

# **MUSLIM COUNTRIES' TRADE WITH ISRAEL - BUILDING COMMON INTERESTS FOR A BETTER FUTURE**

*By Emanuel Shahaf*

Ever since Israel signed the Oslo agreements with the Palestinians 1993, most Muslim countries have overcome their traditional reluctance to trade with Israel despite the ongoing conflict. To no small degree, the commercial relations that have been established contribute to improving relations between Israel and the Muslim world and thus will also help, in the final analysis, resolve the issue of Palestine.

If it is with Saudi Arabia, Bahrain, Qatar, the UAE, Kuwait, Tunisia, Morocco, Mauritania or Lebanon, if it is a few million Dollars with Syria, or 2 Billion USD with Turkey, trade between Muslim countries and Israel is increasing every year. Following is a list of the bigger partners, in addition to the Palestinians themselves who did almost 2 Billion Dollars worth of business with Israel in 2004.

The most formidable example of flourishing trade between Israel and a Muslim country is that of Turkey. It is probably no coincidence that commercial relations with the first Muslim country to recognize Israel (in 1949) are the best and most highly developed of all the relationships with the Muslim world. These close, mutually profitable and balanced relations (total civilian trade in 2005 was close to two Billion USD in 2005, shared pretty much evenly) include Israeli participation in large civilian infrastructure projects in Turkey, Turkish involvement in construction projects in Israel, and considerable Israeli investments in Turkish agriculture and industry. The commercial ties are accompanied by well established political and military ties (including, over the years, more than 1 Billion USD worth of Israeli defense contracts) which have stood the test of some serious crises, including tough Israeli actions against the Palestinians (which resulted in Turkish protests) and the rise to power in Ankara of the Islamic AKP party of Prime Minister Erdogan which at times, is highly critical of Israel. The relationship has reached a degree of maturity and mutual understanding that permits each country to voice its views and criticisms without stepping over the lines. Israel is careful not to make a topic out of Turkey's continued, if weakening disavowal of the Armenian Genocide, a charged issue in a Jewish nation sensitive to holocaust denials and hosting an Armenian minority, while Turkey will not go beyond issuing, occasionally, symbolic notes of protest over Israel's episodic mishandling of the Palestinian issue.

It is clear that the successful and mutually beneficial relations between Israel and Turkey have encouraged some other Muslim countries in the neighborhood, notably Egypt and Jordan, to take note and follow the same track.

The economies of Egypt and Jordan, two other Muslim countries with an embassy in Tel-Aviv, have abundant and low cost manpower and make an excellent match for Israel's manufacturing industries which seek to increase production and expand their markets. International encouragement, notably strong US engagement, has helped establish joint Israeli-Jordanian and Israeli-Egyptian Qualified Industrial Zones

(QIZs) whose products have tax-free status in the US. The QIZ idea is simple: As long as Jordanian QIZ products have at least 8% Israeli content (for Egyptian QIZ products it has to be at least 11.7% ), the products can be exported tax and customs free to the US. With Jordan, the QIZ agreement was signed in 1997 and the 11 QIZs that have been established since then have helped catapult Jordanian exports to the US from a paltry 15 Million USD in 1997 to 1 Billion USD (!) in 2004.

The agreement with Egypt was signed only in 2004 but the 10 QIZs that were established there have already increased their exports to the US between 1st and 2nd quarter 2005 by 50% (QIZ exports by now amount to about half of Egypt's exports to the US) and the trend continues. Not only have the QIZs hugely increased exports to the US but they have also increased Jordan's and Egypt's bilateral trade with Israel to reasonable numbers - around 250 Million USD with the former and close to 200 Million USD with the latter for 2005.

The success of the QIZ concept in fostering bilateral trade and exports to the US has encouraged Israel and Jordan to approach Canada and the European Union for similar arrangements that are likely to be approved in the near future.

Malaysia, while maintaining a cold shoulder in its foreign policy and continuing to refrain from establishing diplomatic relations, nevertheless decided a long time ago that it is in its best interest to give businessmen a relatively free reign. Malaysian exports to Israel increased by almost 40% between 2003 and 2004 and 3rd quarter 2005 results show another 25% improvement over last year's results so that by years end they will top 200 Million Dollars. Imports from Israel will remain close to last year's 203 Million USD. More than 400 Million Dollars in combined direct trade isn't bad when considering Malaysia's frosty disposition towards the Jewish state. Let's not forget that there is also a fair amount of indirect trade going on - not all of Israel's more than 340 Million Dollars exports to Singapore stay there.

Indonesia, despite its avowed policy of diplomatic abstinence, has a long history of doing business with Israel while not owning up to it publicly to prevent flak from Arab countries (who meanwhile do thriving business with Israel themselves) and, off course, to avoid trouble with it's own Islamist opposition movements.

All legal impediments to direct bilateral trade with Israel were removed by the Wahid administration in 2001 and not surprisingly, exports to Israel have increased substantially, by almost 60% between 2003 and 2004 and by another 25% by end of 3rd quarter 2005. The 2005 sum total of exports to Israel will come to around 170 Million USD while imports from Israel, which increased by 12% between 2003 and 2004 and have since then already increased by more than 25% (correct to end 3rd quarter 2005), will nevertheless be only a very modest 13 Million USD, indicative of the considerable difficulties Israeli exporters continue to face in Indonesia. Again, the indirect trade via Singapore or via US subsidiaries of Israeli companies probably adds some tens of Millions USD to the tally but the numbers are low, much too low when considering the enormous potential.

Muslim countries that have opened up to Israel, if only with hesitation, have quickly discovered the considerable synergies imparted by trade relations with the Jewish state notably an often astonishing improvement in trade with the US. Those that have established embassies or trade representations have gained the most and at a fast pace as well.

A sustained effort to improve trade relations between Israel and Muslim countries will not only improve the economies of the countries involved but also contribute to better mutual understanding and help lower the considerable enmity that is still, not infrequently part of the public discourse. Giving these developments a public profile is in the best interest of all concerned.