

Frosty, Not Frozen

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Public frostiness aside, expanding QIZs and other economic initiatives could help ensure that the Egyptian-Israeli cold peace does not devolve into war.

This week, Israelis and Americans were greeted by the happy sight of another citizen freed from a foreign prison. Ilan Grapel, a dual American-Israeli citizen was reunited with his mother in Tel Aviv's Ben Gurion Airport on Oct. 27, in return for 25 Egyptians held in Israel for non-security related crimes. This is the second prisoner swap in as many weeks consummated by Egypt and Israel; the ruling military council in Cairo served as the primary mediator for the deal between Israel and Hamas in which Israeli soldier Gilad Shalit was released from Gaza in return for 1,027 Palestinian prisoners.

Such calculated cooperation may not stir any visions of the warm handshake between the countries' leaders on the White House lawn in 1979 -- but it does prove that they are still able to seize opportunities to work together in the post-Mubarak era. Despite the public frostiness -- driven by the current turmoil in Egypt and dormant Israeli-Palestinian peace talks -- Egypt has shown no signs of transforming the "cold peace" into open war.

Of course, there are challenges: The riot and storming of Israel's embassy in Cairo could have -- if not for President Barack Obama's intervention -- irreversibly harmed the peace, and the rise of Islamist politicians in the coming election will represent another major hurdle. But tearing up the 1979 peace treaty would greatly harm Egypt's relationship with the United States, which is Cairo's primary arms supplier and provides it with \$1.5 billion in aid annually -- one of the many risks that will likely convince Egypt to find ways to keep the relationship with Israel alive for reasons of national interest.

Creative partnerships can still rebuild these fraying ties, and the recent examples of collaboration with Egypt may open the door for new opportunities. The most promising of these are Israeli and U.S. efforts to help Egypt's struggling economy. Since the revolution began, the Egyptian economy's downward trajectory has continued unabated. According to the latest IMF report issued in late August, foreign currency reserves -- which were already low at \$36 billion at the start of this year -- have since fallen by more than half. Under military rule, official

unemployment still hovers at 12 percent overall, and 25 percent for Egyptians under 30 years old; experts believe the real figures are far worse.

Compounding this dismal news has been a severe global economic recession, which has constrained the ability of the international community to come to Egypt's aid. U.S. officials have thus far limited added assistance to debt forgiveness and loan guarantees.

Egypt's economic crisis has profound political implications. The success of radical groups in the Middle East has often been based on their ability to exploit a deficit of dignity and dearth of economic opportunity, winning support from some of the poorest segments of society. With domestic radical movements proliferating in recent months, don't expect Egypt to be the exception. As pivotal democratic elections near, now is the time for the United States to lay the groundwork that can help bring about further cooperation between Jerusalem and Cairo.

No single program will be a panacea, but the White House ought to consider expanding a program that has already borne fruit: the U.S.-brokered Egypt-Israel Qualifying Industrial Zones (QIZ) scheme. Initiated as an Israeli-Jordanian project following their 1994 peace agreement, QIZs were designed to provide a peace dividend for Arab countries willing to normalize relations with Israel. The Egypt-Israel QIZs, created in late 2004, are special trade zones in Egypt from which goods that are partly made in Israel may be shipped tariff-free to the United States.

There is no doubt that the QIZs have been a massive success. Immediately after the Egyptian-Israeli zones were enacted, exports from Egypt to the United States boomed, jumping from \$1.2 billion to \$2.1 billion in a single year. Today, products created in Egypt's QIZs in partnership with Israel account for fully one-third of all Egyptian exports, earning Egypt nearly \$2.5 billion in annual revenue.

The QIZs also help alleviate Egypt's chronic and debilitating unemployment problem. The at least 10 QIZ regions in Egypt currently support jobs for between 130,000 to 150,000 Egyptians in the textile and apparel sectors -- including a vast number of young people who might otherwise be unemployed.

But despite the clear economic benefits, any attempt to expand QIZs will have to grapple with the region's fraught political climate. While Egyptian-Israeli relations have often been characterized as cold, the public mood is closer to freezing. While the close relationship between the two countries' militaries has kept relations from becoming completely unhinged, more glue is needed to keep them intact. The question remains, however, whether Egypt's political climate will be conducive to extending a Mubarak-era policy -- one carried out with Israel and the United States, no less.

Despite political tensions, it appears that the Egyptian government might find QIZ expansion not only plausible, but appealing. In a recent interview, one Egyptian diplomat familiar with Egypt-Israeli relations went so far as to say there is "no doubt [Egypt] would be willing to expand QIZs."

The diplomat, speaking on condition of anonymity, argued that decision-making in the next Egyptian government will boil down to addressing protesters' more pressing priorities -- namely employment, not Israel. "This is one of the issues that will help jobs," he argued. "Once things settle, and elections calm down, the Egyptian government would be willing to expand them. QIZs are their bread and butter."

Israel, too, would likely be willing to expand the QIZs, which it views as an instrumental economic underpinning for enduring peace with its western neighbor. According to Ohad Cohen, Israel's economic attache to Washington, with the natural gas pipelines in the Sinai regularly shut due to recurring terrorist attacks, the QIZs "have become the main and most important economic project between Egypt and Israel."

Though relations between Egypt and Israel have surely waned, they still endure. The past two weeks have proven the potential for constructive partnership still exists and, with a push from the United States, expanded economic

cooperation can bolster the cold peace. Though there is no silver bullet to tackle the double threat of Egyptian unemployment and Cairo's cooling relations with Jerusalem, both Israel and the United States should realize that Egypt is still willing to work with them when their interests converge -- and seize these opportunities when they emerge.

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