

Political Troubles between Turkey and Israel?

Implications of Booming Bilateral Trade for the Two Countries and the Middle East

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Brief Analysis

Following Israel's recent raid in Rafah, Turkish prime minister Recep Tayyip Erdogan condemned Israel's actions as "state terrorism" while Foreign Minister Abdullah Gul hinted that strains had emerged in the Turkish-Israeli relationship. In general, Turkey's governing Justice and Development Party (AKP) has lately adopted an alarmingly critical attitude toward Israel. Will Turkey seek to alter its ties with Israel? From an economic point of view, such a development would seem highly unlikely; Turkey ranks thirteenth on Israel's list of trading partners, while Israel ranks ninth among Turkey's trading partners. Yet, the question remains: do the deep economic ties between Turkey and Israel (which also share close political and military relations) provide a reason for optimism that economic initiatives can help improve political relations elsewhere in the region?

Economics Follows Politics

In 1949, Turkey was the first—and, until the Camp David summit in 1978, the only—Muslim country to recognize the state of Israel. Nevertheless, trade between the two countries was negligible until the 1990s. In 1964, for example, imports from Turkey to Israel amounted to the relatively tiny sum of \$6.6 million, while Israeli exports to Turkey totaled only \$5.1 million. These poor economic relations were exacerbated in 1967, when Turkey downgraded its diplomatic relations with Israel following the Six Day War. Even as late as 1987, total trade between the two countries was a relatively dismal \$54 million.

During the 1990s, however, economic relations between Turkey and Israel began to boom alongside improvements in their political relations. In a decade marked by the Oslo peace process, relations between the two countries intensified as early as 1991 and reached unprecedented heights in 1996, when President Suleyman Demirel became the first Turkish head of state to visit Israel. A number of high-level exchanges followed this trip. Turkish diplomatic visitors to Israel included Defense Minister Turhan Tayan in April-May 1997, Prime Minister Mesut Yilmaz in September 1998, and President Demirel again in 1999. Israeli diplomatic visitors to Turkey included President Ezer Weizman in June 1996, October 1998, and September 1999; Foreign Ministers Shimon Peres and David Levy in April 1994 and April 1997, respectively; Defense Minister Yitzhak Mordechai in December 1997; and Prime Minister Ehud Barak in October and November 1999. More recent Israeli trips to Turkey include an April 2003 visit by Israeli deputy prime minister and foreign minister Silvan Shalom and a May 2003 visit by Defense Minister Shaul Mofaz. A month after Mofaz's trip, Turkish chief of staff Gen. Hilmi Ozkok visited Israel.

These diplomatic initiatives have been supplemented by efforts to facilitate avenues of trade and cultural exchange between the two countries, which in turn have helped to increase their mutual trade volume. Numerous bilateral treaties have been signed in order to prevent double taxation, tackle environmental problems, combat drug smuggling and abuse, and facilitate cooperation in the telecommunications, postal, and health sectors. The two countries also signed a free trade agreement following President Demirel's 1996 visit to Israel. In addition, the Cultural Agreement of 1993 helped foster cooperation in the fields of art, culture, education, science, and sports.

Booming Economic Ties

Within this framework, business ties between Israel and Turkey have deepened; in 2002, trade between the two countries was estimated at \$2 billion. During Israeli president Moshe Katsav's visit to Turkey on July 8-9, 2003, most of the business projects discussed were agricultural. Of particular interest was the Southeastern Anatolia Project (GAP), a major investment scheme that will include irrigating arid southeastern Turkey with water from the Euphrates and Tigris rivers. Twenty-one Israeli companies are currently involved in negotiations to build infrastructure for GAP, including Solel Bone, the Merhav Group, Baran Engineering, Ashtrom, Mekorot, and Petrolco. Moreover, Hazera, an Israeli company that produces seeds, will soon open a plant in Turkey. Co-investments have been on the rise in recent years as well, leading to many joint-venture companies. Among them are Ovisan, a Turkish manufacturer of personal care products bought in 1999 by Hogla-Kimberly, an Israeli company, for \$16.35 million; Kocatepe, a Turkish coffee company, bought in 2000 by Elite International, an Israeli company, to form the confectionery company Elittepe; and an animal food additive factory in Bandirma, Turkey, bought in 2001 by the Israeli firm Rotem Amfert Negev.

The two countries are also enhancing their cooperation in some of the most sensitive economic sectors, such as water and energy. On March 4, 2004, they signed the Manavgat water agreement, committing Israel to buy 50 million cubic meters of water annually from Turkey for the next twenty years. On May 24, the Zorlu Group, a Turkish company, signed an \$800 million contract with Israel to build and manage three energy plants.

Cooperation in defense matters has facilitated economic relations as well. On May 16, Ankara cancelled tenders for certain defense contracts (including a \$1 billion project in which Elbit systems, an Israeli company, was bidding to build unmanned aerial vehicles for Turkey), arguing that Turkey needed to put less money into defense.

Nevertheless, defense cooperation still constitutes a huge share of Turkish-Israeli economic ties. According to Israeli scholar Efraim Inbar, total Israeli arms sales to Turkey have already exceeded \$1 billion since 2000. In December 1996, Israel won a deal worth \$630 million to upgrade Turkey's fleet of fifty-four F-4 Phantom fighter jets. In 1998, Turkey "awarded a \$75 million contract to upgrade its fleet of 48 F-5 fighter jets to Israel Aircraft Industries' Lahav division, beating out strong French competition." In 2002, Turkey ratified its largest military deal with Israel, a \$700 million contract for the renovation of Turkish tanks.

Not all Turkish-Israeli business ventures have gone well, though. For example, Turkish firm Ceylan Holding won a \$220 million bid to build a new terminal in Ben Gurion International Airport in 1998 but had to halt its operations when it ran into financial and legal difficulties in Turkey.

Implications

Economic ties between Turkey and Israel stand in sharp contrast to those seen in the rest of the Middle East. As a general rule, Middle Eastern nations, many of which have had political problems with their neighbors, do not hold high-level trade relations with each other. For instance, Egypt and Saudi Arabia do not include a single Middle Eastern country among their top trading partners. Moreover, Middle Eastern countries that have waged war against each other tend to have the most dismal trade relations. For example, Iran's exports to Iraq were almost nil in 2002, while Iraqi imports to Iran were only \$15 million that year. Hence, the robust trade relations between Turkey and Israel seem to support the assertion that good economic relations may be the ultimate key to a more prosperous and stable Middle East. In any case, it will be interesting to see whether the strong economic ties between the two countries can help them weather the current strains in their diplomatic relationship.

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