



Economic Bridges between Israel and Arab States

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The Economic Bridges

by Eyal Hashkes

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The Economic Bridges was published after the Abraham Accords were signed in September 2020, and the author's main thesis refers directly to these agreements:

The Abraham Accords are a small part of a deeper trend in the Middle East in recent years, one that will remain relevant in the coming decades. In the current reality, economic forces are overcoming the traditional hostility toward Israel, gradually building new bridges and heralding the potential to shape a new language. Israel can use these forces to improve its political

and security situation in the Middle East. (pp. 12-13)

The desire of Israel's current government to normalize relations with Saudi Arabia gives this thesis additional validity. The discussion below examines the book from the perspective of the upheavals of time and from the viewpoint of an economist.

The book opens with two chapters that present the main argument: economic development and economic ties between countries contribute to political and security stability. The first chapter presents the lack of economic cooperation and socio-political instability in Europe in the 20th century between the World Wars, compared with the development of economic relations and cooperation and political stability in Western Europe after World War II. This perspective seems somewhat optimistic in 2023, more than a year after Russia's invasion of Ukraine and the European support for Ukraine, despite Europe's dependence on Russian oil and gas and Russia's extensive imports from European countries.

The opening chapters also include a brief discussion of empirical articles that explore the reciprocal effects between economic development and economic ties and political and security stability (pp. 29-32), including in the context of the Middle East. This discussion applies both to academic studies that have found a negative relationship between economic development and security stability—in line with the main thesis of the book—and to studies that have found a positive statistical relationship between growth in the wealth of companies or individuals and terrorist activity or security instability. Hashkes dismisses studies that do not support the main thesis of the book as the results of a handful of studies and evidence related to purely economic development. This is in contrast to the effect of economic ties between competing countries or companies, which, according to the book's thesis, create a direct incentive to improve relations.

Since the impact of economic relations on political stability and security is the focus of this book, one would expect that the discussion of these relations would be broader and would touch on possible differences in the impact of trade, employment, tourism, or energy relations, or on the influence of the beneficiaries of economic relations on political stability and security. This discussion likewise does not refer to the effect of economic development and economic ties on the attitudes and actions of Israel and Israeli citizens in relation to companies and countries in the region. Relevant in this context is the controlled experiment of Sumitra Jha and Moshe Shayo (Jha & Shayo, 2019), which illustrated that trading financial assets on the Israeli and Palestinian stock exchanges, which are adversely affected by security incidents, led Israelis who participated in the experiment to vote for parties supporting a political compromise in the 2015 elections.

The rest of the book is organized in a two-pronged format, with thematic chapters (trade, innovation, tourism, energy, and more) and chapters on specific economies (the Palestinian economy, the economies of the Arab Gulf, Egypt, and more). This successful structure highlights issues in a regional context and then creates a holistic picture of neighboring economies and the potential of their connections with Israel. These chapters are mainly based on information published in the media, reports from international bodies, and interviews conducted by the author. On the other hand, these chapters contain little independent quantitative or qualitative analysis by the author, or independent judgment regarding the reliability and importance of the diverse information presented in these chapters.

In particular, these chapters do not provide an orderly presentation and comparison of available economic data on the structure of the Israeli economy and neighboring economies. This shortcoming is notable because economics is a quantitative discipline that uses statistics to support arguments. It is clear that the book

is intended not only for economists and does not pretend to be an original professional analysis. However, presenting key data and measurements in a way that is accessible to an educated reader can either strengthen or refute the arguments presented in the book.

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The chapter on trade illustrates how simple quantitative analysis can confirm or disprove the claims made in the book. Hashkes describes the limited volume of trade between Israel and Egypt and Jordan, which signed peace agreements with Israel several decades ago, and argues that the low volume of trade is not absolutely necessary. In particular, he argues that “trade with Jordan can and should be expanded” (p. 57), but does not make a simple comparison between the goods Israel imports with those Jordan exports, and vice versa, to map out the potential for trade in different goods.

In addition, when Hashkes gives estimates of the trade potential between Israel and the countries of the region, they are not put into context, that is, they do not estimate the GDP or trade that will be created as a result of tightening trade ties in relation to the respective economies. For example, Palestinian exports to Israel in 2022 were about \$1.2 billion—about 90 percent of Palestinian exports. In contrast, UAE exports to Israel amounted to \$1.7 billion, which is expected to be less than half a percent of Emirati exports. Even if the volume of trade between Israel and the United Arab Emirates reaches about \$6.5 billion—similar to UAE exports to Iran—it will be less than 2 percent of the total Emirati exports, and it is doubtful that this will affect UAE’s political considerations. An analysis of the importance of trade for the Emirates and their political decisions should

also take into account the characteristics of trade. Most of the UAE exports to the world in general, and about 80 percent of exports to Israel in particular, are transit trade in goods produced in other countries. This trade creates limited local added value in terms of transportation, warehousing, insurance, and financial services for international trade.

In comparison, exports from Turkey to Israel (about \$5.7 billion in 2022) mainly include Turkish goods, which are produced by local workers using Turkish capital. From an integrative point of view, it is plausible that the added value of Turkish exports to Israel, which is the ninth largest Turkish export destination in the world, is added to the jobs and added value created by the visits of approximately 840,000 Israeli tourists to Turkey in 2022, as well as Turkish proposals to connect Israeli gas fields with pipelines that bring gas through Turkey to Europe: all this was taken into account in the decision of the Turkish leadership to warm relations with Israel last year. These economic incentives are gaining new momentum amid an acute economic crisis in Turkey and an increase in European demand for energy alternatives to Russian gas.

The book, published shortly after the Abraham Accords were signed, points to the potential of using the economic ties between Israel and the countries of the region in several markets, such as trade in goods, innovation, tourism, energy, and employment, to strengthen Israel's political and security stature and maintain political and security stability.

The chapter on energy is a good example of an analysis of the main factors that have endured the vicissitudes of the last year and a half, including the consequences of an unexpected war in Ukraine. The growing importance for Jordan of using gas from Israel as its main source of electricity production is reflected in the IMF report: “Costs of natural gas

imports also increased considerably, although... long-term contracts still offer some protection from the surge in global gas prices” (IMF, p. 45). An analysis of tensions between Lebanon and Israel over ownership of a gas field in an exclusive economic zone also stands the test of events since the publication of the book, and Israeli decision makers appear to have accepted the book's advice: Lebanese gas can serve Israel's interests if gas revenues do not reach Hezbollah.

Three technical remarks: first, the book does not use charts and maps to clarify its contents. The only exception is the chart showing the number of terrorist attacks in the West Bank (p. 204), but there is no chart of economic data, which are at the center of the book's thesis. Similarly, a map could help in the chapter on energy, for example, illustrating the location of gas fields, the possibility of exporting gas to the countries of the region through pipelines, and a gas field that was the subject of a dispute between Israel and Lebanon.

Second, the book is aimed at the general public, but is based on a large number of sources. Therefore, the decision was made to use footnotes, as is customary in scientific literature, but to make the footnotes available on the publisher's website, and not at the end of the book. However, access to the footnotes file is not convenient, and therefore it is recommended that in future editions a reference is added using a printed QR code.

In addition, the book ignores Israel's economic ties, sometimes limited in scope, with countries in the region in previous decades prior to the Abraham Accords. For example, in contrast to the description of the discharge of the first registered cargo from the UAE at the Port of Haifa, the Israel Central Bureau of Statistics reported trade with the United Arab Emirates in 2004-2013, when total exports in these years were more than \$200 million, and imports, about \$100 million. Similarly, the employment in Israel of thousands of Lebanese workers from the South Lebanon region from the 1980s until

leaving Lebanon in 2000 is not mentioned in analyses of labor relations or the Lebanese economy.

In conclusion, the book, published shortly after the Abraham Accords were signed, points to the potential of using the economic ties between Israel and the countries of the region in several markets, such as trade in goods, innovation, tourism, energy, and employment, to strengthen Israel's political and security stature and maintain political and security stability. The book draws on a wide variety of sources, but does not critically evaluate them. Moreover, the degree of economic benefit for the countries of the region from strengthening ties with Israel is not considered in the economic context of the country in question. Therefore, it is difficult to determine whether the economic benefits from relations with Israel are large enough to be taken into account in determining the political or macroeconomic strategies of

neighboring countries. However, it seems that some of the book's analyses, and in particular the analysis of energy relationships, have stood the test of the ups and downs of the last year and a half.

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