


The Moshe Dayan Center  
for Middle Eastern and African Studies



TEL AVIV UNIVERSITY

# TURKEYSCOPE

INSIGHTS ON TURKISH AFFAIRS

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**Vol. 2, No. 4, March 2018**

## **From the Editors**

Dear Friends,

The Moshe Dayan Center for Middle Eastern and African Studies is proud to present the March 2018 issue of our monthly publication, Turkeyscope. In this issue, the chairman of the Israel-Turkey Business Council and Chamber of Commerce & Industry, Mr. Menashe Carmon, contributes with an article focusing on the bilateral economic relationship between Turkey and Israel. The article discusses the promising potential of joint business ventures between the two countries in the shadow of enduring diplomatic tension, and the importance of separating business from politics in order to achieve a more prosperous future for the economies of both countries.

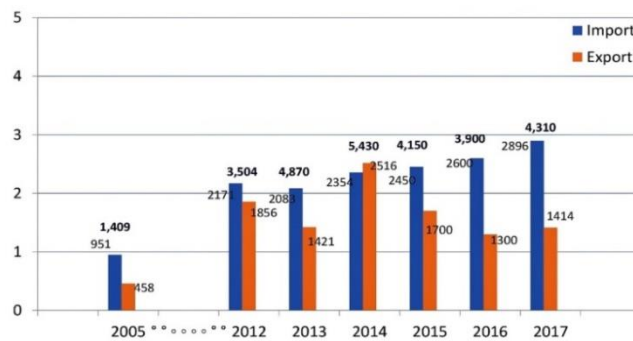
# Turkish-Israeli Economic Relations in a Period of Turbulence and Political Uncertainty

Menashe Carmon

Following their exchange of mutual diplomatic recognition in 1949, the relationship between Turkey and Israel has undergone multiple upheavals. These primarily stemmed from the negative effects of the Arab-Israeli conflict, and therefore the trend began to improve following the official launch of the peace process between Israel and the Palestine Liberation Organization (PLO) in 1991. Correspondingly with this new *zeitgeist* the relations between Ankara and Jerusalem were upgraded to a new level of partnership, albeit one mostly focused on the defense sector. However, with the 2002 rise to power of the Justice and Development Party (Adalet ve Kalkinma Partisi – AKP), relations began to gradually deteriorate. In 2010, they reached an unprecedented low following the *Mavi Marmara* flotilla incident.

Ironically, in spite of the above, it is significant to note that the bilateral economic relations between the two nations were not affected by the various political crises. Over the last 15 years, bilateral economic relations between Turkey and Israel have developed and enjoyed a high rate of growth, including a significant trade volume.

Israel – Turkey Bilateral Trade (M \$)



Source: Israel-Turkey Business Council and Chamber of Commerce & Industry

Certainly, the prospering economies of the two countries, globalization, and a mutual interest in defense industry cooperation has manifested itself as steady bilateral trade growth. As can be seen in the chart at right, in 2014 Turkey became Israel's number six trade partner with a volume of \$5.5 billion. Over the last 3 years, this volume has been affected from changes in oil prices and currency exchange rates, but has remained stable in real terms.

It is crucial to note that this picture was achieved not only thanks to a process of liberalization and the introduction of Western standards on the Turkish economy, but also is due to the complementary structures of these two economies and societies. Turkey's developed industry is based on manpower. It provides mass and extended industrial production capabilities that perfectly dovetail with the needs of the Israeli economy, which is based on advanced technologies and which continually seeks to penetrate into new global markets in order not to be confined to Israel. Significantly contributing to this picture is the differing international trade goals, products, and targeted export markets of Turkey and Israel, combined with their high capability of data collection, their flexibility, their experience and their young and dynamic work forces.

The high Gross Domestic Product (GDP) per capita in Israel allows high consumption rates that were, and still are, a significant target for Turkish exporters in all sectors. As can be seen in the chart below, the annual Israeli GDP and also the Private Sector Consumption (PSC) are more than 30 percent higher than Turkey's GDP, even though Israel's population is only a tenth of Turkey's.

Two Economies – 2017 Comparative Figures

	TURKEY	ISRAEL
Area	777,000 km <sup>2</sup>	22,000 km <sup>2</sup>
Population	80 Million	8.8 Million
GDP	863 B \$	318 B \$
GDP / Capita	10,600 \$	37,200 \$
Growth	5.1%	3.8%
Unemployment	10.8%	3.7%
Inflation	10.4%	0.4%
Public Debt / GDP	28%	63%
Government Budget Deficit	1.1%	2.1%
Exports	157 B \$	96 B \$
Imports	222 B \$	90 B \$
Trade Balance	(-65) B \$	12 B \$
R&D / GDP	0.32%	4.3%
Foreign Direct Investments	7.5 B \$	13.1 B \$

This complementarity creates business opportunities for direct investments, joint ventures, and the development of joint production sites in Turkey. Interestingly, the political crises that erupted in the aftermath of the consecutive armed conflicts in the Gaza Strip and the Mavi Marmara incident did not influence this bilateral trade growth, but they did put an end to trade at the governmental level. As a result, bilateral trade and economic relations concentrated on the private sectors.

Sources: Ministry of Economy, Turkey, and Israel Central Bureau of Statistics

This lack of cooperation between the two governments has created a serious obstacle for reaching the

expected level of potential trade volume between Turkey and Israel, which has held steady at 2 percent of the total Israeli trade. In light of this, it would not be incorrect to state that this figure could easily be doubled.

Due to the rapid growth of both economies, the controversial and hostile political statements expressed on both sides have had only minor effects on bilateral trade. It is also vital to note that, harsh rhetoric notwithstanding, leaders have refrained from taking drastic steps such as amending or canceling existing trade agreements. This political behavior has paved the way for a separation between “politics and business.” However, it has also deeply influenced long term economic activities such as joint investments and ventures, the transfer of production sites, and the development of mutual third-party export markets.

Today, despite all odds, business opportunities are larger and more attractive than they were even a year or two ago. The developing economic crisis in Turkey, the rise in inflation and unemployment rates, and the necessity of shifting or developing new export markets all work together to create new opportunities for investment and joint ventures. Certain sectors can be highlighted as potential areas of partnership. They include innovative engineering, agricultural genetics, water technology, information technologies and Internet products, advanced software solutions for different industrial, finance and public services, advanced medical equipment and new applications in homeland and cyber security

The simultaneous declarations made by the prime ministers of Turkey and Israel in 2016, which heralded the beginning of “normalization,” along with with the

ratification of an official agreement by both countries' parliaments that same year, together increased the expectations held in business circles for a new political era and a new business environment.

Unfortunately, this positive picture did not last long. The unrest at Jerusalem's Temple Mount, and the American administration's recognition of Jerusalem as Israel's capital, paved the way for the beginning of another strained period. Tension carrying both political and religious overtones once again led decision makers to adopt a sort of 'willful blindness' that prevented them from separating business from politics. This deliberate blindness certainly serves as a significant political tool to help enhance the public support of political leaders at home, but it comes at the expense of long term economic growth and interests of both countries.

Inevitably, this ongoing lack of normalization prevents the healing of the serious damage to bilateral relations. Despite bilateral economic growth, the prolonged period of political crisis has had a "penetrative effect" on both societies. The Mavi Marmara flotilla incident had an unprecedented negative effect, and transformed the crisis from a "third party level" (Gaza Conflict) to a "bilateral" one. This, in turn, erected psychological barriers that have had a significant chilling effect on the willingness of private enterprise in both countries to do business with one another.

As far as Israeli-Turkish relations are concerned, this artificial separation of business and politics enabled the utilization of the crisis for domestic political purposes without taking the long term costs (which may themselves shape business behavior) into consideration. Therefore, it is not incorrect to argue that, unfortunately, the current environment contributes to the alienation of the two countries' citizenry on an interpersonal level.

This can only be tackled by re-strengthening the bilateral economic ties that may bring together the ordinary citizens of Turkey and Israel. This bridge, as yet to be repaired, will still have the capability to launch joint cooperative platforms. As stated above, business opportunities do still remain valid, and their potential is inspiring. Turkey is a huge industrial market with skilled available manpower and management, which enables it to produce quality products at competitive prices.

Therefore, I believe that enhancing bilateral relations is a matter of creating mutual trust and enabling the implementation of the simple rules of global economics. This may take some time. This problematic dynamic cannot be cured by short term and superficial political decisions that will not penetrate the public, but rather can only be repaired by a radical shift in the leaderships' attitude. This may hopefully pave the way for re-shaping the public opinion of ordinary citizens, and ultimately to bilateral economic prosperity.

*Menashe Carmon is the chairman of the Israel-Turkey Business Council and Chamber of Commerce & Industry.*

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