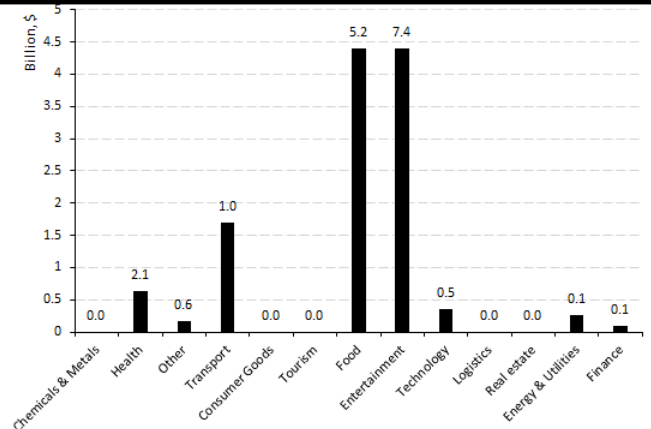


Chart 12: China investment in Israel, by sector, '05-'23



Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker (2005 to HY2024) *Major deals include Shanghai Giant Network-led consortium/Playtika (\$4.4bn, entertainment, 2016), Shanghai International Port Group (\$1.7bn, shipping, 2021), Bright Foods/Apax and Mivtach Shamir (1.6bn, agriculture, 2014), China National Chemical (ChemChina)/Makhteshim-Agan Industries (\$1.4bn, agriculture, 2010), China National Chemical (ChemChina)/Adama Agricultural Solutions (\$1.4bn, agriculture, 2016), Venus Medtech/Cardiovalve (\$0.3bn, health, 2021)

Over the course of the past 80 years or so, **Japan's** economy has quite simply “defied its region”. After all, during its decades of spectacular growth through to the late 1980's, **Japan** dealt little economically with its poorly closed neighbours. It instead traded “closely” far away, with the economies straddling both sides of the north Atlantic. This good-growth fact accepted, over recent decades, whilst **China** has powered ahead (see **Chinese/Israel** investment and construction contract data in Charts 11-14) and lifted nations around it in the process, **Japan** has continued to suffer lost decades; even an ever weakening yen of recent years, having failed to revive **Japan's** economic fortunes. Lest we forget the kernel of Abenomics was devaluing the yen. And as much as this evidently lifted the heavily overseas earning Nikkei 225, it has achieved little in lifting **Japan's** moribund domestic economy (Charts 15-16).

Chart 13: Construction contracts to Chinese companies, from Israel

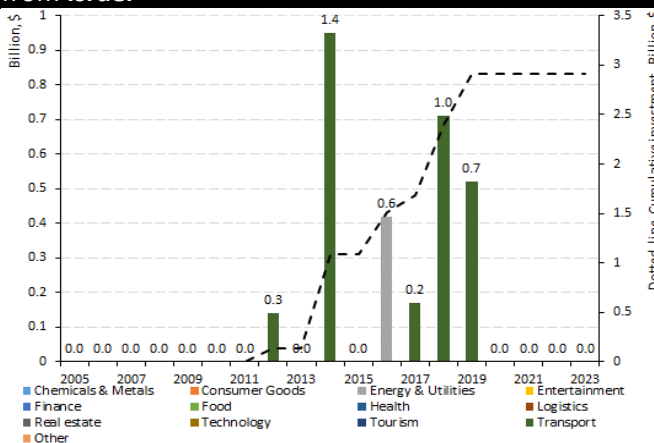
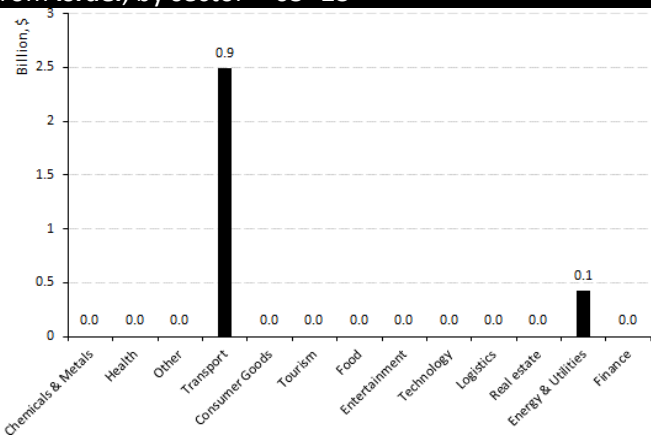


Chart 14: Construction contracts to Chinese companies, from Israel, by sector - '05-'23



Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker (2005 to HY2024) *Major deals include China Communications Construction (\$1.0bn, shipping, 2014), China Railway Engineering (\$0.7bn, rail, 2018), State Construction Engineering (0.5bn, rail, 2019), Power Construction Corp. (PowerChina) (\$0.4bn, hydro energy, 2016), Shenzhen Metro, China Railway Construction/Eged (\$0.2bn, rail, 2017)

To be clear, rather than see **Japan** as being in any way an economic role-model for **Israel**, we should view it as a very useful indicator to “compare and contrast”. Whilst **Japan** has for many decades been consumed by awful demographics – an ultra-low birth rate and little meaningful immigration – **Israel** could hardly contrast more. And whilst the only real force lifting the Nikkei 225 has been an ever-weakening yen (profit benefits of overseas earnings being translated ‘back’ into ever higher levels), the Tel Aviv 125 can and will improve coincident with a strengthening Shekel (Charts 15-16). For rather than view the latter as proving a drag on **Israel's** economic competitiveness, one should see it as a manifestation of considerable funds flowing into it; financial capital arriving coincided with no less valuable human capital.

Chart 15: Trade-weighted yen, & shekel, with fcts

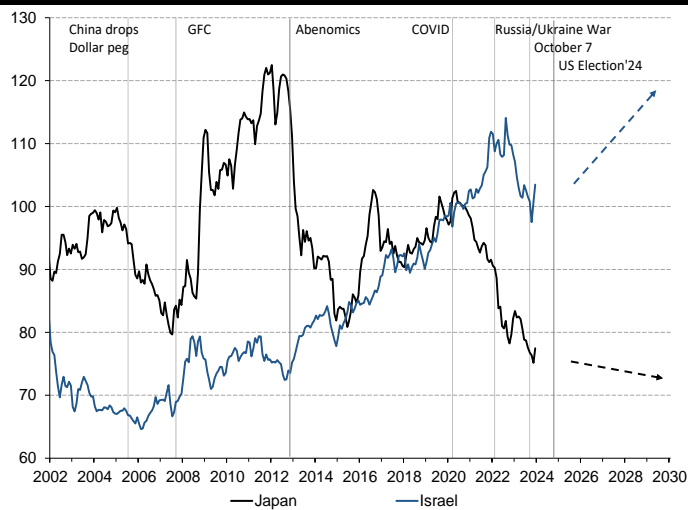


Chart 16: Tel Aviv 125 & Nikkei 225, with fcts



Source: Bloomberg

What **Japan** has provided to all that chose to examine its rich economic history but poor present, is the power of propinquity over proximity. For its part, **South Korea** has enjoyed economic growth, despite having a troublesome neighbour attached to it to the north. And whilst **South Korea** has enjoyed a sizeable degree of protection from the **United States**, it has had to commit significant human and financial capital towards its defence. Yet, even with valuable resources drawn away from strictly commercial activities, traded and domestic, the economy of **South Korea** has – even through its episodic downturns – enjoyed secular growth the envy of many of its neighbours. The issue is that just as **Japan**, **South Korea** and indeed a great many other economies far and wide and long over time, have manage to defy their neighbours, so has and will the economy of **Israel**.

7. Adversity and Necessity – the Mother and Father of Invention

This piece unashamedly looks beyond the harrowing events that have unfolded since October 7th. It presents a broad economic assessment for **Israel** into a time when peace returns, as it surely must. A peace which one has to accept, can never be total. For though all nations are in constant danger of terror acts, few, if any, have had to endure their frequency more than **Israel**; attacks coming from within and without.

All this accepted, at the time of writing, **Israel** remains in a particularly harrowing maelstrom. It is one which has seen wide ranging disruptions to **Israel's** economy – from agriculture and industry, to tourism and wider service sectors – impacting activity and inflation. Dislocations have come too as those in the reserves have been called to serve, and consequently have had to stand down from their productive civilian roles. This research does not deny the disruptions and dislocations which have struck **Israel's** economy and continue to consume it. In not denying these, the piece makes clear that **Israel** is set to experience a **marked increase in net inward migration**; arrivals coming from far and wide; and entering it with considerable financial and human capital, the latter in some of the world's fastest growing tech sectors (Chart 18). This is not a fanciful prediction, but a real one, and one which will be realised quickly.

8. A few words on Lone Soldiers

Even before the shocking events of October 7th, there were well over 7000 Lone Soldiers in the IDF, more than double the figure from 2014. The number will only have increased over recent months. These Lone Soldiers journeying to **Israel** will be joining many **Israeli** reservists overseas returning to serve their nation. And while half of those designated Lone Soldiers happen to be indigenous, many international arrivals into **Israel** to serve in its armed forces, will not be registered as Lone Soldiers.

The reason we chose to reference the number of Lone Soldiers serving in the IDF who were born overseas – across 60 different countries – is simple. They provide an illustration of how powerful the pull **Israel** is on young adults around the world who consider it their ancestral homeland, and as such, worthy of defending. And while some will, on completing their service, return 'home', it is the premise of this piece that ever more will stay, just as ever more will arrive, and in so doing strengthening **Israel's** productive and reproductive (Chart 17) human capital.

9. Conscription and productive budgeting on defence spending

One cannot cover any nation's economic prospects without considering how secure its borders are, and how costly it is to achieve this. For **Israel**, this is an issue as pressing as it is anywhere, and arguably as important now as anytime in its modern existence.

Let us begin with real facts before exposing fallacies. Yes, defence spending has been c5% of **Israel's** GDP. And yes, military conscription applies to men and women who turn 18, lasting respective periods of 32 and 24 months. Following their service, **Israelis** are considered reservists until they turn 40 and, in the case of a national emergency, liable to be called up for service. It should also be made clear that 30% of young men have exception and half of 18-year-old women are regularly exempted from military service. So much then for the facts. Let me now expose fallacies.

Thanks to its expanding GDP, the percentage that defence consumes has with occasional upward 'blips' been declining; way down from the double digits it once stubbornly recorded. There is also the fact that defence is an industry that provides considerable economic good. For one there is the potential for exports to boost **Israel's** external trade account. For another there is the deployment of military innovation and indeed education, into civilian industries. To appreciate how this works so well in **Israel**, one need only look at the symbiosis between defence and commercial R&D which exists within the **US** aerospace engineering industry.

If one is seeking national economies that perform well, and where there is a demand for military service, we can point to (hardly economically distressed) **Switzerland**. And if one wishes to point to military spending relative to GDP, we should benchmark **Israel's** c5% against the 3-4% that Washington is demanding NATO members escalate to.

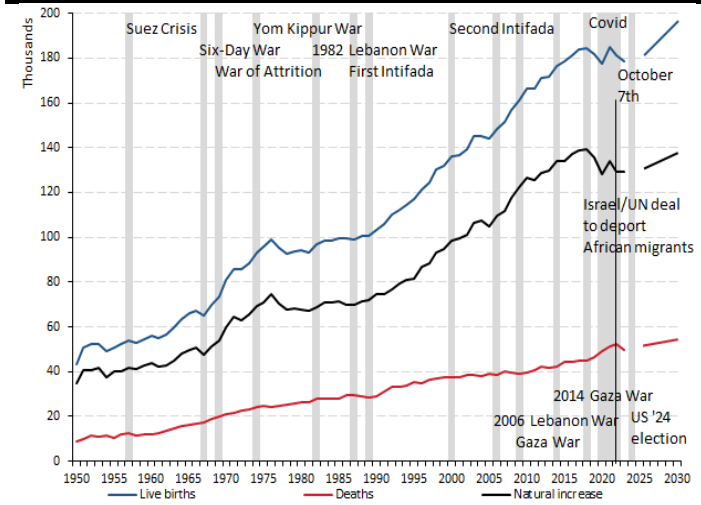
The reality is that **Israel's** economy is perfectly safe to grow and grow, because it is held in sizeable defensive hands.

10. Conclusion – *Per Aspera Ad Astra*

Without exception, every sovereign nation – no matter how geographically remote or internationally isolated – will at all times be considered home by some living beyond it. There will be those living elsewhere who hold its passport, and so have the right to return (its ex-pats/dual-nats). In addition, there will be others who identify with it, and have the right to formally apply to reside (its diasporites).

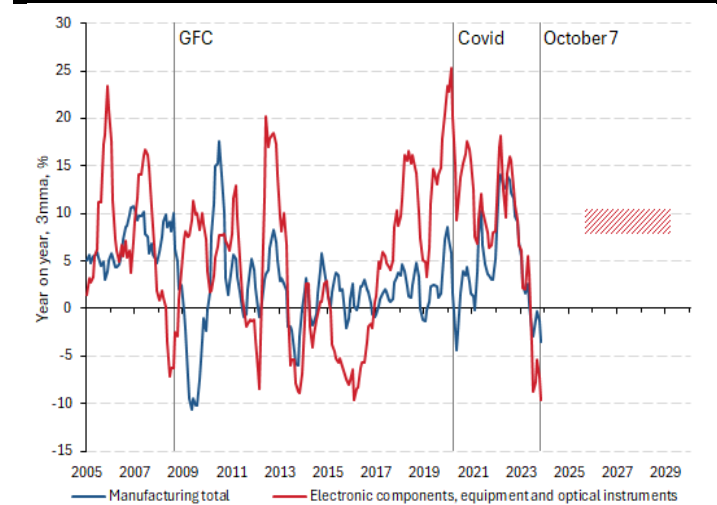
Now, as large an expat population or diaspora a particular nation might have, not all sovereign states would welcome their return in meaningful numbers, in a short period. For if they were to suddenly arrive these would merely prove an immediate burden on their 'home' economy. For **Israel** matters are so very positively different in all these regards.

Chart 17: Israel pop. natural rise, births, deaths, & fcts



Source: Israel stat office

Chart 18: Israel industrial & high-tech growth, with fcts



As much as one can say every nation can count on (*sic*) its ex-pats/dual-nats and diasporas around the world, few if any, can boast the scale when considered as a proportion of their home population, as can the **State of Israel**.

To repeat, because of the burdens they would place on the home economy, many nations are unwelcoming of any meaningful number of its ex-pats/dual-nats/diasporites were to return in short order. **Israel** is very different.

Given the general high per capita human and financial capital of its diaspora and ex-pats, **Israel's** economy would positively welcome their rapid arrival; with the Aliyah policy very much inviting such returns.

The already advanced and developed nature of **Israel's** social, academic, legal and economic infrastructure, also makes return very attractive, or for diaporites to turn to anew. Contrast this with so many other nations with large diaspora/ex-pats, who would never deem to return as migrants, only ever venturing 'home' for momentary trips.

Overlay onto all the above how life for **Israel's** expatriates and Jewish diaspora, has taken an unpleasant turn, not merely over recent months but years, and we should expect a significant boost to the population and economy of, the **State of Israel**. Very welcome indeed.

11. PS. Pitting risk aversion against a peace premium

For reasons best left to anthropologists, we are by our very natures, risk averse. This results naturally in our erring towards caution and asymmetry in how we more heavily weight risk, against reward; hence a very large insurance industry. While evidence of this is clear in our everyday micro actions, it is also present in how we assess macroeconomic and geopolitical uncertainty. We are after all, made chillingly conscious of the risk posed by the likes of **North Korea** and **Iran**, in being “Rouge states” with, or perilously close to, nuclear powers.

The above accepted, many regimes, have in recent memory, (arguably) changed for the better. One can think thankfully of the largely bloodless turnarounds that swept across nations that for too long had been held captive behind the Iron Curtain. Nations, from the Baltic to the Balkans, mostly now democratic fixtures, many indeed “safely” within the EU and more controversially NATO. With change in mind, we can both hope but also expect, that for all the real and present risks they pose in real time, **Iran** and **North Korea** could well, in the future, undergo regime change; for the well-being in and outside those nations.

Having noted where regimes have and might change for the better, there will be those whose instincts towards risk aversion and recency bias point to places where change has resulted in bad being followed by far worse. Identify, that is, the disastrous consequences of outside attempts at regime change, in **Libya**, **Iraq**, **Afghanistan** and indeed elsewhere; look no further than the limbo in which **Syria** finds itself and events from Ukraine to Haiti and Sudan etc. In weighing up the geo-political-macro-economic risks that are very real to us, we must ask if these risks apply to events in the Levant and wider Middle East. Is there too much at stake for those in and beyond the region to ensure matters not only avoid escalation, but quickly calm down? To this, my answer is most certainly YES. After all, the self-interests of the **US**, **China**, **Saudi**, **Qatar**, **Jordan**, **UAE**, **Egypt** *et al.* demands if not de-escalation, certainly no broader regional conflict.

All those across the Levant and close by, who abide by the rule of “always serve what is in your economic interest”, must keenly want a quick return to a semblance of normality. This most certainly includes **Saudi** and the **UAE**. With this in mind, are we really to believe that given their financial power and influence, and their clear ambitions to grow into major tourist, sporting and service hubs, they do not desire peace to arrive as speedily as possible? Of course, they do. Be achieved so as to remove the risk of a wider escalation and disruption to specific **Saudi**, **Emirati** and indeed **Qatari**, economic strategies. Plans that can hardly be fulfilled without peaceful travel into and out of a region around which **Israel** sits not that far away. As to whether these have influence enough to calm things, the answer again is a resounding yes.

Whilst some will see it disdainful to invoke the following proverb at this darkest of hours for those in the midst of the harrowing events that continue to unfold, I will do so all the same: “it is always darkest before the dawn.”

As much as **Israel's** economy has grown against the backdrop of ill will from so many of its neighbours, it can be said the awful events with which it has had to deal, happened against the backdrop of detente between **Israel** and many others across the region. True not all, but with influential players, many with their own issues with **Israel's** chief protagonist: the rogue **Iran**.

So, though we are naturally risk averse in dealing with uncertainty, just imagine the economic peace premium released across the region and especially **Israel**, but including **Egypt** and indeed **Lebanon**, WHEN the pendulum in **Iran** swings the other way. Swings either because of an end to the regime it has been under since '79, or our change in perception of it as ‘Evil’. One day or other, we will see and truly welcome eventual and positively eventful, change. As for **China's** ‘regional’ influence now, and going forward, well, the answer is straightforward enough. It is STRONG. For though Beijing has invested across all corners, this piece has made perfectly clear that the broad region in which **Israel** sits has unique strategic economic importance. The assets **China** owns widely across Africa, which its industrial base crucially requires to perform well with, demand secure and swift passage across the Gulf and Arabian Sea. The entire length of the Nile holds similar transportable importance. The reality is that, whilst not doing so in an open or militarily public way, Beijing is monetarily managing events behind the scenes, as it were. And as wealthy as the Gulf's regional players happen to be, **China's** monetary might and economic importance gives it as strong a voice as anyone; arguably more influence, that even the old power the **United States**. An influence Beijing uses *sotto voce*, out of general public earshot; less soft power, more softly spoken but stern and STRONG.

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