Israel-UAE Economic Cooperation Has Deep Roots and Broad Dividends

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Mar 8, 2022

Also published in ***Caravan***

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Articles & Testimony

From growing bilateral investments to talk of a "new Quad," the relationship could significantly affect regional economic integration and competition well beyond the Gulf.

It was not a foregone conclusion that normalization between Israel, the UAE and Bahrain (and later Sudan and Morocco) would stick when the Abraham Accords were announced amid our collective pandemic fog in August 2020. Nonetheless, looking back it is possible to place the move within broader regional trends. Going forward, bilateral trade and investment are likely to underpin cooperation in other areas. However, it may be joint investments in third countries and other multilateral economic arrangements that will do the most to advance shared strategic objectives.

While the immediate catalyst for the Abraham Accords was an Emirati proposition that, if Israel shelved plans to annex significant portions of the West Bank, the UAE would normalize relations with Israel, other dynamics were also at play. For one, the UAE was able to capitalize politically on longstanding under-the-radar ties—which they hope to grow exponentially—in terms of commerce and investment, some of it security-related. Another motivating factor was increasing alignment on two fronts: concern about the destabilizing role of Iran in the region and the perception of U.S. disengagement from the Middle East amid a greater focus on the Indo-Pacific.

Rebalancing toward Asia will increase the U.S. reliance on regional alliances to respond to localized challenges. With the Biden Administration pursuing a more transactional foreign policy in the Middle East, it is signaling a desire to see solutions come from the region, rather than U.S. intervention. However, the UAE and Israel, in particular, also share concern that U.S. pressure to repel Chinese economic and political inroads in the region will deprive them of investments and technology. As economic ties deepen and the partners branch out, they may be able to leverage emerging economic blocs within and beyond the Middle East, such as the so-called "new Quad," to substitute for some of these lost opportunities.

Israel-UAE Economic Ties

Among the states pursuing normalization with Israel, the greatest momentum has been in Israel-UAE economic and trade ties. Even before the accords, trade between Israel and the Gulf states, including the UAE, was estimated at $1 billion annually, mostly through subsidiaries based in Europe and elsewhere. UAE-Israel bilateral trade approached a billion dollars on its own at the end of 2021, not including tourism and investment, and Emirati officials have said it could exceed $1 trillion over the next decade. Indeed, the two countries have signed dozens of MOUs and began negotiations over a free-trade agreement (FTA) in November.

Israeli technology is an area of particular interest for the Gulf States, but the parties see common interest in expanding collaboration in everything from agriculture, climate and health to cybersecurity and financial services. Not long after the accords were reached, the UAE announced plans to invest $10 billion "in and alongside Israel"—a combination of private and state funds that would likely include investment in Israeli tech startups as well as major projects. Although one of the larger deals involving a deep water port at Eilat and a pipeline flowing from the Red Sea port to the Mediterranean appears unlikely to move forward due to environmental concerns, there is still plenty of talk of large investments in Israel by Emirati sovereign wealth funds.

For the Emirates, normalization with Israel has come with its share of increased threats, but Emirati leaders have emphasized that they view normalization with Israel as part of a broader realignment of its foreign policy with economic objectives. Speaking at the Abu Dhabi Strategic Dialogue in November, former UAE minister of state Anwar Gargash cautioned that his country could not take economic prosperity for granted. The UAE's economy contracted 6 percent in 2020, led by declines in high-contact sectors such as travel and hospitality. While the IMF projects that GDP growth will rebound to 2 percent in 2021, it notes that growth has yet to return to rates that predate the global financial crisis (2007).

As historically high growth sectors in the UAE, such as real estate and infrastructure, have matured, Saudi Arabia will likely drive growth in the region for the coming decade as it focuses on the same sectors domestically. Already, there are signs of competition: in what many saw as a direct threat to multinationals operating out of Dubai, Saudi authorities decreed in February 2021 that foreign firms would be required to move their regional headquarters to the Kingdom by 2024 or risk losing out on lucrative Saudi government contracts.

Visa and foreign ownership reforms announced by the UAE in 2021 are part of a broader effort to attract and retain high skilled workers who can contribute to the Emirates' objective of building a knowledge-based economy. Israeli tech companies are seizing these opportunities. Firms such as the Tel-Aviv-based fintech Rapyd are reportedly opening offices in the UAE, hoping to attract an international labor force amid labor shortages at home. Jerusalem-based venture capital firm Our Crowd also announced that it was setting up shop in the Abu Dhabi Global Marketplace (ADGM) in November, saying that it would not only allow the company to raise capital in the UAE, but also promote Emirati and regional startups. The Abu Dhabi Investment Office, based in the ADGM, has allocated 2 billion AED (roughly $500 million) for grants and rebates on "highly-skilled payroll" to companies that base themselves in the financial center.

Expanding Economic Blocs Regionally and Beyond

Looking to protect its role as a regional financial and economic hub, the UAE is also pursuing a flurry of new trade agreements—such as the FTA with Israel but also India, Turkey, Indonesia and Columbia—and expanding strategic investment, especially in Asia and Africa. Coupling Israeli technology and innovation with Emirati companies' experience in project management and logistics, the UAE hopes to pursue trilateral or even multilateral deals with Israel in third countries.

Beyond coupling relative expertise, trilateral deals give both parties cover and confidence that may not exist yet bilaterally. In November, for example, the UAE, Israel and Jordan signed a water-for-energy deal under which an Emirati company will build a solar power plant in Jordan to provide electricity for an Israeli desalination plant, which will in turn send water to Jordan. A month prior, Israel agreed to a nearly three-fold increase in Jordanian exports to the West Bank as part of a separate water agreement; a long-standing request that could help buoy both the Jordanian and Palestinian economies.

Indeed, alongside the Abraham Accords, there has been a deepening of both economic and political ties over the last year with Israel's older partners in peace: Jordan and Egypt. In September, Israeli Prime Minister Naftali Bennett made the first visit by an Israeli head of state to Egypt in ten years. In February, Israel approved additional gas exports to Egypt via Jordan, deepening regional energy ties.

Further down the line, there is hope that greater regional energy integration will open opportunities for expansion into bigger markets in Europe. Emirati firms have also gotten in on the game. UAE state firm Mubadala completed the purchase of a $1 billion stake in Israel's Tamar gas field in December, making it the largest commercial deal between Israel and the UAE since normalization.

There has also been speculation about possible Turkey-UAE-Israel joint projects, which could include an energy component. The UAE announced a $10 billion fund for investment in Turkey during a visit by Emirati Crown Prince Muhammad bin Zayed in November. The visit signaled a rapprochement between Turkey and the UAE after they had taken opposing sides in a number of regional conflicts in recent years, from Libya to the Qatar rift. Turkey has also sought to improve relations with Israel, with whom ties have been strained for more than a decade, as well as Egypt, and possibly eventually Saudi Arabia, amid domestic economic disarray that has included skyrocketing inflation and devaluation of the Turkish Lira.

Beyond the Middle East, the establishment of a working group of U.S., India, UAE and Israeli foreign ministers in October is yet another dividend of the accords. While some have heralded the bloc as the "new Quad," unlike the strategic security dialogue between the U.S., India, Japan and Australia, this one's focus will, at least initially, be solely economic.

Both the UAE and Israel already have deep ties with India, that India appears keen to expand. The UAE and India concluded a Comprehensive Economic Partnership Agreement (UAE-India CEPA) in February. Israel and India celebrated thirty years of diplomatic relations to some fanfare last June. India is another destination where Israeli and Emirati expertise and financing could be brought together in tech, infrastructure and transportation projects. Cooperation on banking, financial technologies and trade finance could also pay significant dividends.

While the "new Quad" (or Q2?) remains nascent, it has reportedly been active. It is possible that greater regional economic integration and the emergence of supra-regional economic blocs will introduce greater competition into regional markets, so that the choice is not only between the U.S. and China.

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