

Israel deal saves ailing Egyptian industry

By William Wallis, Financial Times
Published: Apr 22, 2005

Few Egyptians would have thought that economic salvation for one of their country's biggest job providers might lie in neighbouring Israel. But for Fadel Marzouk, who manages a textile company a stone's throw from the Great Pyramids in Giza, last December's historic trade agreement with Egypt's erstwhile enemy appears to offer just that.

Recently returned from his first trip to Tel Aviv, the 31-year-old manager of Giza Spinning and Weaving, one of the country's largest privately owned textile manufacturers, says he is hiring 1,000 extra workers and building a new factory specialising in luxury items.

His output, he projects, will increase from \$31m (£23.7m, £16.2m) in 2004 to \$40m this year. "This [agreement] has given me the confidence to expand," he says. "Buying from Israel will add 5 per cent to costs. But it is worth it."

Some predicted the landmark trade deal, allowing Egyptian textiles and other products duty free access to US markets provided they include 11.7 per cent content from Israel, would spark popular anger and even riots. Instead, the economic benefits have shown Egypt's more pragmatic side to the rest of the Arab world.

At the Metco factory in Port Said, Nachman Schwartz is something of a pioneer. He arrived from Israel three months ago and is the only Israeli manager so far in a city that suffered as much as any from the 1967 and 1973 Arab-Israeli wars. His new job puts him in charge of a production that includes Marks and Spencer's machine-washable suits.

"Sometimes good things start with businessmen, not politicians," he says. "This is the beginning of something."

Without the deal, factory owners are convinced Egypt's long-established textile industry, which employs nearly 1m workers and generates \$1.2bn annually in exports to the US and EU, would be withering in the face of Asian competition.

With it, says Rachid Mohamed Rachid, minister for trade and industry, Egypt has a fighting chance not only of surviving the changing dynamic of world textile markets but of emerging from it with new jobs. The deal, he says, translates into clear benefits for the first time in 26 years of uneasy peace, since Egypt and Israel signed a historic peace deal at Camp David. "We are talking about a very concrete example of how trade can change things."

Since the World Trade Organisation's long-standing restrictions on textile exports ended in January, cheap clothes from China have flooded US and EU markets. In developing countries without preferential trade agreements or comparative advantage in labour costs, millions of jobs are at risk.

For Egypt, however, a combination of respite in the neighbouring conflict between Israel and the Palestinians, pragmatism on the part of the government, and an administration in Washington eager to seize on both, has intervened.

Emotional attachment to the Palestinian cause still runs high and there are plenty who see the agreement as providing the Arab world's number one foe with a smokescreen to penetrate their markets. But in a straw poll at Cairo University, prone to passionate anti-Israeli sentiment, opinions were surprisingly nuanced.

What protests there have been were in textile towns desperate to benefit from the deal but which are, for now, excluded.

The agreement saves 397 factories, licensed in selected industrial zones in Cairo, Alexandria and Port Said, up to 32 per cent on US duties. Along with Egypt's advantage over Asia in delivery times to the US, this is enough, said several factory owners, to afford the extra cost of Israeli inputs - at least in the short term. The readiness of Egyptians to engage with Israeli businessmen is demonstrated, among other things, by the new popularity of the twice-weekly Cairo-Tel Aviv shuttle flight, which was once often nearly empty but is now filling up.

Robert Zoellick, US trade secretary at the time of signing, called it the most significant agreement between Israel and Egypt since the 1979 Camp David accords. These ended a quarter century of hostilities but, amid continuing Arab anger at Israeli policies, failed to break much ice.

By binding Egypt to commercial ties with its neighbour, Washington hopes it will help consolidate thawing diplomatic ties between the two. It is also hoping, as are the Israelis, that if the agreement creates more jobs and earnings, it will encourage a more pragmatic approach from other Arab states. Since Jordan entered a similar agreement in 1999, for example, its exports to the US have risen from \$9m to \$1bn last year, according to the US Department of Commerce.

Egypt already exports \$615m in textiles and apparels to the US. But it delayed its own agreement in 2000 at the outbreak of the second Palestinian intifada.

"Now we have started looking to our own interests and not those of other countries around us," says Hossam Eldin Gabr, chairman of Lotus Garments which employs 2,600 workers in the depressed city of Port Said. "Thank God this was in time. We were looking at cutting salaries by at least 25 per cent and even then we might not have remained in the market."