

**The Economic-Strategic Dimension of the Abraham Accords**

**Shmuel Even, Tomer Fadlon, and Yoel Guzansky**

The peace agreement between Israel and the United Arab Emirates and the declaration of peace between Israel and Bahrain (the Abraham Accords) represent the first step in a regional peace process since the peace treaty with Jordan, and an opening for other Arab countries to join the trend of normalization with Israel. The agreements are founded on national security considerations and sharp awareness of the shared Iranian threat and the countries' common ally, the United States. At the same time, these agreements also embody economic potential in a range of fields, including trade, tourism, security, transport, communications, technology, energy, finance, health, and climate change. In addition to the bilateral benefits, the Abraham Accords increase the potential for strengthening economic relations between Israel and other Arab states with which it does not yet have formal relations. In political terms, Israel should seek, as much as possible, to involve the Palestinians, Jordan, and Egypt in this economic dynamic, as so far they have gained little fruit from peace agreements.

**The UAE and Bahrain Economies**

The economy of the UAE is far larger than the economy of Bahrain. According to the International Monetary Fund (IMF), the UAE has the second largest economy in the Middle East, after Saudi Arabia. In 2019 the GDP of the Emirates was \$405 billion – close to the Israeli GDP and more than 10 times that of Bahrain (\$38 million). In April 2020 the IMF predicted that as a result of the Covid-19 pandemic, the GDP in each of these countries this year would shrink by 3.5 percent.

According to the World Trade Organization (WTO), in 2018 exports from the UAE were worth \$345 billion, compared to \$20 billion in Bahrain. UAE exports reach many varied destinations, including Iran, while Bahrain's exports depend largely on Saudi Arabia, the UAE, and the United States. While oil is a central component in both economies, the UAE has managed to reduce its dependence on oil and develop other sources of revenue, both wholesale and retail, in tourism, insurance, and finance. Bahrain, however, has not managed to fully diversify its economy, which still relies on its dwindling natural resources. The UAE's oil reserves are significant, the seventh largest in the world, while Bahrain is ranked 67 in the global ranking.

In recent years, the Emirates have continued to focus on increasing economic diversity, in order to limit economic risks, and above all to further reduce their reliance on oil and oil products. This policy is expressed in the efforts to promote the country as a global center for trade and tourism, develop advanced industry, focus on products relating to computer technology, develop education, and encourage scientific and technological research, including in the fields of space and nuclear research. For its part, Bahrain has been trying to position itself as a center for online trading and global fin-tech. For this purpose it seeks to attract foreign investors by means of zero corporate tax and ways to help foreigners do business in the kingdom. As a result of the considerable gap between the two economies, the economic potential and opportunities embodied in the agreement with the UAE are far greater than those offered by the agreement with Bahrain.

The economy of the UAE is centralized and controlled by a small number of families, who hold giant corporate groups, mostly with flourishing international activity. Most holding groups are privately owned and are not traded on any local or international stock exchange. The owners are citizens of the Emirates who also hold the reins of management, while the largest segment of employees (and most of the local population) consists of migrants from Asian countries.

Numerous Western companies have set up headquarters in Dubai – approximately 90 percent of Fortune 500 companies are located in the UAE, from where they manage business in the Middle East and Africa. In recent years some of the UAE's plans for economic growth have been disrupted by regional tensions (against Iran, and also due to their military involvement in Libya and Yemen), together with relatively low oil prices and the Covid-19 crisis. Nevertheless, the UAE economy is still considered stable and promising.

There are also substantial differences among the seven emirates that constitute the United Arab Emirates. Abu Dhabi (the political capital, which has most of the oil reserves) and Dubai (the economic-commercial capital) are richer and more established than the others, and are the focus of most economic activity, while the other five emirates attract less economic activity and international interest. Some of the smaller ones are also more conservative and exhibit less friendliness toward Israel.

### **Strategic and Economic Implications of the Abraham Accords**

Underlying the Abraham Accords are considerations of national security, and sharp awareness of the shared Iranian threat and the countries' common ally, the United States. The UAE has an interest in strengthening its ties with the US, including obtaining access to advanced American weapons. It also seeks to score points with the US administration in

the context of its dispute with Qatar and to position itself as an influential regional actor. However, it is clear that for both of them, standing firmly on the side of Israel and the United States makes them targets for the opponents of regional peace, and above all Iran and its proxies.

The Abraham Accords also have significant economic benefits. Naturally, the agreements with the Gulf states make it possible to reveal economic activities with Israel that until now were covert or carried out indirectly, and in particular to develop and intensify economic relations in many fields: trade, transport, tourism, security, communications, technology, energy, finance, health, defense, and environment. For example, in view of their ecological characteristics (desert terrain and rising temperatures), both sides could be very interested in collaboration on climate change issues, including water desalination and advanced agriculture. In the field of energy, collaborations are possible in areas such as renewable energy and oil exports to the west via the Eilat-Ashkelon pipeline. Israel could also see the UAE and Bahrain as additional sources of oil and its distillates.

Israel's foothold in the Gulf will also provide an opening for deals with other Arab countries with which it currently has no formal or even any relations, and an opening for extending its economic ties in Asia. One of the implications of the Abraham Accords is the shortening of the flight routes to East Asia for tourist, business, and cargo flights.

The Emirates could also be a source and target for investments in a wide range of fields. They could have added value for investments in ventures that would involve the Palestinians, Egypt, and Jordan and allow them as well to enjoy the fruits of peace. In this way the UAE will gain an improved image as well as political dividends, since they are perceived by the Palestinians to have abandoned them. Topics on the table include shared trading zones, investment in desalination stations and power facilities, and perhaps even the construction of artificial islands opposite the Gaza Strip. Until now agreements between Israel and Arab parties have not realized the economic expectations of both sides, and it seems that this is one of the reasons for the cold peace treaties with Egypt and Jordan.

The Arab partners to the Abraham Accords hope that normalization with Israel will yield economic benefits – an expectation that appears to have increased following the economic crisis caused by the Covid-19 pandemic. Israel for its part has an interest in the realization of these expectations that is felt in the Arab-Gulf street, to demonstrate the advantages of making peace with it. Israel would do well to initiate collaborations and to respond positively to proposals of this nature from the Gulf, but to refrain from over-enthusiasm and pouncing on the Gulf economies. Israel's Arab citizens, who have an advantage because of language, could see the Abraham Accords as an opportunity. The government of Israel should involve them in the developing relations, for example, in economic (and

other) delegations to the Gulf, and also in the direction of investment from the Gulf in industrial zones in Arab towns.

In any event, Israeli entrepreneurs must demonstrate credibility and compliance with local laws, through the study of local cultural and business codes. The fact that the Gulf market is also open to elements that are hostile to Israel requires extra caution in marketing sensitive technologies.