The Abraham Accords have heralded a dramatic shift in the relationship between Israel and the Muslim nations of the world. Over the course of just four months, from August to December 2020, four nations—the United Arab Emirates (UAE), Bahrain, Sudan, and Morocco—initiated diplomatic processes to normalize bilateral ties with Israel. And observers have suggested that the accords could eventually grow to include as many as ten Muslim-majority nations.

This Perspective explores the potential economic benefits of the Abraham Accords. Building from an analytical approach that we developed in 2019, we assess the potential benefits of a comprehensive free trade agreement (FTA) grounded in these accords. Although these accords represent a major political breakthrough, our analysis suggests that they also represent a possible new chapter in the region’s development—away from conflict and toward a shared vision of economic prosperity.

Assuming that these new relations evolve into deeper economic integration, our analysis indicates that the economic benefits for Israel’s partners in this endeavor could be particularly significant, creating approximately 150,000 new jobs for just those four current signatories. This number could grow to more than 4 million...
new jobs and more than $1 trillion in new economic activity over a decade if the accords grow to include 11 nations, which some have speculated could be possible. President Joseph R. Biden, Jr. endorsed these accords during his candidacy for the office. In the first address to the United Nations Security Council on the Middle East since Biden was inaugurated, the acting representative of the U.S. mission to the United Nations, Ambassador Richard Mills, vowed to continue promoting normalization. Biden now has the opportunity to build on these accords and serve U.S. interests in the Middle East by making economic integration and equitable development a signature initiative of his policy in the region. He could promote trade and economic integration with policy incentives both to foster equitable development and regional stability and to diminish the conditions that have bred decades of conflict.

The Bilateral Israel-UAE Economic Relationship: An Anchor for Regional Growth and Development

Israel and the UAE provide a powerful foundation for these accords to spur regional economic growth. Each nation is a strong engine of development, embracing sophisticated technology, startup cultures, venture capital experience, and a drive to innovate. Both nations also have relatively open economies, with low tariffs and relatively limited nontariff barriers, and have significant experience with bilateral and regional FTAs.

Bilateral trade between Israel and the UAE is expected to grow by as much as $6.5 billion within a decade as a result of the Abraham Accords. Growth will likely be seen in trade in goods (including oil, precious metals, and defense) and in services (including medicine, digital health, water and agriculture technology, cyber, and financial technology). A flurry of business delegations and other bilateral economic engagements have already begun, and tens of thousands of Israeli tourists flock to the UAE on a weekly basis.

Analysts are also projecting robust bilateral private investment, which could rapidly grow to $10 billion, between these two nations. Potential areas for investment are Emirati investment in Israeli gas fields and Arab-Israeli businesses, Israeli investment in Emirati fintech and digital banking, and joint investment in an oil pipeline.

Alongside these private flows, the United States, Israel, and the UAE established a $3 billion fund—the Abraham Fund—to promote economic cooperation in the region with the purposes of job creation, raising the standard of living, and economic growth. The potential of this fund to spur regional development alongside the political progress of the accords was highlighted in a recent commitment of $50 million by the Republic of Uzbekistan to the fund.

The Potential of Deeper Integration

The bilateral trade and economic exchanges between Israel and the UAE thus far are only the tip of the iceberg in terms of the economic potential of these accords. Our analysis, which builds on an approach that we developed in 2019 for examining the potential benefits of economic integration in the Levant nations, shows that economic integration in the form of a comprehensive FTA that eliminates tariffs, lowers investment and nontariff barriers, and
waives visa requirements can have much larger benefits. Notable benefits are growth of gross domestic product (GDP) and job creation in each participating nation. We term the potential cumulative change in GDP over a decade as the total new economic activity created by these accords.

We first analyzed the potential economic benefit of bilateral FTAs between Israel and each of the other four current signatories to these accords. The results of this analysis, which follows our 2019 analysis and examines the aggregate impact over ten years, is illustrated in Table 1. The potential benefit for Israel, which we estimate to be $46 billion in new economic activity and 19,000 new jobs over a decade, aggregates the benefit from bilateral FTAs between Israel and each of the other four nations. The four bilateral FTAs would create 46,000 new jobs and $24 billion in new economic activity in Israel’s four partners.

Our second analysis examined the potential benefit of a plurilateral FTA involving all five existing partners in the accords. The results from this analysis are reported in Table 2. The total benefit to Israel increases by around 50 percent as a result of increased trade coordination among the five partners; the total potential economic value (over ten years) could rise to $73 billion and 30,000 new jobs. For Israel’s partners, the overall benefit more than triples, with total job creation surpassing 150,000 and the total economic value in excess of $75 billion.

Finally, our third analytical approach was to consider a plurilateral FTA among an expanded number of potential signatories to the accords. This analysis is presented in Table 3. The key finding presented in this table is that the economic benefit of joining such an FTA would be quite large for several Muslim-majority nations that might find the prospect of normalizing relations with Israel politically difficult. Pakistan, which some observers have sug-

TABLE 1
Potential Benefits of Bilateral Free Trade Agreements to Current Signatories of Accords

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

NOTE: This table displays the total benefit over ten years: the cumulative value of the change in GDP (“New Economic Activity”), the net increase in GDP at the end of ten years, the total number of new jobs created over ten years, and the estimated change in unemployment rate. All data are as described in Egel et al. (2019a), and this analysis relies on the same assumptions as the “cautious” estimates in Figures 3.2 and 3.3 of that report.

TABLE 2
Potential Benefits of Plurilateral Free Trade Agreements to Current Signatories of Accords

<table>
<thead>
<tr>
<th>Signatory</th>
<th>New Economic Activity</th>
<th>Change in GDP</th>
<th>Number of Jobs Created</th>
<th>Change in Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>$4.4 billion</td>
<td>2.3%</td>
<td>4,600</td>
<td>0.8% → 0.3%</td>
</tr>
<tr>
<td>Israel</td>
<td>$73 billion</td>
<td>3.7%</td>
<td>30,400</td>
<td>3.8% → 3.1%</td>
</tr>
<tr>
<td>Morocco</td>
<td>$18 billion</td>
<td>3.0%</td>
<td>67,400</td>
<td>9.0% → 8.4%</td>
</tr>
<tr>
<td>Sudan</td>
<td>$2.0 billion</td>
<td>2.2%</td>
<td>46,100</td>
<td>16.6% → 16.2%</td>
</tr>
<tr>
<td>UAE</td>
<td>$51 billion</td>
<td>2.4%</td>
<td>32,700</td>
<td>2.4% → 1.9%</td>
</tr>
</tbody>
</table>

NOTE: Estimates in this table rely on the “optimistic” estimates described in Egel et al. (2019a) although this table does not provide information on any potential benefit from reduced political instability.
suggested might be one of the ten to sign onto the Accords but is resisting normalization with Israel,\textsuperscript{18} serves as a good example: Our analysis suggests that Pakistan’s participation could be expected to expand its economy by an estimated 9 percent and create nearly 1.3 million new jobs.

Pakistan and any of these other nations might be able to fashion a plurilateral FTA on their own (without Israel) and reap some of these benefits. But replicating the political momentum created by the United States, Israel, and the UAE with the Abraham Accords is no simple feat.

U.S. leadership will likely be integral in ensuring that these accords achieve their maximum economic potential: Implementation of such an FTA will be difficult, both politically and technically. The disappointing experiences of the Pan-Arab FTA and the failure of Israel’s peace treaties with Jordan and Egypt to deliver meaningful economic benefits offer powerful cautionary tales.\textsuperscript{19}

### Historic Opportunity for the United States

The Abraham Accords offer the United States a historic opportunity to be the anchor in a new political and economic bargain that is not so different from that achieved in postwar Europe. As was the case among 1940s European nations, the motivation for the Abraham Accords is a shared recognition among the partners that economic and political cooperation is an imperative for a positive shared future. Also like development in postwar Europe, success will likely require the United States to offer technical (and sometimes political and financial) support to achieve its full impact. Finally, as was the case for the success of the European Economic Community, success in this case might require that the United States accept relative barriers on U.S. exports in exchange for the geostrategic benefits of such a grand bargain.\textsuperscript{20} The Abraham Accords could provide a pathway for lasting peace, much like the peace that the architects of Europe’s postwar recovery secured first through the economic integration of Germany and France and then of much of the continent.

The benefits of normalization are widely acknowledged, but many observers have not recognized the magnitude of the potential economic benefits. Critics have

### TABLE 3

<table>
<thead>
<tr>
<th>Signatories and Potential Signatories</th>
<th>New Economic Activity</th>
<th>Change in GDP</th>
<th>Number of Jobs Created</th>
<th>Change in Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>$14 billion</td>
<td>7.6%</td>
<td>15,000</td>
<td>0.8% → 0.0%</td>
</tr>
<tr>
<td>Israel</td>
<td>$260 billion</td>
<td>13.1%</td>
<td>107,000</td>
<td>3.8% → 1.3%</td>
</tr>
<tr>
<td>Morocco</td>
<td>$62 billion</td>
<td>10.4%</td>
<td>231,000</td>
<td>9.0% → 7.1%</td>
</tr>
<tr>
<td>Sudan</td>
<td>$6.6 billion</td>
<td>7.0%</td>
<td>150,000</td>
<td>16.6% → 15.4%</td>
</tr>
<tr>
<td>UAE</td>
<td>$150 billion</td>
<td>7.3%</td>
<td>98,000</td>
<td>2.4% → 1.0%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$370 billion</td>
<td>6.5%</td>
<td>1,705,000</td>
<td>4.8% → 3.6%</td>
</tr>
<tr>
<td>Mauritania</td>
<td>$4.6 billion</td>
<td>12.0%</td>
<td>28,000</td>
<td>9.6% → 7.4%</td>
</tr>
<tr>
<td>Oman</td>
<td>$32 billion</td>
<td>8.4%</td>
<td>47,000</td>
<td>2.5% → 0.9%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>$120 billion</td>
<td>8.8%</td>
<td>1,271,000</td>
<td>4.4% → 2.7%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>$270 billion</td>
<td>6.9%</td>
<td>192,000</td>
<td>5.9% → 4.6%</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>$33 billion</td>
<td>11.4%</td>
<td>338,000</td>
<td>6.1% → 4.0%</td>
</tr>
</tbody>
</table>
pointed to what they consider problems with the U.S. “sweeteners” offered to individual nations to cinch the accords—such as offering to support export of sophisticated arms of U.S. origin to the UAE,\(^{21}\) removing Sudan from the U.S. State Sponsor of Terrorism list,\(^{22}\) and recognizing Morocco’s disputed claims over the Western Sahara.\(^{23}\) Others have pointed at the agreement’s failure to address the Israeli-Palestinian conflict. These issues are important to assess for potential revision or future diplomatic efforts, but a view of the risks and benefits should also capture the very considerable upside if governments develop policies focused on generating long-term growth and reform plans that not only ensure that benefits are widely shared but also produce societies that are more peaceful and productive.

A visionary U.S. policy would build on the accords to incentivize their implementation; relevant market-oriented incentives would support a process that we estimate could generate 4 million new jobs and $1 trillion in new economic activity over a decade for Israel’s partners. This could do much to address the 25-percent youth unemployment rate among Israel’s partners in the Abraham Accords,\(^ {24}\) support nascent opportunities for entrepreneurship, and facilitate the school-to-work transition that is critical to vibrant economic growth. The Abraham Fund that was created alongside these accords, with its mandate to support inclusive economic development, is an important start. But an enduring and comprehensive U.S. policy will be critical in ensuring that these accords provide opportunities to the underserved, who are both the workforce of tomorrow and the foundation of stability in the region.

Notes

1  Wainer, 2020.
2  State of Israel and the Kingdom of Bahrain, 2020.
3  Steinhauser and Bariyo, 2020.
4  Jakes et al., 2020.
5  Egel et al., 2019b.
6  This reflects our estimate of the potential benefits for Bahrain, Morocco, Sudan, and the UAE from a regional FTA that includes Israel. This estimate includes the trade benefits and new investment opportunity accruing from the regional FTA using the approach that we developed previously (Egel et al., 2019a; Egel et al., 2019b), but it is updated for the countries involved in the Abraham Accords. It reflects a lower bound of the possible benefits of such a regional FTA, for two major reasons. First, the analysis does not include any possible benefits from tourism or improved political stability, both of which are anticipated to expand the benefits of a regional FTA (Egel et al., 2019a; Egel et al., 2019b). Second, for this analysis, we use a conservative assumption in estimating the employment consequences of a regional FTA, using an employment-growth elasticity of 0.2 across all counties.
7  The aggregate benefit depends on the total number of nations that participate and on which countries those are, specifically. Our decision to include ten nations in this regional analysis (in addition to Israel) is based on private conversations with negotiators close to the Abraham Accords who indicated that as many as ten Muslim-majority nations might join the accords, which is comparable to the number reported by President Donald Trump early on in the Abraham Accords process (“Trump Says Saudi Arabia . . . ,” 2020). In addition to the four current signatories (not counting Israel), the six additional nations and the rationale for including each is as follows:

- Saudi Arabia, which President Trump indicated would join “at the right time” (“Trump Says Saudi Arabia . . . ,” 2020)
- Pakistan, which is under pressure to join despite a stated unwillingness to do so (Kugelman, 2021)
- Oman, which many analysts believed was a likely candidate for inclusion (Crowley, 2020)
- Uzbekistan, which committed funds to support the Abraham Fund (U.S. International Development Finance Corporation, 2021)
- Mauritania and Indonesia, which were reportedly nearly finalized as signatories to the accords (Magid, 2021).
The deputy chief economist of Israel’s Ministry of Finance reportedly estimated that initial bilateral trade between UAE and Israel would be around $2 billion but might eventually grow to $6.5 billion. (See Godinho, 2020). Our estimates of the potential for bilateral trade, using the gravity model approach described in Egel et al., 2019a, suggest a slightly lower estimate of $5 billion for bilateral trade between these two nations.

The accords only suspend trade embargoes. A comprehensive FTA would require additional trade and investment agreements to reduce tariff and nontariff barriers to trade, investment, and the movement of people. For a longer discussion, see Egel et al., 2019a.

A component of the creation of the European Economic Community was the increase of effective trade barriers against U.S. exports, especially in agriculture. Over time, the United States whittled down the effective protection of the European Union’s Common Customs Tariff, although that process took decades.

This is the population-weighted average of unemployment among youth ages 15–24, drawn from the World Bank’s World Development Indicators data (World Bank, various years). Average youth unemployment among the potential expanded number of signatories is 16 percent.

References


About This Perspective

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