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## **The NEW DRIVE FOR NORMALISATION AMONG OIC MEMBERS: ECONOMIC ASPECTS**

### **Abstract**

The new normalisation drive among the OIC members of the Middle East appeared as a dramatic development in the region. Discussion on the normalisation drive usually focuses on the political and geopolitical aspects while economic aspects receive little attention. A complete perception of the dramatic changes that are now taking place in the Middle East region demands the understanding of economic aspects of the developments as well. In this background, the present paper aims to examine the economic aspects of the new normalisation drive among the Arab OIC countries. The paper argues that there is a huge untapped potential of regional trade between Israel and its Arab counterparts. This untapped trade potential might act as an incentive for normalisation of relations. It also argues that by normalisation of relations will not only benefit Israel from increased trade, it might also help to reduce its military expenditure which the country might invest in social welfare. The present study finds several economic factors which might have influenced the Arab OIC members to go for a new drive of normalisation. They include economic incentives attached with the normalisation deal, prospect of increased mutually beneficial trade, technological edge of Israel and prospect of increased investment opportunities.

**Key words:** Normalisation, OIC, Middle East

### **1. INTRODUCTION**

The Organisation of Islamic Cooperation (OIC) was established in 1969 to manifest an image of political unity among Muslim states, but since its inception, the organisation has often been confronted with challenges emanating from identity politics, geopolitical competition and other issues. In the second half of the year 2020, the world saw another manifestation of the deep divide within the OIC. Breaking the consensus of years among most Arab states, four Arab OIC members signed the Abraham Accord, brokered by the Trump Administration of the US, and normalised their relations with Israel. The United Arab Emirates (UAE) signed the Accord in August 2020 followed by Bahrain in the next month. Sudan announced normalization of relations with Israel in October 2020. Morocco was the latest to join the rally in December 2020 with the commitment of partial resumption of diplomatic relations.

On the part of the Arab signatories, the Accord was a major drift from their declared position about Israel as proclaimed in the Khartoum Resolution (1967) of “Three Nos - no peace with Israel, no recognition of Israel, no negotiations with it”<sup>1</sup> and further reiterated in the Arab Peace Initiatives of 2002.<sup>2</sup> The deals broke years of consensus among most Arab states about non-recognition of Israel until the end of the occupation of Palestinian territories and establishment of the two-state solution on the 1967 borders. Before this new normalisation drive, only two Arab countries established official ties with Israel: first Egypt in 1979 and then Jordan in 1994. The first attempt of normalisation by Egypt faced retaliation from the Arab League though Jordan did not face such consequences; but both of the first two attempts came to be known as “cold peace” as in both cases there existed a stable diplomatic relations amidst societal rejection. The sheer fact that it took Israel more than a quarter century to normalise relations with the next Arab country, reflects the importance of the new normalisation wave.

On the other hand, on the part of the US, the Accord, engineered by the Trump Administration of the US and spearheaded by his son-in-law Jared Kushner, was a consequence of the contemporary US policy on the Middle East which portrayed Iran as a more important source of regional instability than the Israel-Palestine conflict.<sup>3</sup> Besides containing Iran, the US had other geopolitical calculations behind its move towards the new normalisation drive. This is why Joe Biden was not very critical of it though the Trump engineered accord came into light at the peak of their electoral fight.

The first year of Biden administration saw slow progress regarding the new normalisation drive which led to the apprehension by some observers that the Biden Administration might drop the agenda from its priority list as a part of disengagement from Trump’s initiatives.<sup>4</sup> This was particularly so as President Joe

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<sup>1</sup> “The Khartoum Resolutions”, The Economic Cooperation Foundation (ECF), accessed July 17, 2022, [https://ecf.org.il/media\\_items/513](https://ecf.org.il/media_items/513)

<sup>2</sup> Text of Arab Peace Initiatives adopted in Beirut Summit, accessed July 17, 2022, [https://www.europarl.europa.eu/meetdocs/2009\\_2014/documents/empa/dv/1\\_arab-initiative-beirut/\\_1\\_arab-initiative-beirut\\_en.pdf](https://www.europarl.europa.eu/meetdocs/2009_2014/documents/empa/dv/1_arab-initiative-beirut/_1_arab-initiative-beirut_en.pdf)

<sup>3</sup> In an interview with Atlantic Council in September 2020, the US Secretary of State Mike Pompeo commented: “... the primary destabilizing force in the Middle East was not the conflict between Israel and the Palestinians... It was, rather, the threat of the extraterritorial ambitions of the clerical regime in Iran.” Source: Quint Forgey, “The dawn of a new Middle East’: Trump celebrates Abraham Accords with White House signing ceremony”, POLITICO, September 15, 2020, accessed July 16, 2022, <https://www.politico.com/news/2020/09/15/trump-abraham-accords-palestinians-peace-deal-415083>

<sup>4</sup> John Hannah and Jonathan Ruhe, “Why Has Biden Stopped Pushing for Arab-Israeli Peace?”, Foreign Policy, January 19, 2022, accessed July 15, 2022, <https://foreignpolicy.com/2022/01/19/biden-israel-arab-peace-abraham-accords/>; Laurence J Haas, “Why Joe Biden Should Leverage The Abraham Accords To Bring Stability To The Middle East”, American Foreign Policy Council, January 18, 2022, accessed July 17, 2022, <https://www.afpc.org/publications/articles/why-joe-biden-should-leverage-the-abraham-accords-to-bring->

Biden vowed to raise the issue of murder case of dissident Saudi journalist Jamal Khashoggi and re-calibrate the relations of the US with Saudi Arabia, the country at the top of the priority list of the US for normalisation of relations with Israel and the most important actors in the normalisation drive.

However, disproving these apprehensions, the Biden Administration soon declared that the Accord is “an important achievement, one that not only we support, but one we’d like to build on.” They also declared that “we’re looking at countries that may want to join in and, and take part and begin to normalise their own relations with Israel.”<sup>5</sup> Biden sent high officials to the Saudi Arabia to discuss the normalisation process before he himself visited the country in July 2022. Besides the calculations of the normalisation drive, another factor that prompted President Joe Biden to soften his voice towards Saudi Arabia was the oil crisis created by the Russia-Ukraine war which re-emphasized the importance of Saudi Arabia as an important ally of the US in the Middle East.<sup>6</sup> During the visit of Biden to the Saudi Arabia, the country did not agree outright to normalise its relation with Israel but it lifted its longstanding ban on Israeli flights overflying its territory.<sup>7</sup> Despite denial of the foreign ministry of Saudi Arabia,<sup>8</sup> this declaration of Saudi Arabi appeared to many observers as a positive gesture of the country in that direction.<sup>9</sup>

The visit of Joe Biden to the Middle East and other contemporary developments suggest that the recent divergence within the OIC initiated by the new normalisation drive, will continue to influence the politics of the Middle East as well as the geopolitics surrounding this region. It is therefore, pertinent to examine it from various aspects. In the existing literature, most of the discussion on this topic are done from the geopolitical perspective while economic perspectives have received little attention though an understanding of the latter is imperative for a full grasp of the issue. The present paper is a modest attempt to fill in this gap.

While recognizing the importance of global geopolitical issues as well as the role of domestic, regional and sectarian politics in determining the course of Arab-Israel relations, the present paper aims to examine the economic factors behind the divergence of position of member states of OIC in terms of relations with Israel. To

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stability-to-the-middle-east; Hugh Hewitt, “The Biden administration could derail the Abraham Accords. It mustn’t”, *The Washington Post*, January 31, 2021, <https://www.washingtonpost.com/opinions/2021/01/31/biden-administration-could-derail-abraham-accords-it-mustnt/>.

<sup>5</sup> Ellen Knickmeyer, Aya Batrawy and Laurie Kellman, “Biden embraces a Trump policy in backing Arab-Israeli deals”, *U.S.News*, June 10, 2021, accessed July 12, 2022, <https://www.usnews.com/news/politics/articles/2021-06-10/biden-embraces-a-trump-policy-in-backing-arab-israeli-deals?context=amp>

<sup>6</sup> “Saudi Arabia and UAE leaders ‘decline calls with Biden’ amid fears of oil price spike”, *The Guardian*, March 09, 2022.

<sup>7</sup> “Saudi Arabia lifts ban on Israeli flights amid Biden visit”, *The Hindu*, July 15, 2022.

<sup>8</sup> *The Daily Star*, July 17, 2022.

<sup>9</sup> “Saudi Arabia lifts ban on Israeli flights amid Biden visit.”

be more precise, the objective is to identify the economic factors behind the recent normalisation drive by some Arab OIC members. In so doing, it will attempt to address the following questions: 1) What is the present status of overt and covert economic relations between Israel and other relevant OIC members? 2) Does Israel have any economic interest in the normalisation process? If yes, what are the areas of interest? 3) Do Israel's Middle Eastern counterparts have any economic interest in the normalisation process? If yes, what are the areas of interest?

The study is a qualitative one. It uses secondary data collected from various journal articles, newspaper reports, working paper, research reports and other documents. While addressing the research questions, focus has been on some selected Middle Eastern and neighbouring countries which are supposed to be the key players in favour of and against the normalisation process. It covers the time period up to December 2020. Lack of recent data on Arab-Israel trade arising from its clandestine nature, remain to be a major limitation of the study.

The paper is organized as follows. Following the ongoing introduction, section two discusses the divergence of stance of OIC member countries regarding the Israel-Palestine issue and touches upon the new drive for normalisation. Section three examines the economic aspects of the normalisation drives among the Arab OIC countries while section four lists the economic factors behind the recent normalisation drive. Section five concludes the paper.

## **2. Divergence within the OIC and the Normalisation Drives**

This section will first discuss the divergence of OIC members regarding the Israel-Palestine issue. Then it will analyze the Normalisation drives among the OIC members with a view to highlight the drivers of the normalisation drives.

### ***2.1 Divergence among the OIC Members Regarding Palestine-Israel Issue***

The establishment of the Organisation of Islamic Cooperation (OIC)<sup>10</sup> and the Palestine issue is intertwined. The arson of the AL-Aqsa Mosque in August 1969 motivated the Muslim world to establish a platform for cooperation among the Muslim countries. Following the event, a complaint was submitted to the UN Security Council by 24 Muslim-majority nations. The UN condemned the attack and called on Israel to void all arrangements that would alter the status of Jerusalem though it was ignored by Israel. Considering the situation, Saudi Arabia pressed for a summit and Morocco offered to host it at Rabat. Out of thirty-six countries invited, heads or representatives of twenty-five attended rallying over 300 million Muslims

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<sup>10</sup> The Organisation has changed its name on June 28, 2011 from the **Organisation of the Islamic Conference** to its current name.

from the Atlantic to the Pacific to the Arab cause.<sup>11</sup> In spite of the skepticism of the West about the success of the Conference because of the deep ideological divisions in the Muslim world, the Conference took place but with little success. Exposing the lack of unity among the Arab states and the Islamic leaders, the First Conference failed to come to a consensus on the Palestine issue and finally ended up in adopting a joint strategy. This is how the OIC came into being.

Although the incident of the Al-Aqsa Mosque catalyzed the formation of the OIC, the Muslim world also aspired to build a pan-Islamic institution through it which would serve the common political, economic and social interests of the Muslims.<sup>12</sup>

From the very beginning of the organisation, OIC members showed wide divergence regarding the Palestine issue. Considering the Palestine problem as a purely Arab issue, President Nasser of Egypt criticized the Saudi plan of calling the Conference and favoured to call an Arab League Summit instead. Showing their “secular” status of state as the cause, Turkey and Nigeria refused to participate in the Conference.<sup>13</sup> Iran supported it with some reservations. Malaysia recommended the formation of a committee to investigate the cause of fire to the Al-Aqsa Mosque rather than call a conference.<sup>14</sup> Syria and Iraq boycotted the Conference. The former showed the cause of having no diplomatic relations with the host country Morocco while for the latter the boycott was a protest of not inviting the PLO chief Yasser Arafat in the Conference.<sup>15</sup> Due to their diplomatic and trade relations with Israel, Iran took a very moderate stand in the Conference; it expressed support for the PLO and emphasized on the need for the recovery of Jerusalem, but did not criticize the acts of Israel in Jerusalem.<sup>16</sup> Thus, starting from its inception, the OIC has been witnessing divergence of position among its members regarding the Palestine issue.

With 57 member states representing 1.6 billion Muslims over four continents, the OIC, the second largest international organisation after the United Nations (UN), organisation has achieved notable successes in mediating in a number of deep-rooted conflicts among member states.<sup>17</sup> However, when it comes to the Palestinian issue,

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<sup>11</sup> Shameem Akhtar, “The Rabat Summit Conference,” *Pakistan Horizon* 22, no. 4 (1969): 336-340, <https://www.jstor.org/stable/41394681>.

<sup>12</sup> Azin Tadjdini, “The Organisation of Islamic Cooperation and Regional Challenges to International Law and Security,” *Amsterdam Law Forum* 4, no. 2 (2012): 36-48.

<sup>13</sup> Md. Golam Mostafa and Mohammad Humayun Kabir, “The OIC and the Palestian Problem,” *BIISS Journal* 4, no. 4 (October 1983).

<sup>14</sup> *International Herald Tribune*, September 1, 1969 cited in Md. Golam Mostafa and Mohammad Humayun Kabir, “The OIC and the Palestian Problem.”

<sup>15</sup> *International Herald Tribune*, September 23, 1969 cited in Md. Golam Mostafa and Mohammad Humayun Kabir, “The OIC and the Palestian Problem.”

<sup>16</sup> L. V. Balkova, 1979 cited in Md. Golam Mostafa and Mohammad Humayun Kabir, “The OIC and the Palestian Problem.”

<sup>17</sup> Ibrahim Sharqieh, “Can the Organization of Islamic Cooperation (OIC) Resolve Conflicts?,” *Peace and Conflict Studies* 19, no. 2 (2012).

the organisation has so far, shown little success despite the fact that the issue was at the core of its foundation.

Thus, from the very beginning of its journey, there was divergence among the OIC members over various issues including the Israel-Palestine issue which lies at the core of the organisation. Consequently, member countries' attitude towards Israel also varied time to time. Some countries like Qatar and Iran eased their relations with Israel at some time and severed at other times depending on their geopolitical interests as well as by internal politics. Some, for example, Turkey maintained diplomatic relations and at the same time continued to be vocal about the Palestinian cause while a few others, including Egypt and Jordan, established diplomatic relations with Israel under different circumstances. Many other OIC members of Africa and Central Asia, who have no direct relations with the Middle East politics, also established diplomatic relations with Israel. A few staunchly followed the "Three Nos" of the Khartoum Declaration while others, like UAE, Bahrain, Indonesia and Saudi Arabia has long been following the policy of maintaining covert relations until the UAE and Bahrain's recent normalisation agreements.

## ***2.2 The Normalisation Drives and Their Drivers***

The normalisation drives among the OIC members can be divided into two phases. The first phase consists of two countries – Egypt in 1969 and Jordan in 1994. The second phase has started in second half of 2020 and is still considered to be ongoing.

### ***First Phase of Normalisation***

The first phase of normalisation drive among the Arab OIC members can be characterized as peace initiatives or peace treaties. During this first drive of normalisation, focus was mainly on ending conflicts between Israel and its Arab neighbours.<sup>18</sup> Principle components of 1979 Israel-Egypt normalisation (peace) treaty included cessation of ongoing conflict (persisting since 1948 Arab–Israeli War), normalisation of relations, and withdrawal of Israeli troops from the occupied Sinai. Similarly, the 1994 Israel-Jordan peace treaty included settling land and water conflicts and preventing use of land by a third nation for military purposes.

During the first wave of normalisation, the US had major stakes in the Middle East, the most significant source of energy in the contemporary world. As a result, the US was willing to make big offers like Qualifying Industrial Zone (QIZ) facilities, sanction of loan and securing membership in global institutions etc., for

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<sup>18</sup> Mahjoob Zewiri, "The New Wave of Normalization: Shifting Sands or a Major Earthquake?," Arab Reform Initiative, September 16, 2021, accessed July 15, 2022, <https://www.arab-reform.net/publication/the-new-wave-of-normalization-shifting-sands-or-a-major-earthquake/>

Israel's Arab neighbours in return of their recognition of the former which the US considered to be of vital importance in ensuring their interest in the region.

As mentioned before, after the first wave of normalisation, it took Israel more than a quarter century to see the second wave of normalisation. In these 26 years, a number of significant dynamics took place both in the Middle East and at global level. Joshua S. Krasna summarizes the major dynamics of the past decade as follows:<sup>19</sup> First, the world is witnessing the signs of re-emergence of a multipolar power system with declining capability as well as willingness of the US in leading and engaging with the world affairs in general and the Middle East in particular. Second, the vacuum created by the increasing disengagement of the US is being filled up by regional powers like Iran or Turkey and extra regional powers like Russia and China. Third, with dramatic advancement in technology, major economies of the Middle East are increasingly finding themselves in a challenging situation. Due to lags in technology, they on one hand are lagging in building knowledge-based economy, on the other hand, the advancement in renewable energy sector is threatening their leverage as the global supplier of energy. Fourth, the major Middle East economies have largely failed in solving the mismatch created in their labour markets for both educated and uneducated youth pool. The unresolved economic issues that gave rise to the Arab Spring in 2011 have remained as a major threat to the ruling regimes which make the latter increasingly dependent on spying technology, covertly supplied from Israel.

The dynamics described above explain the drivers of the second normalisation drive among the OIC members brokered by the US. With increasing disengagement of the US from the region and the consequent rise in the influence of Iran over the region, the threatened regimes of former US allies in the Middle East are increasingly looking to Israel in search of security cooperation.<sup>20</sup> The ticking bomb of unemployment and the resultant discontent is also making them a desperate client for Israel's spying technology. Thus, Israel, being the tech-giant as well as the superior arms owner of the region, is increasingly appearing to them as the solution in absence of the US.

The above discussion suggests that the motives behind the second normalisation drive among the OIC countries were different from that of the previous normalisation processes. Unlike the agreements of the first nationalisation drive, the second drive, so far is not about resolving conflict as there is no direct conflict between Israel and the recent Arab signatories. This time, on the part of the OIC members seeking normalisation with Israel, the drive focuses on i) collective security interests driven by common regional issues such as Iran and ii) tapping

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<sup>19</sup> Joshua S. Krasna, "It's Complicated: Geopolitical and Strategic Dynamics in the Contemporary Middle East," *Orbis* 63, no. 1 (2019): 64-79.

<sup>20</sup> Bulent Aras and Emirhan Yorulmazlar, "Mideast Geopolitics: The Struggle for a New Order", *Middle East Policy* 24, no. 2, (2017): 57-69; Joshua S. Krasna, "It's Complicated: Geopolitical and Strategic Dynamics in the Contemporary Middle East.",



economic advantages from closer cooperation with Israel and iii) tapping strategic advantages.<sup>21</sup> Strategic advantage has constituted a major component in the normalisation deal with Sudan and Morocco. Sudan was offered by the US to be dropped from the list of state sponsored terrorism, while for Morocco, the US agreed to recognize its claim over the disputed West Saharan region.<sup>22</sup>

On the other hand, for the US the accord is about preventing regional (Iran) and extra regional powers (Russia and China) from filling power vacuum in the region at a time when the US is gradually disengaging or minimizing presence in the Middle East region.<sup>23</sup> Popularity of China and Russia in a number of Arab countries including Lebanon, Iraq, Tunisia, Egypt, Jordan, and Morocco, as reflected in the findings of Arab Barometer surveys saying that people favour improved economic ties with China and Russia over economic ties with the US.<sup>24</sup>, has become a headache for the US. This concern of the US has been reflected in the statement of President Biden during his visit to Saudi Arabia where he vowed that “We will not walk away and leave a vacuum to be filled by China, Russia or Iran,”<sup>25</sup> Some observe that one of the US’ motives behind Abraham Accord was to crowding out the investment of China in this region.<sup>26</sup>

The above discussion suggests that unlike the previous attempts, the recent normalisation attempts by the OIC members is an outcome of a variety of factors including the economic ones. In the existing literature, however, discussion is mostly done from the geopolitical and political aspects with little attention paid to economic factors. Attempt will be made in the following sections to address this gap.

### 3. Economics of “Normalisation”

This section discusses the economic issues pertaining to the normalisation process. It looks for the economic incentives involved in the normalisation process from both Israeli and Arab country perspectives.

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<sup>21</sup> Mahjoob Zewiri, “The New Wave of Normalization: Shifting Sands or a Major Earthquake?” , Arab Reform Initiative, September 16, 2021, accessed July 15, 2022, <https://www.arab-reform.net/publication/the-new-wave-of-normalization-shifting-sands-or-a-major-earthquake/>

<sup>22</sup> “Morocco latest country to normalise ties with Israel in US-brokered deal,” *BBC News*, December 10, 2020, <https://www.bbc.com/news/world-africa-55266089>

<sup>23</sup> Bulent Aras and Emirhan Yorulmazlar, “Mideast Geopolitics: The Struggle for a New Order” *Middle East Policy* 24 (2) (2017): 57-69; Joshua S. Krasna, “It’s Complicated: Geopolitical and Strategic Dynamics in the Contemporary Middle East”, *Orbis* 63, Issue 1 (2019): 64-79.

<sup>24</sup> Amaney A. Jamal and Michael Robbins, “Why Democracy Stalled in the Middle East,” *Foreign Affairs* 101, no.2 (2022): 22-29.

<sup>25</sup> “Biden says US will not ‘walk away’ from Middle East and leave power vacuum,” *The Telegraph*, July 16, 2022.

<sup>26</sup> Michael Singh, “Axis of Abraham: Arab-Israeli Normalization Could Remake the Middle East,” *Foreign Affairs* 101, no.2 (2022): 40-50.



### 3.1 *Economy of the Stakeholders: Comparative Scenario*

Table 1 in Annex shows the comparative scenario of economies of Israel and its Arab neighbours. Israel is the 5<sup>th</sup> largest economy with the second highest GDP per capita in the Middle East region. Although in terms of size of economy, it remains behind Turkey, Saudi Arabia and Iran, it is clearly ahead in terms of GDP per capita with only Qatar and the UAE having comparable figures. Unlike its Middle East neighbours, the country lacks natural resources like crude oil or gas. Crude and refined petroleum accounts for about 12 per cent of its import. But the strength of Israeli economy lies not in its natural resources but in its technological edge

35 per cent of Israel's export income comes from technology products ranging from aircraft to various machines and parts thereof and 20 per cent come from chemical products including fertilizers.<sup>27</sup> Israel has a strong information and communication technology sector which accounts for about 20 per cent of total industrial output.<sup>28</sup> Over and above, Israel takes pride in having the highest concentration of scientists and engineers among the developed countries. For every 10000 employees Israel has 140 scientists and technicians while the figures for the US and Japan are 85 and 83 respectively.<sup>29</sup>

On the contrary, the GCC economies, with a huge reserve of crude oil and natural gas and little success in economic diversification, are heavily dependent on fossil fuels. On average, fossil fuel accounts for about 40-50 per cent of GDP and 70-80 per cent of government revenue of the GCC states (see Table 2 in Annex). GCC countries have considerably high GDP per capita but heavy reliance on fossil fuel has made these economies vulnerable as the price of fossil fuel, particularly oil had been showing a declining trend for a long time prior to the Russia-Ukraine war and its future is still uncertain owing to the fast developing renewable energy sources.

Thus, the nature of the economies of Israel vis-a-vis its counterparts suggest the presence of complementarity which the countries might utilise for mutual benefit in an environment of 'normal' relations.

Table 2 shows the share of Middle East and North Africa (MENA) region in total export and import of the countries mentioned above. One can see that in the MENA region, the share of intra-regional trade hovers around 10-15 per cent with a few exceptions. For Israel, the MENA region accounts for 8 per cent of export and 9.6 per cent of imports. Given that these figures represent Israel's trade mostly with

<sup>27</sup> "TrendEconomy", Annual International Trade Statistics by Country (HS02), accessed September 22, 2020, <https://trendeconomy.com/data/h2/Israel/TOTAL..>

<sup>28</sup> OECD, *OECD Science, Technology and Industry Outlook 2008* (Paris: OECD Rights and Translation Unit, 2008), 170-171.

<sup>29</sup> "Gross domestic spending on R&D (indicator), 2020", OECD Data, accessed September 18, 2020, <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm..>

the two countries - Turkey and Palestine, one may predict about Israel’s trade potential in the Middle East.

Similarly, for other countries, the trade figures are exclusive of Israel as in most of the countries, Israel is barred from directly taking part in trade and in their cases too, the existing level of trade is indicative of their untapped trade potential with Israel. Putting differently, the level of intra-regional trade that the Middle Eastern countries now see in absence of trade relations between Israel and most of the Middle East countries, indicates that there is a huge potential of intra-regional trade once the relations between the countries are normalised. The potential seems to be even brighter if the complementary character of MENA economies vis-a-vis Israel is considered.

**Table 2: Share of MENA in Total Export and Import of Selected Countries, 2018**

Country	Share of MENA in Total Export (%)	Share of MENA in Total Import (%)
Israel	8	9.6
Turkey	11	5
Iran	11.5	24
Egypt	15	10
Jordan	31	18.5
Saudi Arabia	8.5	18
UAE	15	4
Qatar	3	13
Kuwait	10.5	23
Bahrain	54	7.2

Source: Observatory of Economic Complexity, accessed September 20, 2020, <https://oec.world/en/resources/about>.

One major source of challenge for the economies of the Arab OIC members is their “youth bulge”. Population growth in the region doubled between 1980 and

2010 leading to a situation where 65 per cent of the population of the Middle East is under the age of 30. Rapid population growth means entry of ever-larger numbers of people in their labor market for which their market is not prepared. In some rich Arab countries, the situation is aggravated by the phenomenon of “segmented labour market”, a situation where local people prefer to remain unemployed than being engaged in low end jobs which are filled up by foreign labour force. The result is that in 2010, with an youth unemployment rate of 25 per cent, the Arab countries had the highest youth unemployment rate in the world with unemployment even higher among college graduates.<sup>30</sup>

In recent years, the Arab regimes were increasingly failing to uphold the social contract previously existing in the region whereby states provide “political goods” such as public sector jobs, free education and healthcare, infrastructure, housing, and subsidized food and fuel, in return of loyalty to the ruling elite.<sup>31</sup> Increasing failure of the governments in providing these services gave rise to the uprisings all over the Arab world which came to be known as the “Arab Spring”. Though the Arab regimes largely succeeded to control the uprisings, either by stick or by carrot, in absence of a structural reform of the economies, the challenges still remain.<sup>32</sup>

### ***3.2 Israel’s Economic Interests in Normalisation***

At present, all Israeli exports to the Middle East are indirect in nature which take place through third countries, some through Jordan or Turkey, but most go via various European and other non-MENA countries. These exports are recorded in Israeli official external-trade statistics as exports to these third countries. Often export is done with the help of offshore intermediaries, sometimes with goods relabeled, readdressed, and possibly repacked to conceal their real provenance. Same is the case for import. Tony Blair Institute for Global Change estimates the volume of Israeli indirect exports to the GCC bloc to be close to US\$1 billion a year and the volume of Israeli indirect imports from the GCC bloc to be US\$500 million a year.<sup>33</sup>

While there might be debate over the actual amount of clandestine export and import between Israel and Arab countries, many are convinced that there is huge trade potential which can be materialised once the relations are normalised. According to the Israeli Chamber of Commerce, the Arab boycott causes Israel to

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<sup>30</sup> Joshua S. Krasna, “It’s Complicated: Geopolitical and Strategic Dynamics in the Contemporary Middle East.”

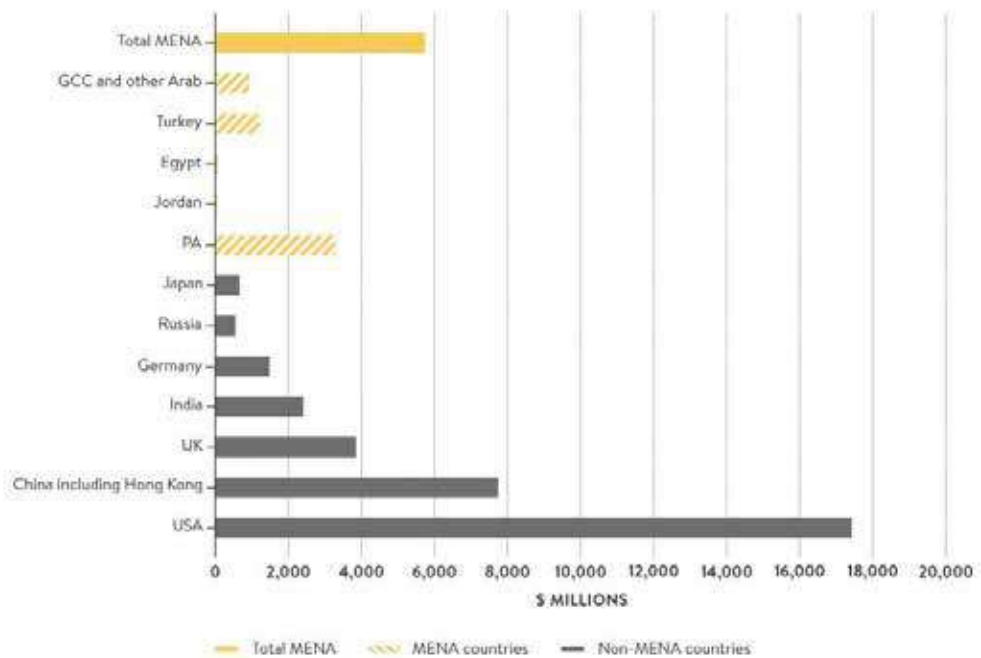
<sup>31</sup> Joshua S. Krasna, “It’s Complicated: Geopolitical and Strategic Dynamics in the Contemporary Middle East.”

<sup>32</sup> Amaney A. Jamal and Michael Robbins, “Why Democracy Stalled in the Middle East.”

<sup>33</sup> “Assessing Israel’s Trade with Its Arab Neighbours”, Tony Blair Institute for Global Change, 2018, accessed July 20, 2022, <https://institute.global/sites/default/files/articles/Assessing-Israel-s-Trade-With-Its-Arab-Neighbours.pdf>

lose about 10 per cent of its export potential.<sup>34</sup> Recent researches also found that once opened for Israel, the Arab world would become the second most important market for Israeli exports, second only to the EU.<sup>35</sup> On the other hand, Israel currently spends US\$10-15 billion per year for importing oil. This amount could have gone to the coffers of oil exporting Middle Eastern countries if the relations were ‘normal’. Some studies also suggest that Arab-Israeli conflict negatively affects Israeli trade, particularly with Muslim trading partners<sup>36</sup> and Israel’s trade is likely to receive a boost from the ‘normalisation’ process.

**Figure 1: Israeli Export of goods to MENA and other Markets, 2016**



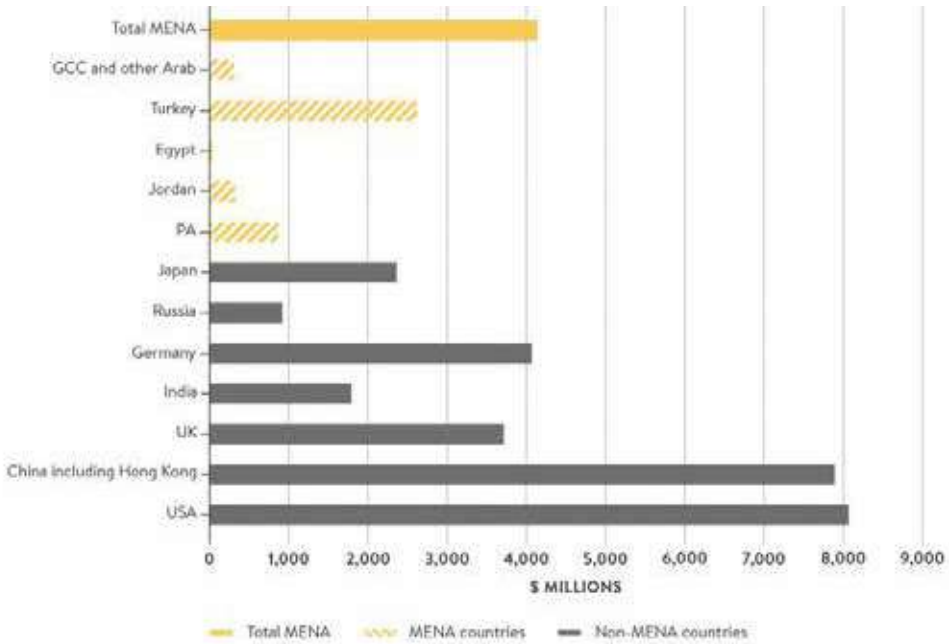
Source: Israel Central Bureau of Statistics, External Trade Statistics.

<sup>34</sup> Farooq Mitha, “The Jordanian-Israeli Relationship: The Reality of “Cooperation””, *Middle East Policy* 17, no. 2 (June 2010): 105 - 126.

<sup>35</sup> Karim Nashashibi, Yitzhak Gal and Bader Rock, “Palestinian- Israeli Economic Relations: Trade and Economic Regime”, Palestine International Business Forum, International Council of Swedish Industry and Office of the Quartet, 2015, accessed September 18, 2020, <http://pihf.net/wp-content/uploads/2017/01/PIBF-Report-Web-V.-.pdf>

<sup>36</sup> Laurent Didier, “Does the Arab-Israeli conflict matter on Israel trade relations?”, accessed September 20, 2020, <https://afse2017.sciencesconf.org/140768/document>

**Figure 2: Israeli Import of goods to MENA and other Markets, 2016**



Source: Israel Central Bureau of Statistics, External Trade Statistics.

Note: Jordan’s share of Israeli import includes share of indirect import from GCC countries.

Some, on the other hand, identify the decline of Israel’s defense cost as the greatest benefit for Israel from the normalisation process. Such was the case with its peace treaties with Egypt and Jordan. They argue that following the 1973 Yom Kippur War, Israel witnessed a decade long period of economic crises characterized by low economic growth, large budget deficits, high inflation and mounting external debt. Some studies have found that the huge burden of security costs related to the military conflict with Egypt was a major cause of these crises.<sup>37</sup>

Following the 1967 war, Israel’s defence costs grew from around 7 per cent to about 20 per cent of gross domestic product (GDP) ; it rose further to as high as 30 per cent of GDP after the 1973 war. After the 1979 peace treaty with Egypt, defence cost of Israel fell gradually to below 10 per cent of GDP by the mid-1990s. The dramatic fall in defence cost contributed significantly in the stabilization of the Israeli economy in the second half of the 1980s and its impressive growth since the

<sup>37</sup> Yossi Zeira et al., “The Economic Costs of the Conflict to Israel: The Burden and Potential Risks”, in *Economics and Politics in the Israeli Palestinian Conflict*, ed. Arie Arnon and Saeb Bamyia (France: The AIX Group, 2015), 74.

1990s.<sup>38</sup> The peace treaty with Jordan, signed in 1994, further enhanced Israel's strategic and economic stability by enabling the country to further cut its defence cost bringing it to a level of below 10 per cent of GDP, reducing it further to around 6–7 per cent of GDP since the late 2000s.

It is true that compared to the period before 1985, the costs of the Israeli-Arab conflict is much lower at present and they do not pose a fiscal threat as it did before. Nevertheless, these costs are still very high in international comparison, and they pose a serious burden on Israelis. Though the direct defence costs amount to 7 per cent of GDP, total costs of defense would rise to 12.7 per cent of GDP if indirect costs are included. This is a heavy burden for the country given that the international average of defense costs in advanced countries similar to Israel is 1.5 percent of GDP.<sup>39</sup>

By normalizing relations with the OIC members, Israel could have advanced one step further in realigning its defence cost with the level of similar advanced countries which in turn would have created more scope for the country to invest in social welfare. It can be mentioned here that despite its tremendous progress in technology and economic performance, Israel at present seriously lags behind other OECD countries in terms of various social investment.<sup>40</sup>

### 3.3 *Economic Interests of Arab OIC Members*

In the first two cases of normalisation of relations with Israel by Egypt (in 1979) and Jordan (in 1994), covert economic agenda were attached with the deal. Whether and to what extent the two countries could reap the economic benefits of the deals and whether the economic benefits accrued from the normalisation process succeeded to bring the expected change in public mindset in the two countries are separate debates and do not fall in the purview of the present study. But it cannot be denied that these two earlier attempts of normalisation of relation did have their economic aspects.

The 1979 Israel-Egypt Peace Treaty enabled Egypt to receive significant external aid from the US and its ally Western countries as well as from international organisations including the International Monetary Fund. After signing the peace treaty, Egypt became the second largest recipient of American economic aid and military assistance, despite its authoritarian politics and poor human rights record.<sup>41</sup>

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<sup>38</sup> "Israeli-Jordan Trade: An In-depth Analysis", Tony Blair Institute for Global Change, accessed September 25, 2020, p. 6, <https://institute.global/advisory/israeli-jordanian-trade-depth-analysis>

<sup>39</sup> Joseph Zeira and Talf Wolfson, op. cit., pp. 73-74.

<sup>40</sup> Amiram Barkat, "OECD praises Israel's economic strength, slams inequality", Globes, Last modified January 31, 2016, <https://en.globes.co.il/en/article-oecd-praises-israels-economic-strength-slams-inequality-1001099475>

<sup>41</sup> Jeremy M. Sharp, "Egypt: Background and U.S. Relations", Congressional Research Service, May 27, 2020, <https://fas.org/sgp/crs/mideast/RL33003.pdf>.

It also enabled Egypt to attract large-scale foreign private investment. For Egypt, however, the most significant benefit came from Qualifying Industrial Zone (QIZ)<sup>42</sup> protocol. By providing Egyptian textile products duty free access to the US, its largest export destination, the QIZ facility benefited the Egyptian textile sector immensely. Given that textile is the most important manufacturing sector of Egypt and that the sector was experiencing a difficult time in the post Multi Fiber Agreement (MFA) period, the QIZ facility came as a much-welcomed blessings for the economy of Egypt.<sup>43</sup>

For Jordan, immediate gain from the normalisation of relations was financial aid and debt relief. Immediately after the peace treaty, the US provided Jordan with the opportunity of debt relief to the amount of US\$702 million.<sup>44</sup> As the reward of ‘normalisation’, the US initiated a series of foreign-debt relief and restructuring arrangements for Jordan the total value of which was more than US\$ 3 billion. The US foreign aid to Jordan also increased after the normalisation deal. In 2014, the US foreign aid to Jordan amounted to US\$ 700 million while the comparable figure for 1993 was only US\$ 35 million.<sup>45</sup> The foreign aid and debt relief measures played a significant role in restoring Jordan’s financial stability after a severe economic crisis in 1989–1990 and the Gulf War in 1990–1991.<sup>46</sup>

But, for Jordan, more rewarding was the initiation of a process that led to a series of international trade agreements which among others included Jordanian-American free-trade agreement, association agreement with the European Union (EU) and Jordan’s membership of the World Trade Organisation. These agreements placed the country on a path of accelerated, export-driven economic growth. Besides, the QIZ facilities boosted Jordan’s export to the US. At present, 90 per cent of Jordan’s export to the US comes from the QIZ facilities.<sup>47</sup>

In the twentieth century, when the US was heavily dependent on oil from the Persian Gulf, the country invested heavily in rewarding the normalisation of relations with Israel. In the twenty-first century, with an altered energy outlook

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<sup>42</sup> In 1996, the US Congress authorized the Qualifying Industrial Zone (QIZ) initiative as an extension of US-Israel Free Trade Agreement (FTA). It was invented as an economic reward to the countries that have agreed to normalise relations with Israel. The QIZ provided the export products of Egypt and Jordan duty free access to the US market, as long as these products contained a certain percentage of inputs from Israel.

<sup>43</sup> Ahmed Farouk Ghoneim and Taleb Awad, “Impact of Qualifying Industrial Zones on Egypt and Jordan: A Critical Analysis”, UNCTAD, 2008, accessed July 17, 2022, [https://vi.unctad.org/resources-mainmenu-64/digital-library?task=dl\\_doc&doc\\_name=329\\_qiz\\_egyp](https://vi.unctad.org/resources-mainmenu-64/digital-library?task=dl_doc&doc_name=329_qiz_egyp); “Israeli-Egypt Trade: An In-depth Analysis”, Tony Blair Institute for Global Change, 2018, accessed September 22, 2020, <https://institute.global/sites/default/files/articles/Israeli-Jordanian-Trade-In-Depth-Analysis.pdf>

<sup>44</sup> Farooq Mitha, “The Jordanian-Israeli Relationship: The Reality of “Cooperation””, *Middle East Policy* 17, no. 2 (June 2010): 105 - 126.

<sup>45</sup> David Schenker, *Twenty Years of Israeli-Jordanian Peace: A Brief Assessment*, Policy Watch No. 2328, (Washington D. C.: The Washington Institute for Near East Policy, October 2014).

<sup>46</sup> “Israeli-Jordan Trade: An In-depth Analysis”, Tony Blair Institute for Global Change, 2020, accessed September 25, 2020, <https://institute.global/advisory/israeli-jordanian-trade-depth-analysis>

<sup>47</sup> David Schenker, *Twenty Years of Israeli-Jordanian Peace: A Brief Assessment*, Policy Watch No. 2328, (Washington D. C.: The Washington Institute for Near East Policy, October 2014)



thanks to the advance of technology in the energy sector and change in the US interest regarding the Middle East region, it is yet to see what the US offers to the countries currently going through the normalisation process. Yet, the precedence of Egypt and Jordan is likely to act as an incentive for countries now on board. Bahrain can be cited as an example which, due to its diminishing energy potential, is largely dependent on the support of Saudi Arabia, and to a lesser degree, the UAE and is in need of foreign direct investment. Moreover, the increase in trade and tourism, expected to be the result from normalisation, would also benefit the Bahraini economy.<sup>48</sup>

In case of Sudan too, there was economic incentive behind the normalisation deal. Though for Sudan, primary objective of normalisation of relation with Israel was to have its name removed from the US list of state sponsored terrorism, the deal also included an offer of US investment and Israeli support in the country's agriculture sector with a focus on agricultural technology. Given that owing to lack of technology, the country can now cultivate only 45 million hectares out of its 200 million hectare of arable land with very low productivity and high cost<sup>49</sup>, the urgency for such investment is easily understandable. For Sudan, the normalisation deals also included economic support for the country to address the situation created by the US sanction on Sudan. Months later, however the country expressed dissatisfaction as Washington failed to fulfill its promise to invest in agriculture and technology projects.<sup>50</sup>

Even if the US discontinues offering economic benefits in exchange of normalisation in the coming days, there are reasons to assume that economic expectation will continue to be attached with such attempts. As noted before, there is scope for gains for Israel's Arab counterparts from the normalisation of relation through enhanced regional trade. In their 2008 report titled *Cost of Conflict in the Middle East*, Strategic Foresight Group, a think-tank based in India, estimates that the opportunity cost of Middle East conflict since the Madrid Conference in 1991 to be US\$12 trillion with Saudi Arabia having the largest opportunity cost valued at US\$4.5 trillion while Israel's loss totaling over US\$1 trillion. The report argued that a sustainable, warm peace could improve the economies, standards of living and quality of life for countries in the region.<sup>51</sup>

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<sup>48</sup> Victoria Craig, "Israel-UAE deal draws ire, praise and the potential for an economic boost", *Marketplace Morning Report*, August 14, 2020, accessed September 19, 2020, <https://www.marketplace.org/2020/08/14/israel-uae-deal-normalize-relations-economies/>.

<sup>49</sup> Michael Atit and Nabeel Biajo, "Sudan: Normalization With Israel Was US Condition But Will Be Beneficial", *Voice of America*, October 26, 2020, [https://www.voaafrica.com/a/africa\\_south-sudan-focus\\_sudan-normalization-israel-was-us-condition-will-be-beneficial/6197616.html](https://www.voaafrica.com/a/africa_south-sudan-focus_sudan-normalization-israel-was-us-condition-will-be-beneficial/6197616.html)

<sup>50</sup> Sudan Said Disappointed With Results Of Normalization With Israel", *Times Of Israel*, June 16, 2021, <https://www.timesofisrael.com/sudan-said-disappointed-with-results-of-normalization-with-israel/>

<sup>51</sup> Sundeep Waslekar and Ilmas Futehally, *Cost of Conflict in the Middle East* (Mumbai: Strategic Foresight Group, 2008).

Another factor that acts as a compelling reason for normalisation is that the GCC millionaires are looking for areas of investment outside the oil sector. Israel, known as the country of startups, is an attractive destination for their investment.<sup>52</sup> This is particularly true for countries like the UAE which have already advanced to some extent in the path of technological advancement and diversification of economy and are now looking for further progress in this regard.

It was mentioned before that the economic problems of the Arab countries that gave rise to the Arab Spring, have not been solved. Moreover, in recent years, owing to the ongoing global recession leading to the prospect of continuing economic stagnation in the region, the Arab regimes are falling short of petrodollar, an essential “weapon” used in the Arab Spring. As a result, they are likely to fall in a more problematic situation if such uprisings happen again. “The Saudi reaction of throwing \$130 billion at its citizens to stifle the possibility of revolt, or providing Egypt with \$20 billion of credit, is no longer an option.”<sup>53</sup> Amidst this situation, the Arab regimes are in search of private sector-led investment and development initiatives and they are looking at the normalisation process as a way of enhancing economic cooperation and investment flow in their countries.<sup>54</sup>

### ***3.4 Normalisation of Relations: From Covert to Overt Economic Relations***

Though the normalisation of relations with Israel by four OIC countries in 2019 was a new turn in the Israel-Arab relations, this was neither new nor unpredictable. This is because covert relations were going on among them for a long period. Israel’s advancement in both military and civilian technologies have made it an attractive partner to the Middle East ruling elites eager to advance the national security as well to materialise economic interests. Israel is increasingly becoming the major source of spying tools used by the UAE, Saudi Arabia and other Gulf states on dissidents both at home and abroad although the trade in these goods remains to be clandestine.<sup>55</sup> There are reports that during the recent cyber-attack on ARAMCO, the Saudi state oil company, which affected its thousands of workstations, it was Israel to which Saudi Arabia approached silently for salvage.

Israel’s technological edge is not limited to intelligence technology, it is a leader in several other commercial technologies, deemed to be very important for

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<sup>52</sup> “It’s Not (Just) the Culture, Stupid: 4 Reasons Why Israel’s Economy is So Strong”, *The Atlantic*, August 02, 2012, <https://www.theatlantic.com/business/archive/2012/08/its-not-just-the-culture-stupid-4-reasons-why-israels-economy-is-so-strong/260610/>.

<sup>53</sup> Bulent Aras and Emirhan Yorulmazlar, “Mideast Geopolitics: The Struggle for a New Order.”

<sup>54</sup> Shalom Lipner and Jonathan Ferziger, “President Biden Must Engage with The Abraham Accords”, *The National*, accessed July 15, 2022, <https://www.thenationalnews.com/opinion/comment/president-biden-must-engage-with-the-abraham-accords-1.1183249>

<sup>55</sup> Mark Mazzetti et al., “A New Age of Warfare: How Internet Mercenaries Do Battle for Authoritarian Governments”, *New York Times*, March 21, 2019, <https://www.nytimes.com/2019/03/21/us/politics/government-hackers-nso-darkmatter.html>

the Arab countries. These include irrigation, water-management and water desalination. Water scarcity is a major challenge in most Arab countries, particularly in the Persian Gulf making it one of a few areas where Arab countries and Israel have been cooperating silently since the early 1990s.<sup>56</sup> In fact, one of the two overt political presence of Israel in the Gulf includes the Middle East Desalination Research Center in Oman in which the former is working since 1996. Another overt presence of Israel is as the permanent representative at the United Nations International Renewable Energy Association (IRENA) in the UAE since 2015.

In recent days, besides continuing the clandestine relations, the OIC countries are also taking some overt steps. Most notable of them is the Israeli pavilion at the World Expo at Dubai. There are reports that Saudi Arabia is interested in Israel's state-owned Eilat-Ashkelon Pipeline which, bypassing the Suez Canal, cuts shipping costs to Europe and North America.<sup>57</sup>

Israel-Arab financial partnership is also proliferating in recent days. Examples include: joint investment by Dubai's DP World and Haifa-based Zim Integrated Shipping Services across Asia, Europe and South America; opening of a US\$1 billion emerging markets fund in 2010 by the Qatar Investment Authority, the Olayan Group of Saudi Arabia, and Israel's IDB Group<sup>58</sup> and billions of dollars of investment by the Sovereign Wealth Funds of Saudi Arabia and Abu Dhabi in a company of an Israeli-born entrepreneur.

Another sector which Israel-Arab covert relations is medical tourism. For many years, the rich and prominent Arab families have been receiving treatment from Israeli hospitals. Some Israeli hospitals project themselves as regional hubs of medical tourism. Recently, in the midst of the COVID-19 pandemic, several Arab states reached out to Israel for assistance in fighting the virus. The UAE Ambassador to the United Nations Lana Nusseibeh commented that the common threat of the Covid-19 virus has shown that there is "a lot of scope for cooperation" with Israel on medical research.

Many such examples can be given which indicates the willingness of many Arab counterparts of Israel in promoting economic relations. In the words of Sanam Vakil, deputy director of the Middle East and North Africa Programme at Chatham House, "There are a lot of opportunities for investment and technology, tourism, trade This relationship has been brewing behind the scenes for a number of years now, and sort of coming out allows for both countries to reap the economic gains

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<sup>56</sup> "Israel to build largest desalination plant in the country," *Smart Water Magazine*, December 26, 2019, accessed September 19, 2020, <https://smartwatermagazine.com/news/smart-water-magazine/israel-build-largest-desalination-plant-country>.

<sup>58</sup> James Drummond, "QIA and Israeli group invest jointly in fund", *Financial Times*, August 12, 2010, accessed September 16, 2020, <https://www.ft.com/content/f4ec1874-a632-11df-8767-00144feabdc0>

rather than just solely, quietly benefiting from the security and intelligence ones”.<sup>59</sup> Globes quotes a senior UAE government official, “We have had economic relations with Israel for many years at the government level, coordinating and organizing procedures and frameworks for running businesses, and of course at the business level. Hundreds of Israeli businessmen are in contact with their colleagues here, with government procurers and in a wide variety of fields.”<sup>60</sup>

#### **4. Economic Factors behind the Normalisation**

Discussion in the preceding two sections suggests that the process of normalisation of relations between Israel and Arab OIC members do involve economic considerations. The discussions above identify the following four economic factors behind the normalisation of relations.

##### *Economic incentives attached with the normalisation deal*

Earlier normalisation deals, pursued by Egypt and Jordan, had clear and strong economic elements. For these two countries, economic incentives that were provided as a part of the deal were of great economic significance. Though the recent normalisation deals do not involve economic benefits of similar significance as were offered for Egypt or Jordan, the present deals also involve overt or covert economic expectations from the part of Israel’s Arab counterparts. Even in cases where such clear-cut promise of economic benefits from the part of the US is absent, some countries are expecting that being on board with the US would accrue economic benefits for them in terms of trade, investment and foreign aid.

And, the expectation is not totally baseless. In October 2020, the US International Development Finance Corporation, the UAE and Israel declared launching a trilateral USD3 billion fund named as Abraham Fund. The declared objective of the programme, is to mobilise private sector-led investment and development initiatives with a view to promote regional economic co-operation and prosperity in the Middle East and beyond”<sup>61</sup>. The programme also invites participation of additional partners in strategic infrastructure projects. Though the has not started functioning yet, the signatory countries are eyeing on it.

##### *Prospect of increased mutually beneficial trade*

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<sup>59</sup> Victoria Craig, “Israel-UAE deal draws ire, praise and the potential for an economic boost”, *Marketplace Morning Report*, August 14, 2020, accessed September 19, 2020, <https://www.marketplace.org/2020/08/14/israel-uae-deal-normalize-relations-economies/>.

<sup>60</sup> “From tech to tourism, Israel-UAE trade potential is vast”, *Globes*, August 24, 2020, accessed September 26, 2020, <https://en.globes.co.il/en/article-from-tech-to-tourism-israel-uae-trade-potential-is-vast-1001340312>

<sup>61</sup> Shalom Lipner and Jonathan Ferziger, “President Biden Must Engage with The Abraham Accords”, *The National*, accessed July 15, 2022, <https://www.thenationalnews.com/opinion/comment/president-biden-must-engage-with-the-abraham-accords-1.1183249>

Even in the cases where normalisation deal does not have any clear economic element, countries involved are expecting mutual gain from increased trade. There are three reasons behind such expectations.

First, as shown in section three, the resource and trading pattern of Israel and its Arab counterparts show strong complementarity. With trades open, both parties expect to gain from complementarity.

Second, with trades open, countries also expect to benefit from proximity. Open trade is expected to lower the transportation cost and both parties expect to benefit from it. Proximity is supposed to make the neighbouring countries' export items more competitive than those from distant sources be it the export of oil resources from Arab countries to Israel or the export of electronic goods from Israel to the Arab countries.

Third, even in the cases where trade already exists covertly between Israel and its Arab counterparts, a shift from covert to overt trade is expected to benefit both the parties as it would reduce extra transaction cost involved in the covert business activities such as using offshore intermediaries, packaging in third country etc.

The UAE is already witnessing materialization of the expectation of increased trade. UAE-Israel trade stood at USD 1.2 billion in 2021 from under \$200 million in 2020, though some of this is predicted to be the result of "uncovering" of previously covert or indirect trade. The UAE-Israel trade is expected to be double in 2022 compared to that of 2021.<sup>62</sup> It can be mentioned here that the UAE and Israel have already signed Free Trade Agreement (FTA) in May 2022 which is the first between Israel and an Arab state. Some 95 per cent of all products traded between the two nations will be exempt from duty and the agreement will also encourage trade in services by ensuring regulatory clarity and protection of intellectual property rights. From Israel's point of view, the agreement will allow it to tap into U.A.E.'s highly developed regional and global trade network. From the Emirati side, it should enable more access to Israeli proprietary technologies, and ease their ability to invest in Israeli companies.<sup>22</sup>

### ***Technological edge of Israel***

Technological edge enjoyed by Israel makes it an attractive ally for its Arab counterparts. The latter need the technology of Israel not only for political reasons but for economic advancement too. Israeli technologies are desired by both the

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<sup>62</sup> Joshua Krasna, "A Tale of Two Normalizations: Israeli Normalization with the United Arab Emirates (UAE)", *TelAviv Notes* 16, no. 6 (2022): 1-10.

countries who themselves are aspiring to advance in technology as well as by those who simply requires to use them at a cheaper rate. Israel's expertise in some technologies which are critical to the Arab countries such as water desalination and irrigation technology, add to the importance of the former to the latter.

### *Prospect of increased investment opportunities*

Normalisation of relations will increase investment opportunities both for Israel and Arab countries. In this case too, there exist some complementarities between these two parties. Through normalisation, some Arab countries expect for investment from Israel or its allies in sectors that require investment while the rich of other Arab countries are looking for Israeli expert manpower or entrepreneurs to utilise the capital they possess. After the normalisation of relation, the UAE has already started investing in Israel. The Wall Street Journal reported in January 2022 that Mubadala Petroleum, a unit of Abu Dhabi's sovereign wealth fund invested \$100 million in six Israeli venture capital firms. Mubdala has also purchased Israeli Delek Drilling's 22 percent stake in the Tamar natural gas field of Israel.<sup>63</sup>

## **5. Conclusion**

In the second half of 2020, the Middle East region saw a dramatic development. Breaking the years long consensus, four OIC members normalised their relation with Israel starting with the UAE. In discussions on this move of the countries, geopolitical issues get utmost importance while economic issues have received little attention so far. To fully grasp the divergence within the OIC, it is imperative to examine whether this divergence has any economic aspect. The present paper is a modest attempt to fill in this gap.

The paper argues that there is huge untapped potential of regional trade between Israel and its Arab counterparts. This untapped trade potential might act as an incentive for normalisation of relations. It also argues that by normalisation of relations will not only benefit Israel from increased trade, it might also help to reduce its military expenditure which the country might invest in social welfare.

In the first two cases of normalisation of relations with Israel by Egypt and Jordan, economic agenda were attached with the deal. Both Egypt and Jordan were immensely benefited from Qualifying Industrial Zone (QIZ) facilities. Jordan, moreover, benefited from sanction of loan and securing membership in global institutions. Though the second phase of normalisation so far does not include economic incentives of similar magnitude, the precedence of Egypt and Jordan is likely to act as an incentive for countries now on board.

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<sup>63</sup> Joshua Krasna, "A Tale of Two Normalizations: Israeli Normalization with the United Arab Emirates (UAE)."

The present study finds several economic factors which might have influenced the Arab OIC members to go for a new drive of normalisation which include: expectation of economic benefits accruing from the normalisation deal, prospect of increased economic activities like trade and investment and technological edge of Israel.

An important question that arises is whether the economic incentives for cooperation with Israel will be strong enough to weaken and ultimately break altogether the unity of the Arab countries regarding safeguarding the rights of the Palestinians. Though the second drive of the normalisation started with the UAE who vowed that they have agreed to normalise relations with a view to stop the Israeli settlement in the West Bank, the fighting between Israel and the Hamas months after the agreement killing 254 Palestinian including 66 children proved the futility of the normalisation treaty in this regard. The causality created resentment all over the Arab even in the newly signatory countries.<sup>64</sup>

Public sentiment in the Arab region has always been against normalisation. Even after 27 years of normalisation of relations with Israel, 46 per cent Jordanians still consider Israel as the country posing the greatest threat to the Arab world while 77 per cent consider the Palestinian issue to be the most important political problem facing the Middle East.<sup>65</sup> According to a poll conducted by Arab Opinion Index prior to the signing of normalisation treaty, 88 per cent of surveyed Moroccans said they would oppose diplomatic recognition of Israel, and 70 per cent viewed the Palestinian cause as a major concern for all Arabs.<sup>66</sup> Even in the UAE, where unlike other Arab states, there is little systematic anti-Israeli ideology in the education system<sup>67</sup>, only 37 per cent are found to agree that “those who want to have business or sports relations with Israelis should be allowed to do so”.<sup>68</sup>

Yet, the governments of the Arab OIC countries appear to be deeply inclined to materialise their strategic and economic benefits through the normalisation process. The case of UAE, a Gulf financial hub that has been the most enthusiastic about establishing ties with Israel, can be mentioned as an example. As an Emirati

<sup>64</sup> Ellen Knickmeyer, Aya Batrawy and Laurie Kellman, “Biden embraces a Trump policy in backing Arab-Israeli deals”, Associated Press, June 10, 2021, accessed July 10, 2022, <https://apnews.com/article/donald-trump-joe-biden-middle-east-africa-ab22eb240158bfeca2b92f3914e6f50d>

<sup>65</sup> Mohammad Al-Kassim, “Almost Half of Jordanians Say Israel Is the Greatest Threat to the Arab World,” the Medialine, June 03, 2022, accessed July 05, 2022, <https://themedialine.org/by-region/almost-half-of-jordanians-say-israel-is-the-greatest-threat-to-the-arab-world/>.

<sup>66</sup> Yasmina Abouzzohour, “Morocco’s Partial Normalization with Israel Comes with Risks And Gains,” *Brookings*, December 14, 2020, accessed July 20, 2022, <https://www.brookings.edu/blog/order-from-chaos/2020/12/14/moroccos-partial-normalization-with-israel-comes-with-risks-and-gains/>

<sup>67</sup> Joshua Krasna, “A Tale of Two Normalizations: Israeli Normalization with the United Arab Emirates (UAE)”, *TelAviv Notes* 16 (6) (2022): 1-10.

<sup>68</sup> David Pollock, “New U.A.E. Poll: Public Aligned with Foreign Policy Balance, Domestic Conditions”, Fikra Forum, Washington Institute For Near East Policy (WINEP), December 20, 2021, accessed June 30, 2022, <https://www.washingtoninstitute.org/policy-analysis/new-uae-poll-public-aligned-foreign-policy-balance-domestic-conditions>.



political analyst Abdulkhaleq Abdulla has observed that the government is gauging public sentiment, but can also control the street and sometimes defy whatever public opposition there is. He has also mentioned that the UAE have taken this decision and they knew exactly where they are and knew the risk, and they are not going back on it.<sup>69</sup>

Governments also seem to be inclined to use the economic causes as excuse for normalisation drive even if it is against the public sentiment. The example of Sudan can be mentioned in this regard. Months after the normalisation agreement, Sudan government expressed its disappointment with the outcome of the normalisation agreement amid insufficient US investment in the African country. Given that the normalisation had been controversial inside the Sudanese government, the government were looking for considerable financial investments that would have helped them to market the agreement to the public.<sup>70</sup> It, therefore, appears that in the coming days, economic causes might be used as a tool by the ruling regimes of the Arab OIC countries to placate their people in favour of the normalisation of relations with Israel.

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<sup>69</sup> Ellen Knickmeyer, Aya Batrawy and Laurie Kellman, "Biden embraces a Trump policy in backing Arab-Israeli deals", Associated Press, June 10, 2021, accessed July 10, 2022, <https://apnews.com/article/donald-trump-joe-biden-middle-east-africa-ab22eb240158bfeca2b92f3914e6f50d>

<sup>70</sup> "Sudan Said Disappointed With Results Of Normalization With Israel", *Times of Israel*, 16 June 2021.