



# The Shadow Conflict Between Iran and Israel

Last Updated:

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Jun 11, 2024

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## Strategic Context and Background

The Israel-Iran shadow conflict, deeply rooted in historical animosities and strategic rivalries, has intensified in recent years. The conflict involves a complex mix of direct and proxy engagements, cyber warfare, and geopolitical maneuvering. Israel perceives Iran's nuclear ambitions and support for anti-Israel proxies like Hezbollah and Hamas as existential threats. Conversely, Iran views Israel as a principal adversary in the region, frequently condemning its actions and supporting groups opposing Israeli and U.S. interests. The shadow conflict has notably escalated with incidents such as the October 2023 Hamas attack on Israel and the subsequent Israeli military campaign in Gaza, which saw increased activity from Iranian proxies across the region.

## Stakeholders and Interests

- Israel: Aims to curb Iran's influence and prevent it from acquiring nuclear weapons. Israel leverages its advanced military and intelligence capabilities to conduct covert operations and cyber attacks against Iranian targets. It also seeks to disrupt Iranian logistics and weapon transfers to Hezbollah and Hamas
- Iran: Pursues regional dominance through a network of proxies and militias, such as Hezbollah, Iraqi militias, and the Houthis in Yemen. Iran uses these groups to exert pressure on Israel and the United States while avoiding direct confrontation. Tehran also aims to leverage its nuclear program for strategic negotiations and deterrence

- United States: Seeks to contain Iranian influence and ensure the security of its regional allies, primarily Israel. The U.S. supports Israel through military aid and intelligence sharing and conducts its own operations to neutralize Iranian threats in the region
- Hezbollah and Hamas: Act as Iran's primary proxies against Israel, conducting military operations and rocket attacks. They receive significant financial and military support from Tehran, which bolsters their capabilities and operational reach

## Capabilities and Resources

- Military Strength: Israel boasts a technologically advanced military with sophisticated air defense systems (e.g., Iron Dome), cyber warfare units, and intelligence capabilities. Iran, while not matching Israel's technological edge, compensates through its ballistic missile arsenal, UAVs, and extensive proxy network, which can launch coordinated attacks across multiple fronts
- Economic Power: Israel's economy is robust, with significant investment in defense technologies. Iran, however, faces economic challenges due to sanctions and internal mismanagement but continues to fund its proxy groups and military programs through oil revenues and other means
- Technological Capabilities: Israel leads in cyber warfare, frequently disrupting Iranian infrastructure and military assets. Iran has developed considerable cyber capabilities, conducting espionage and cyber attacks against Israeli targets and other adversaries.

## Trends and Dynamics

The shadow conflict has seen increased proxy engagements and cyber and information operations. Iran's support for Hamas and Hezbollah remains a critical factor, with these groups escalating attacks against Israel following significant geopolitical events, such as the Gaza conflict. Furthermore, Iran's nuclear program continues to be a focal point of contention, with Tehran advancing its capabilities while negotiating leverage on the international stage.

## Scenarios and Implications

- Best-case scenario: Diplomatic efforts, likely mediated by external powers, lead to a de-escalation of hostilities. Mechanisms are established to manage the regional balance of power, reducing the risk of conflict.
- Worst-case scenario: A miscalculation or an unintended escalation results in a broader conflict, involving direct military engagement between regional powers. This could destabilize the region, impacting global energy markets and security.
- Most likely scenario: Continued low-intensity conflict with periodic escalations. Proxy groups will maintain pressure on Israel, while Israel continues its targeted operations against Iranian interests. The nuclear issue will likely remain unresolved, with limited diplomatic progress, setbacks in negotiations, and other maneuvers to extract concessions.

## Implications for American Multinational Companies

- Risks of Exposure: American companies might face domestic reputational challenges for statements or actions made (or not made).
- Potential Disruptions: Supply chains, particularly in technology or energy, may experience disruptions.

## Core Documents

[ 1 ]

The enormous risks and uncertain benefits of an Israeli strike against Iran's nuclear facilities

In the short term, it would considerably increase the likelihood of a retaliatory response from Tehran, potentially even more severe, targeting sensitive locations in Israeli territory, and possibly extending to American and Jordanian interests in the region.

Page 4

[ 2 ]

Iran and Israel's Dangerous Gambit

War Between Wars Iran's retaliation for Israeli strikes on its consulate in Damascus marks a further escalation in the two countries' protracted shadow conflict, characterized by covert operations, targeted airstrikes, and the use of proxy forces.

Page 1

[ 3 ]

Navigating the great game of chokepoints

Decisions to limit market access may be a consequence of the increased volatility of international relations, domestic economic goals and other unpredictable factors within the sales market.<sup>138</sup> Losses incurred by the overdependent party may lead to substantial declines in revenues and the destabilisation of business models.

Page 53

[ 4 ]

Iran's Hiding Behind Deadly Friends Should Have a Price

Additionally, aggressive and simultaneous Iranian use of force in the territories of neighboring countries has led to decisive reactions and border tension. Furthermore, the increasing frequency of Israeli attacks against Iranian forces in Syria has become another significant challenge for decisionmakers in Tehran.

Page 1

[ 5 ]

Rewire Semiconductors and U.S. Industrial Policy

Adversaries could modify chip designs or production processes to compromise chips by accessing fabrication or packaging activities. Alternatively, adversaries could modify chip designs, which would not require physical access to a facility.

Page 19

[ 6 ]

Great-Power Competition and Conflict in the Middle East

Although countering Iran is an expressed strategic priority for the United States, increasing US force presence on the ground is likely to be politically unpalatable for the near future, given very limited US domestic political will for renewed deployments to the Middle East.

Page 118

[ 7 ]

The Tangled Web We Wove

This overreliance creates opportunities for undue influence on American and allied manufacturing capabilities by controlling and weaponizing supply chain choke points. This vulnerability developed as a result of the three decades-long trend toward globalization and open markets.

Page 8