

Tech and trade: how hot is the Israel-UAE peace deal?

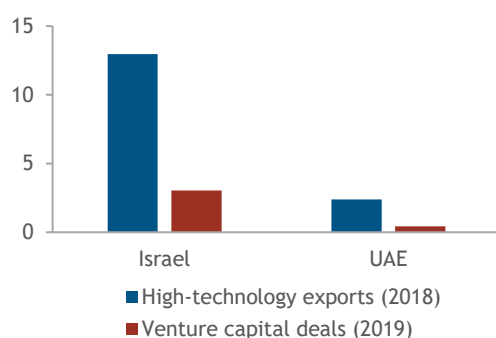
Blog post by Practice Lead Thomas Gratowski, 30 October 2020

Did Israel get a sweet deal with the United Arab Emirates, and the latter little in return? Critics would say yes. Abu Dhabi broke with the traditional Arab position, requiring the establishment of a Palestinian state with East Jerusalem as its capital in return for recognition. All Israel had to do was to suspend its rather dubious annexation plans. But this criticism sounds less compelling for Arab leaders who have economic interests top of their mind and believe that the Arab boycott of Israel has done little to change conditions for Palestinians on the ground who suffer from poor leadership. The first six weeks of the deal suggest both equally sized economies are keen to open up for bilateral trade and investment to seize the business opportunities. This has the potential to reshape the region's geo-economics, not without political implications.

The technology sector is one prime example. The UAE has pursued an ambitious strategy to establish a domestic technology sector. It regularly ranks first in the Arab world on metrics such as digitalisation and start-up funding, accounting for more than a quarter of all venture capital deals in the Arab world and more than half in fintech, for instance. But total VC funding, about \$430m last year, is still tiny compared to the more than \$3 bn invested in Silicon Wadi, Israel's version of Silicon Valley, concentrated around Tel Aviv and along the Mediterranean coast. The Emirates' situation is more to do with the number of investable start-ups than available capital. The Israeli start-up scene relies on foreigners for most of its funding, which has made it particularly dependent on US capital markets. The recently announced partnership between Israeli VC firm OurCrowd and Dubai's Phoenix Capital suggests Emiratis could become significant investors in Israel's start-ups and somewhat shift their dependence away from the US.

High-technology exports and VC deals

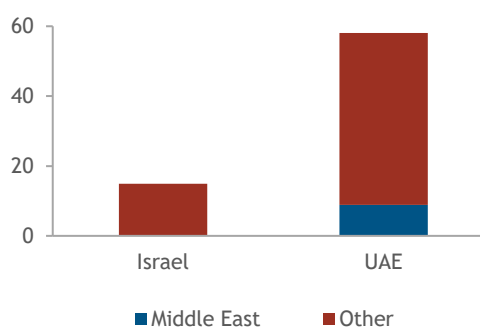
\$ billion



Source: World Bank, Prequin Ltd.

Merchandise exports and re-exports by destination

% of GDP



Source: IMF

Perhaps the more important geo-economic impact of the normalisation deal is how it might affect trade flows in the region. Israelis often needed to board private jets to do business with Emiratis in secret.

Now they can board a commercial flight. But bilateral trade is perhaps the less important point. Israelis have long complained about high import prices for consumer goods. With the deal, cheaper alternatives are now available that are shipped through Dubai. Last week, the prime minister, Benjamin Netanyahu even visited a UAE cargo vessel in Haifa bringing washing machines and other appliances to Israel. He believed he could score points with Israel's public by highlighting the deal's impact on living expenses.

Similarly, it has been hard for Israeli businesses to access export markets in Asia because the Gulf's airspace was blocked for Israeli planes. Some companies have tried to set up shop in Singapore or Hong Kong to widen their presence in the region. But trade with that fast-growing region, which accounts for about a quarter of total Israeli exports, has been flat over the last decade. Dubai provides a perfect launchpad for Israeli companies into Asia. By tapping into its trade network, Israel should be able to expand its presence much better in Asian markets using the UAE as a trans-shipment post. This is a big opportunity for Israel, but it also means that the UAE's exports to Israel will likely be significantly smaller than Israeli exports to the UAE - as parts of them will be re-exported to Asia. The UAE as the centre of a large but hierarchical trade network will welcome the new business and potential sway over Israeli companies.

All signs so far suggest Israel and the UAE will move quickly to boost trade and investment ties. The deal could achieve what other "cold peace" agreements with Egypt and Jordan failed to do at large: It could build constituencies on both sides, in Israel and the Emirates, with an interest in political dialogue and moderation for the sake of stable economic relations. This is a longer-term process for sure, and it is far from clear how the economic relationship develops. It is also unclear whether the relationship will be an equal one. Greater dependence for one side could ultimately mean greater political leverage for the other.