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Burcu Gültekin Punsmann, PhD
Senior Foreign Policy Analyst

TURKEY-ISRAEL: TOWARDS A DECOUPLING BETWEEN ECONOMICS AND POLITICS

The private entrepreneur has emerged as a third actor beside the military and the diplomat in Turkish-Israeli ties. Business has become an area immune from political upheavals and carries its own dynamics. Economic cooperation developed throughout the 50's with the support of both governments and remained highly sensitive to regional politics in the 80's. Today the trade volume between Turkey and Israel is at its highest level in history.

With the decoupling between economics and politics, business pragmatism is trumping political tensions. The well integrated web of private interests constitutes the strongest bond between the two countries and societies. There is a pressing need to go beyond the sterile polemic about 'who needs whom the most' as these intense economic interactions verging towards interdependence points at the ever increasing cost in case of disruption.

Government supported economic cooperation

Turkey considers the state of Israel as a fact on the ground. After having signed a postal agreement in 1948, it recognized the Israeli state in March 1949. Diplomatic relations are established in March 1950. The two states promote economic cooperation for strengthening bilateral relations. Turkey becomes a supplier for agricultural products and raw materials for Israel, hit by the boycott of Arab countries in 1946. Importation of foodstuff is particularly important since Israel is not yet self-sufficient. The construction sector offers opportunities for close cooperation. The Israeli company Salel-Boneh builds the highway connecting the Istanbul city center to the airport. Another Israeli construction company builds the residential complex for Members of Parliament, known as Israeli houses in Ankara. Israeli companies bid successfully for contracts for the construction of the Incirlik base. A direct air corridor opens between Istanbul and Tel-Aviv in 1950. Israel is invited to take part in the international industrial fair of Izmir in 1951.

However economic relations remain very much dependent from politics. The trade volume decreases significantly in 1956 year of the occupation of the Channel of Suez by Israel. Trade relations become almost inexistent in the 70's: in an economic context marked by the two oil crisis, Israel has to be avoided.

Bilateral economic relations correlated with regional politics: the context of the 80's

In 1981 Turkish exports to Israel account for not more than 0,4% of the total Turkish exports while the share of the Middle Eastern countries has reached 40,3%. Libya, Irak, Iran and Saudi Arabia have become Turkey's main economic partners. The PLO is authorized to open a representation in Ankara in 1979. Turkey starts supporting openly pro-Palestinian resolutions at the UN General Assembly. Under the pressure of the Arab League, Turkey cancels in 1981 Israel's participation to the international industrial fair of Izmir.

Turkey takes part in 1984 in the Casablanca conference of the Islamic Organization and got the chairmanship of the permanent committee for economic and commercial cooperation. The existence of diplomatic relations between Turkey and Israel is perceived as a practical need by Turgut Özal, who is depicting them as an open window on Israel which will allow Turkey in the near future to pretend playing an important role in the resolution of the problems of the Middle East. Turkey appoints a senior diplomat, Ekrem Güvendiren, as chargé d'affaires to Tel-Aviv in 1986 in the context of decreasing oil prices. In 1992, the Turkish Minister of Tourism Abdulkadir Ateş realizes the first state visit in two decades. The Israeli President Herzog visits Turkey for the commemoration of the 500th anniversary of the settlement of the Jews escaping from Spain in the Ottoman Empire.

After the signature of the Oslo agreements in 1993, the Turkish-Israeli economic cooperation aims at building regional peace. As soon as 1994, the Israeli minister of economy and planification visits Turkey with a delegation of 70 businessmen, which becomes the common pattern of bilateral state visits. Trade is seen as a strategical tool that will reshape the new Middle East. The official discourse points at the two only democracies in the Middle East that will lay the basement of the regional market. The Turkish businessman and the first Jewish origin MP, Jeffi Kahmi reports that: "*Mr*

Netanyahu's dream is to be able to come one day to Turkey with his own car from Israel'.

The strengthening of the private sector component of the bilateral economic relations after the free trade agreement

The free trade agreement (FTA) between Turkey and Israel is signed in May 1996 and enters into force in May 1997. The idea of an FTA first came on the agenda in 1993 as a result of the political rapprochement. The deal is completed as it becomes a requirement for Turkey after the establishment of the EC-Turkey Customs Union. The agreement with Israel is the second free trade agreement that Turkey signs within its obligation to align with EU's commercial policy, the first having being signed with EFTA, the third will be with Hungary. Other Middle Eastern and Northern African countries signatories of a FTA with the EU are showing great reticence to open their market to Turkey.

The bilateral trade volume increases by 211,4% in the first years of the FTA: in 1996 trade with Israel account for 0,67% of the total trade volume of Turkey; it increases to 1,85% in 2001. In these first five years of the FTA, Turkish exportations in metals increases by 172,8%, in chemical products by 199%, in textile by 2012,9%, equipment and transportation products by 695%. Since then, trade volume has increased consistently, growing from USD 1.3 billion in 2001 to USD 3.5 billion in 2010, the first year that saw trade volume exceed USD 2 billion. In the first three months of 2011 Turkey exported products worth 579.3 USD million to Israel and imported goods worth 397.3 USD million.

As diplomatic relations took a turn for the worse following the flotilla attack, Turkish and Israeli businessmen are enjoying a golden age of trade as official figures indicate that commercial bonds are stronger than ever. Bilateral trade and investments have not been affected by the political crisis. The free market wins thanks to the free trade agreement and economic growth. The threats of cancelling large infrastructure projects and other joint ventures have not gone beyond words: as a matter of fact most of the projects involve private companies, furthermore boycotting of member nations is against OECD rules. When it comes to imports and exports, joint ventures and mutual investments between Turkish and Israeli businesses, it's business as usual.

According to the Israel-Turkey Business Council, which promotes business ties between Israeli companies seeking opportunities in Turkey, there are about 900 Israeli companies that do work in or with Turkey. They mostly operate in joint ventures with Turkish companies, making their Israeli identities invisible. The extensive business connections are largely camouflaged because many Israeli businesses use their Turkish partner companies to sell to the Arab world while Turkish companies use their Israeli partners as a gateway to American markets.

Turkey is Israel's eighth largest export market, and its first economic partner in the region. Israel's contribution to Turkish trade might not be significant - it's about a hundredth of Turkey's USD 100 billion foreign trade. Sales to Israel made up about 1.5% of Turkey's total exports last year, making it Turkey's 17th biggest market. Though quantitatively negligible, business relations with Israel matter qualitatively.

Contrary to trade with other Middle Eastern countries, Turkish exportation to Israel are highly diversified. They are supplying a wide range of sectors in semi-processed goods. Geographical proximity plays in favor of Turkish producers. Turkey can provide the basic products that the Israeli economy needs and benefits from the Israeli commercial policy aiming at decreasing the cost of inputs originating from third countries to alleviate trade diversion effects of its FTA with the EU and NAFTA. The competitiveness of the Israeli construction sector and heavy industry is low: the small size of the national market didn't allow the development of a private sector able to break state monopolies. Israel is among few countries which have an FTA both with the EU and the U.S. The Turkish-Israeli FTA offers Turkey a gateway to the American market. The U.S. has indeed accepted the cumulation of rule of origins: Turkish products which integrate 35% of Israeli inputs can enter the U.S. market tax free.

Iron, steel, automotive products, oil and oil products, electrical machinery, chemicals, building materials, ready-wear products and metal goods are the main products exported from Turkey to Israel. There has been a rise in exports from Turkey of plastics, textiles, semi-precious stones and transportation equipment. Israel exports to Turkey plastics, chemicals and agriculture products.

The innovation capacity of the Israeli economy is particularly significant. Many companies have a high specialization in the field of research and development and are looking for partners in developing new products and implementing new technologies. The geographical proximity makes Turkey almost local market. From computer software to water irrigation systems, IT, medical equipment, Israel provides access to technology for Turkish economy. Indeed cell phones, personal computers and plasma televisions are made using parts and technology from Tel Aviv. Most of the software Turks use in everything from cell phones to medical equipment is made of Israel.

Israeli companies, especially in the agricultural and water technology industry provide equipment to local Turkish governments. Israel's kibbutz exports to Turkey during first quarter of 2011 grew by 12% despite political tensions between the countries. There are more than 250 kibbutz communal farms spreading across Israel. Exports to Turkey topped 28 million U.S. dollars in products ranging from irrigation systems, to plastic ware and food products. The trend began in 2009 report, with a 25% rise in exports in the first quarter of 2010.

In 2007, Israeli company Teva, the world's largest maker of generic pharmaceuticals, completed the acquisition of Turkey's Med Ilac through a transaction estimated at tens of millions of dollars, putting Teva at the heart of what economists believe is a billion dollar market of generic pharmaceuticals in Turkey.

More recently, the Israeli company Better Place signed a memorandum of understanding with Renault-Nissan to provide the necessary conditions for the launch of electric vehicles. As a world first Bursa has started manufacturing Fluence Z.E., the Renault/Nissan-made electric cars. Better Place- After having built an electric battery recharging network across both countries- has finalized a deal with Renault for the Israeli and Danish markets and agreed to purchase 115,000 Renault Fluence Z.E. Electric Sedans.