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Cutting through the Hype: Understanding the Economic Potential of Saudi Arabia-Israel Diplomatic Relations

ABSTRACT

This article will assess the extent of future trade relations between Israel and Saudi Arabia after normalization, and attempt to identify key sectors likely to benefit from the diplomatic shift. Using a robust methodology, we aim to project potential trade volumes between the two countries and discuss the challenges inherent to the new economic landscape.

The core of this analysis uses 2020 trade figures, a pivotal year marked by the signing of the "Abraham Accords", to project future trends and estimate potential trade figures between KSA and Israel in the coming years. The strength of our research lies not in its precise trade volume calculations but in the highlighted sectors poised for growth and an understanding of factors that influence economic cooperation.

Initially focused on Saudi Arabia—the more sought-after party in this context—the article details both the current measures taken to align KSA politically and diplomatically with Israel and previous steps taken to reach a peace agreement. We then discuss relevant regional and geopolitical developments. Moving on to our economic analysis, we highlight factors that could shape or alter the scope of transactions between the two countries. Finally, we introduce our method for evaluating the economic potential between Saudi Arabia and Israel, by comparing it with World Trade Organization data from various countries already trading with Saudi Arabia in similar fields.

Keywords: Saudi Arabia, Israel, Abraham Accords, Normalization, oil, economy.

PART 1

Saudi Arabia-Israel Relations-Economic Potential And Regional Challenges

The economic dimension of potential Saudi-Israeli normalisation is a critical area of scholarly interest. Researchers like Erez Cohen and Alexander Bligh posit that formalising relations could unlock significant areas of economic and technological collaboration, like cybersecurity, renewable energy, and innovative technologies. Israel's advanced solutions, combined with Saudi Arabia's investment capabilities and Vision 2030 initiatives, present mutually beneficial opportunities that could drive normalization from a pragmatic standpoint.[1]

The trade potential between Saudi Arabia and Israel has generated scientific interest, particularly following the Abraham Accords, and much discussion regarding normalization. The literature on Saudi-Israeli trade highlights the evolving economic and political landscape that could facilitate economic collaboration. Researchers like Seev Hirsch and Niron Hashai have examined possible trade opportunities fostered by input-sharing.[2] Hirsch, Hashai, Ayal and Gal-Yam emphasize the potential of input-sharing, particularly in the production of goods, that allows for the leveraging of national resources, vital for economies with different natural resources like Saudi Arabia and Israel. Their work applies the Heckscher-Ohlin model to demonstrate how trade between these nations could enhance the competitive advantage of industries that rely on foreign inputs.[3] Hirsch and Hashai's research establishes foundational frameworks by exploring trade diversification and the role of institutional shifts, suggesting that evolving Middle Eastern integration could enable mutual economic benefits. Similarly, Rynhold and Yaari[4] focus on normalization efforts, showing how Saudi and Israeli economies could align strategically to benefit from shared interests in technology and regional security. Massalha[5] also contextualize these opportunities within the broader Abraham Accords, arguing that the agreements enable new levels of economic interdependence and innovation sharing.

Almor, Hashai, and Hirsch[6] expand this theory by focusing on knowledge-intensive industries, proposing that these sectors are particularly poised for internationalization, an argument relevant to Israel's advanced tech sector and Saudi Arabia's modernization goals under Vision 2030. Other sources emphasize the economic imperatives behind Saudi Arabia's Vision 2030, which prioritizes diversification away from oil and enhances integration with neighboring economies, including Israel.[7] Oluwashakin

and Aleyomi[8] suggest that stable Saudi-Israeli economic relations could strengthen regional stability and support the U.S.-backed economic alliances that counterbalance other influences in the region, like China. In addition, Guzansky and Marshall[9] argue, Saudi-Israeli economic collaboration could leverage Israel's technological expertise, particularly as Saudi Arabia works to modernize its industries and diversify its economic base. Together, these studies demonstrate how potential synergies and geopolitical shifts might position Saudi-Israeli trade at the heart of economic reform and stability in the Middle East.

In the past decade, the Middle Eastern geopolitical landscape has undergone significant transformations, notably through the Abraham Accords of 2020, which saw the normalization of relations between Israel and several Arab states, including the United Arab Emirates (UAE), Bahrain, Sudan, and Morocco. This development has ignited scholarly debate on the prospects and implications of normalized Saudi-Israeli relations.[10]

A prominent theme in the scholarly discourse is the strategic realignment prompted by the perceived threat of Iran. Scholars such as Kristian Coates Ulrichsen argue that the shared concern over Iran's regional ambitions has fostered a convergence of interests between Israel and certain Gulf states, including Saudi Arabia. This realist perspective underscores that geopolitical and security considerations—rather than ideological affinity—are driving the potential rapprochement.[11] The increasing Iranian influence in countries like Lebanon, Iraq, Syria, and Yemen, coupled with Tehran's nuclear aspirations, has compelled Saudi Arabia to reassess its alliances, viewing Israel as a potential counterbalance to Iran's power.[12]

Conversely, other scholars highlight the enduring significance of the Palestinian issue in Saudi domestic and regional politics. Madawi al-Rasheed contends that normalization with Israel remains contentious within Saudi society, particularly among conservative factions that view the Palestinian cause as a core national and religious concern.[13] Crown Prince Mohammed bin Salman (MBS) has asserted that any normalization of ties with Israel would be contingent upon a just resolution to the Palestinian conflict.[14] Despite this, Saudi Arabia's Vision 2030, which emphasizes economic diversification and modernization, suggests that economic incentives might eventually encourage a pragmatic approach to normalization, similar to the approach adopted by the UAE and Bahrain.[15]

However, regional and international constraints pose substantial challenges to Saudi normalization with Israel. F. Gregory Gause III emphasizes that Saudi Arabia's leadership role in the Islamic world and its custodianship of Islam's two holiest sites impose unique responsibilities that complicate

the normalization process. This religious and ideological leadership necessitates a cautious approach, ensuring that any move towards normalisation does not alienate Saudi Arabia's broader Muslim constituency or destabilize regional alliances.[16] Additionally, external actors, including the United States and other Western powers, play a role in influencing Saudi Arabia's stance on normalization, balancing strategic interests with the need to maintain stability in the region.

PART 2

I. KSA-ISRAEL RELATIONS-A HISTORY OF DEFINITELY MAYBE

Saudi Arabia has been taking an active approach towards reconciliation with Israel for over four decades. Through the years, The Kingdom has tried to find an accord acceptable to all Arab countries that would allow them to acknowledge Israel in exchange for a comprehensive solution to the Arab-Israeli conflict. For example, in the 1980s it launched the "Fahd Initiative" and two decades later another significant initiative known as the Saudi Arab Peace Initiative, which proposed a precedent-setting political outline for Israel to gain wide recognition in the region.[17]

The relationship between Saudi Arabia and Israel has historically been adversarial, deeply embedded in the broader Arab-Israeli conflict that emerged with the establishment of Israel in 1948. Initially, Saudi Arabia aligned with other Arab nations in rejecting the legitimacy of the Israeli state, participating symbolically and financially in the 1948 Arab-Israeli War despite its limited military capacity. This period was characterized by a strong pan-Arab sentiment aimed at reversing the creation of Israel and supporting Palestinian nationalism.[18]

During subsequent decades, Saudi-Israeli relations remained strained, primarily defined by Riyadh's unwavering support for the Palestinian cause. Key conflicts, such as the 1967 Six-Day War and the 1973 Yom Kippur War, saw Saudi Arabia, along with other Arab states, opposing Israel through measures like oil embargoes and financial aid rather than direct military engagement. The 1973 Arab Oil Embargo, led by Saudi Arabia, was a strategic move to leverage oil resources for political influence, particularly to pressure Western nations supporting Israel.[19]

The geopolitical landscape began to shift in the 1990s with the Oslo Accords of 1993, which introduced a framework for potential peace between Israel and the Palestinians. While Saudi Arabia did not formally

recognize Israel, it started adopting a more pragmatic stance, influenced by emerging regional dynamics, especially the rise of Iran as a regional power.[20] The Arab Peace Initiative of 2002, proposed by then-Crown Prince Abdullah, marked a significant moment, offering normalization of relations between Arab states and Israel in exchange for a complete Israeli withdrawal from occupied territories and the establishment of a Palestinian state with East Jerusalem as its capital.[21] Although Israel did not fully embrace the initiative, it signalled a potential openness within the Arab world, including Saudi Arabia, towards a more nuanced approach in regional relations.

The trajectory of Saudi-Israeli relations has evolved from staunch opposition rooted in the Arab-Israeli conflict to a complex interplay of geopolitical, economic, and ideological factors that may pave the way for future normalisation. Historical commitments to the Palestinian cause and regional solidarity have long hindered formal ties between Saudi Arabia and Israel. However, recent geopolitical shifts, particularly the rise of Iran and the strategic realignments exemplified by the Abraham Accords, have introduced new dynamics that could facilitate a pragmatic approach to normalization. Scholarly debates highlight the tension between strategic interests and enduring political and religious commitments, suggesting that while economic and security considerations may drive Saudi Arabia towards normalization, significant domestic and regional challenges must be navigated. The future of Saudi-Israeli relations will likely depend on the interplay between these multifaceted factors, balancing pragmatic strategic interests with the imperative to uphold regional solidarity and religious leadership.

Several factors accelerated Saudi Arabia's readiness for normalization. One is the direct and ongoing threat to Saudi Arabia from Iran and its militant Shia proxies in Yemen and Iraq. This has been the main driver for seeking cooperation with, and recognition of, Israel for the past two decades.[22] Moreover, in 2017, Israel agreed that Egypt, with whom it has a peace agreement, transfer the two islands, Sanafir and Tiran, to the sovereignty of Saudi Arabia. These islands are located at the mouth of the Straits of Tiran which are an important entrance point from the Red Sea into the Gulf of Eilat.[23] In addition, deteriorating relations with the United States in the last decade have also pushed Saudi Arabia to re-examine normalization with Israel, even in the absence of progress towards a comprehensive settlement of the Israeli-Palestinian conflict.[24] Since Israel and the Kingdom shared common enemies, the Saudi government viewed Israel as a powerful actor with the ability to respond to military threats against

Saudi Arabia, alongside the United States. Finally, the KSA's reconciliation with Qatar over the past few years—and, subsequently, also with Qatar's ally Turkey, and most recently, the rapprochement with Iran in 2023, could set the ground for Saudi Arabia to move ahead with an extensive process of normalization with Israel. This together with the UAE will see Israel normalize relations with two countries that have a great deal of influence not only in the region but in the Muslim world more broadly.[25]

Historically, Saudi Arabia has taken the approach that a peace agreement with Israel must also address the resolution of the Israeli-Palestinian conflict. This approach was mainly adopted by the older generation within the royal family, especially its current ruler King Salman. The subject came up prominently once again during the Arab League Summit that took place in May 2023. However, in the absence of a binding security alliance on the part of the American government, like the one discussed during the Trump administration, even the powerful and charismatic Crown Prince Mohammed bin Salman—seen as someone willing to go the distance to normalize relations with Israel even without an arrangement with the Palestinians—found it difficult to agree to normalization.

The reluctance is understandable given concerns over internal protests and domestic stability. Apprehensions have arisen against a backdrop of significant political and social domestic reforms already underway, which include the diminished influence of religious scholars which reduces the power of many princes in the royal house, and allows women to drive. In this context, normalizing relations with Israel could act as a catalyst for more substantial domestic unrest than the Crown Prince is willing to risk.[26]

According to several surveys conducted in the Kingdom, over 80 percent of the Saudi public opposes any agreement with Israel in the absence of a comprehensive reconciliation.[27] In light of this significant opposition, Saudi Arabia took several notable steps following the Abraham Accords to signal its support indirectly. Signals included public support for its close ally Bahrain which signed agreements with Israel, engaging Jewish clerics in interfaith dialogues, inviting Israelis to participate in international gaming and sports events hosted by the Kingdom and organizing a meeting between Israeli businessmen and Saudi government officials and entrepreneurs.[28] Saudi Arabia also agreed to open the skies over its territory for Israeli civilian aircraft thereby shortening eastbound flight routes.[29]

The Israel-Hamas war that was launched following the brutal Hamas attack against Israel on October 7th, 2023, and the Israeli response that followed in Gaza has led to a further worsening of Saudi public opinion towards Israel and made it more difficult for Saudi leadership to advance

relations. Nevertheless, there are indications that Saudi leadership is still open to normalizing relations with Israel as part of a regional move that will include a ceasefire and substantial progress on the Palestinian track.[30]

Prior to 7.10, even in the absence of normalization, the Abraham Accords have led to a strengthening of ties between Israel and KSA, mainly in the business and security sectors. The media reported that Israel and KSA were in discussion about equipping Saudi Arabia with defense systems designed to safeguard strategic sites like oil fields, and protect it from drone and missile attacks by Houthi forces in Yemen.[31] Furthermore, Israeli companies have reportedly been invited to take part in the projects of the Saudi city of the future—NEOM. Several Israeli companies have been tasked with projects aimed at helping Saudi Arabia realize its vision of diversifying the Saudi economy in coming years, mainly in the area of artificial intelligence (AI). Other projects in which Israel is involved relate to food security (with an emphasis on irrigation systems), investments in desert agriculture companies, collaborations in academic research, public health systems, Fintech, and joint investments for banks.[32]

II. A Region In Flux

In recent years, the United States has intensified efforts to redefine its Middle East policy, with a growing emphasis on fostering regional cooperation. This policy shift is unfolding against a backdrop of de-escalation and renewed diplomatic engagement across the region. Significant developments include the China-mediated rapprochement between Saudi Arabia and Iran in March 2023, and the reintegration of Assad-led Syria into the Arab League. These developments indicate a cautious yet increasing focus on economic diplomacy and regional stability, after over a decade of turmoil that ensued from the Arab Spring.[33]

Before the October 7 attack, Washington displayed optimism about regional dynamics, especially concerning progress in the Saudi Arabia-Israel normalization process. As U.S. National Security Advisor Jake Sullivan articulated, it was a strategy built on partnerships, deterrence, diplomacy, de-escalation, integration, and value adherence. The Biden administration considered the I2U2 grouping a pivotal mechanism to connect South Asia, the Middle East, and the United States via trade, technology, and diplomacy.[34] A significant step in this direction was the unveiling of the ambitious India-Middle East Economic Corridor (IMEC) at the G20 meeting in New Delhi in September 2023. The IMEC aimed to create a novel trade and connectivity corridor, linking India with the Middle East and Europe, and potentially serving as an alternative to China's expansive Belt and Road Initiative (BRI).[35]

While the outcome of these new regional initiatives remains to be seen, the Abraham Accords have already been effective not only in creating a new dynamic between Israel and its regional partners but contributed a de-escalating impact on the region more broadly. Following the UAE's lead, Saudi Arabia was moved to resolve another complex issue from its perspective—its relations with Turkey. Saudi Arabia seeks to benefit from the products of Turkey's advanced arms industry, especially in the field of drones, in its fight against the Houthis in Yemen. The KSA and the UAE also seek Turkey's help in stabilizing the situation in Libya, which is harming regional stability and negatively affecting the global oil market. Amid ongoing regional instability, dialogue among a growing circle of countries helps stabilize the region in the immediate term, and sets the groundwork for Saudi Arabia, the UAE, and Israel to further establish a regional framework led by the three countries.[36] Above all, the war in Gaza notwithstanding, the renewed discourse is creating a new business environment that is open to broad regional economic initiatives that were previously unviable, such as settling the issue of gas exploration in a disputed area between Israel and Lebanon.[37]

III. The Kingdom On A Trajectory Of Change

Saudi Arabia is considered to be the "crown jewel" in the establishment of ties between Israel and the Arab world through the framework of the Abraham Accords. Saudi Arabia is the leading and largest kingdom of the Arab Gulf region, both in terms of population (approximately 27 million not including foreign workers) and the size of its economy (GDP of $1108 billion in 2022). As such, it is also a member of the G20, the prestigious club of the world's twenty largest economies.[38] Saudi Arabia is an important actor in the international arena thanks to its possession of the world's largest oil reserves, its role as the world's largest oil exporter (approximately 7.4 million barrels of crude oil per day), and its position as guardian of the Islamic world's holy sites.[39]

In recent years, Riyadh has advanced reform measures designed to diversify the Saudi Arabian economy, which still relies almost exclusively on the export of oil and oil by-products.[40] This process has also involved the identification of threats to the global oil market and Saudi Arabia's role within it, given ongoing technological and strategic shifts.[41] The "Saudi Vision 2030" aims to create a more advanced economic-social-regulatory ecosystem that will facilitate the development of additional economic sectors, such as local production, tech and gaming industries, as well as the development of the tourism sector.[42] However, despite undergoing significant changes the Saudi Arabian economy still suffers from several

challenges, including a lack of local professional tech manpower, an education system that is insufficiently adapted to the needs of the global market, a tribal culture, and a conservative business environment. Saudi Arabia also faces infrastructure-related challenges, including a wasteful energy economy based on the burning of crude oil;[43] a severe strain on water resources in the face of overconsumption;[44] a limited agricultural economy with an almost complete dependence (80%) on food imports; and an expenditure structure in which a significant share is allocated to defense procurement (approximately $65.2 billion in 2022). In these aspects, Israel is well placed to contribute to the diversification and streamlining of the Saudi economy.

Saudi Arabia maintains significant ties with key Muslim nations, including Pakistan, African countries like Sudan, and, notably, Gulf states such as Kuwait that have not yet formalized relations with Israel. The Kingdom's reach extends even further to distant Muslim countries, including Indonesia and Malaysia. From the Israeli government's perspective, a peace agreement with Saudi Arabia is therefore viewed as the final step in ending the Israeli-Arab conflict and securing a final recognition of the Jewish state. Despite this, at the beginning of March 2023, it was announced that Saudi Arabia had agreed to open a new chapter with Iran which was reflected, among many other measures, in an exchange of ambassadors between the two countries.[45] This step, consolidated over almost two years, stemmed from the rapprochement facilitated by China at the expense of the US. Russia's ties with Iran and Saudi Arabia with regard to cooperation in the oil market and the production agreement they signed as part of OPEC+ also played a significant role in this step.[46] As part of its aspiration to be a leading regional actor and the leader of the Muslim world, Saudi Arabia cannot afford to ignore Iran. The fact that its neighbors, notably the UAE and Qatar, had for years navigated a dual strategy, aligning with the West while simultaneously maintaining ties with Iran, ultimately influenced the House of Saud to adopt a similar diplomatic approach.

The fear of instability in the Arab Gulf has also accelerated Saudi Arabia's quest for a settlement. The Kingdom's intent to bring the conflict in Yemen with the Houthi forces, who are allied with the Shiite axis, to an end, further nudged it towards rapprochement with Iran. Consequently, this shift could imply that Saudi Arabia's emerging ties with Israel may stem from its aspiration to position itself as a strategic balancer, capable of choosing its alliances based on shifting regional dynamics.

Finally, Saudi Arabia has gradually come to believe that a true solution for the nuclear threat from Iran can only be political, and a military option

is no longer viable. This is not to say that Riyadh has become convinced that there is no longer any possibility of disabling Tehran's nuclear program militarily,[47] but due to its fears of a severe Iranian reaction, similar to its 2019 attack on Aramco's oil facilities.[48] Ways to jointly address the issue must therefore be found, and could include the tightening of economic sanctions on Tehran by increasing global commitment.

PART 3

1. Trade Potential Between Israel And Saudi Arabia Following Normalization—Basic Premises

An economic analysis of the trade potential between Israel and Saudi Arabia is a complex task from a research perspective as it requires us to relate to a range of variables and possibilities that remain uncertain at this theoretical stage. For example:

a) Will the Saudi-Israeli relationship be part of a regional economic connectivity platform such as I2U2/IMEC?
b) More particularly, is the US-led 'land bridge' initiative, connecting the UAE, KSA, Jordan and Israel, a feasible economic, strategic, and diplomatic solution? And if so, what would be the economic potential?
c) Will a direct oil pipeline be laid from Saudi Arabia to Israel?
d) Is Israel relevant to Saudi Arabia as a 'hub' through which oil/fuel may be exported to Europe?
e) Will Saudi Arabia be relevant to Israel as a 'bridge' for exporting through Gulf ports?
f) Will ties include significant mutual tourism?

The key uncertainty surrounding Saudi-Israeli trade relations hinges on both economic viability and a host of political and strategic constraints. These include considerations of each country's relationships with other strategic trade partners, national security concerns pertaining to mutual reliance, outcomes of regional conflicts such as the Israel-Hamas war, and the willingness for visible ties. Additionally, the evolution of trade volumes between the two nations is likely subject to temporal variations. A prudent working assumption is that their relationship could gradually develop and deepen over several years.

Saudi Arabia's economy, predominantly based on energy products, sharply contrasts with Israel's service-oriented economy, which also includes a significant commodities sector. These distinct economic characteristics

pose challenges in formulating a mutually agreeable model for estimating potential trade volumes. In the absence of official trade ties, estimating this potential necessitates relying on certain assumptions and drawing comparisons with each country's trade data with other relevant nations. This approach, while not without limitations, serves as a quasi-benchmark for gauging possible trade volumes.

2. Analysis Of The Economic Potential—Qualitative Assumptions

a) The Saudi Arabian market has reached a saturation point. Many countries with strong industries, chiefly China, the US, Britain, Japan, France, and Germany, have already established an impressive presence in the Saudi Arabian market as exporters of technology, military equipment, and mechanization. Each of these countries exports some $5 billion per year to the Kingdom. India, South Korea, Singapore, and Australia have also joined this group of leading actors in the Saudi Arabian market, each of them exporting over $1 billion per year. Therefore, alongside the significant potential, Israel is predicted to compete with strong exporters.[49]

b) There is a limited potential for Saudi Arabian exports to Israel. Saudi Arabia's key relevant export industry is crude oil, but the Israeli market is relatively small and saturated, and Saudi Arabia's current product will have to compete against similar products such as natural gas, as well as against a growing demand for renewable energy.[50] Moreover, while Israel has export industries unique to the Middle East region, Saudi Arabia's product is the same—and will have to compete—with that of its Arab neighbors in the Gulf. The concept of an oil pipeline from Saudi Arabia to Israel, enabling Saudi use of Israeli ports for exports to the West, may be a transformative development.[51] However, the feasibility of this project raises questions, not only in terms of crude and secondary costs, but also concerning environmental impacts and geopolitical ramifications, particularly regarding the potential decline in Cairo's Suez Canal revenues.[52] In the absence of such a pipeline, Saudi Arabia will probably continue prioritizing its focus on large and emerging Asian markets.

c) Defense exports from Israel to Saudi Arabia have substantial potential. The potential of economic ties between Israel and Saudi Arabia depends largely on Israel's willingness to provide it with defense tools to guard against external security threats and domestic security threats and challenges to the royal house's stability. Within this context, the bulk of Israel's exports to the Kingdom in dollar terms may lie in defense systems and tech-driven service platforms.[53] Recent reports in the international

media assert that it is possible that a large part of such components (primarily cyber defense systems and tech-driven services) already exist today, and given that they are 'grey' areas, it will likely be difficult to gauge the extent to which the official establishment of Saudi Arabia-Israel ties in this context will add to potential trade volume.[54]

d) Part of the commercial potential with Saudi Arabia is already being realized today through indirect and undeclared trade. The UAE is the 'hub' for Arab Gulf country exports and imports. Many products from Saudi Arabia are exported globally through the UAE, and many imported products reach the Kingdom through the UAE. In practical terms, this suggests that the commercial potential between Saudi Arabia and Israel may already be partially realized today through indirect means, specifically via trade agreements with the UAE. Given the direct trade between the two countries, volumes of trade that are currently being exchanged may need to be deducted from our estimates.

e) Bilateral and regional initiatives must also be considered. Beyond trade, normalized ties may also give rise to joint ventures for grappling with shared challenges such as environmental crises, climate change, desertification, water and food shortages, natural disasters, emissions, and the generation of electricity from renewable resources. Such ventures are predicted to be of significant mutual economic value for both countries, but at this early stage, cannot be quantified. Israel may also assist the Kingdom in training tech staff and establishing technological development centers through academic collaboration and the promotion of the medical system. These areas are also impossible to quantify at this early stage.

f) Saudi Arabia has a conservative economic environment and business culture. The structure of government in Saudi Arabia and that of family companies demand a centralized and conservative business and regulatory environment.[55] These in turn result in a slow and "heavy'" work pace in business affairs that would also be accompanied by deep-seated suspicion towards Israel in Saudi Arabian society, which is predicted to require Saudi Arabia's leadership to be overcautious in promoting economic ties with the country.[56]

3. Assessing The Trade Potential Between Israel And Saudi Arabia—Methodology

In order to estimate the trade potential between Israel and Saudi Arabia, pointing firstly to the overlapping areas between sectors and product types

that each country exports and imports, and comparing trade volumes among similar trade partners relative to the total export volume.

Step A—Analysing the overlapping areas between the prominent export and import sectors of each country.

As an example:

Saudi Arabia's primary export areas of relevance to Israel's import needs are: 1) fuels; 2) chemicals; and 3) plastic and rubber products.[57] Israel's primary export areas of relevance to Saudi Arabia's import needs are: 1) chemicals; 2) mechanization and technology; 3) food products including fruits and vegetables; 4) metals; 5) diamonds; and 6) security systems.[58]

Step B—Analysis of the Overlap between the Export and Import Data of Both Countries

As to specific products: For the purposes of the analysis, overlap between products means that one of the two countries is among the top fifteen exporters of the product and that the other is among the top fifteen importers of that product, and that the export or import volume totals over $1 million. In the fresh produce sector, for example, we identified an overlap between the export of carrots from Israel and the import of this product to Saudi Arabia. A products-based analysis allows us to specify the trade potential and identify areas in which there is a chance for significant growth in the coming years.

Step C—Comparison with Other Countries/Regions that Constitute a Relevant Benchmark: To determine the potential scope of trade between Saudi Arabia and Israel for each relevant product identified in Stage B, we compared the product to the countries/regions that are currently leading the export or import of that product. We also added a qualitative analysis to describe the limitations of the potential shown by the data.

4. Assessing The Potential Of Saudi Arabian Exports To Israel

The Energy Sector:

The main product that overlaps between Israel and Saudi Arabia in the energy sector is crude oil. The entire crude oil market in Israel is, in fact, based on imports. Conversely, Israel possesses independent refining capabilities that meet most of its needs in the distillates field,[59] and importing distillates from Saudi Arabia is, therefore, less relevant to this analysis. Saudi Arabia exported crude oil in the amount of over $131 billion in 2020, with 70% of these exports sent to the large and developing economies of East Asia.[60]

Total crude oil imports to Israel: approximately $5.3 billion.[61] (2020).

Primary exporters of crude oil to Israel 2020: Former USSR countries, Azerbaijan, Kazakhstan, USA, Russia and Egypt.[62]

Premises for Calculating the Energy Sector Potential:

a) The Israeli market is small and saturated as far as Saudi Arabia is concerned and does not represent growth opportunities for the Kingdom. Saudi Arabia seeks to increase exports to developing economies in Asia in an attempt to secure the largest market shares possible.[63]
b) On the other hand, Saudi Arabia may sell oil to Israel at a discounted rate relative to market price (a 2–3 dollar discount per barrel) on the basis of their ties and security interests.[64] For Saudi Arabia, Israel's market needs are "small money" and could be delivered simply and cheaply by tanker to the port of Eilat. Such exports may be taken into consideration as part of major security deals for Saudi Arabia in the event that normalized relations between the two countries develop into strategic ties.
c) Building a pipeline for the direct export of crude oil from Saudi Arabia to Israel is not worthwhile compared to alternative options.[65] Overall, the cost of transporting oil by tanker has decreased in recent years. However, transportation via pipeline generally has to take into account ongoing maintenance, payment to intermediary countries, and mandatory security expenses as well as grappling with regulatory issues surrounding environmental protection.[66]
d) Transportation by pipeline to Israel as an export "bridge" to Europe may be a game-changer in terms of viability for Saudi Arabia. Before the war with Russia, the European market was not a major destination for Saudi Arabia due to environmentalist trends, Russian competition, moderate growth, and Iraq's gradual return to the market. Following the Ukraine crisis and embargo imposed on Russia, however, Saudi Arabian exports to European markets have been growing—some 777,000 barrels per day in August 2022 as compared to half a million per day in October 2020, while Russia simultaneously exported more to the East. This seemingly coordinated move could encourage the opening of an oil pipeline to Israel.[67]
e) Transforming Israel into a "bridge" for exporting Saudi Arabian oil to Europe will be interpreted as an economic threat by Egypt (the Suez Canal) and by Russia (dominance in the European market) and is expected to incur political costs.

The export potential of Saudi Arabian oil to Israel will be derived primarily from the extent to which strategic and security ties are established between the two countries, which may create an incentive for Saudi Arabia to sell to Israel. In the optimal scenario, Saudi Arabia may provide up to approximately 50% of Israel's crude oil needs, amounting to approximately $2.5 Billion (according to a $60 per Brent barrel price with a discount of $2–3). However, in a scenario in which special relations are not developed between the two countries, the purchase of crude oil from Saudi Arabia might range from just a few hundred million dollars—similar to the volume of Israel's crude oil imports from Egypt today—to approximately $220 million per year at the expense of imports from other markets.[68]

Plastic and Rubber Products:

Total export of Saudi Arabian plastic products globally in 2020: $16.5 billion. Total import of plastic products to Israel in 2020: $3.2 billion.[69]

Demarcation of the most prominent overlapping products: polymers and plastic products.

The maximum amount of overlap between these relevant products is approximately $400 million.

Primary exporters of plastic products to Israel in 2020: China ($473 million), Turkey ($344 million) Germany (342 million$) the US ($334 million), Italy ($166 million) and Belgium ($150 million).[70]

Our working assumption is that Saudi Arabia's physical proximity to Israel will reduce the import costs of plastic products and create an incentive to import from Saudi Arabia at the expense of European countries or Turkish imports. The two relevant exporters that serve as a "baseline" for the export potential of plastic products from Saudi Arabia to Israel are Turkey and Belgium. Both countries export a volume similar to Saudi Arabia's total exports in this industry,

Chemicals:

Total export of Saudi Arabian chemical products globally in 2020: $15.19 billion.[71]

In contrast, the total import of chemical products to Israel in 2020: $8.06 billion.[72]

Demarcation of overlapping products: alcohol, soaps, dyes, pesticides.

The scope of overlap or relevant products: approximately $350 million.

Primary exporters of chemical products to Israel in 2020: The US ($1.2 billion), Switzerland ($1.16 billion) Germany ($783 million), Belgium ($694 million), China ($679 million) and France ($510 million).[73]

Analyzing the overlap between products that Israel imports and products that Saudi Arabia exports suggests that the trade potential between the two countries in this sector is limited. The relevant exporters that serve as a "baseline'" for the export potential of chemical products to Israel are Hong Kong (which exports $26 million worth of chemicals to Israel), Austria (which exports $46 million worth of chemicals to Israel, but with limited overlap in product type), and Russia (which exports approximately $55 million to Israel, but exports twice as much as Saudi Arabia in this industry). In light of these comparisons, Saudi Arabia's export potential to Israel in the chemical products field stands at approximately $30 million per year.[74]

5. Assessing The Potential Of Israeli Exports To Saudi Arabia

Israel's export potential to Saudi Arabia is more diverse both in terms of sector and type of goods and service.

Mechanisation and Technology (not including weapons):

Total export of Israeli mechanization and technology products in 2020: $12.68 billion (21.5% of total exports).[75]

Total import of mechanization and technology products to Saudi Arabia in 2020: $28.12 billion.[76]

Demarcation of overlapping products: telecommunications equipment, antennas, and mechanization products for the aviation market.

Scope of overlap: approximately $400 million.

The primary exporters of mechanization and technology products to Saudi Arabia: China ($11.69 billion), US ($3.37 billion), Germany ($1.67 billion), Italy ($1.52 billion), and South Korea ($809 million).

The analysis we conducted shows that there is significant compatibility between the central exporters of technology and mechanization products to Saudi Arabia and its major trading partners, some of whom also provide the Kingdom with security support.

The gateway for Israel to fulfill its potential in the Saudi Arabian market in this sector will be through the Kingdom's efforts to diversify

and streamline the economy, improve the services sector, optimise financial, government, and production institutions (including technological production bodies), and confront its climate, water and food resource challenges. This is in addition to its many purchases of related technologies and services in the "grey" security field (not weapons or cyber defense systems)—some of which are likely already underway via indirect trade between the countries. Israel's technological industries have comparative advantages in all these fields, making Israel an important potential partner for Saudi Arabia.

In light of this, we estimate that Israel's export potential in the technology and mechanization sector is greater than the export volume of other exporters that have characteristics similar to Israel's—such as Ireland, which sells approximately $100 million per year to Saudi Arabia—and that Israel may reach its full potential of approximately $400 million per year.[77]

Chemicals:

Total Israeli exports in the chemicals sector in 2020: $15.45 billion.[78]

Total Saudi Arabian imports in the chemicals sector in 2020: $13.5 billion.[79]

Demarcation of overlapping products: medical, cosmetic, and toiletry products.

The (maximum) scope of overlap between relevant products is approximately $2.6 billion.

Primary exporters of chemical products to Saudi Arabia in 2020: Germany ($480 million), the US ($441 million), France ($332 million), Switzerland ($301 million) and Ireland ($195 million).[80]

The chemicals field represents the most significant area of potential for Israeli exports to Saudi Arabia beyond military weapons and defense systems. It is possible however that a large part of this potential is already being fulfilled through indirect trade. The two exporters of chemicals to Saudi Arabia that are relevant here as a "baseline" for the purposes of this study are Germany and Ireland, both of which are similar in product type but in some instances, we believe, do not necessarily offer substitute products (in the pharmaceutical field for example). We estimate that the potential market share in Saudi Arabia for Israeli chemical products could be up to 15%, i.e., approximately $200 million per year.

Metals:

Total Israeli exports in the field of metals in 2020: $1.96 billion.[81]

Total Saudi Arabian metal imports in 2020: $12.7 billion.[82]

Demarcation of overlapping products in 2020: aluminum, cutting tools, and steel. The (maximum) scope of overlap in 2020: approximately $120 million.

The central exporters of metal products to Saudi Arabia in 2020: Australia ($25 million), Mexico ($18 million), South Korea ($12 million) and Thailand ($6 million).[83]

Assumption: Israel's physical proximity to Saudi Arabia as compared to other exporters in this field is a comparative advantage. Israel also has an advantage over other countries on this list in cutting tools. A likely scenario would see Israel capture approximately 10% of the market share of products in the area of overlap, meaning that it could export approximately $12 million of metals to Saudi Arabia.

Plastics:

Total Israeli exports of plastics: $2.88 billion.[84]

Total Saudi Arabian imports of plastics: $5.07 billion.[85]

Demarcation of overlapping products: pipes, packaging containers, plastic home products, plastic bags.

The (maximum) scope of overlap is approximately $600 million.

Central exporters of plastic products to Saudi Arabia in 2020: China ($1.38 billion), UAE ($448 million), US ($425 million), South Korea ($318 million), and Japan ($299 million).[86]

A strong and direct connection has been identified between the country's size as a plastic exporter and its exports to Saudi Arabia in the same field. An advantage in this sector has also been identified for Asian countries. We therefore understand that the countries that represent a more realistic "baseline" for the export potential of plastics from Israel to Saudi Arabia are not necessarily the leaders in the field, but exporters like Romania ($12 million) or Morocco ($31 million). We estimate that the potential for Israeli exports of plastic products to Saudi Arabia reaches approximately $30 million (up to 5% of the overlapping scope).[87]

Diamonds:[88]

Total Israeli diamond exports in 2020: $15.1 billion.[89]

Total Saudi Arabian diamond imports in 2020: $3.9 billion.[90]

Demarcation of overlapping products: industrial diamonds, non-industrial diamonds (unpolished for marketing).

Maximum potential overlap: $110 million.

Primary exporters of precious stones to Saudi Arabia in 2020: the UAE ($1.14 billion), China ($586 million), India ($501 million), South Africa ($291 million) and Spain ($217 million).[91]

Belgium and Canada are relevant "baselines" for estimating Israel's export potential to Saudi Arabia in the diamond sector. The two countries are similar to Israel in terms of their export volume of precious stones, and both export approximately two million dollars of diamonds to Saudi Arabia. In light of the diamond sector's significant share in Israel's total exports and the rising demand for jewelry in Saudi Arabia, we estimate that the direct export potential to Saudi Arabia may reach $5 million (approximately 5% of the area of overlap). The relatively low potential at this stage is due to the UAE's position as the current regional diamond exchange, and the fact that it centralizes diamond exports to the Kingdom of Saudi Arabia. Israel's high volume of exports to the UAE, which is constantly increasing, shows us that some of these products are being sold to other Arab Gulf countries.

Vegetables:

Total Israeli exports of food and agricultural products: $1.3 billion (approximately 2.2% of exports).[92]

Total Saudi Arabian imports of food and agricultural products: $8.3 billion.[93]

Demarcation of the main overlapping products: fresh vegetables and fruits, fish, oil seeds, and saturated fats.

Maximum potential overlap: $1.5 billion.

Primary exporters of agricultural produce and food to Saudi Arabia in 2020: India ($1.4 billion), the US ($911 million), Argentina ($482 million), Egypt ($409 million) and Guatemala ($292 million).[94]

Our analysis concludes that the most relevant country that may serve as a "baseline" for agricultural trade with Saudi Arabia is the UAE, since it is the center for the distribution of global agricultural products to Arab

Gulf countries. In 2020, the UAE exported $289 million of agricultural goods to Saudi Arabia, of which $200 million were produce types that would overlap with Israeli exports. Other "similar" agricultural exporters to Saudi Arabia are the Netherlands ($74 million), Romania ($69 million), Italy ($115 million), Germany ($161 million) and Turkey ($102 million).[95]

Israel has the advantage of geographical proximity to the Saudi Arabian market, which may allow it to push out other exporters and successfully compete to capture a market share of fresh agricultural produce, as well as the possibility of influencing consumption habits of vegetables (such as cherry tomatoes), fruits (such as strawberries), and quality standards in the fish farming sector (for premium fish such as barramundi). In the event of a peace agreement between the two countries, Saudi Arabia is also predicted to serve as a land trade corridor between Israel and Arab Gulf countries, as well as other destinations such as East Africa. In light of this, we understand that Israel's trade potential with Saudi Arabia in the fresh produce sector would exceed that of the Netherlands ($18 million per year)—a comparable reference country in terms of the type and volume of its agricultural produce—and may reach approximately $50 million per year (the average food export amount of Middle Eastern countries).

Defence Exports:

Saudi Arabia has been the world's largest arms importer 2016–2020.[96]

Total Israeli defense exports in 2019 according to SIPRI: $7.2 billion.[97]

Total Saudi Arabian defense imports in 2019 according to SIPRI: $27 billion. Primary exporters: the US (73%), Britain (13%), France (3%) and Spain (1%).[98]

Demarcation of overlapping areas between Saudi Arabian defense imports and Israeli export areas: air defense systems, missiles, information and cyber technologies, naval combat systems, UAV systems, and drones.

Estimation of Trade Volume:

Saudi Arabia imports on a significantly larger scale, and as long as it is provided access to the purchase of Israeli-made systems, there is potential for purchases of several hundreds of millions of dollars per year. The relevant country of reference utilized for comparison is France, from which Saudi Arabia purchases military weapons and platforms in the sum of

approximately $800 million per year. This acquisition also has strategic political connections in cultivating France as a close ally in the EU and aligning it in the Iranian context. We assess that the volume of imports from France signals the likely scenario for the extent of defense imports from Israel in the years following a peace agreement.

The Services Sector:

Total Israeli exports in the services sector in 2019: approximately $55 billion.[99]

Total Saudi Arabian imports of services sector products in 2019: $78.65 billion.[100]

Assumptions in Estimating the Export Potential of Services to Saudi Arabia:

a) Total Saudi Arabian imports in the services sector in 2018 totaled $83.8 billion.[101] There is a volatility in Saudi Arabia's spending on services 2014–2020, with expenditures in this sector being the first element to be cut when the Saudi Arabian budget has to be curtailed. The import of services by Saudi Arabia, therefore, declined by approximately $5 billion in 2014, from $100.545 billion to $56.26 billion, due to the drop in oil revenues.[102]
b) Overlapping areas in the services sector: computing and information services, R&D services and market research, and financial services.

Assumptions in the Estimation of the Export Potential of Saudi Arabia's Services Sector:

a) Saudi Arabia's key service import lies in areas in which Israel is less dominant, such as government services, transportation services, and tourism services, i.e., outbound Saudi Arabian tourism, which we understand to be less relevant in this instance. In calculating the potential, we will therefore disregard these areas.
b) As part of its implementation of the "Saudi Vision 2030" of developing the Kingdom and diversifying its economy, Saudi Arabia is expected to significantly increase its consumption of services over the next decade in

areas that require technology and knowledge, particularly areas in which Israeli industry has much to offer: agri-tech, smart irrigation, data communication, smart cities, responding to desertification, cyber security, Fintech, and more. We will therefore offer an optimal assessment for the field of technology services.[103]

c) Relatively significant fluctuation in oil revenues—whether the result of price or of the need to cut production in order to balance the price—immediately impacts Saudi Arabian spending in the services sector. For this estimation, we will assume a price of $60 per barrel.

d) The WTO and World Bank's data contains no organized information that demarcates service exports to Saudi Arabia according to country and type/field of service. The comparison benchmarks are scarce and insufficient for comparison to countries with services similar to those Israel exports. As a realistic test, we can take US service exports to Saudi Arabia as approximately $9.4 billion in 2019,[104] and Britain's exports as approximately $2.8 billion in 2018.[105]

In an optimal scenario, and relying on the analysis of the commodity sectors, Israel could secure an average of up to 10% of the market share of each of the key overlapping areas between Saudi Arabia's import needs as well as its comparative export advantages in the services sector. Such an analysis leads to an optimal potential of approximately $1 billion. In a more realistic scenario, Israel's strength in the software field may well be represented by achieving a market share of up to 20% of the total import of software services, i.e., approximately $340 million, and in R&D fields, a potential market share of between 3% and 4% at most, i.e., $280 million. In addition to the potential described for expanding the consumption of technological services in the Kingdom, we estimate that the real potential for the export of services in the computing and information field is approximately $600 million.

CONCLUSION

The complex geopolitical landscape of the Middle East, particularly following the Israel-Hamas war of October 2023, underscores the intricate balance between conflict and cooperation in the region. Despite the setback in Saudi public opinion towards Israel due to the conflict, there remains a cautious optimism about the potential for normalization of relations between Saudi Arabia and Israel. This optimism is rooted in the broader context of regional

realignment, as evidenced by the Abraham Accords and the ongoing dialogues involving major regional players. The Saudi leadership's continued openness towards normalization, contingent upon progress in the Palestinian issue and regional stability, reflects a pragmatic approach to foreign policy that prioritizes economic diversification and security collaborations. The involvement of Israeli companies in key Saudi projects, such as NEOM, and discussions about defense systems indicate a growing recognition of mutual strategic interests that transcend traditional political barriers.

Moreover, the evolving dynamics in the Middle East, facilitated by U.S. policy shifts and regional diplomatic efforts, suggest a gradual movement towards economic diplomacy and stability. The U.S.-led I2U2 framework and the India-Middle East Economic Corridor further highlight the role of the region's move towards economic integration and diversification in global geopolitics. These developments, while still nascent, have the potential to reshape the Middle East's geopolitical and economic landscape. In this context, the Abraham Accords continue to stand as a testament to the possibilities of regional cooperation, having already facilitated a de-escalation in tensions and spurred economic partnerships.

Economic ties between Israel and the Kingdom of Saudi Arabia have great potential, but their actual volume remains difficult to assess, as it will depend on both political and economic factors. Arms supplies to Saudi Arabia and any other defense-related exports will be affected by the nature of the relations between Saudi Arabia, the US, and Israel. The agricultural sector will be one of the most important areas for economic cooperation between the countries. Israeli companies will be able to compete with the economic superpowers that are already active in Saudi Arabia in sectors where they have a significant competitive edge in terms of their geographic proximity, unique technological know-how and defense-related aspects.

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