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Melting Icy Egypt-Israel Relations Through a Trade Pact

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When Egypt, Israel and the United States signed a trade agreement this week, it represented the most tangible step in a monthlong thaw in chilly relations between the Egyptians and Israelis.

The agreement, signed Tuesday, allows for the duty-free import of certain Egyptian goods by American buyers as long as the items contain some Israeli input. But the agreement also was part of a broader reconciliation from the Egyptians, driven by four important factors.

First, the death of the Palestinian leader Yasir Arafat in November prompted both Egypt and Israel to re-examine how attempts to reach a peace agreement might be revived.

Second, Egypt is newly convinced that Prime Minister Ariel Sharon is serious about withdrawing from the Gaza Strip starting as early as March. Although senior Egyptian officials harbor some doubts as to how far Israel will eventually go in terms of a similar exit from the West Bank, they are determined to try to use Gaza as a springboard to larger issues.

The third factor is the re-election of President Bush. Arab leaders hold that American presidents in their second terms care more about the judgment of history than the judgment of the Jewish lobby, and hence are more willing to press Israel.

Finally, there is some thought here that the United States will not be too harsh on Cairo for the glacial pace of its political reform if they see Egypt being nice to Israel, especially since Washington itself has begun stressing economic opportunity as the route to more open political systems.

During the various meetings marking the signing of the trade agreement, one official after another commented on the shift in atmosphere between Egypt and Israel. When asked what had changed, Maged Abdel Fattah, the presidential spokesman and United Nations ambassador-designate, pointed to Mr. Arafat's death as a catalyst.

"That created some momentum of optimism on the Israeli side, which was followed by another momentum of optimism from the Palestinian side," Mr. Abdel Fattah said.

The Egyptians have taken a number of steps to maintain the momentum and to ensure a central role for themselves.

They have stressed their willingness to train Palestinian security officers and to serve in an advisory capacity once the Israelis pull out of Gaza. They have sought to wrangle the often bickering Palestinian factions into a unified front for talks. The Israelis in turn have indicated that they will consult with the Palestinians about the withdrawal, something they gave no sign of doing with Mr. Arafat.

President Hosni Mubarak made some of his most positive comments ever about Mr. Sharon's government, suggesting to the Palestinians that the Israeli leader was their best chance for peace and that missing the opportunity would be a mistake. He made the remarks after his chief of intelligence, Omar Suleiman, and his foreign minister, Ahmed Aboul Gheit, returned from Israel with assurances Egypt had hoped for: that the Israeli troops would not impede the election on Jan. 9 to pick Mr. Arafat's successor.

In another upbeat move early in December, Azam Azam, an Arab Israeli businessman convicted of spying for Israel, was released after serving 8 years of a 15-year sentence, and six Egyptian students captured by Israel were also sent home.

The changed atmosphere remains tenuous, naturally, subject to potential eruptions of violence in the Arab-Israeli dispute. Given the continuing bloodshed, for example, Egypt has not returned its ambassador to Israel. "It is natural that we would have an ambassador to Israel, but this is related to achieving progress in the peace process," Mr. Abdel Fattah said Tuesday.

The mere fact that Egypt and Israel, with American backing, were finally able to hammer out a trade agreement that had first been broached in 1996 is telling. Robert B. Zoellick, the United States trade representative, who signed for the United States, issued a statement calling it "the most important economic agreement between Egypt and Israel in two decades."

Rashid Mohamed Rashid, the Egyptian foreign trade and industry minister, and Ehud Olmert, his Israeli counterpart, pointed out that the agreement was not merely about economics.

"It goes far beyond the economics and the business and the trade between the two countries," Mr. Olmert said. "This is another statement of two major forces in the Middle East: that they are looking forward toward greater cooperation."

The agreement stipulates that all Egyptian goods produced initially within seven specific "qualified industrial zones" will be exempt from American import tariffs as long as they contain at least 11.7 percent Israeli content. Given that much of the trade is expected to be in clothing, this would mean that the buttons or zippers or patterns would come from Israel, for example, while the actual manufacturing would depend on inexpensive Egyptian laborers.

The textile industry in Egypt employs a million people and accounts for more than one quarter of all industrial production, according to official figures. The United States takes

half of Egypt's textile exports, or \$470 million in 2003, which Mr. Rashid predicts could triple under the agreement. Jordan, the first to establish such zones, is expected to export \$900 million to the United States this year, according to the American Embassy in Amman, up from virtually nothing five years ago.

Still, the pact was a tough public sell in Egypt, where bitterness and anger against the United States and Israel run deep. The professional unions in particular oppose any normalization with Israel, despite a 25-year-old peace treaty. Critics fret the agreement will not produce the anticipated job bonanza and will give Israel undue influence over some Egyptian exports.

A demonstration outside the Journalists Union drew fewer than 50 protesters, but their sentiments echoed the popular mood.

"It is not possible that we should reward Israel for its crimes by making an agreement," said Muhammad Waked, who identified himself as a member of an antiglobalization group in Egypt, adding that the only people who would benefit in Egypt were rich factory owners.

The prevailing sentiment was that the agreement was yet another attempt by the United States to make Israel more palatable to the Arab world. Economic issues here often come secondary to the emotional desire to see some sort of overall settlement that will return occupied lands, particularly the holy mosque in Jerusalem, and find some solution for millions of Palestinian refugees stuck for generations in camps.

"I think the United States often reverts to very complicated methods to avoid facing the essential problems," said Hassan Nafaa, a political science professor at Cairo University.

To overcome the opposition, Mr. Rashid underscored the idea that the agreement would bring economic benefits, including increasing exports to the United States and desperately needed job growth. Indeed, factory workers outside the designated zones demonstrated to be included out of fear their jobs were in jeopardy.

The expiration of a longstanding international quota system for textiles on Jan. 1 is likely to set off worldwide price competition for clothes, so getting Egyptian exports into the huge American market duty-free will protect jobs here, Mr. Rashid noted.

Mona el-Naggar contributed reporting for this article.