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Israel and the UAE: Old New Friends

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In August 2020, the US, Israel and the United Arab Emirates (UAE) announced the full normalization of relations between Israel and the United Arab Emirates. In September, the Abraham Accords were signed at the White House between Israel, the UAE, Bahrain and the

US.¹ The establishment of diplomatic relations between Israel and the UAE and Israel and Bahrain opens the door for trade, investment and cooperation. Israel is looking for markets, investments and joint projects. The UAE is dominated by two emirates: Abu Dhabi and Dubai. Abu Dhabi is the main oil producer in the UAE and is thus one of the largest in the world. It has a strong interest in reorienting its economy away from oil and has invested in green technologies. Dubai has invested heavily in real estate and tourism and also wants to diversify its economy. Israel is a very suitable trading partner given its strength in hi-tech.

The United Arab Emirates is a federation of seven emirates on the eastern coast of the Arabian Peninsula. Abu Dhabi is the largest with more than three-fourths of the federation's total land area. The capital city, Abu Dhabi, is also the capital of the federation and is the center of its oil industry. The port city of Dubai, located at the base of the mountainous Musandam Peninsula, is the capital of the emirate of Dubai and is one of the region's most vital commercial and financial centers, housing many multinational corporations. The smaller emirates of Sharjah, 'Ajmān, Umm al-Qaywayn, and Ra's al-Khaymah also occupy the peninsula, whose northern part protrudes toward Iran and forms the Strait of Hormuz linking the Persian Gulf to the Gulf of Oman. The federation's seventh member, Al-Fujayrah, faces the Gulf of Oman and is the only member of the union with no Persian Gulf coast.

Trade connections between Israel and the UAE have been established very rapidly. The Abu Dhabi-based Group 42, an artificial intelligence and cloud computing company, was one of the first companies in the UAE to announce plans to establish a wholly owned subsidiary in Israel. G42 operations in Israel will focus on coronavirus diagnostics, artificial intelligence, agricultural technology, water supply solutions, smart cities, and renewable energy. The Emirati company already had formed partnerships with Israeli firms to develop technology solutions for combating coronavirus.

Dubai, which is a small oil-producer, has invested heavily in real estate, tourism and trade. It also seeks to diversify its economy, as these sectors suffered from over-supply even before the COVID-19 crisis. Israel's hi-tech sector is an ideal partner for many of the sectors that the UAE is trying to develop. Dubai's preoccupation with innovation-led growth and broader UAE efforts to develop a knowledge economy through digital transformation and entrepreneurship promotion provide a concrete foundation for enhanced ties.

In September, OurCrowd and the Dubai based Al Naboodah Group's business development unit formed Phoenix Capital, a funding platform to facilitate technology investments between Israel and the UAE.² Al Naboodah's core business focus includes civil engineering and construction, in addition to representing a large portfolio of global brands in the automotive, transportation, travel, electrical, logistics, agriculture, smart cities, real estate and renewable energy sectors.

Israel-based Mobileye and the Al Habtoor Group have signed a memorandum of understanding to deploy a fleet of self-driving robotic taxis on the streets of Dubai by 2022.³ Al Habtoor, is a conglomerate based in Dubai with interests in the sectors of hospitality, automotive, real estate, education and publishing.

Details concerning collaboration in the defense industry and related security issues are necessarily opaque but do exist. The head of the UAE's defense conglomerate EDGE, (with 12,000 employees and a \$5 billion turnover) has said that of cooperation is broad and includes autonomous systems and new sensor technologies.⁴ The cybersecurity chiefs of Israel and the UAE suggested that there is potential for collaboration on the cyber-defense of their digital economies.⁵

Cooperative linkages are not only forming at the level of advanced, security-related technologies but also in finance and banking, commodities, energy, tourism, and logistics. One of the first government memorandums of understanding between the two sides involved the banking and finance sector. Additional agreements between some of the largest lenders in each country – including Bank Hapoalim, Bank Leumi, Emirates NDB, and First Abu Dhabi Bank. Israel's Harel Insurance Group and Dubai Insurance Company have signed an agreement covering business-related risks and tourism.⁶ The Israel and Dubai Diamond Exchanges have signed an agreement to enhance cooperation in the diamond trade.⁷ Energy ministers from Israel and the UAE have discussed developing natural gas markets.⁸

In October, an aviation agreement was signed allowing up to 112 flights a week between Tel Aviv and the UAE. Etihad Airways will operate between Tel Aviv and Abu Dhabi, and Emirates will operate between Tel Aviv and Dubai. In addition, charter airlines from both countries will participate. Israeli tourists, government officials and businesspeople are visiting the UAE, and a delegation from the Emirates was in Israel to sign agreements.

Dubai is the Gulf's free zone hub, and it is developing ties with Israeli counterparts. In September, DP World – the Dubai-based multinational logistics company and other government-related bodies have signed agreements with the Israel-based DoverTower, part of the Shlomo Group, owner of Israel Shipyards, which operates the port in Haifa, and is a partner in the Port of Eilat.⁹ DP World plans to assess port and free zone development opportunities in Israel as well as establish a direct shipping route between Eilat and the UAE port of Jebel Ali.

The Dubai World Trade Centre free zone will cooperate with the Israeli Export Institute to facilitate the participation of Israeli exhibitors at major UAE events. Jebel Ali Free Zone and Dubai Airport Freezone Authority have both signed memorandums of understanding with the Federation of Israeli Chambers of Commerce to support Israeli companies intending to establish businesses in Dubai.¹⁰

Other commercial entities involved in the establishment of linkages widen the scope of economic actors and businesspeople invested in this relationship. The Abu Dhabi Investment Office signed a bilateral trade agreement with Israel Export Institute to facilitate the entry of Israeli companies into the UAE.¹¹ The stock exchanges of Tel Aviv and Abu Dhabi held preliminary talks on dual listing and other joint initiatives.¹² Chambers of Commerce in Dubai and Tel Aviv also signed a strategic partnership agreement to foster new businesses and startups.¹³

The UAE's economic dilemmas are illustrated in Table 1 and Chart 1. The table compares the UAE economy with that of Israel. The two countries are remarkably similar in terms of the size of their populations and economies and GDP per capita. That is, however, is where the similarity ends. Nearly 90 percent of the UAE population consists of foreign workers who earn far less than the citizens of the country. The figure for GDP per capita is very misleading if it is used as an indicator of average living standards. About 2 million citizens have much higher living standards than the GDP/capita figure suggests and 8 million have a considerably lower standard of living. In 2019 the top one percent of the population had 16.2 percent of total income and the bottom 50 percent had 11.5 percent.¹⁴ Much of the business sector in the UAE is owned by the ruling families and a small number of others.

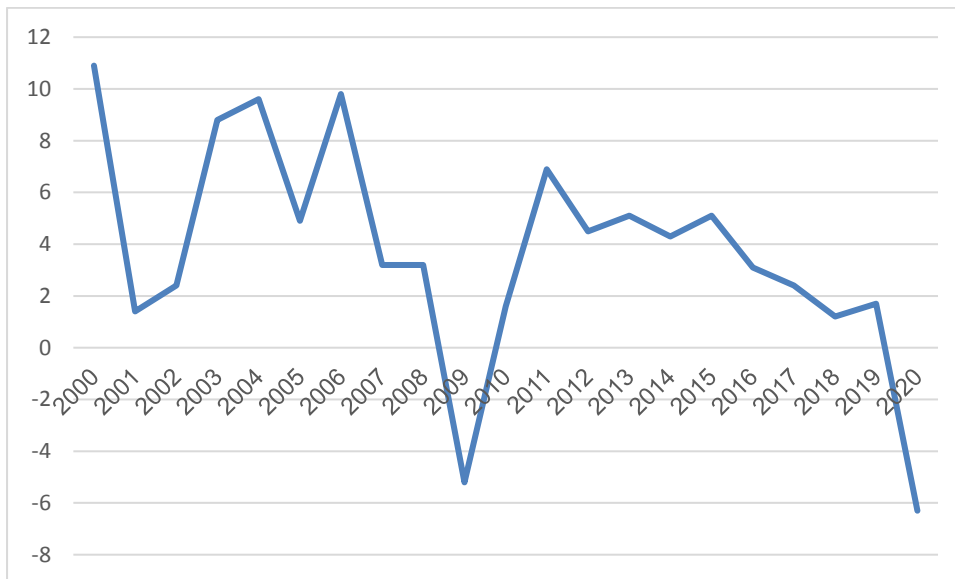
Table 1 - Israel and the UAE: Main Economic Indicators, 2019

	Israel	UAE
Population (millions)	9.053	9.77
Foreign workers (millions)	0.3	8.6
GDP (\$ billions)	396	421
GDP per capita (\$)	43,742	43,091
Exports (\$ billions)	109	390
Imports (\$ billions)	107	281

Source: World Bank Data, Central Bureau of Statistics

Chart 1 shows how the UAE’s economic growth rate has decorated since 2000. The recovery after the 2008 international financial crisis was impressive but since then it has become weaker. As in other Gulf states, in 2020 it is expected to be negative.

Chart 1 - UAE: GDP Annual Growth Rate, percent in real terms



Source: World Bank Data and World Bank: UAE Economic Update October 2020

According to UAE Minister of Economy Abdulla bin Touq Al Mar, the UAE and Israel will exchange expertise to help tackle COVID-19, develop reliable food and water sources, clean energy, especially solar power. He stated that the UAE, as a strong trade, logistics, construction and tourism hub in the region, is looking to “complement” Israel rather than “compete” with it. Al Mari notes that the UAE is seeking to become a “scale up” nation that will serve as a

gateway between the Middle East, North Africa, and Asia while promoting the flow of business, investment, talent and people.

The Israeli Ministry of Economy estimates that the normalization of ties between Israel and the UAE could lead to as much as \$500 million in bilateral trade and investment.¹⁵ Israel faces intense competition in Europe, its main agricultural export market. This, according to the Israeli agriculture ministry makes the opening of the UAE market into a significant opportunity. The UAE imports more than \$10 billion worth of agricultural goods, covering about 80 percent of local needs. Israel has a competitive advantage over European suppliers because of its location.¹⁶

The prices of products exported from Israel to the Emirates are competitive. This is due to the geographical proximity, which may permit land transportation via Jordan and Saudi Arabia as well as air and sea shipping. Sailing a cruise ship from the port of Ashdod to Dubai takes only about 10-12 days, and the port of Eilat is located about 8-10 days away from Dubai. The duration of the standard overland transport route from Aqaba to Dubai is about 32 hours.¹⁷

Israel and the United Arab Emirates have opened talks over an oil pipeline linking the Red Sea with the Mediterranean, the operation of which treated as a near secret by Israel. Europe Asia Pipeline Co. (EAPC), controlled by the Israeli government, and UAE-based MED-RED Land Bridge Ltd. have signed a memorandum of understanding to collaborate on the transportation of crude and oil products between the Persian Gulf and Western markets.

EAPC operates the Eilat-Ashkelon pipeline, built by Israel and Iran in the 1960s. It has a capacity of 600,000 barrels a day and has about 23 million barrels of storage space. Most oil exported from the Gulf to Europe is either shipped through the Suez Canal or via Egypt's Sumed pipeline, which can pump 2.5 million barrels daily. The Eilat Ashkelon Pipeline Co., as EAPC used to be called, was jointly owned by Israel and Iranian government before the 1979 revolution.¹⁸ Tehran shipped some of its Europe-bound oil to Eilat and then piped it to Ashkelon on the Mediterranean. After the Islamic Revolution, the two countries became enemies, but for some years Israel allowed Iranian oil to be sent through the pipeline in secret.

Israel and Iran have argued over the pipeline more recently, as Tehran wants compensation after Israel took over its 50 percent stake. Even today, information on what flows through the pipeline is censored by Israel. The agreement will also allow traders to transport oil from the

Mediterranean and Black Sea regions to Asia, EAPC said. MED-RED Land Bridge is a consortium of UAE and Israeli companies.¹⁹

As the world economy emerges from the COVID-19 crisis it will also have to find greener ways to produce energy, food and other goods and services. Both Israel and the UAE have the means to contribute towards this. The environmentalist, Dan Rabinowitz, suggests that energy and environmental issues could form the basis for cooperation, possibly resulting in large scale projects. There are some 3.5 million vehicles in the UAE, as well as a large number of private planes. The amount of energy invested each year in Ski Dubai – the indoor ski site in the center of Dubai – is almost equal to the amount of energy consumed annually by two million Sudanese. As indicated in Chart 1, the era of high oil prices that brought prosperity to the Gulf, is coming to an end. Half of the consumption of world petroleum goes on transportation, a sector that is undergoing dramatic change. Major carmakers are moving toward hybrid or electric vehicles, and by the end of the decade they will have almost stopped manufacturing gasoline - or diesel-powered cars. Numerous countries, including China, have announced the phasing out of these types of vehicles.

Aviation, which in 2019 consumed some 8 percent of global oil production, will undergo this revolution more slowly, but it is developing prototypes of long-winged planes with solar panels to charge batteries and fuel flight.

In the electricity sector, the dramatic drop in the cost of solar installations is cutting into demand for natural gas. Even in Israel, which has been slow in introducing renewable energy, in early August froze plans to build four gas-fueled power stations because solar-driven power stations are cheaper to build and run. Within a decade or two, global demand for oil and natural gas may fall sharply, with prices falling accordingly. Geopolitics is also playing a role in the new relationship. Apart from their mutual concern about Iran, there is the huge problem of global warming.

The Oman mountain ridge in the south blocks the western rim of the Persian Gulf, in which the UAE is located, from the cooling effect of the Indian Ocean. This creates a major heat and humidity trap. In August temperatures in the western Gulf approach 50 degrees Celsius (122 Fahrenheit), and forecasts predict a rise of 6 or 7 degrees Celsius later this century. The cities of Abu Dhabi, and Dubai, along with others in the Gulf, could become uninhabitable within a few decades.²⁰

Extreme climate forecasts coupled with the decline of oil create a double bind for the Gulf states. This is the broader context for the Gulf states' willingness to cooperate with Israel, Cooperation with Israel, with its military, technological and innovative capacity, should be seen in this context.²¹

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