

## Etsior Monthly Opinion 15 June 2010 – Geopolitical fat tail.

As the markets seem to stabilize, the S&P crossing up its 200 days moving average, the fear about the future of the euro vanishing in front of the measures taken by the Euro zone countries, a question that we may ask ourselves is a possible geopolitical fat tail. For those not familiar with this concept, it refers to both generally thin edges of a Gauss or Bell curve, showing a small probability of occurrence. The recent past showed us that thin may turn to thick into a “fat tail”.

The main risk that I see is obviously the middle east, though I do not expect it to degenerate in the next months or so unless... this is middle east.

The fundamental change I consider in the region is the evolution of Turkey. Turkey is one of the pillars of NATO and has been until the coming to power of the AKP one of the best allies of Israel. Since AKP is in power, led by Prime Minister Erdogan, it has worked relentless to a shift from a laic Kemalist Turkey towards the instauration of an Islamic regime. It has been helped by the European Union, most countries of which did not want Turkey to join, which has put “democratic” barriers and weakened the strongest laic corps, the Turkish army.

Turkey has apparently decided to pursue a prominent role in the Arab world, dreaming back to the caliphate of the Ottoman empire. It has led the Turkish government to challenge its relationships with Israel and to actively support the unfortunate expedition to “free Gaza”.

AKP being also internally challenged, it is a usual move from Erdogan to create an outside enemy and to gather the Turks behind him, the noble defender of the Palestinians against the all time intruder, Israel.

But Turkey wants to keep its role and at some point appear to be the only possible mediator in the region, so it will not go too far.

At the same time, it is interesting to see that the Gaza blockade is *de facto* accepted by all parties, *but the Gaza population*: the Hamas does

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not want to let in more help, including the one brought over by the flotilla, being afraid to lose control on the imported goods and on the population. The Palestinian Authority does not want to lift the blockade unless they can control themselves the checkpoints and this to oppose Hamas who has killed its Fatah opponents in Gaza. Of course Hamas does not want the Palestinian Authority to take the lead. Finally Israel will ease the blockade, but very quietly.

So basically we have an alliance between Iran, Hamas and Hezbollah wanting to take the lead against Israel and thwart the Palestinian Authority. Palestinian Authority would like to discuss peace with Israel under the U.S. supervision, but has limited political power to do it. And Israel can quietly argue that it lacks a partner to make peace until a reconciliation between the enemy brother happen, if it happens.

So, what could be the risk of a fat tail? I basically see two possibilities: Iran trying to force the naval blockade of Gaza triggering a war with Israel, Israel attacking Iran or preventively or in reaction to such an incident to get rid of the Iranian nuclear threat.

In my opinion that will not happen as Iranians are too intelligent to be dragged into such a situation. They will go, with Hamas and Hezbollah, as far as they can go to challenge the very existence of Israel, but not beyond. Unless...this I middle east.

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**Michel Benveniste**  
Tel. +41 79 792 3667  
[mbe@etsior.com](mailto:mbe@etsior.com)

**ETSIOR Sarl**  
112 Route de Florissant  
1206 Geneva (Switzerland)  
<http://www.etsior.com>