

# The Economic Impact of the Abraham Accords After One Year: Passions vs. Interests

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## Abstract

This brief essay summarizes research on the economic benefits of the Abraham Accords, flowing to the five nations involved: Israel, Morocco, United Arab Emirates, Bahrain, and Sudan. Israel is seen so far as reaping the largest share. The agreement with the United Arab Emirates is by far the most significant, for the two nations. The Abraham Accords are a modest 'proof of concept' that even in the Mideast, where passions are inflamed, interests can on rare occasions gain the upper hand.

## Introduction

The Mideast has long been a region dominated by the destructive force of passion – wars, strife and conflict driven by religious, ethnic, political and cultural emotions, with brief interludes of surprising sanity (the Egypt, Israel and Jordan peace agreement, and, perhaps, the Oslo Accords). In August 2020 through January 2021, with the signing of the so-called Abraham Accords<sup>i</sup> between Israel, Bahrain, UAE, Morocco and Sudan, economic and business interests appeared at least temporarily to gain the upper hand over passions.

For a detailed account, see Singer<sup>1</sup>. For an historical perspective, placing the Accords in the context of previous agreements (such as the Oslo Accords), see Ray et al.<sup>2</sup>.

This essay reviews research on the economic impact of the Abraham Accords. It has been clear from the outset that economic interests drove the accords, with each of the five co-signing nations motivated by individual perceived economic gains.

## Background

On August 13, 2020, normalized relations were announced between Israel and the United Arab Emirates, capping a year-long process, with a formal agreement signed on Sept. 15, 2020. That same day, a peace declaration was signed with Bahrain, followed by a joint declaration establishing economic ties and diplomatic relations. On Dec. 22, 2020, Israel and Morocco signed a declaration also establishing diplomatic relations and finally, on Jan. 6 2021 a declaration was signed normalizing relations with Sudan, in Khartoum. Together these agreements have been called the Abraham Accords [Guzansky & Feuer, 2021<sup>3</sup>].

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<sup>i</sup> So-called "Abraham Accords" because by tradition, both Jews and Arabs are descended from the same forefather, Abraham, from whose son Ishmael the Arab nation descended and from whose son Isaac the Jewish nation descended.

The agreements were brokered by the Trump Administration, which offered a quid pro quo for each of the four Muslim nations. The UAE sought advanced US weapons, mainly F-35 aircraft. Bahrain sought US support against an Iranian threat, with tacit Saudi approval. Sudan sought its removal from the US list of 'state sponsored terrorism' list, after 27 years, along with a World Bank aid package. And Morocco got US formal recognition of Moroccan sovereignty in the disputed West Sahara.

Together, and separately, each of these agreements caused some degree of surprise among experts, as all of them had been simmering, in the background, for months and years. The advent of the Biden Administration has left all these agreements in place, though with much lower priority.

## Geopolitical Impact

The main impact of the Abraham Accords was geopolitical – threefold, according to Guzansky and Feuer<sup>3</sup>: a) normalization of Israel's relations with Arab states without an Israeli-Palestinian peace agreement; b) a strong agreement with the UAE, whose interests in strategic cooperation with Israel are strongest, with weaker deals with Bahrain and Morocco, and, for now, little change with Sudan; and c) an Israel-Hamas war in May 2021 did not impact the agreements, which remained robust despite it. (See Box: Economies of the Four Co-Signers)

### Box: Economies of the Four Co-Signers<sup>ii</sup>

**UAE:** UAE has the second-largest economy in the Arab world (after Saudi Arabia), with a gross domestic product (GDP) of US\$414 billion in 2018. A third of the GDP is from oil revenues. The UAE's economy is one of the most open worldwide, and its economic history goes back to the times when ships sailed to India, along the Swahili coast, as far south as Mozambique.

**Bahrain:** Oil and natural gas play a dominant role in Bahrain's economy. Despite efforts to diversify the economy, oil still comprises 85% of Bahraini budget revenues, meaning throughout the last few years lower world energy prices have generated sizeable budget deficits - about 10% of GDP in 2017. Population is 1.6 million, GDP is \$33.904 billion at market exchange rates, or in Purchasing Power Parity terms, \$73.8 b.

**Morocco:** Population is 36 million; GDP is \$119.040 billion (nominal) or \$329 billion in Purchasing Power Parity. Per capita: \$9,235 (PPP). The economy of Morocco is relatively liberal. Morocco is the 5th largest African economy by GDP (PPP).

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<sup>ii</sup> Source: Wikipedia

Sudan: Population is 41.8 million; GDP is \$30.9 b. nominal, \$175.2 b. PPP. Nominal GDP per capita is \$774, or \$4,072 PPP, reflecting an undervalued currency. 80% of GDP comes from agriculture; Sudan has oil and enjoyed a short economic boom during soaring oil prices. Sudan is unstable politically and recently the military deposed the democratically elected Prime Minister.

The RAND Corp.'s study<sup>4</sup> offers a super-optimistic vision: Noting that if the Accords grow to include 10 Muslim-majority nations (including Saudi Arabia), with deeper economic integration, the four Arab signatories could gain as many as 150,000 new jobs, expanding to four million new jobs and \$1 trillion in new economic activity over a decade if the Deal expands to ten nations. The RAND study's Table 1 projects bilateral Free Trade Benefits for the five co-signers over a 10-year period. The Table shows clearly that Israel reaps the lion's share of the Accord's total economic benefits flowing from new economic activity.

**Table 1: Potential Benefits of Bilateral Free Trade Agreements to Current Signatories of Accords**

Signatory	New Economic Activity	Change in GDP	Number of Jobs Created	Change in Unemployment Rate
Bahrain	\$1.6 billion	0.8%	1,700	0.8% >> 0.6%
Israel	\$46 billion	2.3%	19,100	3.8% >> 3.4%
Morocco	\$4.5 billion	0.7%	16,500	9.0% >> 8.9%
Sudan	\$0.7 billion	0.8%	16,400	16.6% >> 16.5%
UAE	\$17 billion	0.8%	11,100	2.4% >> 2.2%

Egel et al.<sup>4, 5</sup> stress the Accords' contribution to resolving the thorny issue of youth employment among the Arab co-signers: "This (agreement) could do much to address the 25 percent youth unemployment rate among Israel's partners in the accords, support nascent opportunities for entrepreneurship and facilitate the school-to-work transition that is critical to vibrant economic growth."

According to the US Congressional Research Service<sup>6</sup> Israel, as part of the Accords, agreed to suspend plans to annex part of the West Bank (apparently, a condition demanded by the UAE). In January 2021 the US announced it was shifting Israel from its European Command to the Central Command, which experts claim may improve Israel-Arab military interoperability. A controversial deal to sell US F-35 aircraft to the UAE with tacit Israeli approval also played a role in the Accords.

## Israel and the United Arab Emirates

Israel and UAE have had a long courtship preceding the Aug. 13 deal. *The normalization agreement with UAE is by far the most impactful and promising of the four*, largely because the UAE is placing very large bets on technology, has deep pockets from oil and gas revenues and sees great benefit in collaboration with technology-savvy Israel.

Recently, a three-way energy-water accord was signed in Dubai, between Israel, the United Arab Republic and Jordan. The deal calls for a government-owned UAE firm to build a solar energy facility in southern Jordan, and sell the energy to Israel, which in turn, will either build a new desalination plant or provide Jordan with some 200 million cubic meters of water per year, from existing sources, quadrupling the amount of desalinated water Israel currently sells to Jordan.

United Arab Emirates' first Ambassador to Israel is Mohamed Al Khaja, recently sworn in. "We are focusing on the positive and how similar we – Israel and the UAE – are. We are working now on a free trade agreement," he said.

According to the Jerusalem Post, even before the Abraham Accord was signed, companies from Israel were already doing business with partners from the UAE, and dozens of flights a week were announced. By the end of the 2020, some 50,000 people had flown from Tel Aviv to Dubai. "By December 2020 Israel had exported some \$200 million in products to the Gulf, and within a year almost \$600m. in trade had been done between Israel and the UAE." These figures dwarf the economic links between Israel and the other three countries in the Accords. At the Dubai Expo 2020 which opened a year late in 2021, Israeli and UAE firms announced partnerships. For instance, Israel Aerospace Industries and Edge (a UAE defense technology company) announced an agreement to make unmanned surface vessels.

UAE has an ambitious space exploration program. UAE's Hope probe that reached Mars in February 2021. That landing made the UAE only the second country to ever successfully enter Mars orbit on its first try. United Arab Emirates recently announced plans to explore the planet Venus before the end of the coming decade and land on an asteroid.

Israel and UAE are linking their financial markets. While many Israeli startups expected a windfall of UAE investments, the reverse direction has also boomed. A Jerusalem based investment company Our Crowd, a VC that raises capital from small and institutional investors, recently became the first Israeli VC to be licensed to operate in the UAE.

## Israel & Saudi Arabia

Saudi Arabia is the proverbial 800-pound gorilla lurking in the background of the Abraham Accords (though not part of them). According to Guzansky<sup>7</sup>:

"Saudi Arabia is gradually changing its attitude toward Israel, laying the groundwork for a process that could culminate in full bilateral relations. Saudi Arabia's economic, religious, and political importance gives Israel an interest in achieving a normalization agreement with the kingdom, For Saudi Arabia, the question of relations with Israel relates primarily to the kingdom's internal stability and regional status. ....when considering an agreement, Saudi Arabia will presumably seek to test two principal parameters: the success and expansion of the Abraham Accords and improvement in relations between Israel and the Palestinians."

Trigano<sup>8</sup> also stresses the key role of Saudi Arabia, even though it is not (yet) a co-signer:

"... the success of the Accords will ultimately depend on the signature of Saudi Arabia. The participation of Bahrain and the UAE were trial balloons sent up by Riyadh. Those states would never have undertaken anything with Israel without the kingdom's tacit agreement. ... it must be acknowledged that the obtaining of the benevolence of Riyadh, guardian of Islam's sacred sites, is itself a major development. Even now, ahead of a prospective signature by the Saudis, the Accords represent an important strategic development on the regional level: *Israel now has local military allies in the face of Iranian imperialism, holy war, and threats of extermination.*"

## Israel and Iran

A key factor in the Abraham Accords was the simmering conflict between Israel and Iran, and between Iran and the Gulf States. According to Dazi-Heni<sup>9</sup>:

"...[the Abraham Accords] are bilateral agreements that address security interests prompted by the Iranian issue, thereby bringing these two Gulf States [UAE, Bahrain] closer to Israel...[and also give Israel] unprecedented access to the Arabian Peninsula and the Persian Gulf."

As negotiations resume between the EU, US and Iran on a nuclear deal, Iran's nuclear capability has become a primary focus of Israeli strategic concern, and to some degree, a concern of the Gulf States. While the economic benefits of the Accord are important, for Israel the primacy of the Iranian challenge has for now taken first place, in assessing its gains from the Accord.

## Conclusion

A year is far too short a time for even a cursory examination of how the Abraham Accords' benefits are shared and distributed. Yet it appears that Israel has so far been the major winner, economically, strategically and geo-politically. As Khan et al.<sup>10</sup>, based in Pakistan, observe:

"The primary draft of the Abraham Accords places stress on the commitment to achieve comprehensive, realistic and enduring peace, which can be later harnessed to attain a long-lasting regional peace. UAE-Bahrain-Israel deal has put the Muslim world under pressure which greatly favors Israel. It gives the Jewish state natural grounds to expand its spheres of influence and aggressively challenge enemies, such as Iran, politically as well as militarily.

It is amusing to read about Israel's "spheres of influence" – as a nation of fewer than nine million people, facing 22 Arab nations with over 420 million people, or more than 50 times that of Israel, and a global population of two billion Muslims.

Mideast passions remain high. For now, the Abraham Accords have provided modest 'proof of concept' -- common interests grounded in collaboration, trade and technology can at least temporarily overcome those passions.

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