



## PERSPECTIVES

THE BEGIN-SADAT CENTER FOR STRATEGIC STUDIES

### Israel Upgrades Its Asia Policy

by Dr. Alon Levkowitz

BESA Center Perspectives Paper No. 490, June 8, 2017

**EXECUTIVE SUMMARY:** Israel is upgrading its economic relations with Asia by negotiating Free Trade Agreements (FTAs) with China, South Korea, Vietnam, and India. These agreements will allow Israel to increase trade with Asia and improve its regional status, further solidifying Israel's pivot to Asia.

Over the years, Israel has signed 11 Free Trade Agreements (FTAs) with about 44 countries. They include European states (the EU, Switzerland, Norway, Lichtenstein, and Iceland); North American states (Canada, the US, and Mexico); and South American states (Brazil, Argentina, Uruguay, and Paraguay). In the Middle East, Israel has an FTA with Turkey that continues despite Turkey's intermittently harsh policy towards Israel. Egypt and Jordan are included in Qualifying Industrial Zones (QIZ) with the US, which serve as limited FTAs.

Israel has not, however, signed FTAs with any Asian countries, despite having diplomatic and economic relations with South Asian and Southeast Asian states (e.g., India, Thailand and Vietnam) and Northeast Asian states (e.g., China, Japan and South Korea).

Why is this? There are several reasons. First, for many years, neither side saw any benefit to bilateral FTAs. Second, trade between Israel and Asia has not historically been great enough to justify an FTA – Asian nations preferred to sign FTAs with states that served their interests. Third, Asian states were concerned about economic implications: signing an FTA with Israel might harm their economic relationships with Arab and Muslim states. In some instances, conservative forces in Asian foreign offices and industrial sectors were influenced by the Arab Boycott.

The Israeli foreign office should be applauded for not giving up on the idea of signing FTAs with Asian nations. At the beginning of the effort, it was seen as

almost a mission impossible, but after much effort, the ice broke. The conservative political and economic forces in Asia understood that FTAs with Israel could serve their economic interests and would not be opposed by the Arab world.

From Israel's point of view, an FTA with Asia sends a clear message of Israel's economic achievements. Israel is the first Middle Eastern state to be in an advanced phase of FTA negotiations with South Korea and Vietnam. The FTA negotiations between Korea and the GCC have been postponed. (China is negotiating an FTA with Israel and the GCC.)

It should be borne in mind that while FTAs will improve trade between Israel and Asia, they will not enable Israel to compete with the trade volumes of other Middle Eastern states with Asia. The total volume of Israeli trade with South Korea might increase to \$5 billion, for example, while the current volume of trade between Saudi Arabia and South Korea is more than \$100 billion.

FTA negotiations between Israel and several Asian states began a few years ago and were postponed for some time. Once political and economic constraints were overcome, negotiations were renewed, and they moved to the next phase. Israel is currently at different stages of FTA negotiation with South Korea, Vietnam, China, and India (where it is in the preliminary stages).

There are still technical, economic, political, and legal issues that need to be resolved. This is not unusual. FTA negotiations between the US and some of the Asian states took several years, and ratification was itself a long political process. It is entirely possible that in the case of the prospective Israeli FTAs with South Korea, China, and Vietnam, the negotiation and ratification process will be quicker. Israel hopes these FTAs will encourage other Asian states to enter into FTA negotiations.

In addition to improving trade and leading other nations in Asia to pursue FTAs with Israel, the current FTAs with the region will boost Israeli industry relative to other states with which Asia has signed such agreements. The FTAs, depending on how they define some of the legal issues, will allow Israeli companies to collaborate with industries in China, South Korea, and even Vietnam, and to expand exports to other Asian countries and beyond – even to states to which Israeli industry has not traditionally been allowed to export.

The FTAs with China, South Korea, Vietnam and India, once signed, will represent another sign of an upgrade in Israel-Asia relations.

*Dr. Alon Levkowitz, a research associate at the Begin-Sadat Center for Strategic Studies, is an expert on East Asian security, the Korean Peninsula, and Asian international organizations.*