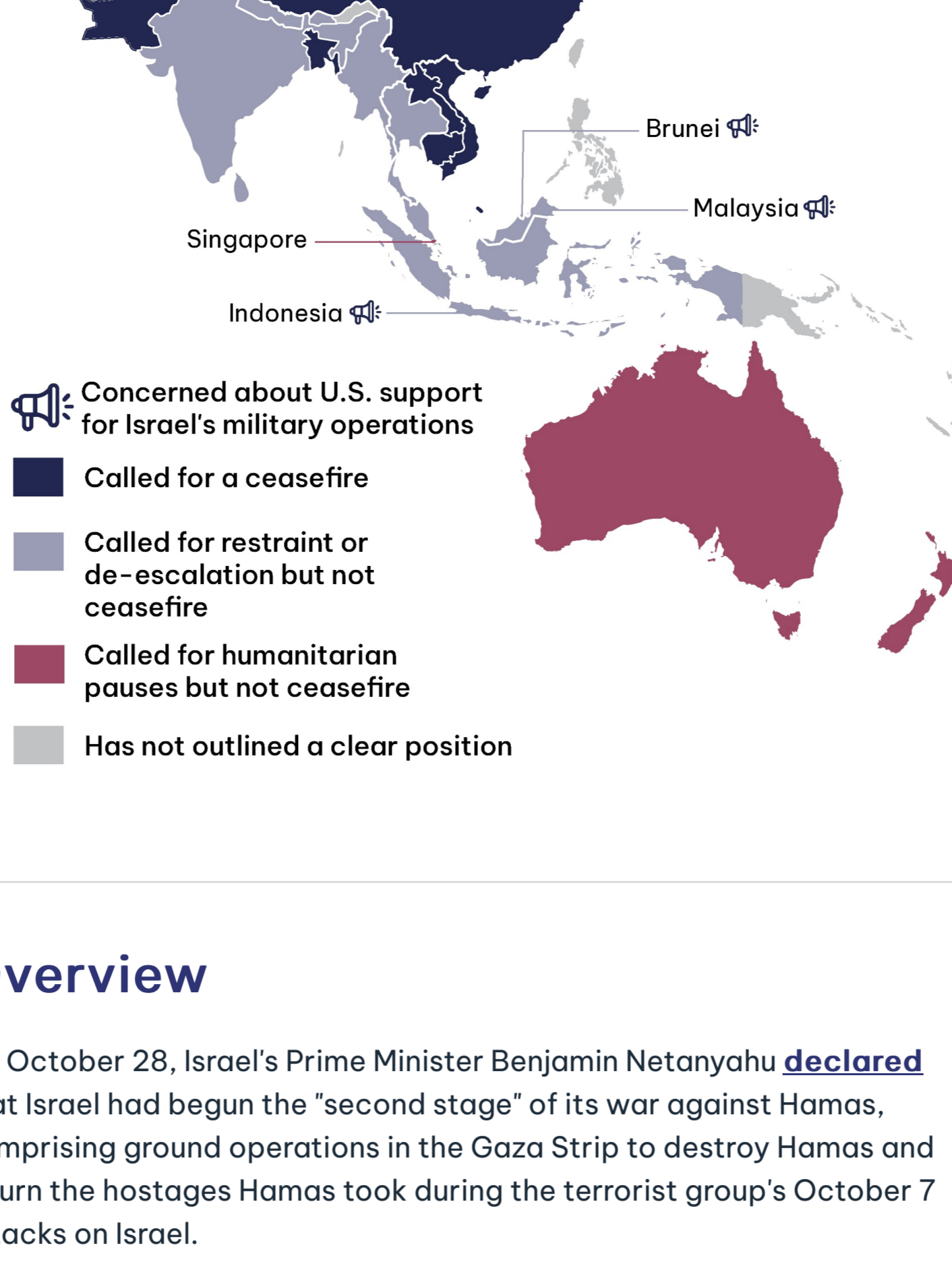




## Indo-Pacific Implications of the Israel-Hamas War

### Indo-Pacific Positions on Gaza Ceasefire

Most countries have called for a ceasefire, humanitarian pauses, or de-escalation of the Israel-Hamas conflict.



## Overview

On October 28, Israel's Prime Minister Benjamin Netanyahu declared that Israel had begun the "second Gaza" Strip of war against Hamas, comprising ground operations in the Gaza Strip to destroy Hamas and return the hostages Hamas took during the terrorist group's October 7 attacks on Israel.

Given the Israeli leadership's commitment to ousting Hamas, Hamas's years of preparation for the conflict, and the inherent difficulties of urban warfare, the conflict will likely persist for months, rather than weeks, and could expand into a regional conflict involving Lebanon-based Hezbollah, Syria, and Iran, among others. Middle East policymakers are cautioning officials from these and other governments and organizations against rash action. But the Iran-backed Houthis in Yemen have already launched attacks against Israel.

The war's likely persistence and possible regionalization pose substantial risks for the Indo-Pacific, including: (1) higher energy prices; (2) economic retaliation against perceived Israel-aligned firms; (3) increased extremism; (4) damaged U.S. leadership; and (5) the unwinding of recent efforts to integrate the Middle East and connect the region to the Indo-Pacific.

### (1) Higher Energy Prices

Energy prices have remained largely stable since Hamas's October 7 attacks. But regionalization of the conflict or non-military retaliation by Arab governments would likely drive up prices.

If Iran or Iraq, both leading oil producers, become actively involved in the conflict, they will struggle to export their oil, tightening global supply and increasing prices. Iran may also push its proxies, such as Hezbollah or militias in Iraq or the Houthis in Yemen, to attack Saudi Arabia or the United Arab Emirates (UAE) – as they have in recent years – if Tehran believes Riyadh and Abu Dhabi are not supportive enough of the Palestinians. Additionally, Iran may retaliate against U.S. or other perceived action against the Palestinians by moving to restrict the flow of energy trade through the Strait of Hormuz, through which 25 percent of the world's natural gas trade transits annually. Iran also exerts significant influence over Iraq; U.S. Secretary of State Antony Blinken recently visited Baghdad to urge prudence.

In a less likely but worse-case scenario, Arab governments could enact oil embargoes, as they did in 1973 against countries that backed Israel in the Yom Kippur War. Such action would produce a dual energy shock – given disruptions to oil exports from Russia since Moscow's 2021 invasion of Ukraine – that would likely drive crude prices from around USD 90 per barrel at present to more than USD 150 per barrel, according to World Bank estimates.

#### TAG Take

Most of the Middle East's leading energy producers – Saudi Arabia, the UAE, Qatar, Kuwait, and Oman – appear disinterested in restricting their oil and natural gas exports, despite publicly backing the Palestinians. But destabilizing action by Iran or Iran's proxies cannot be ruled out.

Any rise in energy prices would carry consequences for the Indo-Pacific's energy-import-reliant economies, including Japan and South Korea – already clearly a concern for Japan's Prime Minister Fumio Kishida and South Korea's President Yoon Suk Yeol – and may hasten their governments' clean energy transition plans. Roughly 95 percent of Japan's oil imports and around 50 percent of South Korea's come from the Middle East. Both Kishida and Yoon recently visited the Gulf, including Saudi Arabia, at least in part to ensure continued access to the region's oil. Kishida also recently dispatched his foreign minister to Israel, the West Bank, and Jordan in a bid to tamp down tensions.

China and India, for their part, are among the world's top energy importers but have continued purchasing Russian crude, likely somewhat mitigating the impact of any disruption to Middle East exports.

Rising energy prices would also augment still-rising inflation across much of the Indo-Pacific, especially in Southeast Asia, further constraining consumption and national budgets. Indonesia may respond by hiking fuel subsidies – reflecting President Joko "Jokowi" Widodo's political calculus given early 2024 presidential elections but reducing the government's ability to make more productive investments in infrastructure or human capital-building, which could open up more opportunities for foreign investors. Similarly, Malaysia's Prime Minister Anwar Ibrahim may roll back plans for reducing oil fuel subsidies for targeted groups, hampering his government's ability to reduce the budget deficit without reducing spending in other areas such as foreign investment subsidies.

### (2) Economic Retaliation

The war's deepening or regionalization would increase the risk of other retaliatory economic measures beyond potential oil embargoes. Last month, Iran's Supreme Leader called on Muslim-majority countries to halt oil and food exports to Israel. In Morocco, which normalized ties with Israel in 2020, some citizens called for boycotting Israeli businesses and other firms that expressed support for Israel – including U.S.-headquartered companies such as McDonald's and Starbucks. Some Lebanese citizens attacked those companies' local branches.

In the Indo-Pacific, Malaysian and Indonesian social media users and civil society groups called for similar boycotts. Some Indonesians are boycotting products from "Israel-affiliated" companies such as Pringles and KFC, while some Malaysians are even boycotting Singapore-headquartered ride-hailing app Grab after the wife of the company's CEO shared photos of her family's July trip to Israel on Instagram.

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As in previous Israel-Palestine flare-ups, consumer-facing brands operating in both Israel and the Muslim world – particularly American firms, given U.S.-Israel ties – are facing criticism from Muslim publics for engaging Israel. Many companies such as McDonald's are often franchised, further complicating the calculus for boycotts, which may be uneven across markets. While the burger giant's Israeli franchise donated meals to Israeli soldiers, its franchises in Saudi Arabia, Qatar, Oman, the UAE, Malaysia, Pakistan, and elsewhere donated money to civilians in Gaza.

For now, the most aggressive calls for boycotts of perceived Israel-supportive brands are coming mostly from Arab states. But the likely prolonged nature of Israel's operations in Gaza – and the high death toll that may follow – increases the risk of Muslims across Southeast Asia boycotting more products and services from companies perceived to be supporting Israel, including U.S. firms.

### (3) Increased Extremism

Western policymakers are warning that anti-Semitic and anti-Muslim rhetoric and attacks are reaching unprecedented levels. In the Indo-Pacific, this is a particular concern for Australia – whose prime minister and foreign minister condemned "abhorrent" Sydney rallies at which protestors chanted anti-Jewish slogans.

The rhetoric differs across Muslim-majority Southeast Asian countries. In late October, Malaysia's Prime Minister Anwar spoke at a 16,000-person pro-Palestine rally in Kuala Lumpur and told parliament that he rebuked U.S. pressure to label Hamas – which maintains an unofficial embassy in Malaysia – a "terrorist" organization. Pro-Palestine Indonesian demonstrators marched on the U.S. embassy in Jakarta, chanting: "we hear the call of jihad."

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Most Indo-Pacific countries are currently at low risk of increased extremism, but the risk of incidents may rise as the war goes on, especially against perceived Israel-supportive establishments – including U.S. and other foreign businesses, as well as Western embassies. Indonesian authorities have already said they are on alert, likely given the not-too-distant memory of the 2002 Bali bombings and the 2003 bombings at the Marriott Hotel and Australia's Embassy in Jakarta (in response to the U.S. invasion of Afghanistan).

While Indonesia's leaders seek to somewhat limit the public outcry over the Israel-Hamas conflict, Malaysia's leadership is raising the issue's profile. Malaysia's Anwar is personally attached to the Palestinian cause – which is also politically useful, allowing him to win Islamic credibility at a moment when the main opposition is the Islamist Malaysian Islamic Party. At a November 6 press conference with Japan's Kishida, Anwar even said that "the damage in Gaza has far exceeded what happened in Hiroshima during the World War II." His public focus on the issue may result in disruptive protests and other action if the war persists.

### (4) Damaged U.S. Leadership

Since Hamas's October 7 attacks, senior U.S. officials have promised that Washington can back Israel and Ukraine without diverting attention or resources from the Indo-Pacific. To that end, President Joe Biden refused to cancel Australian Prime Minister Anthony Albanese's October state visit – although the war somewhat overshadowed his visit. Biden traveled to Israel earlier in the month and will host several foreign leaders at the Asia-Pacific Economic Cooperation (APEC) leaders' meetings in San Francisco in mid-November after hosting Indonesia's Jokowi at the White House.

#### TAG Take

Indo-Pacific officials are unconvinced that the United States can focus simultaneously on Israel, Ukraine, and the Indo-Pacific if the war persists or expands – particularly heading into a U.S. election year.

Leaders across the region may have already factored in a reduced foreign travel schedule for Biden in 2024, given his domestic political considerations. Reports also suggest that he will not leave the United States for the rest of 2023. But Biden potentially choosing to again visit the Middle East over the Indo-Pacific would exacerbate lingering frustration about him skipping summits in Indonesia and Thailand over the last two years and canceling, at the last minute, planned travel to Australia and Papua New Guinea earlier this year. The Quad leaders' summit next year in New Delhi will provide an early opportunity for him to prove continued commitment to the region.

Given Biden's likely reduced travel schedule, administration officials will look to dispatch cabinet secretaries and other high-level officials to the region – although the Israel-Hamas war may color their engagements. Malaysia's Anwar, for instance, recently said that he was talking to other countries about a potential boycott of the APEC summit. An APEC boycott is highly unlikely, but Anwar's comments reinforced the fact that on Israel-Hamas, the United States is increasingly isolated in its high degree of support for Israel, potentially posing problems for Washington's soft power and diplomatic efforts. Heightened anti-U.S. sentiment is likely in countries such as Brunei, Indonesia, Malaysia, and Pakistan, some of whose senior officials have already expressed public skepticism about U.S. and broader Western global leadership. Such skepticism risks undermining Brunei, Indonesia, and Malaysia's aerospace defense and other cooperation with the United States.

Nonetheless, U.S. Secretary of State Antony Blinken is traveling from the Middle East to Japan for the November 7-8 G7 foreign ministers' meeting, and will then travel to South Korea to meet President Yoon and other senior officials. On November 10, Blinken will join U.S. Secretary of Defense Lloyd Austin in New Delhi for a "2+2" meeting with their Indian counterparts. Biden will also host Indonesia's Jokowi – who recently promised to "never waver" on supporting the Palestinians – at the White House this month ahead of APEC, at which Biden is not planning to meet Malaysia's Anwar.

Signs of the United States diverting resources from the Indo-Pacific to the Middle East – such as in the National Defense Authorization Act or other parts of the 2024 budget – could also undermine private sector enthusiasm in the Indo-Pacific. This is particularly true of the defense industry and emerging industries, such as rare earths mining, that may require government assistance to stand up operations in developing economies.

### (5) Unwinding the Middle East's Integration

The Israel-Hamas war risks halting recent U.S. efforts to integrate the Middle East and expand the region's ties to U.S. partners elsewhere. Soon after Israel began military operations in Gaza, Saudi Arabia informed the United States that it was pausing discussions of normalizing ties with Israel. On the other hand, a senior UAE official said that from his country's perspective, the 2020 Abraham Accords – through which Israel normalized ties with the UAE, Morocco, and Bahrain – "are there to stay." The Biden administration previously pushed Indonesia to consider joining the Abraham Accords; that effort stalled before October 7 due to senior-level Indonesian opposition and is now highly unlikely to progress any time soon.

Since October 7, pro-Palestine protests have broken out across the Middle East, including at the Israeli embassy in Bahrain's capital of Manama. Bahrain's parliament said the country recalled its ambassador from and suspended official economic ties with Israel, although Bahrain's executive branch has not confirmed the moves. Jordan already pulled its ambassador from Israel and ordered Israel to remove its envoy from Jordan. Protestors in Egypt, which normalized ties with Israel decades ago, rallied across the country and at times chanted "Death to Israel."

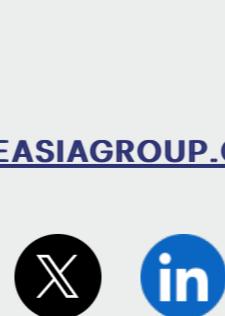
#### TAG Take

A deepening or regionalizing of the Israel-Hamas conflict would likely stymie recent U.S. efforts to forge greater Middle East integration and ties to other regions.

U.S. policymakers in both the Trump and Biden administrations saw the Abraham Accords as a platform for expanding the Middle East's integration in a U.S.-friendly way, primarily by linking Israel to the rest of the region and then linking the region to Indo-Pacific partners such as India and Indonesia. Policymakers saw these efforts as part of an "inside-out" approach to the Israel-Palestinian conflict: promoting Israel-Arab ties to facilitate Israel-Palestinian peace by putting pressure on the Palestinians, rather than vice-versa, as had been U.S. policy for decades. The recently-unveiled India-Middle East-Europe Economic Corridor (IMEEC) – a U.S.-led initiative to bolster transportation corridors between the EU, Saudi Arabia, the UAE, India, Israel, and Jordan – and the I2U2 partnership comprising India, Israel, the UAE, and the United States are prime examples of these efforts.

The UAE is the most supportive member of the Accords and is highly unlikely to break ties with Israel, given Abu Dhabi's focus on cooperation with Israel in areas such as green technology. As the UAE's trade minister recently said: "We don't mix the economy and trade with politics." Bahrain and Morocco will also be loathe to jettison the Accords, since doing so would prompt Washington's ire and perhaps jeopardize cooperation with the United States in other sensitive areas. But all three countries are likely to limit public engagements with Israel and may pull their ambassadors from the country, as Bahrain seems to have already done – suggesting an indefinite pause of public IMEEC and I2U2 activities, and perhaps the Middle East's U.S.-friendly political and economic integration.

This report was prepared by Charles Dunst and Valerie Rozman. Jason Trinh prepared the graphic.



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