

2020 Survey on Business Conditions of Japanese Affiliated Companies in the Middle East

The proportion of companies expecting profit fell below 50%;
many companies expect to remain the same

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Japan External Trade Organization (JETRO)
Overseas Research Department

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Key Points

The proportion of companies expecting profit fell below 50% -Many companies expect to remain the same-

1

[Operating Profit Forecast]

In 2020, the proportion of companies expecting profit fell below 50% due to the impact of COVID-19 and a fall in oil prices.

The proportion exceeded 50% in Turkey and UAE, but less than 20% in Saudi Arabia and Iran.

2

[Future Business Outlook]

In the Middle East as a whole, the pace of business expansion slowed down, and “remain the same” increased by 10 points, the highest at 60%. On the other hand, about 50% companies in Israel, Turkey and Saudi Arabia are planning to expand business.

3

[Investment Environment/Promising Business Areas]

The biggest advantage of the investment environment is "positive image regarding Japan." The challenge is about legal system. (unnoticed change, undeveloped or unclear system) Promising business areas for the whole region are "new industries," "resources and energy," and "infrastructure."

Survey Overview

Objective

- To understand the actual conditions of Japanese-affiliated companies' business activities in the Middle East (10 countries: United Arab Emirates (UAE), Turkey, Saudi Arabia, Iran, Jordan, Israel, Kuwait, Qatar, Bahrain, and Oman) and provide the results to the public.

Companies Surveyed

- A questionnaire survey was locally conducted for Japanese-affiliated companies with bases in each of the surveyed countries in the Middle East.
- Valid response was received from 244 companies (94 from UAE, 45 from Turkey, 27 from Saudi Arabia, 17 from Israel, 17 from Qatar, 12 from Iran, 13 from Jordan, 9 from Kuwait, 5 from Bahrain, and 5 from Oman)

Period

- September 1 - September 30, 2020

Response Rate

- The valid response rate was 90.7%. The survey was sent to 269 Japanese-affiliated companies in 10 Middle Eastern countries. Valid responses were received from 244 companies.

Remarks

- This was the 8th survey for UAE and the 7th for Saudi Arabia. It was the 6th survey that covered all industries for Turkey, and the 4th survey that had been performed in Qatar. It was the third time it had been held in all other countries.
- JETRO informed the companies to be surveyed of the URL for the questionnaire, and asked them to complete and return it, or sent them questionnaires in Japanese/English by e-mail.

Notes

- All response rates are shown in percentages (%). The response rate is rounded off to the second decimal place. As a result, some of the total figures do not add up to 100%.
- In this report, "N" stands for the number of valid responses (parameter).

Map

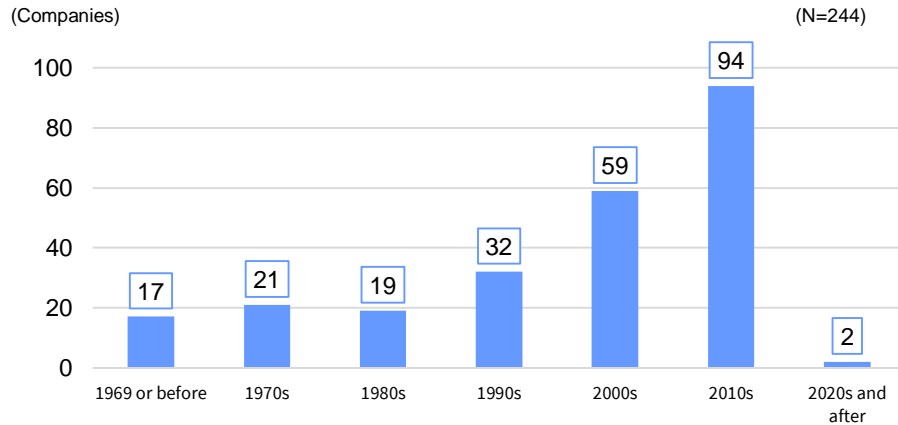


No. of Japanese-affiliated Companies (as of October 1, 2018)	No. of Locations	Y-o-Y
United Arab Emirates	342	1.5%
Turkey	193	-2.0%
Saudi Arabia	114	-0.9%
Israel and the Gaza Strip, etc.	72	9.1%
Qatar	37	-19.6%
Iran	30	-6.3%
Oman	20	0.0%
Bahrain	19	-5.0%
Jordan	19	0.0%
Kuwait	18	0.0%
Lebanon	7	0.0%
Yemen	0	0.0%
Iraq	-	-
Syria	-	-
Total	871	-0.7%

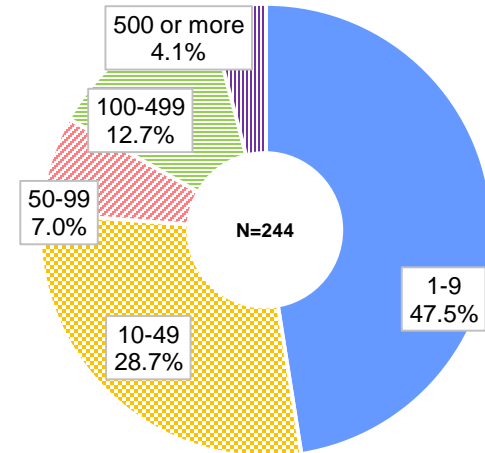
Source: Ministry of Foreign Affairs, "Annual Report of Statistics on Japanese Nationals Overseas (FY 2019)"

Profile of Respondent Firms

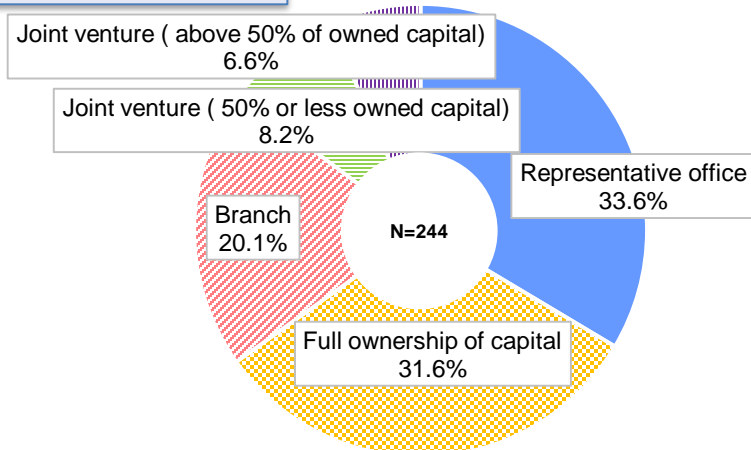
Year of Establishment



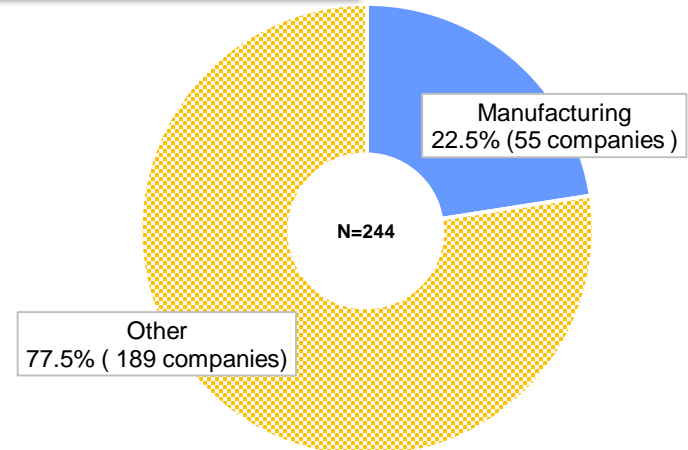
Total Number of Employees



Form of Overseas Base



Industry (Manufacturing/Other)

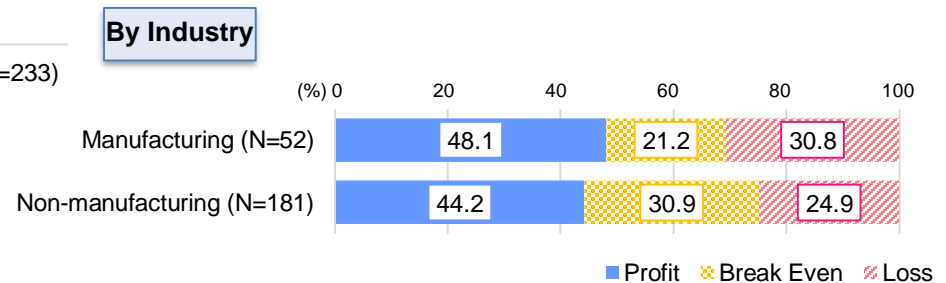
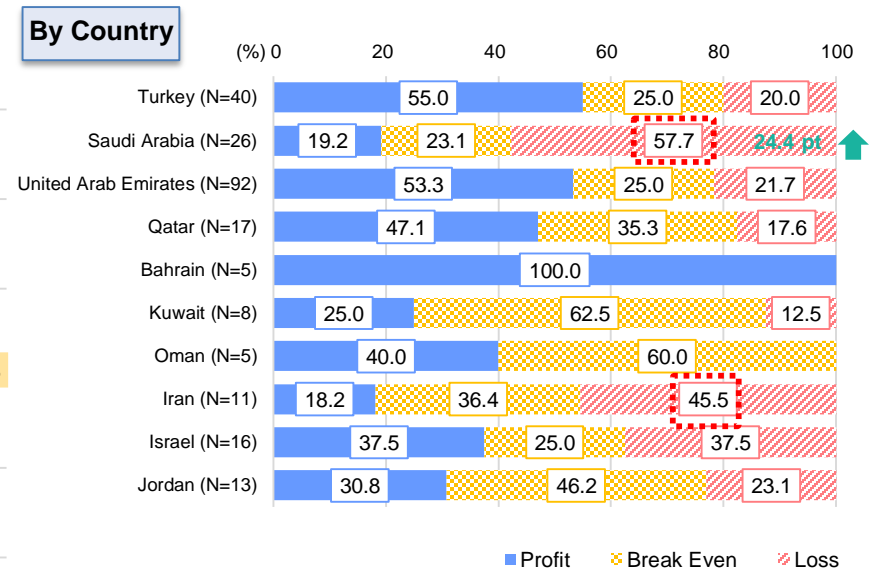
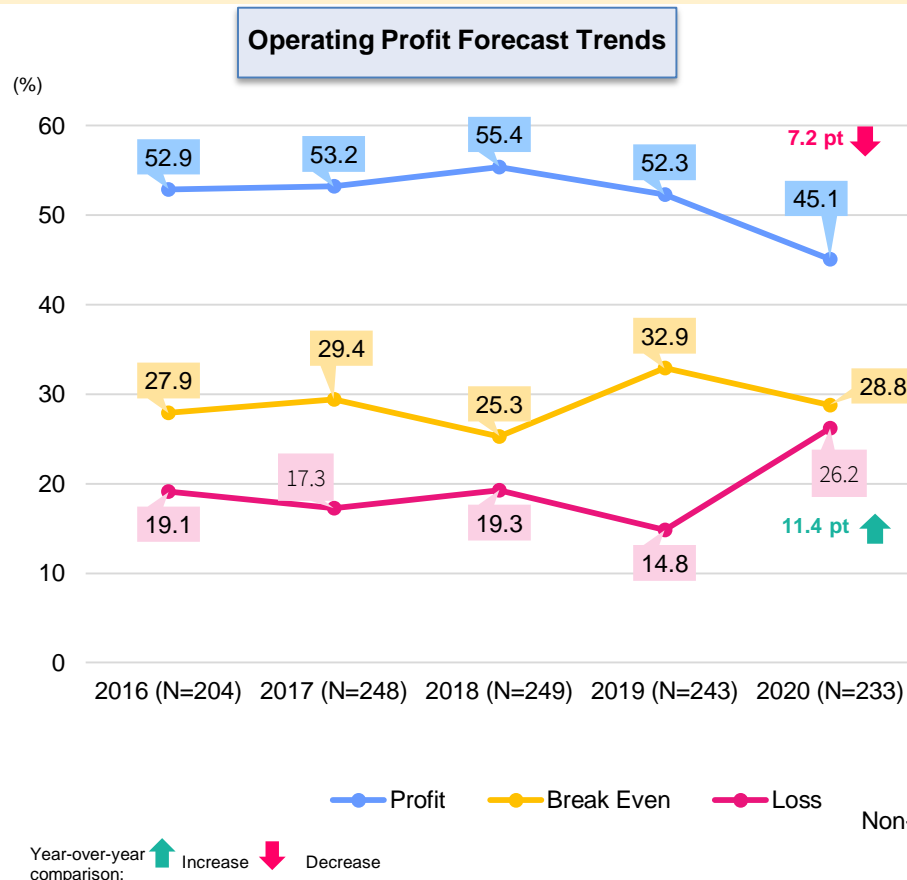


Note: Branches and representative offices that do not obtain an operating profit reported the operating profit of higher-level organizations such as their head office in the relevant market.

1. Operating Profit Forecast

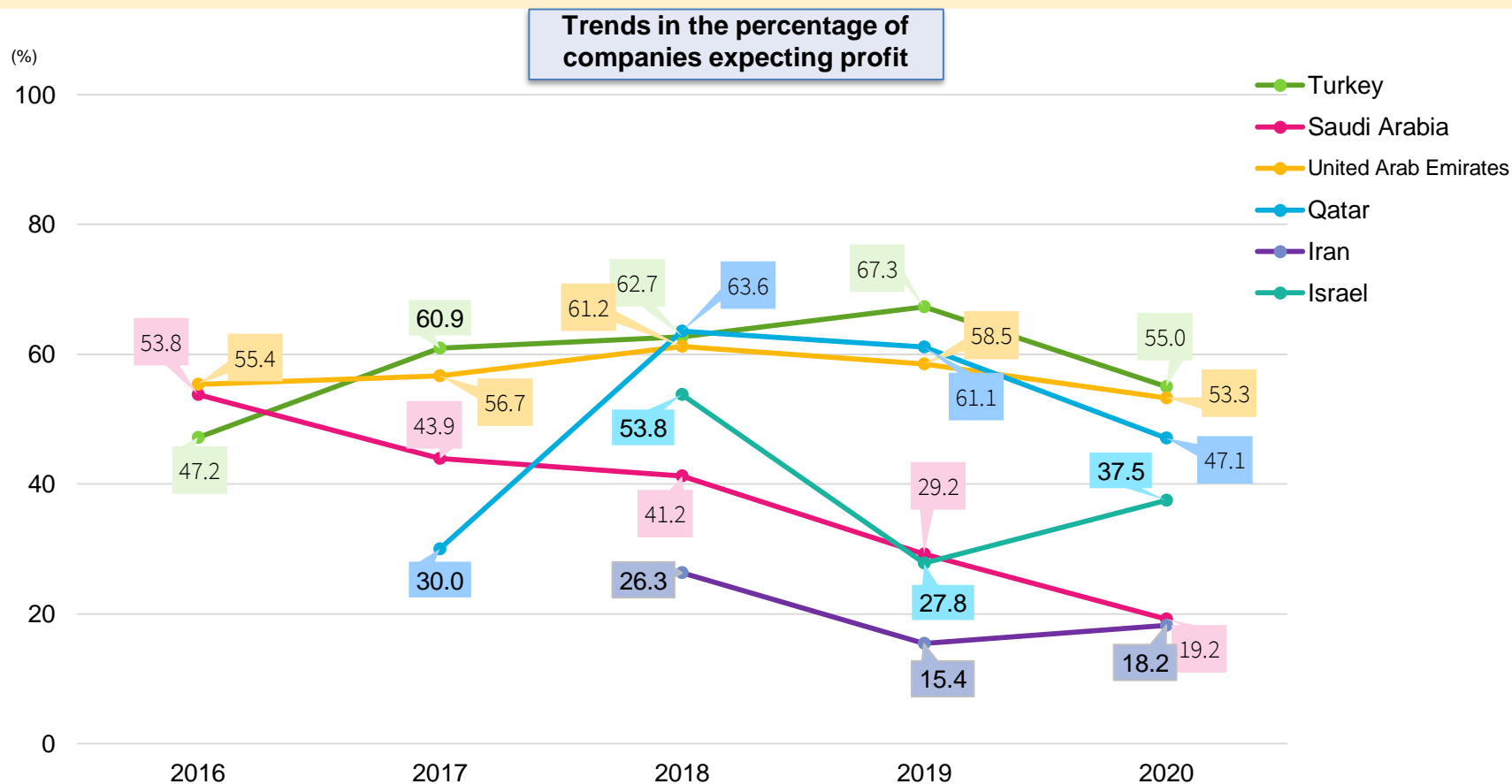
2020 Operating Profit Forecast 1: The proportion of companies expecting profit is less than half

- The percentage of companies expecting operating profit has been around 50% in recent years, but in 2020 it fell below 50% to 45.1%. The percentage of companies expecting loss increased by 11.4 points to 26.2%.
- All the companies responded in Bahrain, and more than 50% in Turkey and the UAE that answered "profit." On the other hand, in Saudi Arabia and Iran, less than 20% of the companies responded "profit," and 57.7% and 45.5% of the companies responded "loss," respectively.



2020 Operating Profit Forecast 2: More than half maintained “profit” in Turkey and the UAE

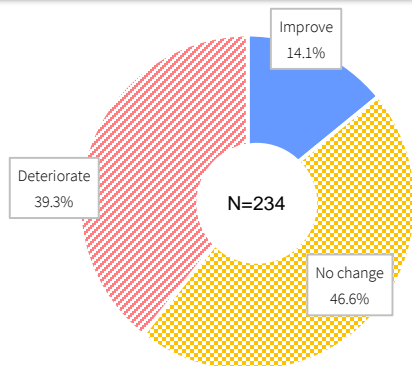
- The percentage fell from 2019, but more than half the companies in Turkey and the UAE answered “profit.”
- The percentage grew from 2019 in Israel and Iran, but both are at a low level of less than 40%.
- The percentage was on a downward trend for Saudi Arabia since 2016, falling below 20% in 2020. Some attribute it to the VAT tax increase.
- The percentage of Qatar was down 14.0 points from 2019, when many companies expected profit.



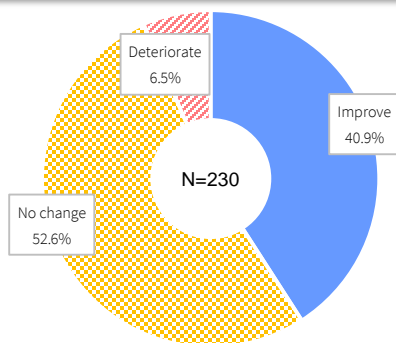
Operating Profit Forecast 3 (Y-o-Y): Over 90% responded that their outlook for 2021 was “remain the same” or “improving”

- In 2020, the percentage of “deteriorating” (39.3%) largely exceeded “improving” (14.1%), up 19.5 points.
- Meanwhile, more than half the companies expect the outlook for 2021 to “remain the same.” More than 40% of the companies expect “improvement” due to a significant reactional increase from the deterioration in 2020.

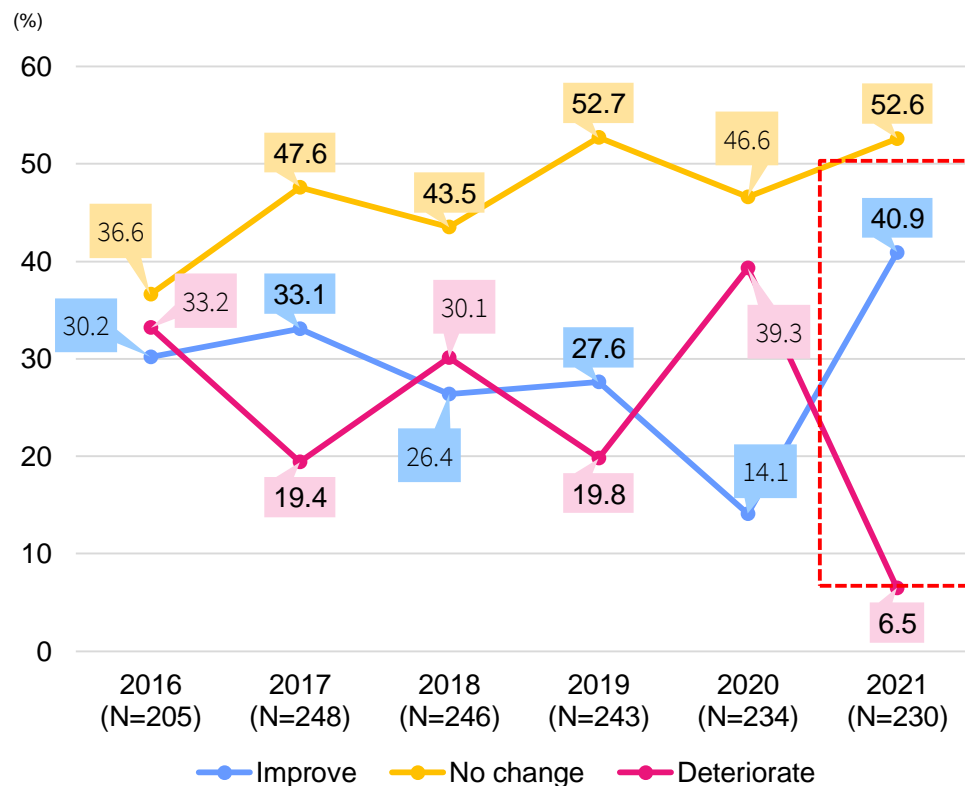
2020 Operating Profit Forecast (Y-o-Y)



2021 Operating Profit Forecast (Y-o-Y)



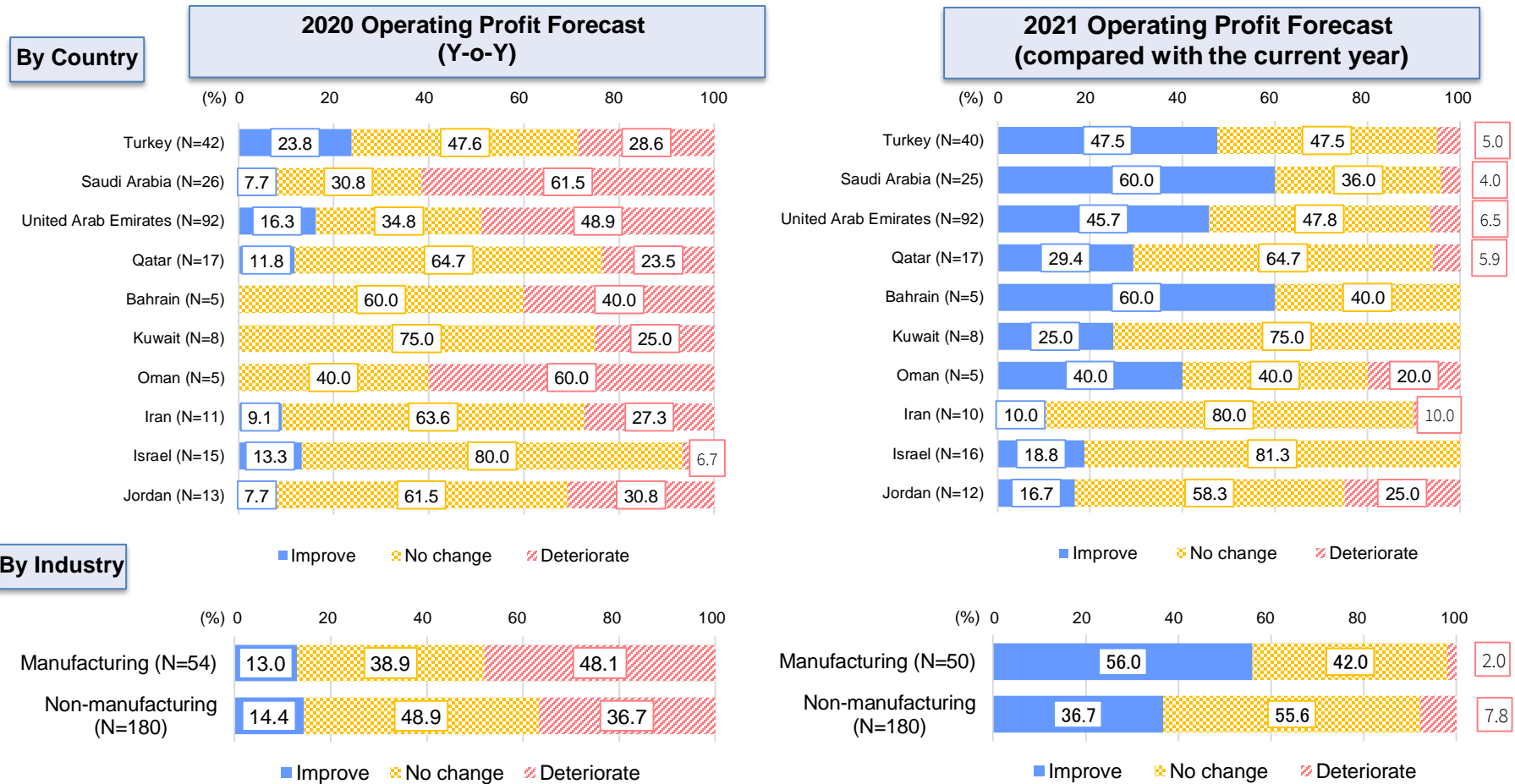
Operating Profit Forecast Trends (Y-o-Y)



Note: estimate for 2016 - 2020; outlook for 2021

Operating Profit Forecast 4 (by Country / by Industry)

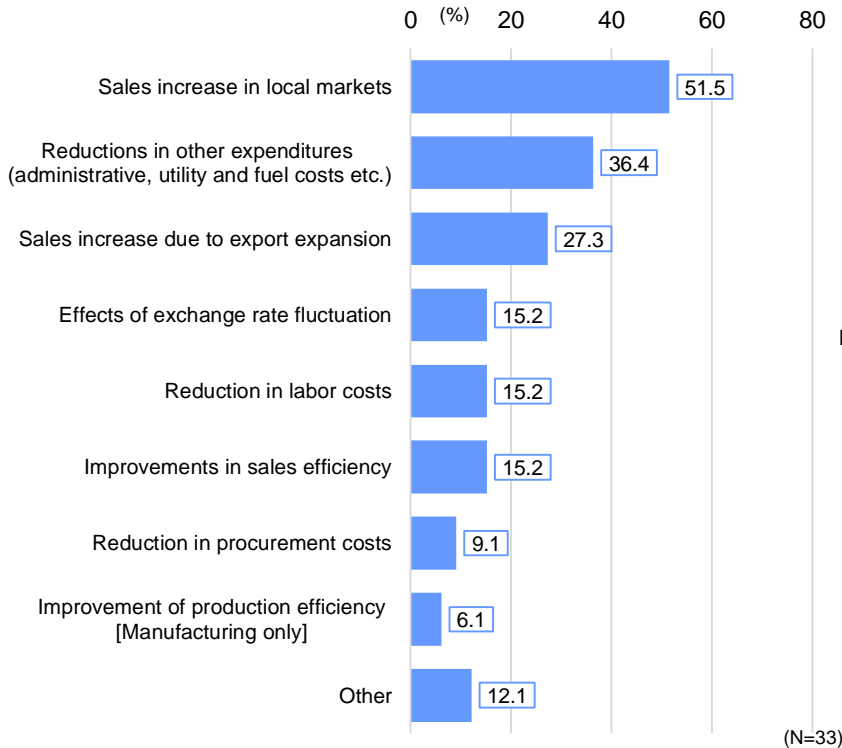
- In 2020, most of the companies responded that they expect their operating profit forecast to “remain the same” compared with the previous year in many countries. Meanwhile, 60% of the companies in Saudi Arabia and Oman and about 50% in the UAE answered the operating profit will "deteriorate".
- For 2021, 60% of the companies in Saudi Arabia and Bahrain expect “improvement” and little less than 50% of the companies in Turkey and the UAE answered it will "improve".



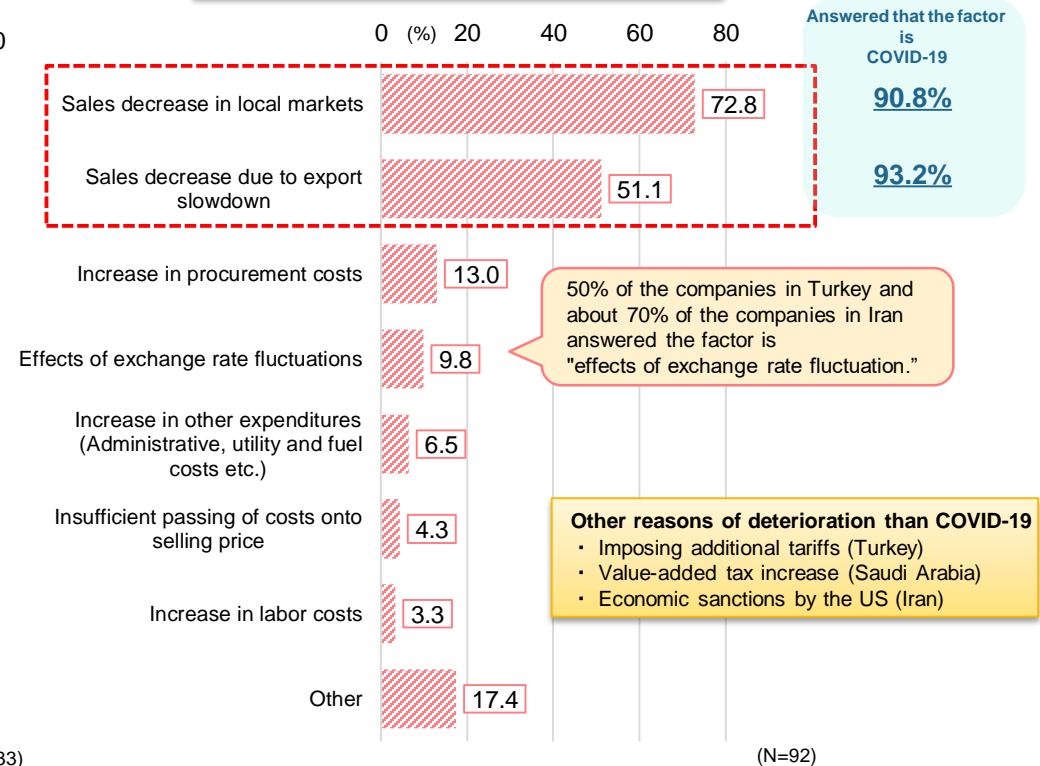
2020 Operating Profit Forecast 5: (Reasons for Improvement / Deterioration)

- About 50% of the companies that answered "improvement" attributed it to "sales increase in local markets."
- About 70% of the companies that answered "deterioration" said it is due to "sales decrease in local markets", and about 50% of the companies answered that it is due to "sales decrease due to export slowdown." Of these, the proportion of companies that attributed the deterioration to COVID-19 was over 90%.
- In Turkey and Iran, many companies attributed the deterioration to "effects of exchange rate fluctuation."

**2020 Operating Profit Forecast
Reasons for YoY improvement
(Multiple answers)**



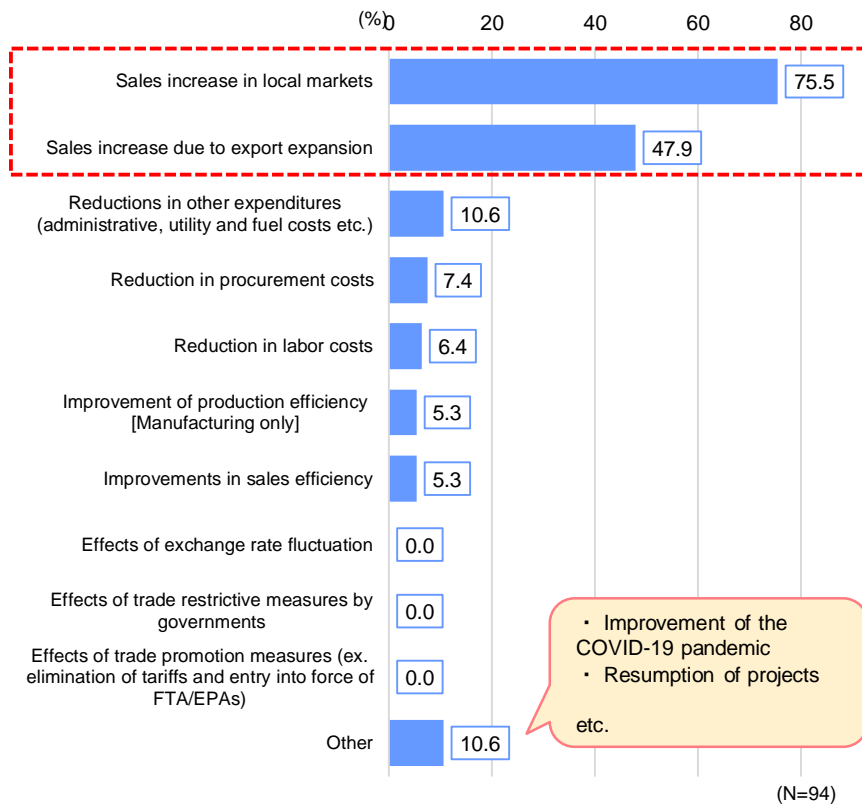
**2020 Operating Profit Forecast
Reasons for YoY deterioration
(Multiple answers)**



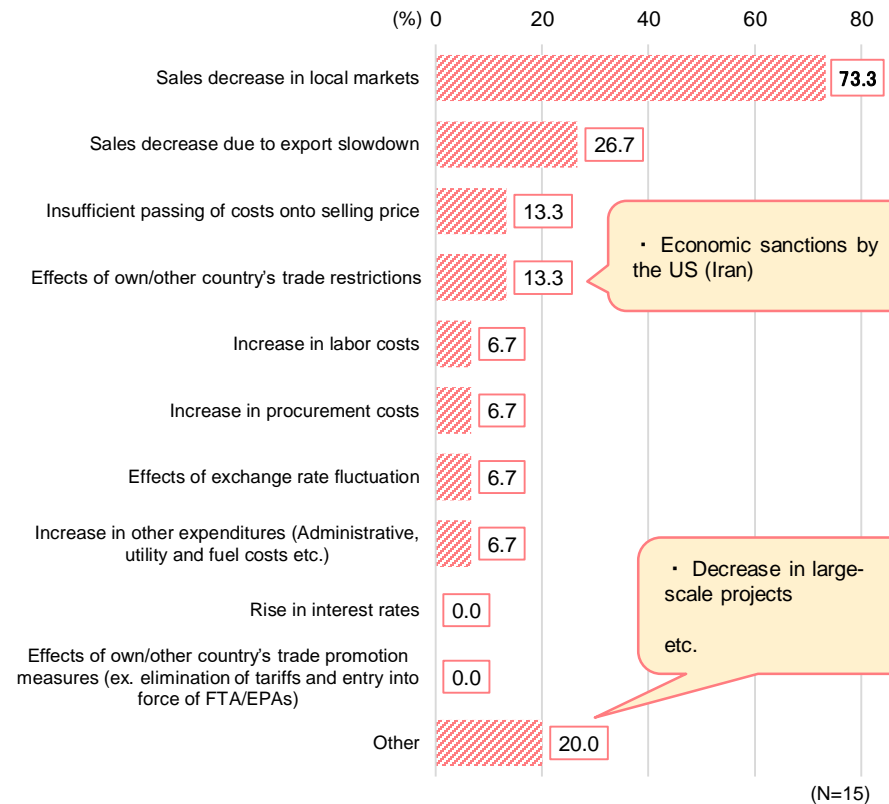
2021 Operating Profit Forecast 6: (Reasons for Improvement / Deterioration)

- The biggest factor for "improvement" in the 2021 operating profit forecast is "sales increase in local markets." Nearly half of the companies said "sales increase due to export expansion".
- More than 70% of the companies that answered that the operating income outlook for 2021 is "deteriorate" said it is due to "sales decrease in local markets."

Reasons for improvement of 2021 operating profit forecast
(Multiple answers)



Reasons for deterioration of 2021 operating profit forecast
(Multiple answers)

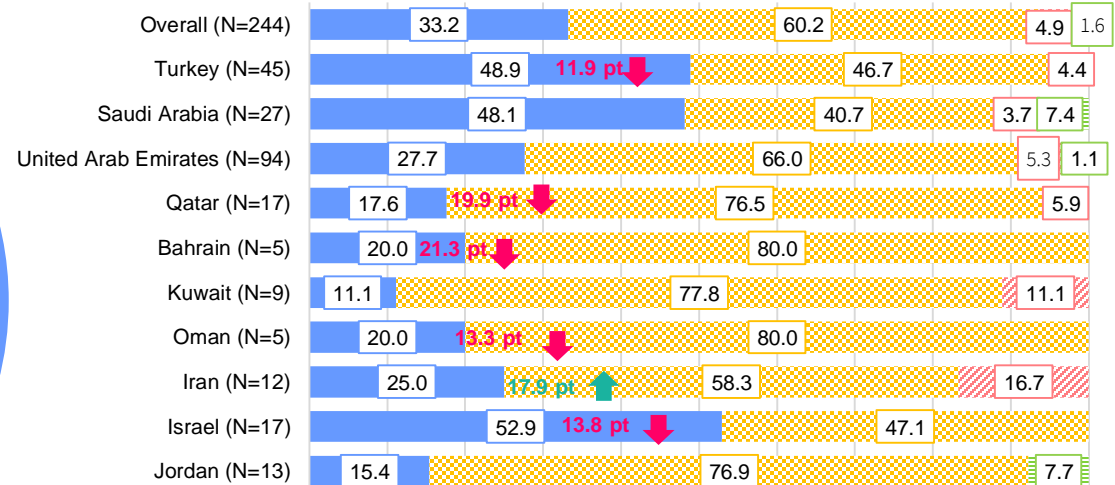
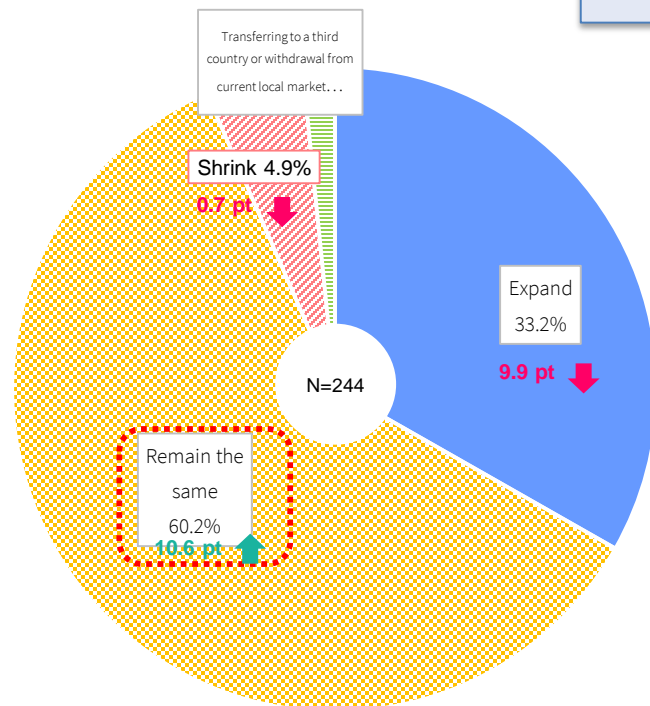


2. Future Business Outlook

Future Business Outlook 1: (Overall / by Country): 60% answering "remain the same"

- As for future business outlook, the proportion of "expand" fell by about 10 points from the previous year to 33.2%.
- "Remain the same" increased by about 10 points to 60%; about 10% of companies changed their attitude to wait and see the situation rather than to expand.
- About 50% companies in Israel, Turkey and Saudi Arabia are planning to expand business. In Iran, little less than 60% answered that they will "remain the same," but 16.7% of companies answered they will "shrink" their business. However, "expand" increased by about 18 points from the previous year.

Direction of business operations in the next one to two years

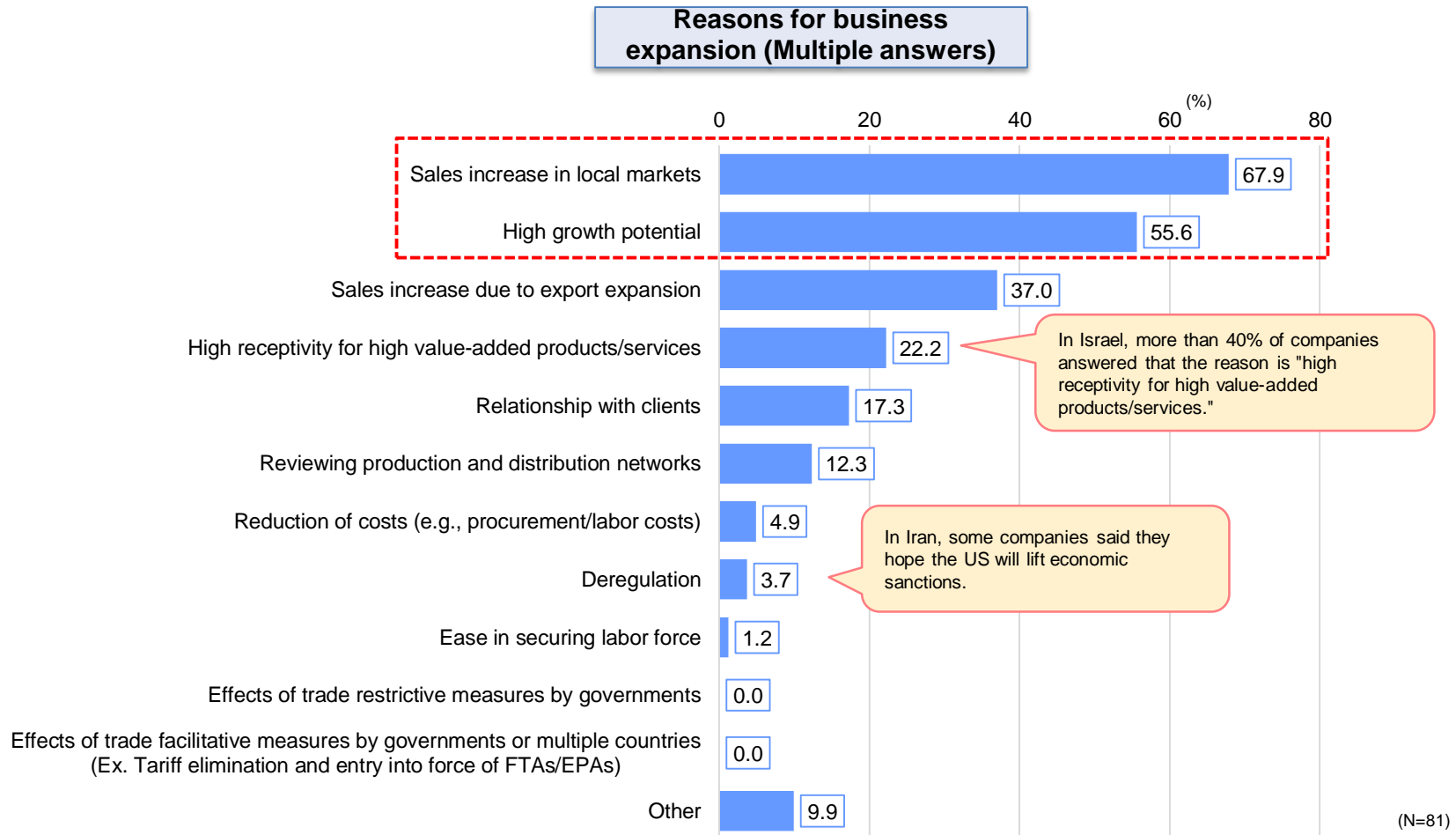


■ Expand
■ Remain the same
■ Shrink
■ Transferring to a third country or withdrawal from current local market

Year-over-year comparison: ↑ Increase ↓ Decrease

Future Business Outlook 2: (Reasons for expansion): Focus on sales and growth potential

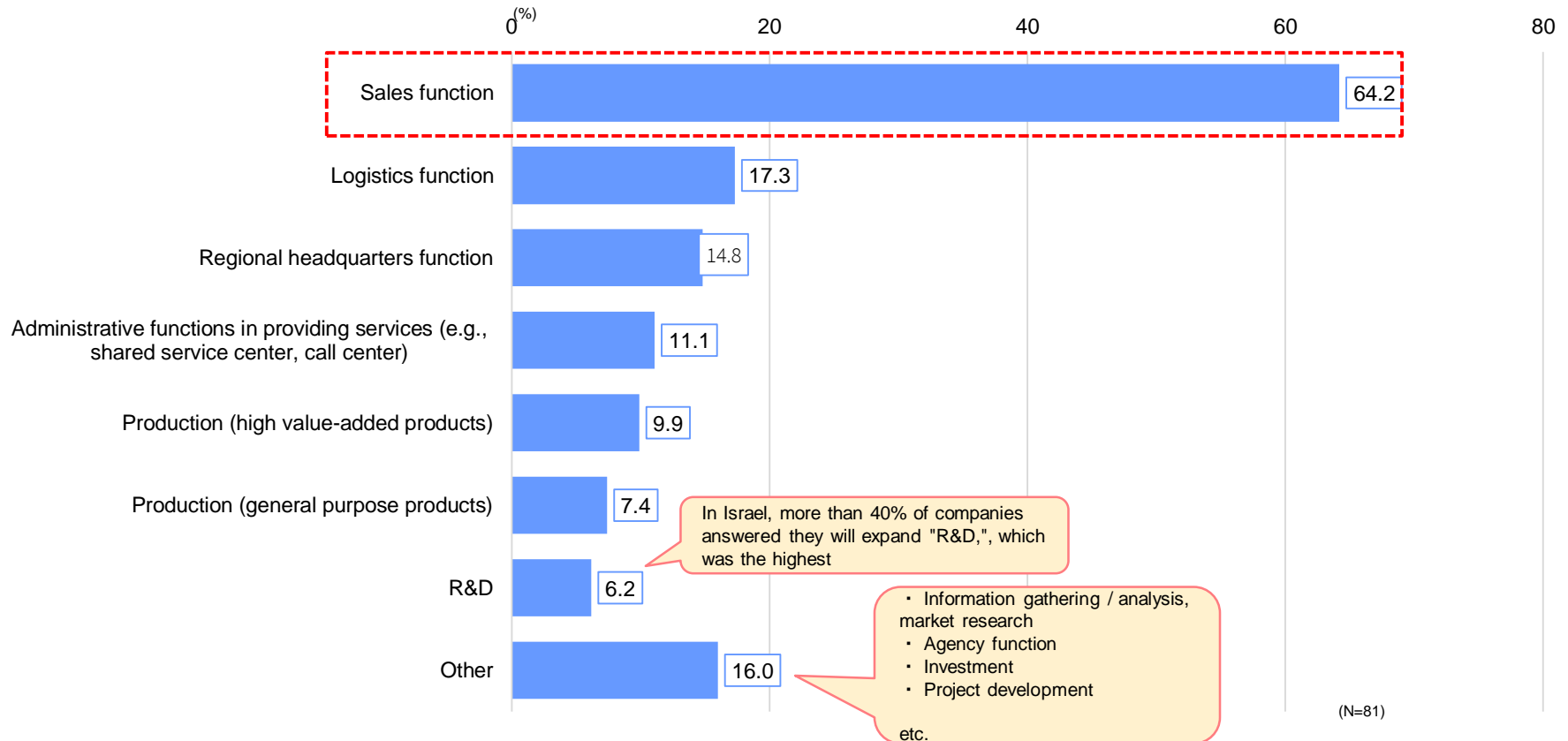
- About 70% of companies answered that the reason for business expansion was "sales increase in local markets", and more than 50% answered that "high growth potential."
- The percentage of "sales increase due to import expansion" decreased by 7.9 points from the previous year.



Future Business Outlook 3: (Functions to be Expanded): The highest percentage for “sales function”

- More than 60% of the companies said they will expand "sales function", which sets them apart from other functions.
- In Israel, more than 40% of companies answered they will expand "R&D."

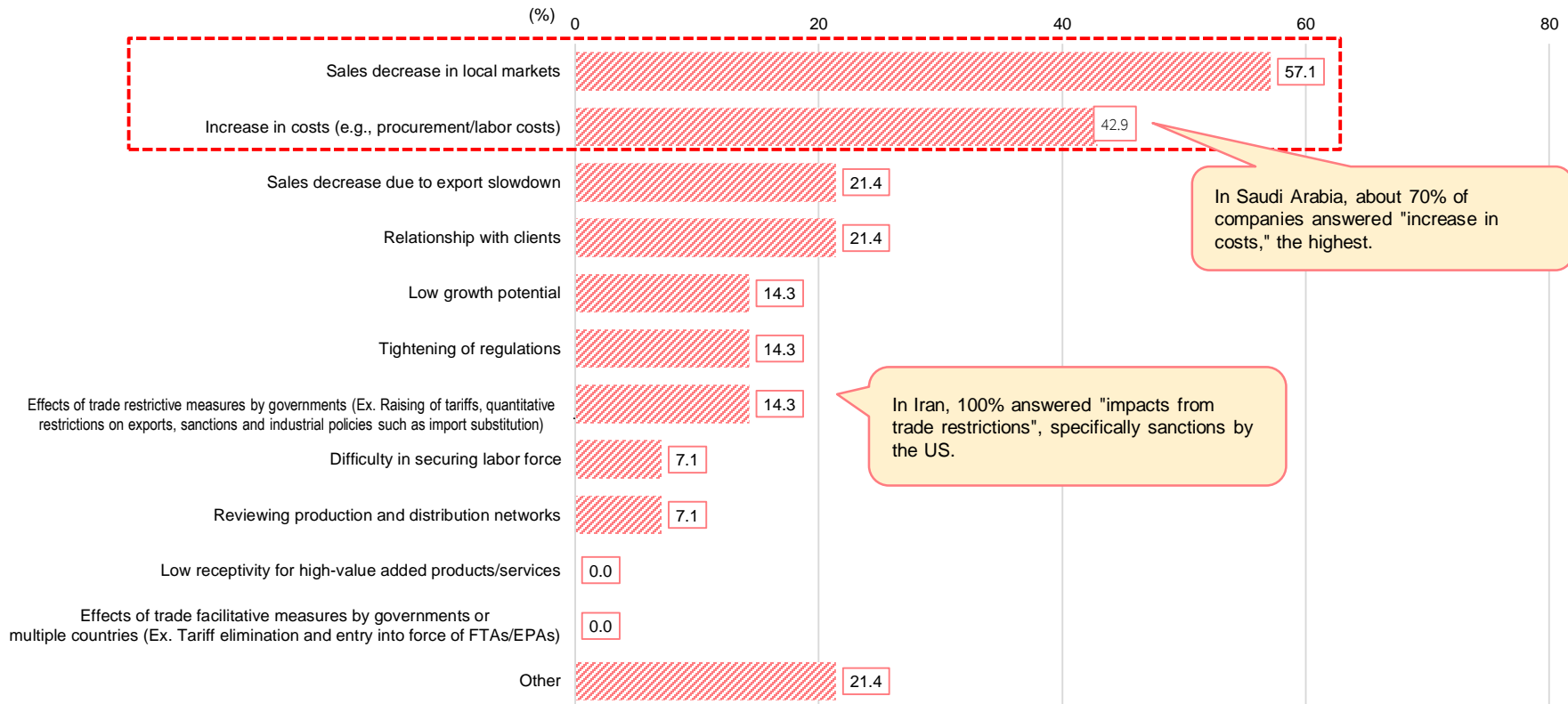
Specific functions to be expanded (Multiple answers)



Future Business Outlook 4: (Reasons for "shrink," "relocation or withdrawal to third countries")

- The biggest factor of shrinking or withdrawing business to third countries was "sales decrease in local markets." This was followed by "increase in costs (procurement and labor costs).
- The biggest factor in Saudi Arabia is "increase in costs " while it is "impacts from trade restrictions" in Iran.

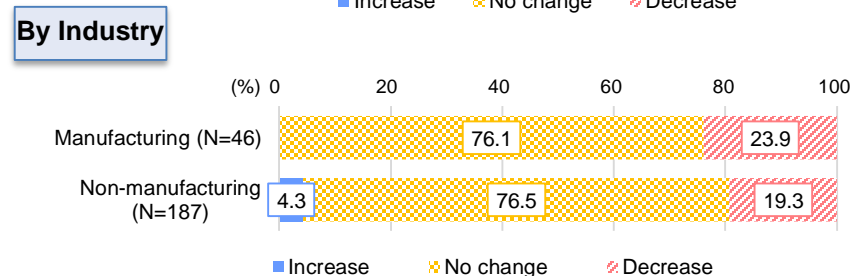
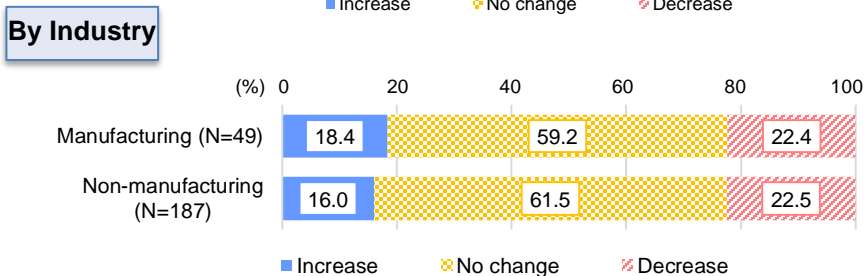
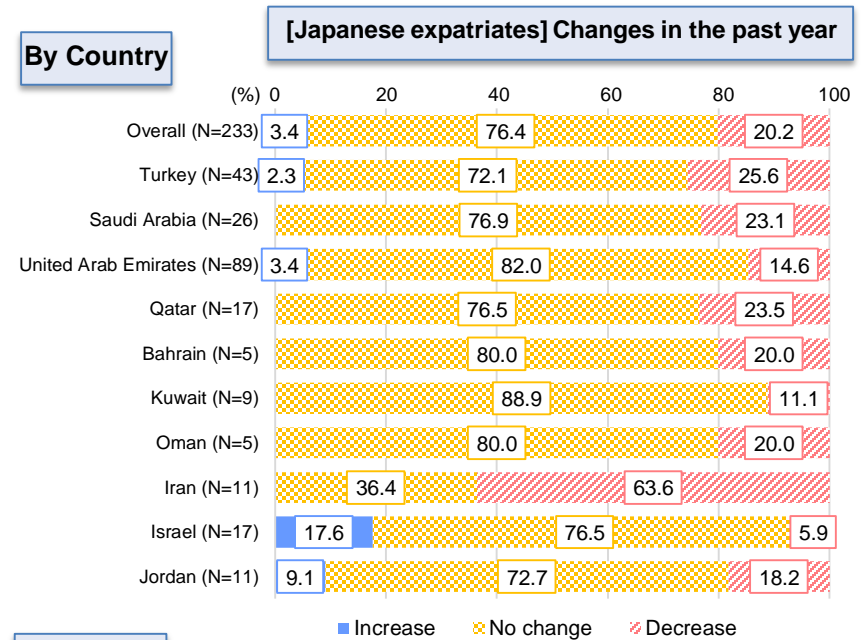
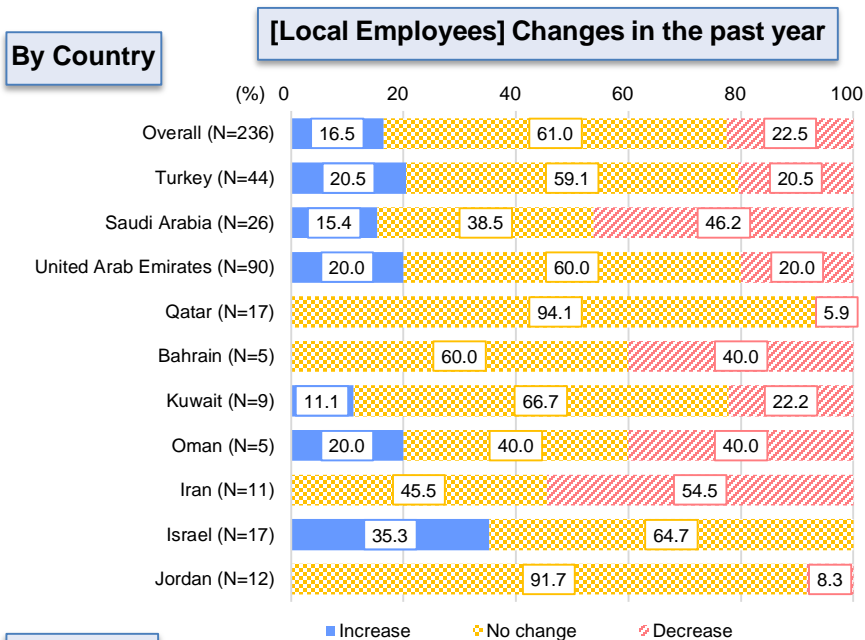
Reasons for "shrink," "relocation or withdrawal to third countries" (Multiple answers)



(N=14)

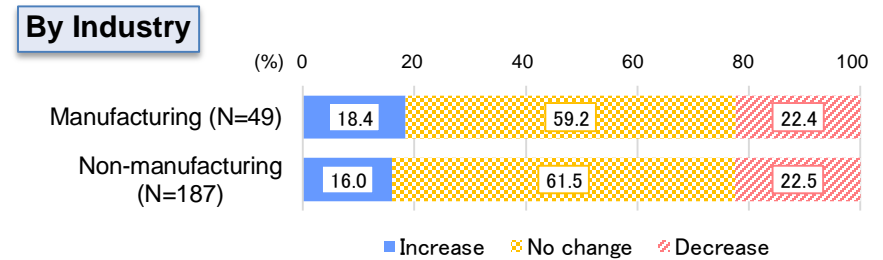
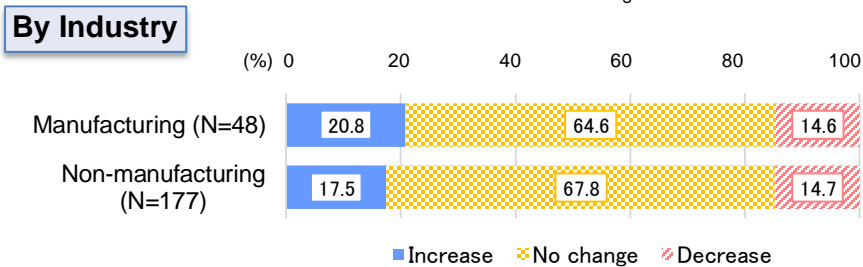
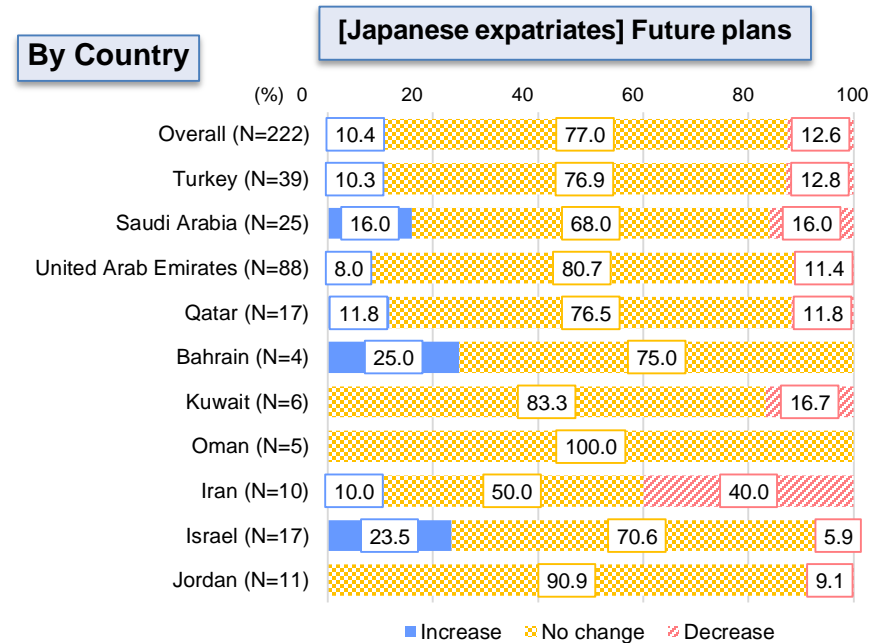
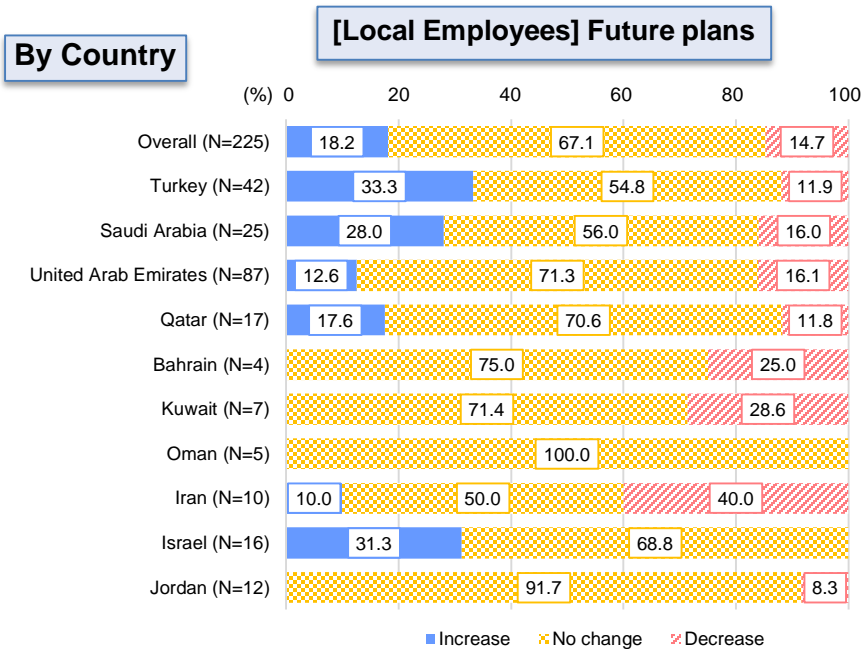
Number of Employees 5: (Change over the past year): Many answered “no change”

- Over the past year, there were “no change” in the number of local employees and Japanese expatriates overall.
- In Iran, the proportion of “decrease” exceeded that of “no change” for both local employees and Japanese expatriates. Also in Saudi Arabia, the number of local employees has been declining as in the previous year.
- In Israel, for both local employees and Japanese expatriates, the percentage of "increase" is higher than in other countries.



Number of Employees 6: (Future plans): Many answered “no change” in the future

- A large percentage of companies said “no change” in numbers of local or Japanese staff in the future overall.
- In Turkey, Saudi Arabia and Israel, there is a trend towards increasing local employees.
- In Iran, 50% of the companies said “no change” for both local employees and Japanese expatriates, and 40% of the companies answered “decrease”.

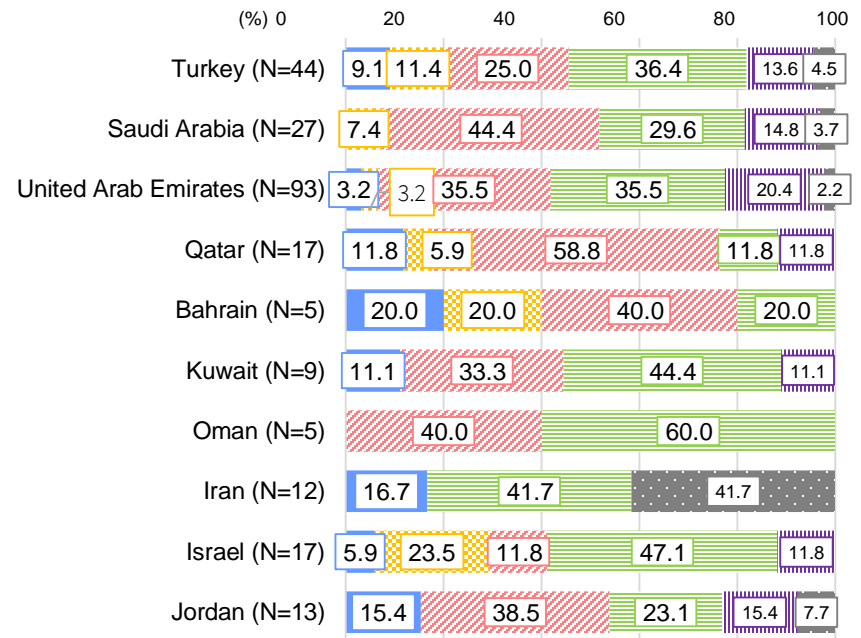
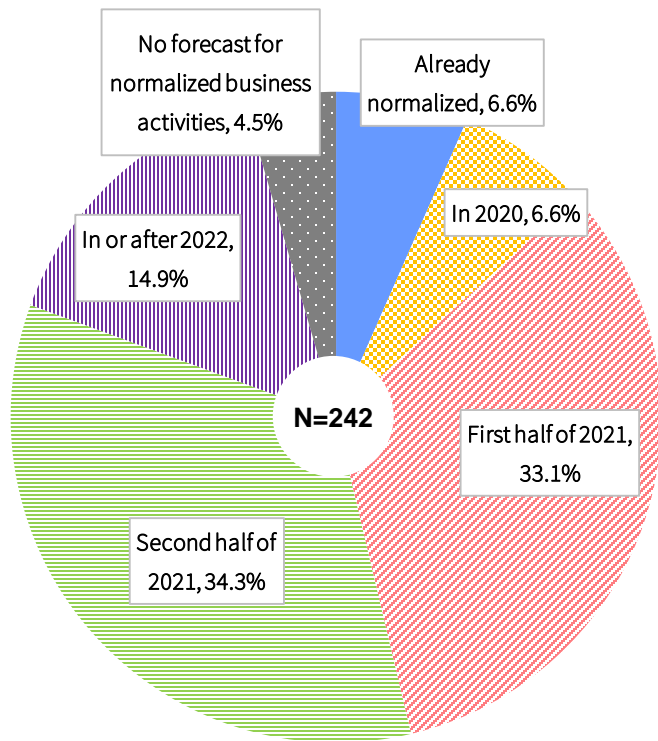


3. Impact of the Spread of COVID-19

Timing When Business Will Normalize: 70% of companies expect normalization during 2021

- About 70% of companies expect their business will normalize during 2021 (33.1% in the first half and 34.3% in the second half.) Including the answer “within 2020,” a total of 80% of companies expect to normalize by the latter half of 2021.
- On the other hand, in Iran, more than 40% of companies answered that "the outlook is uncertain."

Timing when business will normalize after the spread of COVID-19 <Single answer>

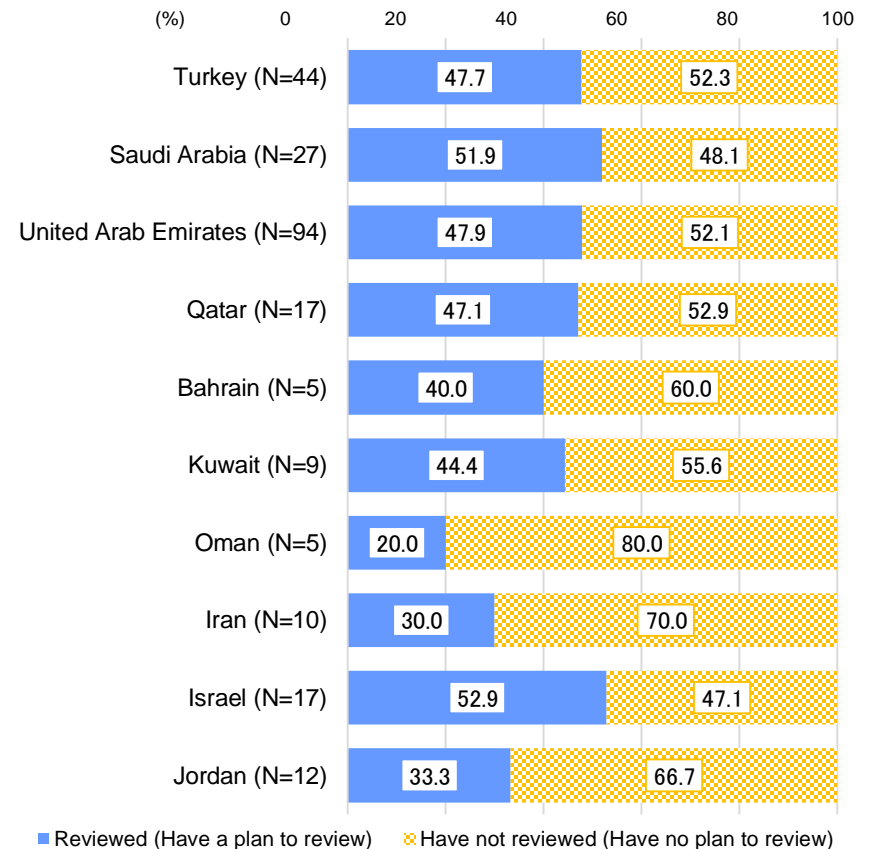
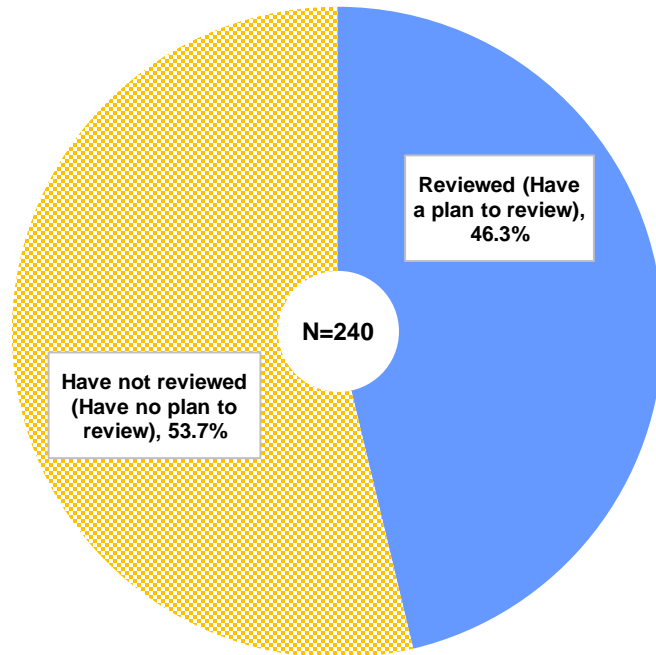


- Already normalized
- In 2020
- First half of 2021
- Second half of 2021
- In or after 2022
- No forecast for normalized business activities

Review of Business Model 2: Over 50% have "no plans"

- Regarding business strategies and business models, 53.7% of companies "have not reviewed (have no plan to review)", slightly higher than 46.3% of those who have "reviewed (have plans)".
- More than 50% of the companies in Saudi Arabia and Israel "reviewed (have a plan to review)".

Review of business strategy and business model after the spread of COVID-19 <Single answer>



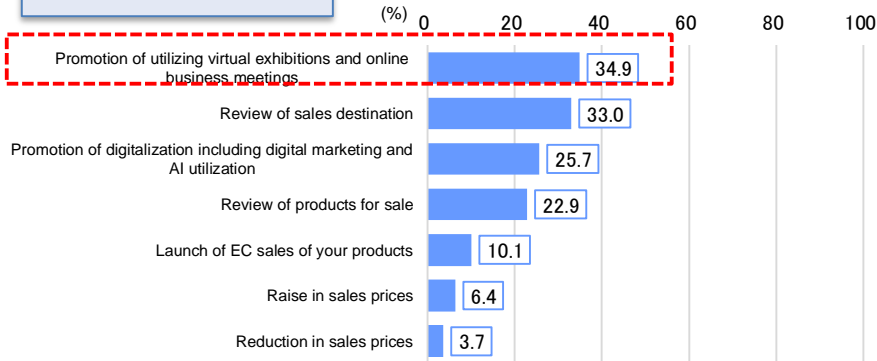
Details of Review: Expansion of the utilization of work from home and teleworking

- Regarding the details of the review, more than 80% of the companies answered "expansion of the utilization of work from home and teleworking." More than 30% of companies are also working on "promotion of utilizing virtual exhibitions and online business meetings."
- Meanwhile, less than 20% of companies said they will review "procurement" and "production."

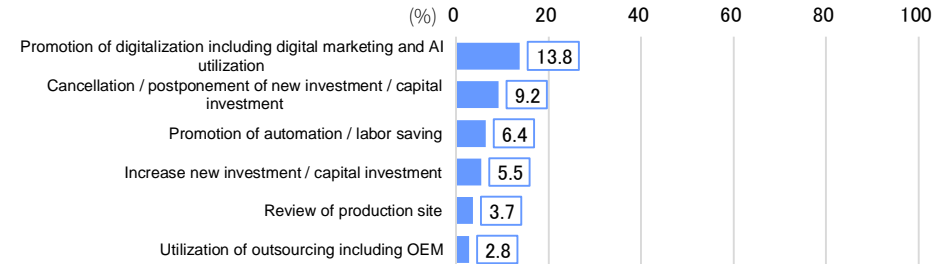
Details of the Review (planned) (Multiple answers)

(N=109)

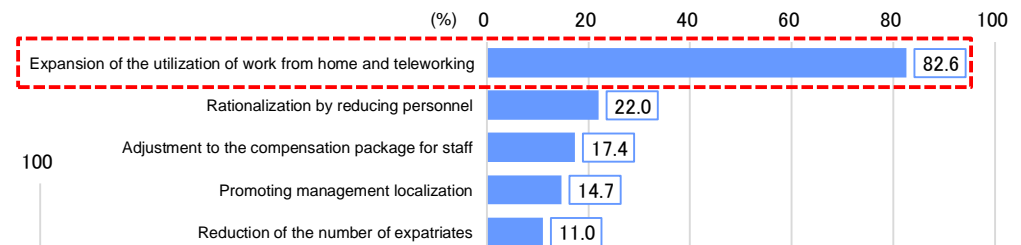
Review of sales strategy



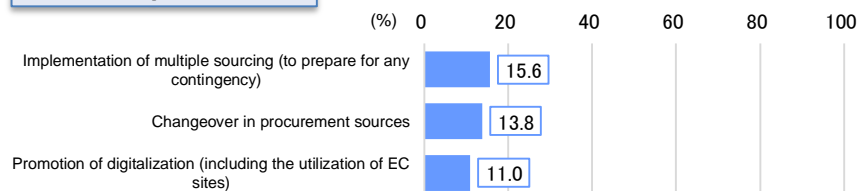
Review of production



Review of control/management system



Review of procurement

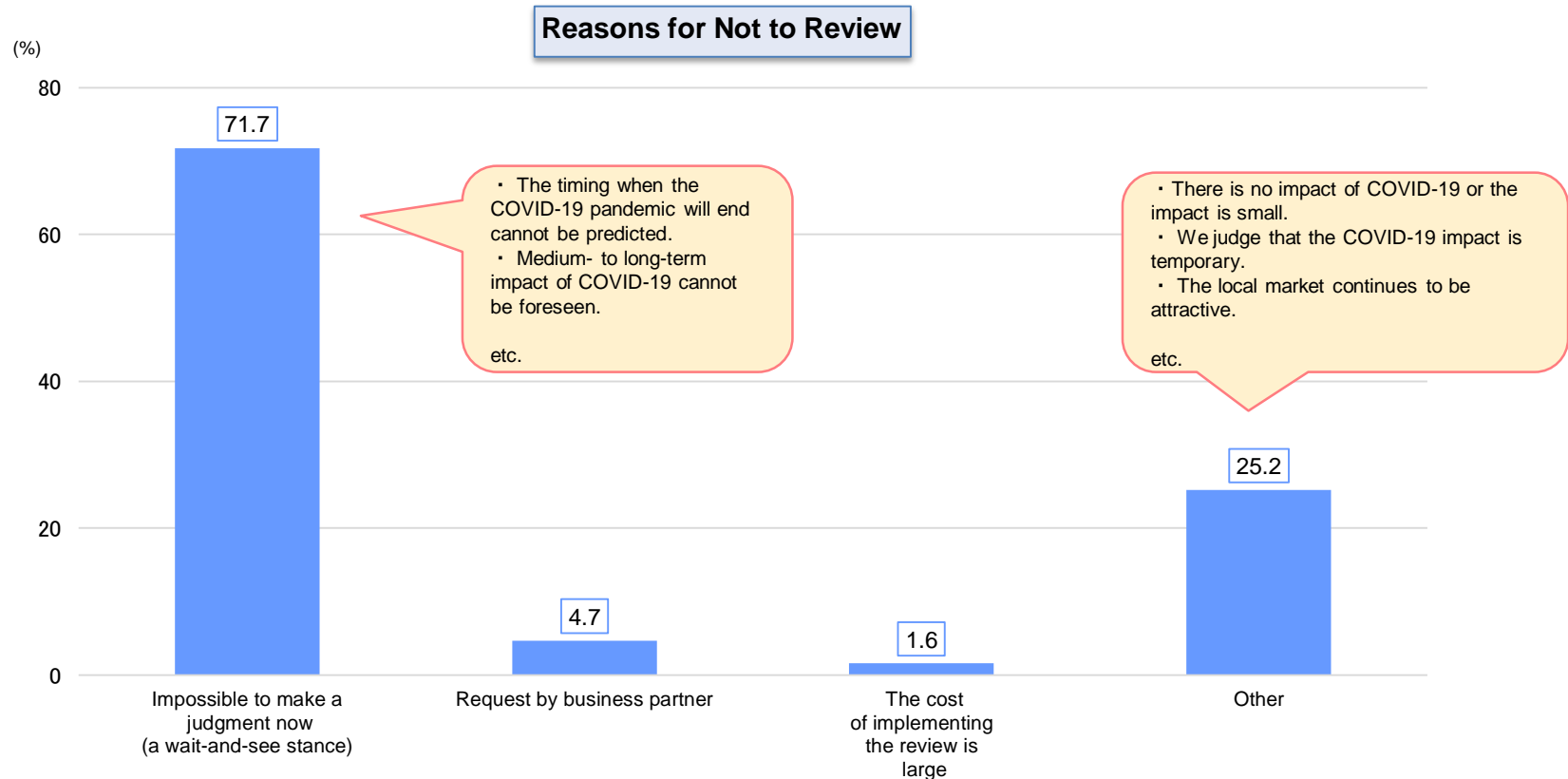


Other



Reasons for Not to Review Business Model 4: Wait-and-see stance because the outlook is unclear

- Of the companies that answered that they have not reviewed their business model (no plans), more than 70% said it is impossible to make a judgment now (a wait-and-see stance.) Reasons include uncertain outlook of the COVID-19 pandemic.
- On the other hand, in "other," there were some companies that answered they were not affected by COVID-19 (small impact or the impact is temporary).

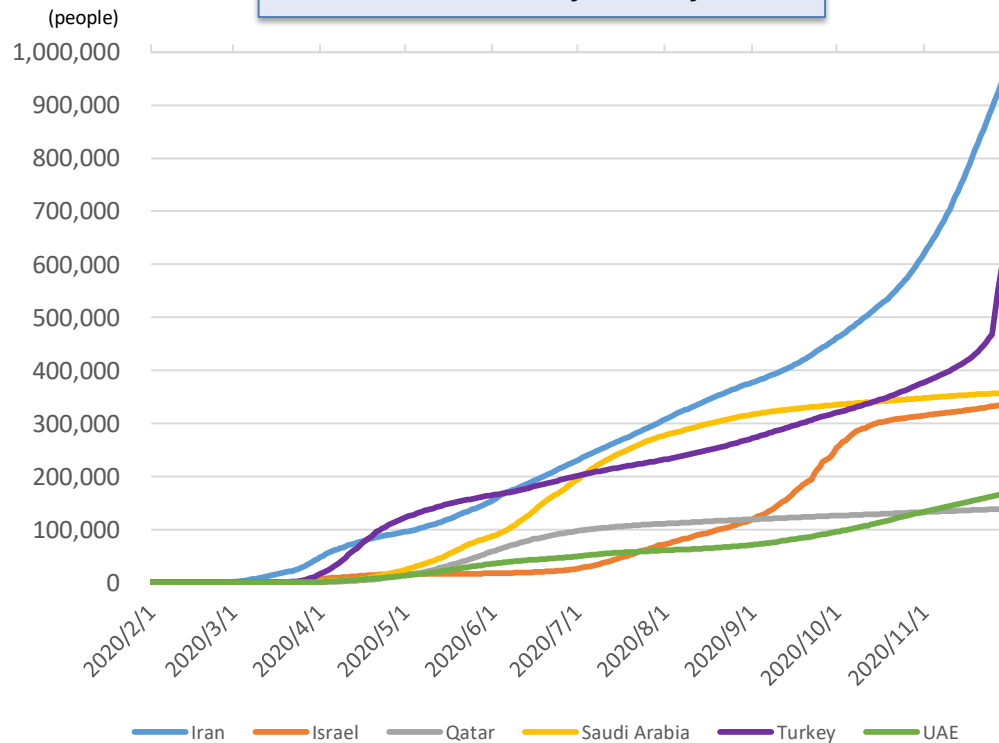


(N=127)

<Reference> Impact of the spread of COVID-19 on Middle East

- The number of cases in the Middle East increased toward the end of 2020, mainly in Iran and Turkey.
- Although the economy or industries were hardly hit, each country is making use of its strengths to overcome this difficult situation.
 - Diversification of industries in oil-producing countries, startups in Israel, growth of digital industries (e-commerce, etc.), etc.

Trends of cumulative cases in the Middle East by country



(Source) Created by JETRO based on Our World in Data

COVID-19 infection status in the Middle East

Month/date (2020)	Infection status
January 29	First case in the Middle East confirmed in the UAE
February 19	First death in the Middle East reported in Iran
March	Number of cases surged in Iran Middle Eastern countries restricted travel and unnecessary outings
April	Number of cases surged in Turkey Lockdown imposed (complete prohibition of outings) in each country
May	Number of cases surged in Saudi Arabia and other GCC Qatar saw the highest per capita infection rate in the world Cases suppressed by strict restrictions of outings and business operation during Ramadan (fasting period)
June	Restrictions gradually lifted in the vacation after Ramadan (late May) Number of cases surged again in Saudi Arabia
July	Number of cases surged again in Israel
September	Cases surged again in Israel, second lockdown (to October)
November	Cases surged again in Iran and Turkey

(Reference)

Feature: [Regional / Analysis Report](#)

“[Impact of COVID-19 in the Middle East and Future Outlook: by Local Experts](#)” (Japanese only)

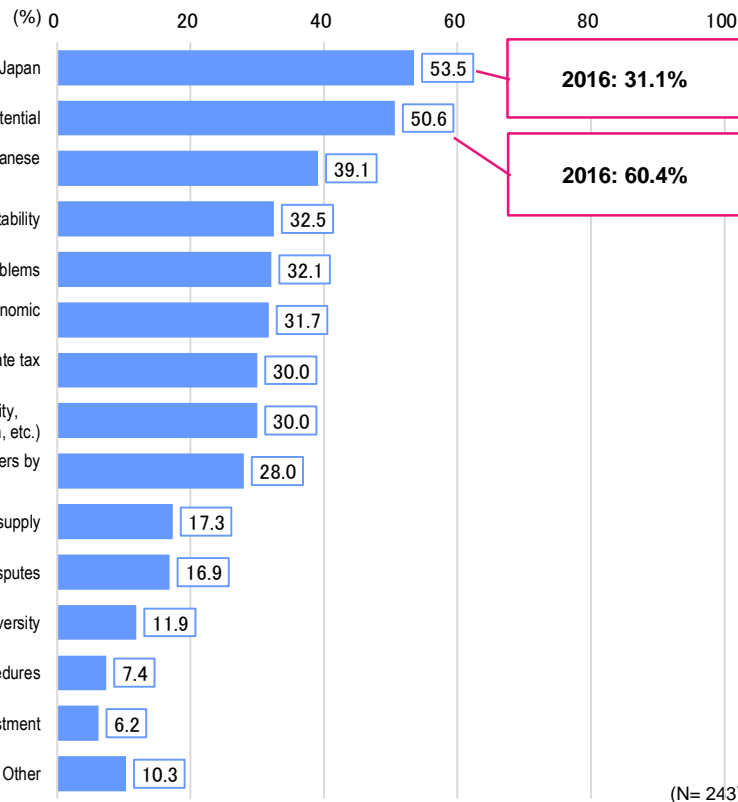
4. Investment Environment Advantages and Challenges

Investment Environment Advantages and Challenges 1

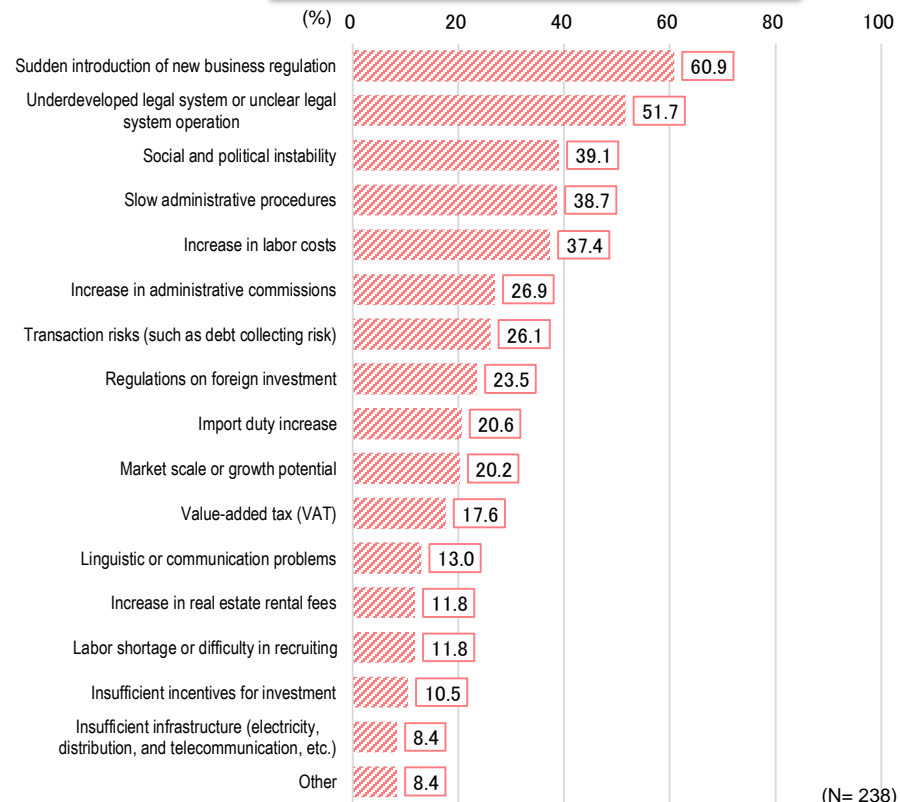
(all): Legal system is a major challenge

- Majority of companies (53.5%) responded “positive image regarding Japan” as one of the attractions of the investment environment. This was followed by “market size and growth potential” at 50.6%, a decline of about 10 points compared to about 60% in 2016.
- Challenges included “sudden introduction of new business regulation” was the highest at 60.9%. This was followed by “underdeveloped legal system or unclear legal system operation” at 51.7%.

Advantages of the investment environment (Multiple answers)

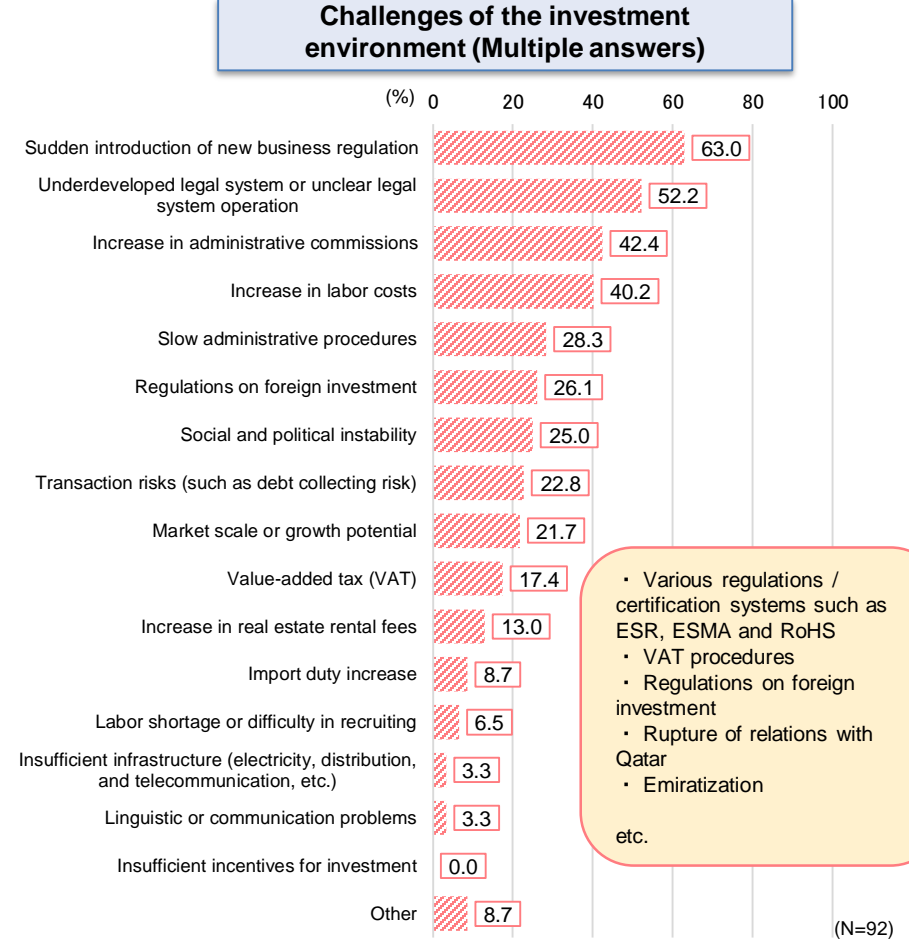
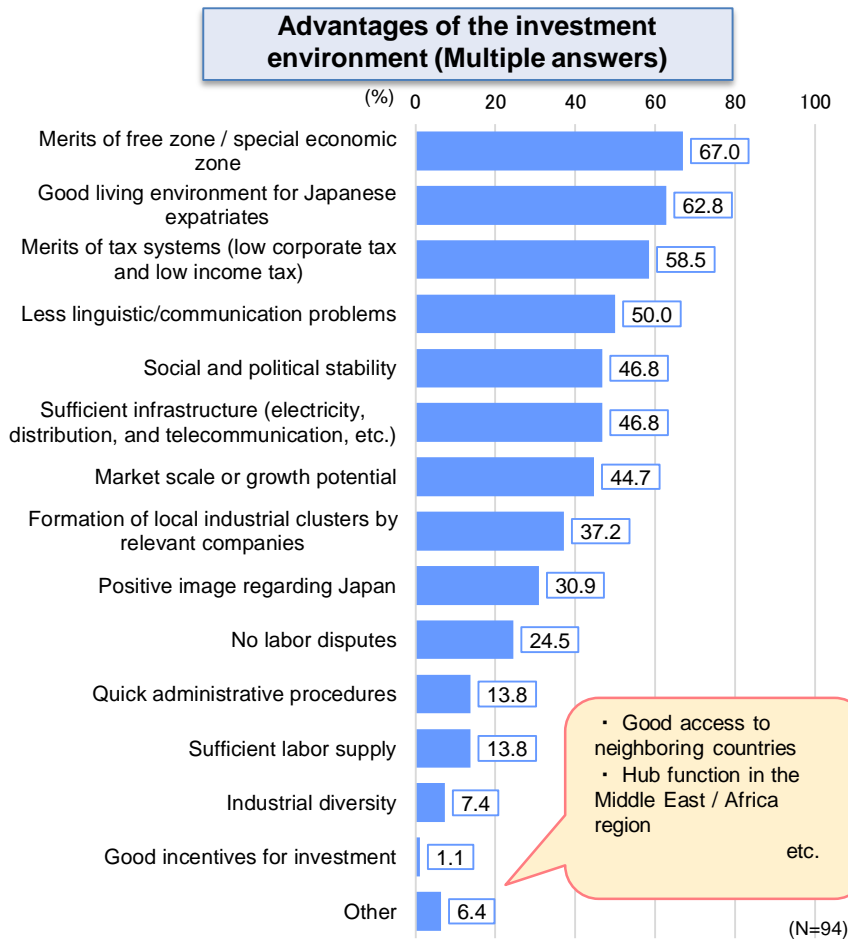


Challenges of the investment environment (Multiple answers)



Investment environment 2 (United Arab Emirates): Advantages include free zone

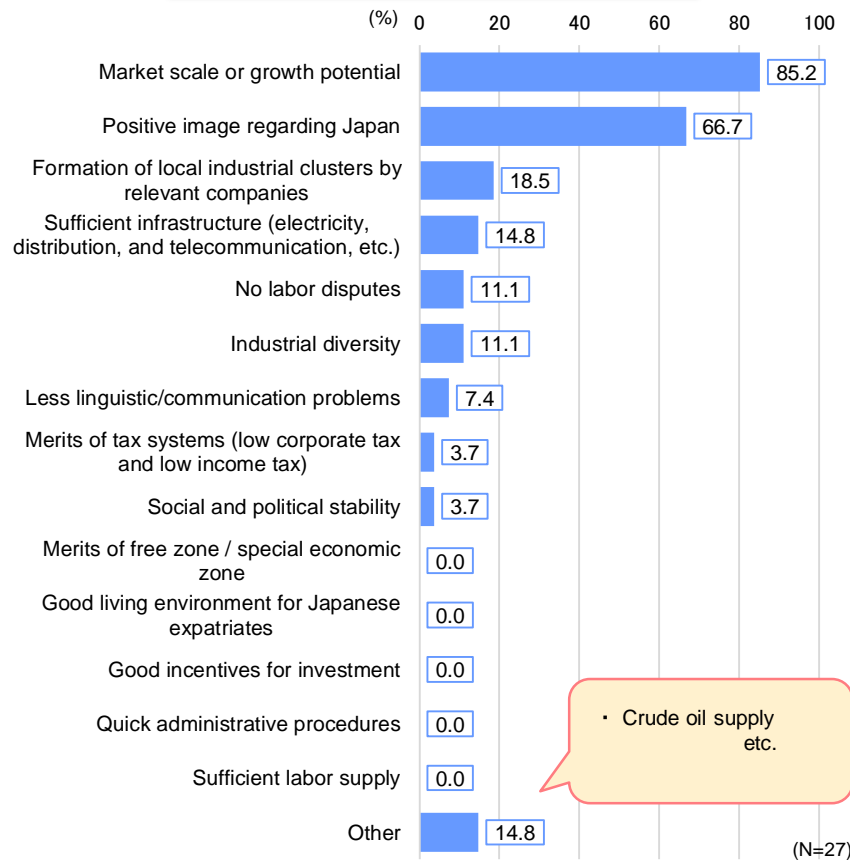
- Majority of firms saw the UAE's "free zone and special economic zones" as advantage, followed by "good living environment for Japanese expatriates."
- Challenges include "sudden introduction of new business regulation," followed by "underdeveloped legal system or unclear legal system operation." Increase in administrative commissions and labor costs also ranked highly.



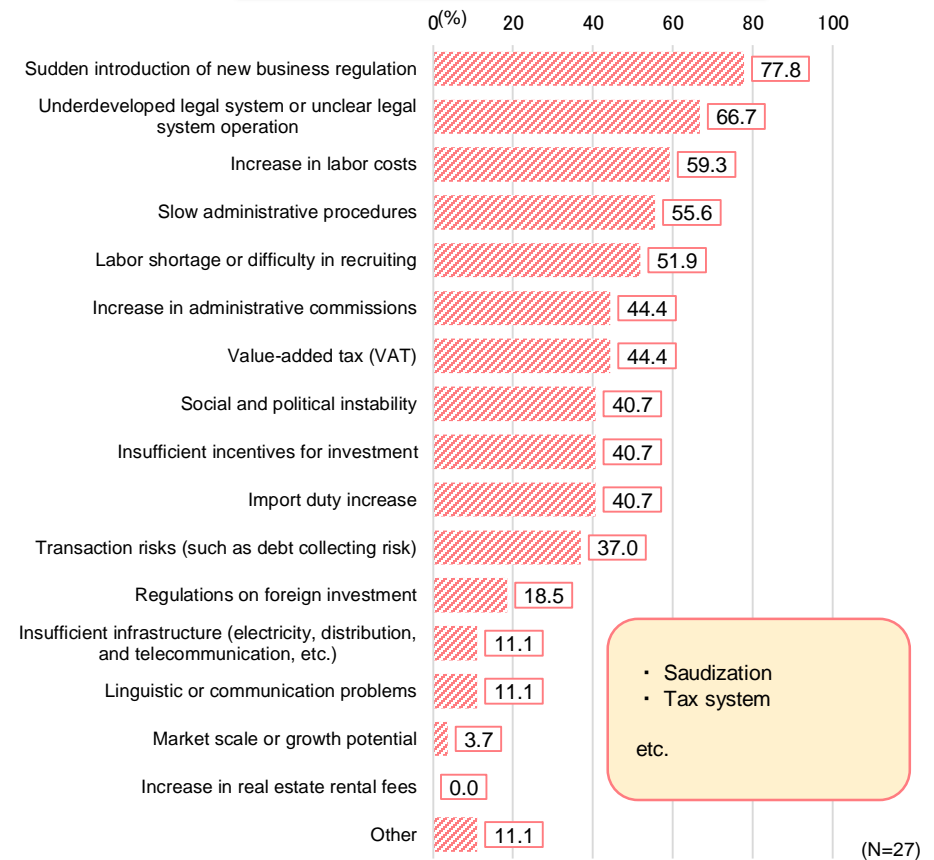
Investment environment 3 (Saudi Arabia): Advantages include growth potential, but challenges existing including legal system

- Saudi Arabia's main advantage was its "market scale or growth potential". This was followed by "positive image regarding Japan."
- Challenges include "sudden introduction of new business regulation," followed by "underdeveloped legal system or unclear legal system operation." There are many other challenges including "increase in labor costs," "slow administrative procedures," and "labor shortage."

Advantages of the investment environment (Multiple answers)



Challenges of the investment environment (Multiple answers)

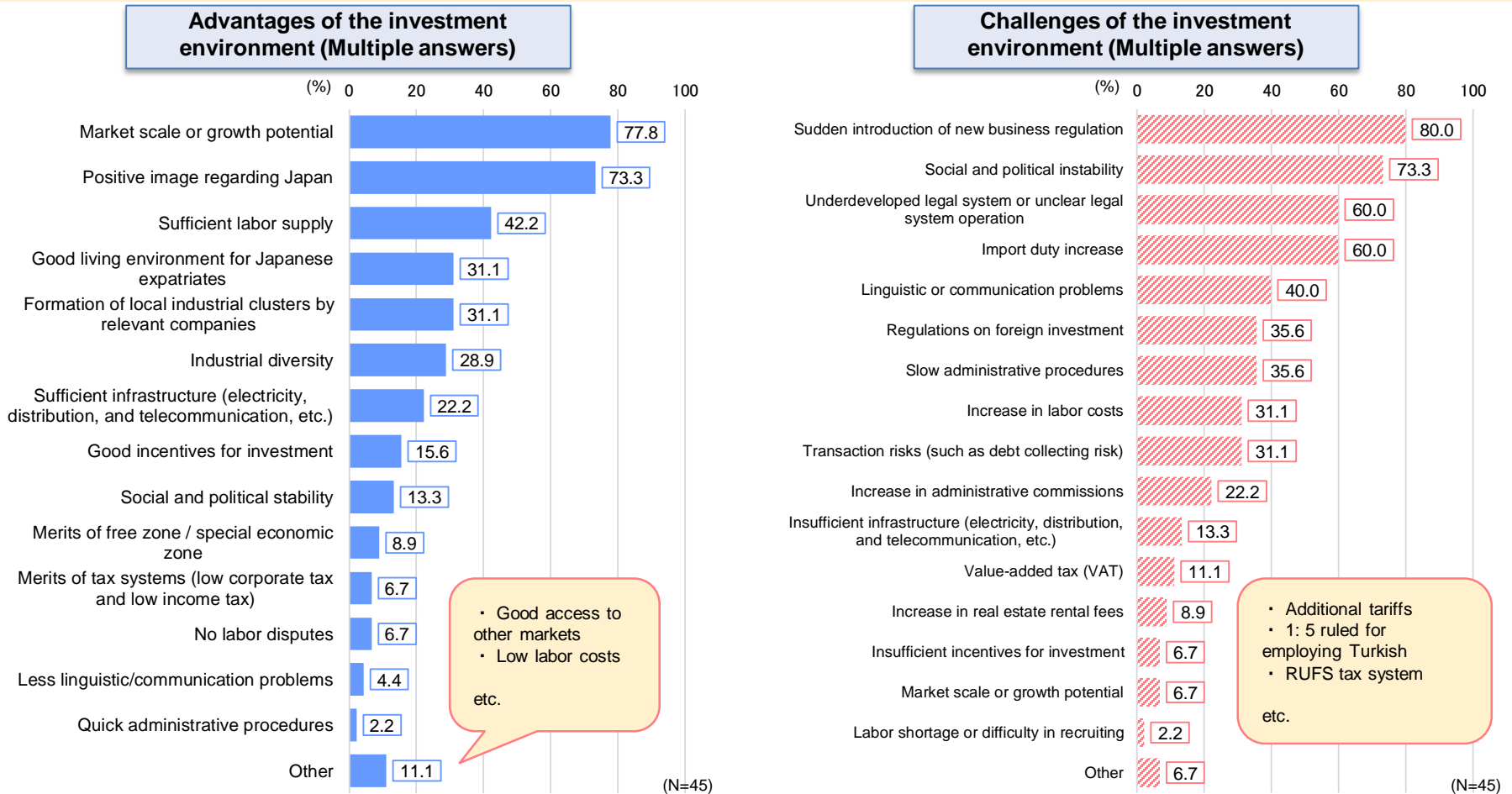


• Crude oil supply etc.

• Saudization
• Tax system
etc.

Investment environment 4 (Turkey): Advantages include "market scale and growth potential," while challenges include "social and political instability"

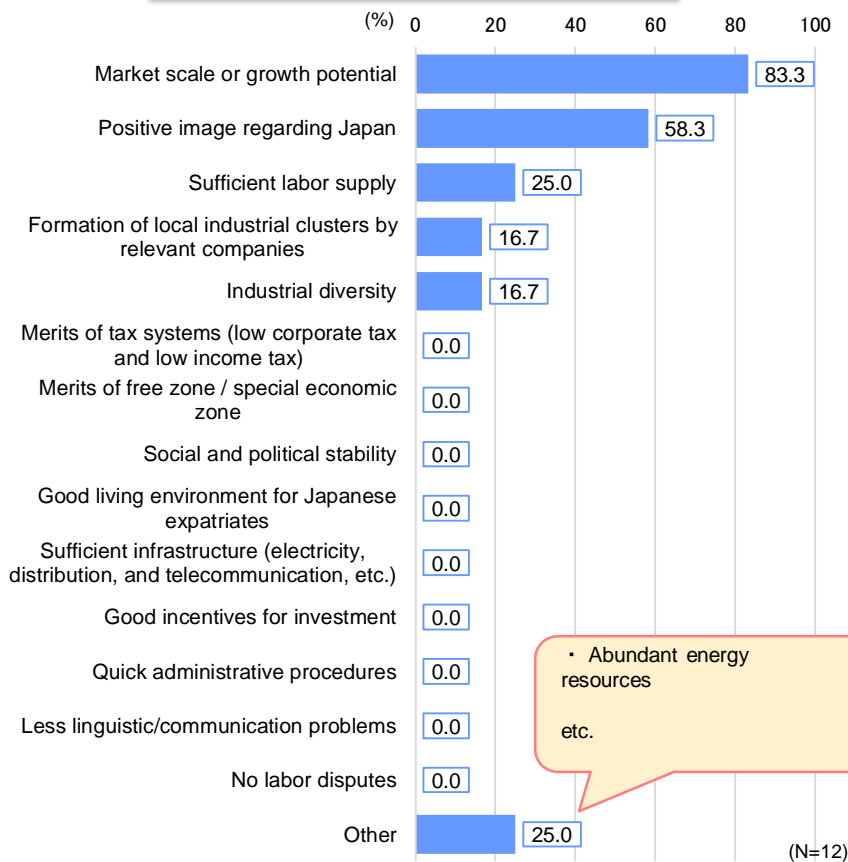
- Turkey's main advantages include "market potential" and "positive image regarding Japan".
- Challenges include "sudden introduction of new business regulation," followed by "social and political instability." 60% of companies also said "underdeveloped legal system or unclear legal system operation" and "import duty increase."



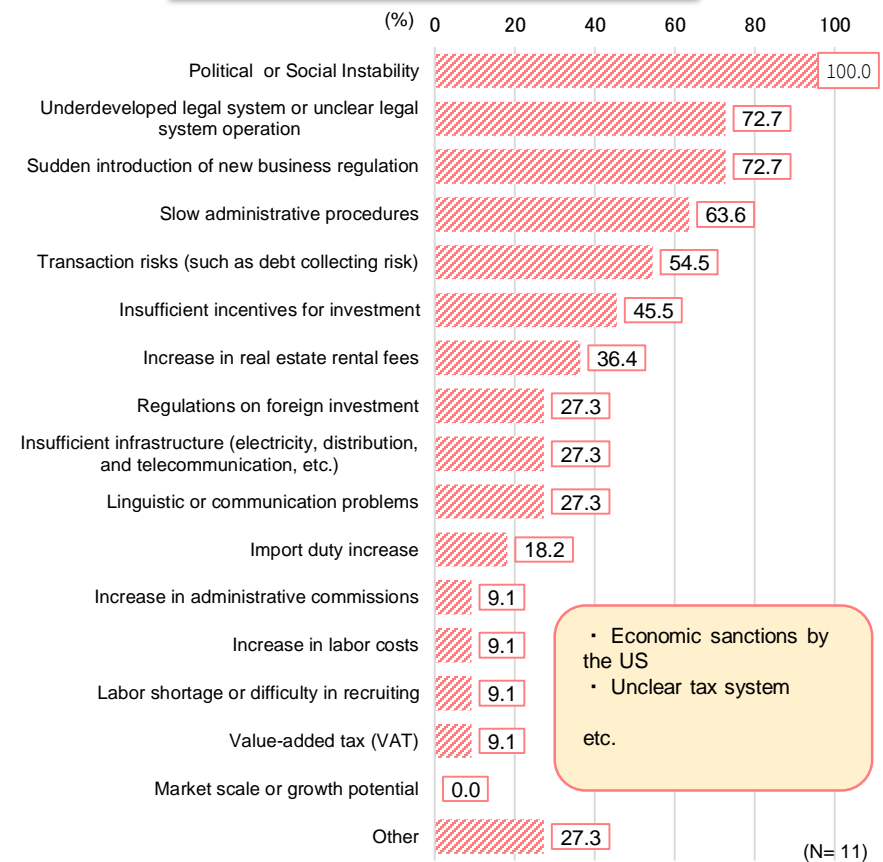
Investment environment 5 (Iran): All companies said the challenge is "social and political instability"

- Iran's main attractions include "market scale or growth potential." This was followed by "positive image regarding Japan."
- All companies answered "social and political instability" as challenges in Iran. In addition, more than 70% companies answered "underdeveloped legal system or unclear legal system operation" and "sudden introduction of new business regulation" when asked about the challenges.

Advantages of the investment environment (Multiple answers)

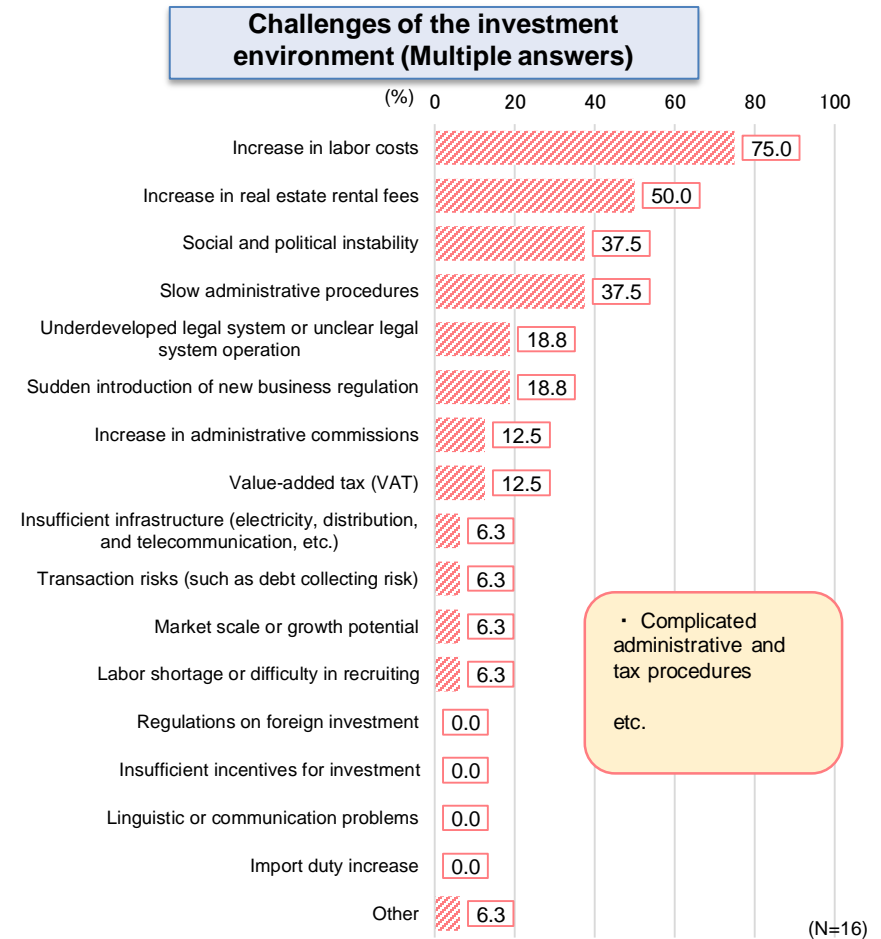
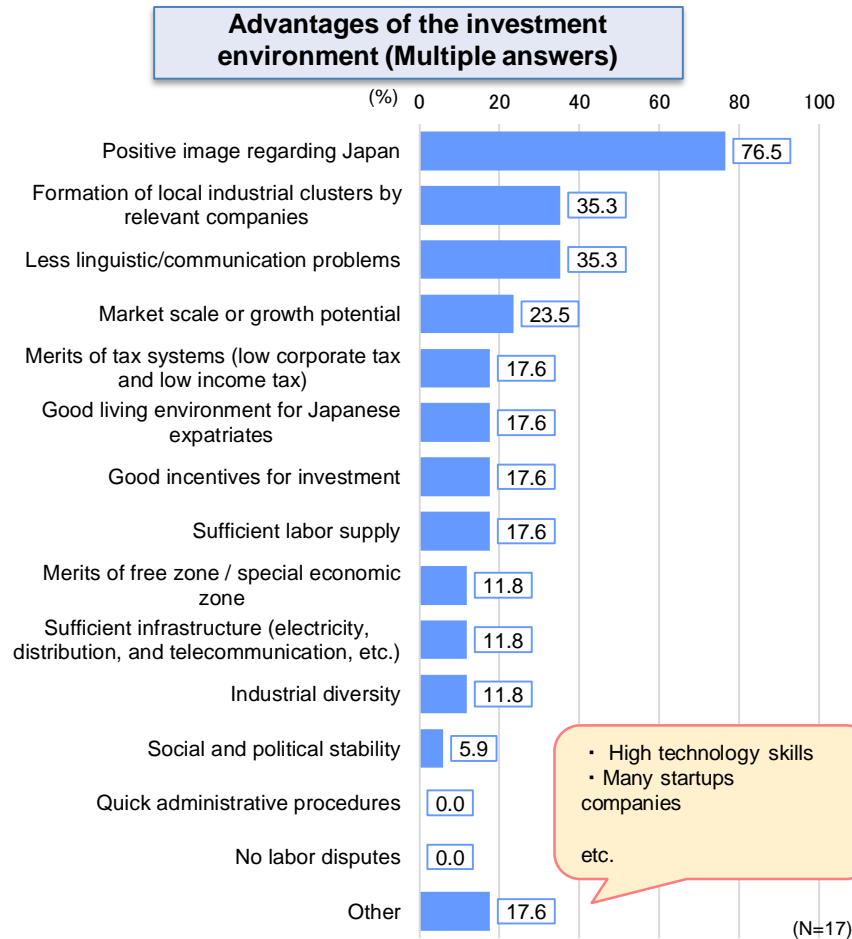


Challenges of the investment environment (Multiple answers)



Investment environment 6 (Israel): Challenges are rising costs such as labor costs

- The highest number of responses was for “positive image regarding Japan.” The proportion of “market scale or growth potential”, which ranked first in the previous year, fell significantly.
- As challenges, "increase in labor costs" was the top, and about half of the companies answered "increase in real estate rental fees."



Advantages of the investment environment 7 (other countries): “Positive image regarding Japan” was the highest

- In addition to "positive image regarding Japan," "good living environment for Japanese expatriates" was the highest in Bahrain, and "social and political stability" was the highest in Jordan.
- In Oman, "free zone and special economic zones," "good living environment for Japanese expatriates," "less linguistic/communication problems," ranked high, and in Qatar, "social and political stability" also ranked high.

(%)	Qatar (N=17)	Bahrain (N=5)	Kuwait (N=8)	Oman (N=5)	Jordan (N=13)
Merits of tax systems (low corporate tax and low income tax)	29.4	40.0	12.5	40.0	7.7
Merits of free zone / special economic zone	23.5	0.0	0.0	80.0	0.0
Market scale or growth potential	17.6	0.0	25.0	20.0	23.1
Social and political stability	64.7	40.0	37.5	60.0	61.5
Good living environment for Japanese expatriates	41.2	80.0	12.5	80.0	23.1
Sufficient infrastructure (electricity, distribution, and telecommunications, etc.)	52.9	20.0	12.5	40.0	0.0
Formation of local industrial clusters by relevant companies	23.5	0.0	0.0	20.0	7.7
Good incentives for investment	5.9	0.0	0.0	60.0	0.0
Quick administrative procedures	5.9	40.0	0.0	20.0	0.0
Less linguistic/communication problems	41.2	40.0	37.5	80.0	38.5
No labor disputes	29.4	40.0	12.5	60.0	7.7
Sufficient labor supply	17.6	20.0	0.0	0.0	0.0
Positive image regarding Japan	70.6	40.0	50.0	100.0	53.8
Industrial diversity	5.9	0.0	0.0	20.0	0.0
Other	0.0	40.0	12.5	0.0	7.7

Challenges of the investment environment 8 (other countries): Legal system and small-scale markets

- "Underdeveloped legal system or unclear legal system operation," "slow administrative procedures," "market scale or growth potential," and "sudden introduction of new business regulation" ranked high as challenges.
- In Oman, 60% of the companies selected "labor shortage or difficulty in recruiting."

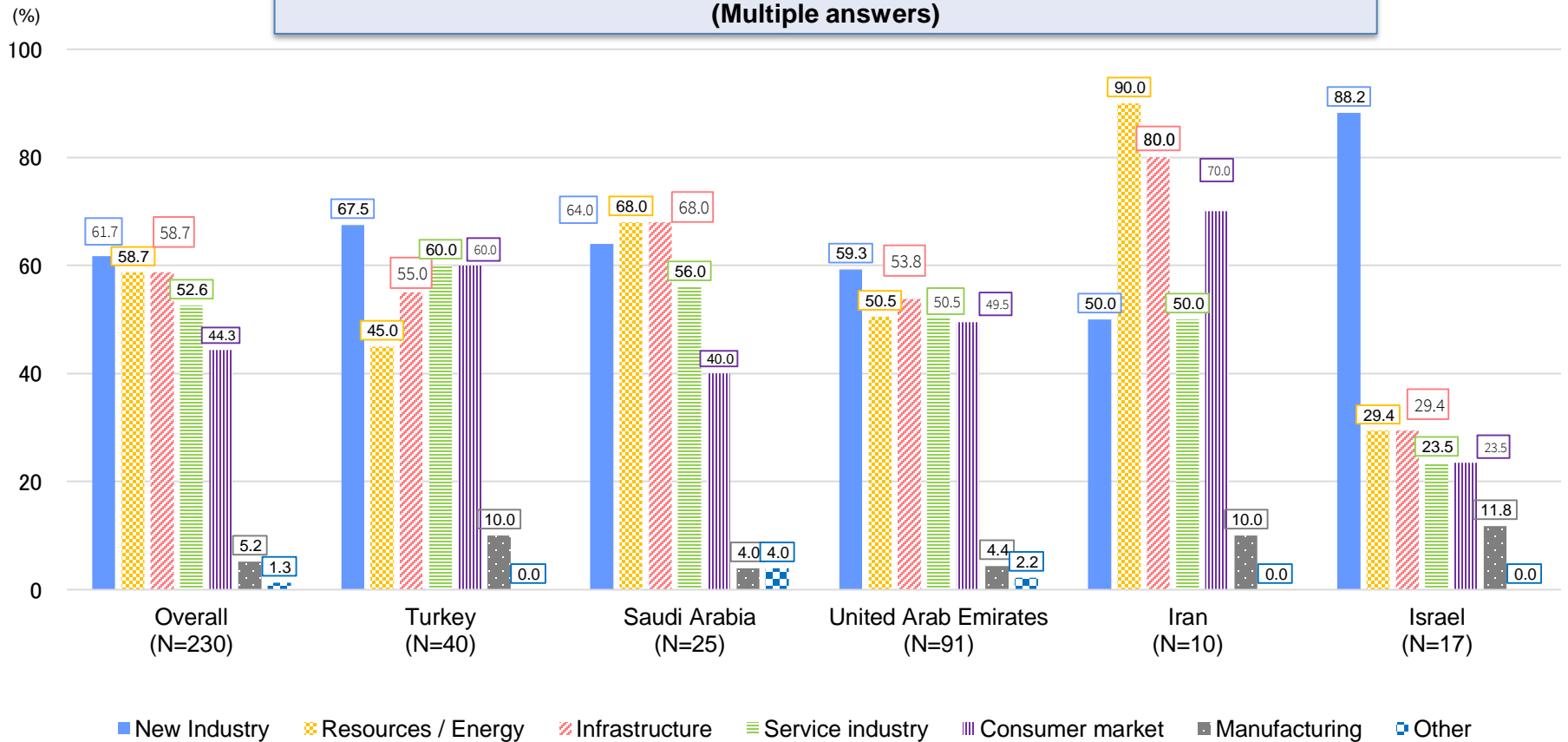
(%)	Qatar (N=17)	Bahrain (N=5)	Kuwait (N=9)	Oman (N=5)	Jordan (N=11)
Increase in administrative commissions	0.0	0.0	0.0	0.0	0.0
Underdeveloped legal system or unclear legal system operation	47.1	0.0	55.6	60.0	27.3
Regulations on foreign investment	11.8	20.0	33.3	20.0	9.1
Social and political instability	17.6	0.0	22.2	20.0	27.3
Increase in real estate rental fees	0.0	0.0	0.0	0.0	0.0
Insufficient infrastructure (electricity, distribution, and telecommunications, etc.)	0.0	0.0	11.1	0.0	27.3
Increase in labor costs	23.5	0.0	22.2	40.0	9.1
Slow administrative procedures	29.4	20.0	88.9	60.0	45.5
Insufficient incentives for investment	0.0	0.0	33.3	20.0	18.2
Transaction risks (such as debt collecting risk)	17.6	0.0	33.3	40.0	18.2
Market scale or growth potential	29.4	60.0	55.6	60.0	63.6
Labor shortage or difficulty in recruiting	0.0	0.0	11.1	60.0	9.1
Linguistic or communication problems	5.9	0.0	11.1	20.0	9.1
Value-added tax (VAT)	11.8	20.0	22.2	20.0	0.0
Import duty increase	5.9	0.0	0.0	0.0	0.0
Sudden introduction of new business regulation	47.1	60.0	55.6	20.0	18.2
Other	5.9	20	0.0	0.0	0.0

5. Business Areas with Future Promise

Business Areas with Future Promise 1 (Overall / by Country): "New industry" ranked the highest

- “New industry” had the most promise, and high expectations were seen across fields such as “resources/energy,” “infrastructure,” and “service industry.”
- About 90% of firms in Israel had their sights set on “new industry,” and in Iran, companies' high expectations for “resources/energy” and “infrastructure.”

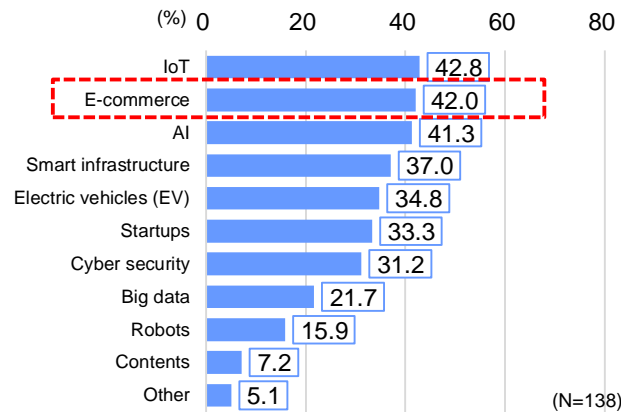
Business areas with promise in the future market of home country or the Middle East (Multiple answers)



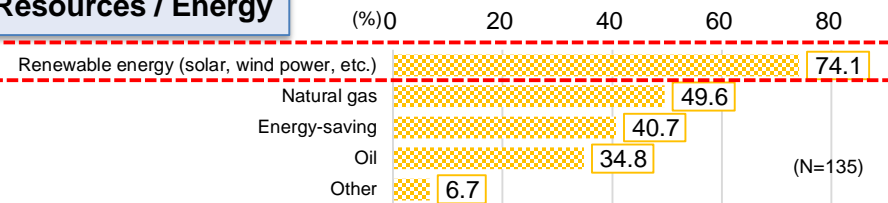
Promising business fields 2 (by field): medical care, regenerative energy, food, etc.

- In the new industry, "IoT," "E-commerce" and "AI" ranked high. Medical and Health ranked high in the service industry.
- High expectations for "renewable energy" in Resources / Energy. A large percentage see promise in "electrical power," "urban development," and "water" in infrastructure. For the consumer market, "food" received the highest amount of responses.

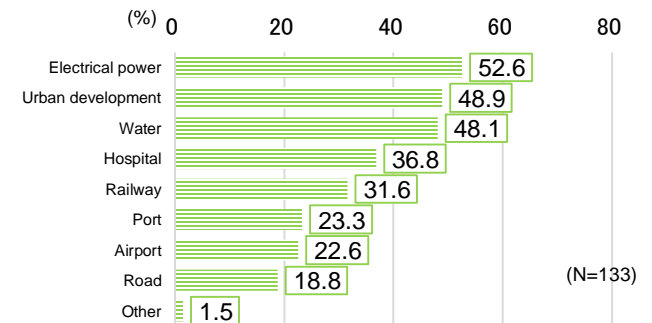
New Industry



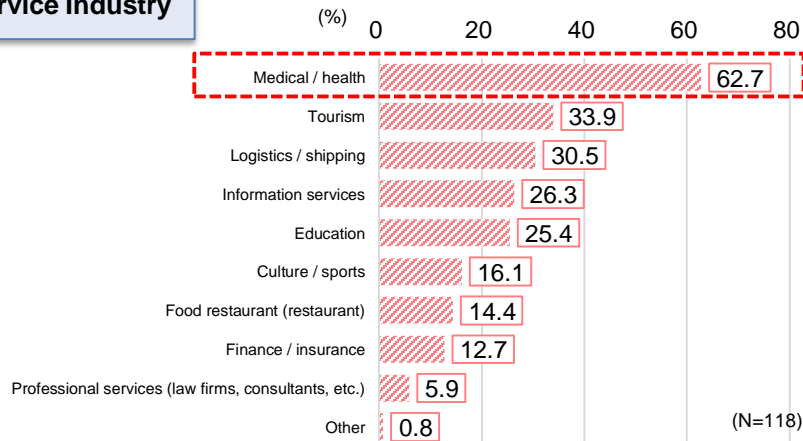
Resources / Energy



Infrastructure



Service Industry



Consumer Market



<Reference> Promising Business Areas (Medical / Health, Renewable Energy, Food)

- Medical / Health: Needs for telemedicine is increasing due to the COVID-19 pandemic.
- Renewable energy: Smart city projects are progressing as a result of oil-producing countries' policy seeking for other ways to support their economy besides oil.
- Food: Expectations for the further spread of Japanese food in the Middle East.

Medical / health

Due to the COVID-19 pandemic, the needs in the medical and health fields are increasing in each country.
Corona-tech startups are active in Israel.



Prediction and analysis of patient conditions using AI (CLEW)

Renewable energy



Oil-producing countries seeking for other ways to support their economy besides oil. In Saudi Arabia, a huge smart city project "NEOM" utilizing new energy is progressing.

Food



Expectations are high for the popularization of Japanese food, including the opening of a Japanese restaurant (Kimuraya).

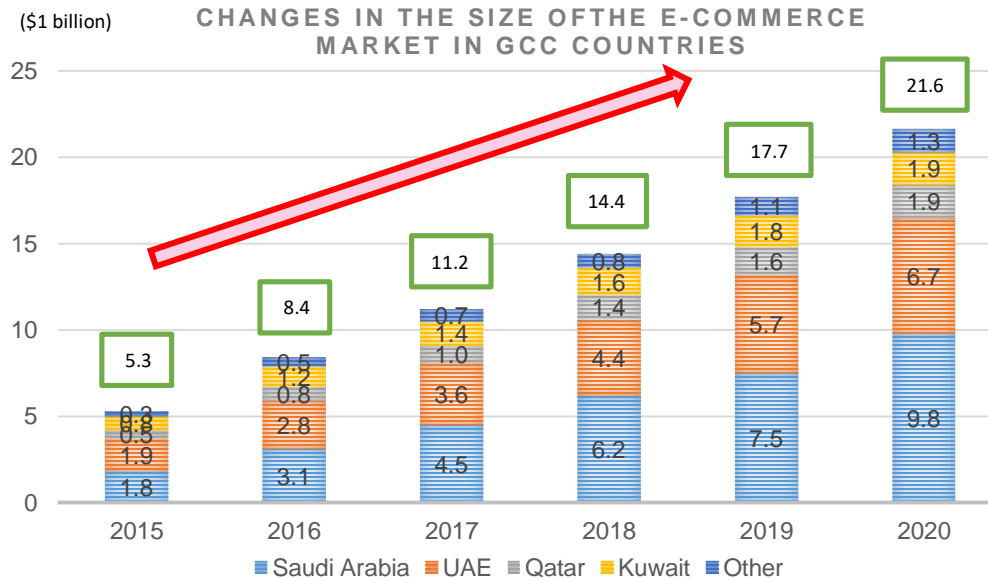
Reference article (Japanese only)

: [New Japanese restaurant "Kimuraya" opens in Dubai](#)

<Reference> Promising Business Areas (E-commerce, Normalization of Diplomatic Relations with Israel)

- E-Commerce: GCC's e-commerce market is about four times larger than it was five years ago. Restrictions on outings amid the COVID-19 pandemic contributed to this.
- Normalizing diplomatic relations with Israel: Companies expect the historical normalization of diplomatic relations between Israel and Arab countries including the UAE will enhance business collaboration between companies on both sides.

E-commerce



(Note) Estimate for 2020.

(Source) Keaney "GCC e-commerce unleashed: A path to retail revival or a fleeting mirage?"

Normalizing diplomatic relations with Israel

On September 15, 2020, Israel, the UAE and Bahrain signed the Abraham Accords Peace Agreement. Collaboration between the countries progressed rapidly in various fields.

Field	Main contents of cooperation
COVID-19 / Medical	COVID-19 test kit, regenerative medicine (cell therapy), infection detection technology
Aviation / Tourism	Direct flights, memorandum of cooperation between major tourism companies
Banking / Finance	Establishing a joint committee, memorandum of cooperation between major banks
Port / Logistics	Memorandum of cooperation on port development, customs cooperation, etc.
Technology / Startups	AI research institute, FinTech Hub, Agritech

(Reference)

[Feature: Regional / Analysis Report](#)

["E-commerce's potential in the Middle East - by Local Companies"](#)
(Japanese only)

(Reference)

[Business News Special](#)

["Trend surrounding normalization of diplomatic relations between Israel and Arab countries"](#) (Japanese only)



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