Draft

Qualifying Industrial Zones and Sustainable Development in Jordan

By Marwan A. Kardoosh
Jordan Centre for Public Policy Research and Dialogue

And

Riad al Khouri, BLitt (Oxon)
Director MEBA wll
MEBA@nets.com.jo

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Executive Summary [to be added later]

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I. Introduction

Over the past three decades, export processing zones (EPZs) have become popular instruments of trade policy, offering access to duty-free imports of capital and intermediate goods, abundant supplies of low-cost labor, and a generous package of fiscal incentives to manufacturers who agree to produce only for export.[1]

In making the case for such special treatment, policy makers often cite potential gains from the inflow of Foreign Direct Investment (FDI) into these zones.[2] According to this argument, the export knowledge of a transnational corporation (TC) operating in an EPZ is expected to spill over; first, to the local firms in that zone, and then into the domestic economy, creating important linkages. Apart from capital, foreign companies are expected to bring in advanced production technology and management techniques for domestic firms to learn from.

On the strategic level, EPZs are meant to provide a demonstration effect to convince reluctant reformers of the benefits of a more open trade regime, and specifically the efficacy of export-led growth. With the proven success of liberal foreign trade policy within a geographically limited zone, the application of similar policies nationwide will become much better understood and more acceptable.

Others believe that EPZs offer an alternative to comprehensive countrywide market reform. A successful EPZ, the theory goes, may just as easily help maintain an inward-oriented structure in the host economy. Reluctant reformers would then be just satisfied with the new jobs and foreign exchange earnings generated by the EPZ, while dragging their feet on reform elsewhere in the economy, somehow portraying this as getting the best of both the liberal and the protectionist worlds.[3]

In 1970 only a handful of countries played host to such zones, but by the end of 2002 (latest available) there were more than 3,000 EPZs in 116 countries.[4] Just as EPZs have made an impact internationally, they are also becoming more important for a number of countries in the Middle East. Jordan seems to provide an important example, with Qualifying Industrial Zones (QIZs) proving to be useful tools for export expansion.

The QIZ model essentially extends the benefits of the US-Israel FTA Implementation Act of 1985 to include exports from geographically circumscribed areas in Jordan. The QIZ rules stipulate that a minimum of 35% of the exported good's value must be composed of local content: 11.7% of this must be Jordanian and 8% must be provided by Israeli manufacturers (7% for high-tech products); the remainder to reach the 35% value-added requirement can come from Jordan, the US, Israel, and/or or the West Bank and Gaza. QIZs so far exist only in Jordan, though under US legislation it is permitted to establish such schemes in Egypt and Palestine.[5]

Studying the Jordanian experience may prove useful for other countries in the Middle East region that could profit from it under the right circumstances, Egypt and Palestine in particular being allowed to apply the new model, though other countries such as Turkey have also shown interest.[6] The experience of Jordan offers these countries important lessons.

Hopefully, the present examination of the QIZ model will lead to further work that will analyze it more deeply and further promote fruitful interaction between researchers and policymakers to the benefit of society as a whole in Jordan and other countries of the Arab region.

Following a short review of the literature on the subject, this paper begins by tracing the origins of the QIZ scheme and proceeds to outline the specific legislation governing its operation, including the precise rules of origin manufacturers need to meet to export to the US market duty free. It then provides in more detail an overview of the various zones, individually highlighting such important characteristics as ownership, location, types of activity, origin of investment, and employment.

The paper then goes on to examine the macro-economic impact QIZs have had on Jordan, using qualitative and quantitative evidence and data. Contrary to what has been done in the past, where economists have paid considerable attention to the *direct effects* of QIZs on the Jordanian economy (i.e. exports, investment, and employment), this paper will also focus on the extent of technology transfer (if any) and on the question of backward linkages.

It also explains how the removal of quotas on world trade of textiles and garments could potentially erode some of the benefits of duty-free access to the US from Jordan's QIZs. The paper then discusses the important prospects provided by Jordan's Free Trade Area (FTA) agreement with the US and the issue's relation to QIZs.

Where domestic investments dominate in terms of quantity, such as in the case of Jordan, has foreign investment made an important qualitative contribution? FDI and expatriate expertise provide capital, managerial, and technological know-how, as well as access to foreign markets and buyers; It is worth noting that the Dutch and Israelis helped to develop cut flower expertise in Kenya, East Asians the garment industry in Mauritius and Lesotho, Americans fruit packaging techniques in Chile, and Japanese shrimp farming in Thailand. What is happening in the QIZs in Jordan?

The paper tentatively concludes that, even though QIZs have offered Jordan undeniable benefits in terms of employment and foreign exchange earnings, firms in these zones continue to import a large portion of their raw and intermediate input, leading to weak or non-existent backward linkages with domestic suppliers. At the same time, these zones have as yet shown little real evidence of promoting technology transfer to the domestic economy or facilitating industrial upgrading to higher value added export activities.

Clustering is also something that has yet to occur in Jordanian QIZs (see sections below for more details). The key notion here is that company productivity' depends on the actions of firms with which it has significant economic relationships. The general idea is that a firm's productivity is higher if it belongs to a geographic cluster of interconnected companies and institutions in a particular field (e.g. Silicon Valley). Clusters encompass an array of linked industries and other entities important to competition, and also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs.[7]

Against this backdrop, it remains unclear how QIZs can facilitate the type of industrial transformation that they are allegedly designed to promote.

A key point is the coherence of the policy behind QIZs. In other words, QIZs have to be conceived and implemented within the context of an overall export and investment promotion strategy of the government; the absence of such overall strategies has been used to explain the difficulty surrounding the establishment of EPZs in Sub-Saharan African countries. [8] As we will see below, the integration of QIZ into government strategy in Jordan may not be as strong as it should. (As a corollary, we will describe briefly the trade policy reforms that the government has undertaken.)

Trade liberalization in Jordan was first proposed seriously in the wake of the major financial crisis that swept the country in 1988/89. It was around that time that policymakers in Jordan came to realize that the country's overly restrictive external trade policies were seriously undermining its economic performance. The consensus then was that Jordan is facing a new situation, which required a new approach. Jordan was seen at the time as needing to "move towards a more outward oriented trade strategy to rectify the…imbalance in its foreign exchange position."[9] The logic was simple: Jordanian producers cannot be expected to succeed without a more open enabling environment.

Since its independence in 1946, Jordan has suffered from chronic trade deficits and a narrow export base, with annual commodity imports typically amounting to more than double its exports. This has partly been due to the scarcity of natural resources, but recurring droughts, a small manufacturing sector and the government's overly restrictive external trade policies, among other factors, also helped to explain the country's continuing trade imbalance. This has been exacerbated by persistently large food import bills, which have continued to grow with the expansion of the population.

Jordan had thus relied on aid and remittances from abroad to support its balance of payments. However, after the drop in aid that began in the 1980s and the subsequent fall in worker's remittances later in that decade, policymakers in Jordan came to realize that integration into the world economy could offer the best prospect to overcome the limited scale of domestic resources and to help increase productivity through specialization.

Before the 1990s, trade policy was traditionally mercantilist, and the government depended on a wide range of high tariffs for revenue.[10] Reforms seeking to better integrate Jordan into the world economy were then launched, and trade liberalization gained momentum in the mid- and late 1990s as tariff and non-tariff trade barriers were lowered and at times abolished. Overall tariff levels, the number of rates, and the degree of tariff differential afforded to different products and industries were reduced in an attempt to create an incentive regime conducive to outward-oriented growth.

Also in the area of trade reform, the government has taken a number of measures to simplify customs procedures. In this framework, a new Customs law was passed in 1998 aiming at developing and updating Customs procedures to satisfy WTO requirements. This law has since been amended, most recently in Law No. 16 of 2000. In that measure, significant changes were made in three articles regarding Origin of Goods, and major changes were also made in three other articles of the law to bring Jordan in line with WTO practice on Customs Valuation. The new system makes the valuation process better defined and more transparent. The new law restricts Customs officers' mandate to use arbitrary valuation but still rewards those who uncover invoice misreporting.

Jordan's accession to the WTO was the culmination of government efforts to adopt various trade-related legislative adjustments in customs and taxes and within patent, copyright and trademark protection to remove administrative barriers, and to make economic decisions more transparent, accountable and predictable. The government also committed itself to phase out bilateral trade protocols with many Arab and non-Arab countries that are inconsistent with WTO

It was also around that time that the government did away with import-licensing requirements on virtually all products other than those with national security, health, safety, environmental, or religious dimensions.

The decline in trade barriers, coupled with extensive micro-economic reforms, has helped to produce a more efficient and outward-looking economy. Today Jordan has the lowest weighted average tariff rate and the highest proportion of zero duty items among MENA countries.

In successive rounds of trade liberalizatio n, measures have been adopted in Jordan to reform the fiscal system, more specifically to implement tariff and tax reforms, and to dismantle trade barriers. Starting in the mid 1990s, the government took a number of measures to reduce the levels and variation in tariff rates, simplify customs procedures, and abolish quantitative restrictions on imports. Jordan's accession to the WTO (2000), the EU partnership agreement (1998), membership in the Arab Free Trade Area (1998), bilateral free trade agreements other countries, as well as the ratification of a free trade pact with the US (2001) have meant that Jordan has cut tariffs and is committed to further trade liberalization.

Jordan's maximum tariff rate was eventually set at 30 percent, except for two products namely: manufactured tobacco and substitutes, for which the tariff rate ranges from 70 percent to 100 percent; and alcoholic beverages, for which the tariff rate was set at 180 percent.

A number of items such as some essential food products, most pharmaceuticals raw materials, and printed materials are exempt from customs duties. In addition, the Customs Law exempts certain imports of governmental departments, imports by the Royal palaces and diplomatic community, import imports exempted by the virtue of the Investment Promotion Law No. 16 of 1995 and its amendments, and import bound by international agreements with some Arab countries from the payment of customs duties.[11]

Also in the area of Customs duties, the government adopted a number of further measures in 1999-2003 complementary to those taken in the mid-90s, with the aim of supporting the liberalization of foreign trade, promoting investments, and upgrading the competitiveness of Jordanian economy in general and domestic industries in particular. To boost Jordan’s attractiveness to investors and strengthen export competitiveness, the government in 2003 cancelled Customs duties on 492 imported capital goods.

As a result of these and other measures, the average import tariff on a trade-weighted basis was gradually brought down from 17.5 percent in 1994 to 16.6 percent at end-1998 to 14.5 percent by the end of 1999 and to 13.0 percent in 2003.[12] Jordan now boasts the lowest weighted average tariff rate and highest proportion of zero-duty items among Arab States.

Given the always-difficult budgetary situation, trade liberalization was and is being complemented by taxes applied to imports and domestically produced goods.

The relaxation of trade restrictions was supported by additional measures aimed at speeding up customs clearance of imported goods. For example, customs administration procedures have been improved through an Automated System of Customs Date Entry for valuation of imports (1997).

Coinciding with all of this, in 1998 a Foreign Trade Policy Department (FTPD) was created at the Ministry of Industry and Trade to assist the government in the formulation, negotiation, and implementation of trade policy. The FTPD has been instrumental in Jordan’s swift accession to the WTO, and has also played an integral role in the country’s negotiations to establish a free trade area pact with the US in 2000-01.

The establishment of the FTPD at the Ministry of Industry and Trade both reflected and re-enforced the integration of foreign trade policy into the country’s economic policy as a whole. However, as is clear from examining the origins of QIZ and its development that it was not introduced as a coherent part of Jordan’s trade policy, but rather came as an exogenous change in the country’s export regime.

That it is still so is confirmed by conversations with leading government officials,[13] though the imminence of MFA dismantling may now be pressing Jordan's policymakers to take a closer look at QIZ within the context of foreign trade as a whole. Had the whole approach to QIZ been better planned and implemented from the beginning, it is possible that better backward linkages and technology transfer could have taken place.[14]

II. Review of the Literature

A. EPZs in General

The debate surrounding export processing zones' contribution to the overall development of a host economy continues to rage.[15] In the voluminous literature on this subject, three strands of thought stand out.[16] Neo- classical theory asserts that the establishment of an EPZ in a country represents a second best policy choice, consisting of compensating for one distortion (import duties) by introducing another (a subsidy). The neo-classical analysis suggests that EPZs have a negative welfare effect on a host country: the creation of zones will increase inefficiency by relocating production away from the domestic economy where it enjoys a comparative advantage. The FDI flowing into the EPZ means that capital is imported while labor is withdrawn from the domestic sector to work in the EPZ. Production of the capital-intensive goods will increase in the EPZ, while that of the labor intensive domestic goods will decrease. This will distort the production away from its factor-based comparative efficiency. In accordance with this theory, total suppression of competitive distortions, through the introduction of nationwide trade liberalization, is the only policy to bring an economy to its optimal state. In this case the impact of EPZ policies on the well being of the host country is, a priori, indeterminate.

Two schools of thought question the neo-classical assumptions and conclusions. Warr dismisses the neo-classical analysis, arguing that: "This literature has drawn upon the classical [two goods - two factors – two countries] Hecksher-Ohlin model of production. Insofar as the model treats capital as being internationally immobile, it fails to capture the international mobility of capital goods - which is central to the functioning of EPZs. The main conclusion of most of this literature - that EPZs necessarily reduce the welfare of the countries – is thus largely irrelevant for EPZs as they actually operate."[17] Warr promotes instead the cost-benefit approach to assess the impact of the zones. His methodology, later adopted by Hamada (1974), Devereux and Chien (1995), and Beladi and Marjit (1992) calls for calculations of all costs and benefits associated with the zones. It involves discounting and calculation of net present values of streams of revenues and costs for the government, the workers and the society at large. In general, the net estimated benefits include the net gain to the host country with respect to employment generation, foreign exchange earnings, greater use of local materials, added capital equipment, and additional tax revenues collected from the TCs (when applicable). The costs include administrative and maintenance costs of the EPZs, and the required additional physical and administrative infrastructure. The main drawback to this approach is the lack of adequate data for the cost-benefit calculations. Assumptions regarding rates of returns to capital, social discount rate and social benefits may also be easily questioned. More generally, while costs may be more readily observable, the extent of the benefits may not.

The third school, the new growth theory, argues that the neo-classical approach does not take into account the zone's possible catalytic and spillover effects on the host country. Three tendencies may be distinguished in this school. First, there is a long and distinguished line of theorizing that emphasizes the role of FDI as an important vehicle for technology transfer. Apart from capital (financial as well as material), foreign companies bring in advanced production technology, skills, and management for domestic firms and potential or actual entrepreneurs to learn from and copy.

A second camp stresses the expectation that the production technologies and organizational expertise introduced by foreign investors would contribute to the upgrading of workers' skills.[18]

A third group of claims advanced for EPZs centers on their potential to stimulate backward linkages with domestic suppliers. In general, there are two main types of such linkages: use of domestic raw material inputs and outsourcing and subcontracting arrangements with domestic firms. Local inputs, to the extent that they are used in the production process, are expected to stimulate linkages to the national customs area, where import-substitution industrialization has already established a firm foundation, thereby augmenting the number of workers in the non-EPZ sectors. Such linkages would also allow local firms to step in as suppliers to the EPZ firms in the medium to long run. This process would integrate the zone into the national economy and promote regional development beyond the immediate and limited servicing of the enclave structure. Eventually, it is hoped these supplier firms would mature to compete in the international market.

This paper alludes to theoretical approaches above when appropriate, also indicating the peculiarities of the Jordanian case.

B. Recent Related Work on QIZs in Jordan

Early work on QIZs and their impact on the Jordanian economy showed substantial growth in gross exports, leading some observers to respond positively to these zones. For example, Jordanian economist Riad al Khouri has characterized QIZs as being "an interesting model of industrial development for the kingdom."[19]

Similarly, in 2001, the Research and Studies Department at the Export and Finance Bank issued a report noting that in the four years since QIZs were first introduced in Jordan in 1997, they have created over 20,000 jobs for local workers[20] and increased foreign currency earnings due to the surge in exports. The report noted but did not calculate the multiplier effect of this rise in incomes.

The conclusion that Jordanian exports to the US have soared and new jobs have been created is true as far as it goes. However, this overlooks two important variables often referred to in the EPZ literature. These are the issue of backward linkages fostered between assembly operations and the domestic economy and the extent of technology transfer.

Later discussion of issues related to the QIZ and its impact on the Jordanian economy was initiated by among others the World Bank's Jordan Country Unit.[21] Its team of economists argued in a recent quarterly publication on Jordan that while QIZs did eventually boost exports and create new jobs, these zones still rely on foreign workers, and on importing a large share of their intermediate inputs.

Taken together, these arguments show that QIZs have offered little by way of the industrial transformation they are allegedly designed to promote, and as such counsel caution when evaluating their contribution to the overall performance of the Jordanian economy in recent years.

In retrospect, this might have been a function of the time in which the analysis was performed, with earlier examinations of QIZ perhaps naturally stressing the immediate impact on exports and employment, leaving till later the more critical look at linkages and technology transfer, which take longer to become apparent.

Some of the potential gains from an EPZ operation are static in nature. Once a zone is successfully established, the production carried out by foreign firms creates jobs for local workers while the expanded export-processing activities in the zone contribute foreign exchange earnings to the host country. Other gains are dynamic in the sense that they can only be realized over time through deliberate efforts, such as learning and absorbing foreign technologies and transforming the pattern of economic growth from an inward-looking to an outward-looking one. By and large, the static gains have been evident, while the degree of dynamic gains varies greatly from case to case, as suggested by empirically based studies of the EPZs.[22] In any case, as QIZs have now been around for the better part of a decade, it becomes more interesting to examine their longer-term impact in such areas as backward linkages and technology transfer.

III. Definitions

A. Qualifying Industrial Zones

The US-Israel FTA Implementation Act defines QIZs as [23] territory of "Israel and Jordan or Israel and Egypt" (though subsequent practice seems not to encompass Egypt) designated locally as "an enclave where merchandise may enter without payment of duty or excise taxes" and by the US Trade Representative" as a QIZ. Current practice is to grant overall QIZ status to an industrial estate, leaving it to individual manufacturers to seek approval for their products. (Ez-Zay, Jordan's first operation to receive QIZ status on an original site, as opposed to manufacturers who located to already designated QIZ areas, being a notable exception.)

B. Sustainable Development

Though the literature offers a variety of definitions, sustainable development in the Jordanian context may be characterized by micro-economic and structural changes in the economy leading to steady annual growth in GDP of around 6%.[24] One way to achieve this is through increasing exports, which QIZs have certainly done. QIZ exports in 2003 totaled $587 m, out of total exports that year of$2.4 billion.

The question is: can this growth be maintained while QIZs promote positive change in the economy? The answer on both scores is "not necessarily." That is partly because the future of QIZs is subject to various factors that could lessen its importance, while the present QIZ contribution to positive qualitative change in the economy remains limited.

IV. Origins and Evolution of the QIZ program

QIZs are the product of a US-inspired program, established in 1996, aimed at enhancing regional economic co-operation and integration between Israel and the rest of the region. The US logic was simple, writes Moore (2003): "creating Arab-Israeli business links encourages and strengthens the private sector, a natural supporter of peace and a bulwark against radicalism."[25]

The seeds for QIZ were sown in the October 1995 Amman Economic Summit, which had witnessed the creation of the Regional Business Council (RBC). The RBC was managed by US officials and served as a kind of regional chamber of commerce to facilitate meetings, multilateral exchanges, and joint business ventures among leading Jordanian, Palestinian, and Israeli businesspersons.

To provide incentives for such exchanges, Washington offered to extend the benefits enjoyed by Israeli companies under the US-Israel FTA to designated 'border areas' between Israel and its peace partners (see definition above).

On 13 March 1996, US Congressman Philip Crane introduced a bill (HR 3074) to amend the United States-Israel Free Trade Area Implementation Act of 1985. The amendment would provide the President with additional proclamation authority to extend the US-Israel free trade area to cover articles grown, produced, or manufactured in the West Bank, the Gaza Strip, or a QIZ between Israel and Jordan or Israel and Egypt.[26]

The bill was referred to the House Committee on Ways and Means, which reported it (HR 104-495) on 25 March 1996. In its report, the Committee stated that duty-free treatment for goods produced in these zones could assist in supporting the peace process, increase employment, and stimulate the economy of the region.

The House passed HR 3074 by voice vote in April 1996; the Senate passed it without amendment by unanimous consent that September. As a result, less than a month later, the US-Israel Free Trade Area Implementation Act of 1985 (19 USC 2112 note), was amended, creating a new section 9, authorizing the President to proclaim the elimination of duties for articles produced in the West Bank, Gaza Strip, and a QIZ.

Pursuant to that authority, the President issued Proclamation No. 6955, published in the Federal Register 18 November 1996 (61 Fed. Reg. 58761), which modified General Notes 3 and 8 of the Harmonized Tariff Schedule of the US (HTSUS), to provide:

a. Duty-free treatment to qualifying articles that are the product of the West Bank or Gaza Strip or a QIZ and are entered in accordance with the provisions of section 9 of the FTA Act

b. That articles shipped to the US from the West Bank, the Gaza Strip, or a QIZ be treated as though they were articles directly shipped from Israel for the purposes of the US-Israel Free Trade Area Agreement (the "Agreement") if the articles otherwise meet the requirements of the Agreement, and

c. That the cost or value of materials produced in the West Bank, the Gaza Strip, or a QIZ may be included in the cost or value of materials produced in Israel under section 1 (c)(ii) of Annex 3 of the Agreement.

The proclamation, which went into effect three days after its publication in the Federal Register, contains no time limits or renewal requirements, and will remain in effect at the President's discretion. The US President retains the authority to modify, suspend, or terminate the duty-free status unilaterally.

V. Main Provisions of the QIZ Program

The QIZ program allows the kingdom's business community in general, and the manufacturing sector in particular, to profit greatly by exporting from Jordan to the US free of duties and restrictions, eliminating tariffs and other commercial barriers provided "the sum of the cost or value of materials produced in the West Bank, Gaza Strip, a QIZ or Israel, plus the direct costs of processing operations performed in the West Bank, Gaza Strip, a QIZ or Israel, is not less than 35% of the appraised value of such articles when imported into the US."[27] "Appraised value" of a product is the price actually paid by the US buyer to the Jordanian seller (QIZ) for the merchandise, plus other expenses incurred by the buyer (e.g. packaging costs), when not included in the original price.

It is noteworthy that the appraised value of a product does not include freight, insurance and other CIF charges that the buyer typically expects the seller to pay, nor does it include the transport cost of goods after importation into the US, or US Federal Duties or Taxes.[28]

It should also be noted that since Jordan is free from any quota restrictions on its exports, products manufactured in QIZs may be admitted into the customs territory of the US without being subject to quota limits.

An article is considered to be the "product of" the West Bank, Gaza Strip, a QIZ or Israel if it is either "wholly the growth, product, or manufacture of one of those areas" or "a new or different article of commerce that has been grown, produced, or manufactured in one of those areas." [29] The term "new or different" means that such an article has undergone a "substantial transformation" in one of these countries or the QIZ, thus preventing the possibility of imports by a Jordanian QIZ from other countries (non-beneficiaries of Proclamation No. 6955) entering the US under the provisions of the QIZ program without having acquired a certain amount of value added in the zone.[30]

For example, a firm in a QIZ may import fresh oranges and other ingredients directly from Brazil to manufacture orange juice concentrate. Even though the Brazilian oranges are used in the manufacturing process, the end product would still qualify, because the non-originating inputs (fresh oranges and the ingredients) have been substantially transformed in the QIZ.

In apparel manufacturing, the value of imported material (that is, material that does not originate in the West Bank, Gaza Strip, a Jordanian QIZ, or Israel) may be considered as part of the value of materials produced in these countries or the QIZ for purposes of the value- content requirement (35%) only if it undergoes two substantial transformations in one of the abovementioned places.[31]

An article is considered to have undergone double substantial transformation if the foreign material (that is, material that does not originate in the in the West Bank, Gaza Strip, a Jordanian QIZ or Israel) to be used in the production process, has been substantially transformed in one of these countries or the QIZ into a new and different intermediate article of commerce, then transformed a second time during production of the final article to be exported to the US.

Double substantial transformation in the case of fabric can be cutting and sewing. This is illustrated in the following example[32]: Woven fabric is shipped from Pakistan to a QIZ where it is cut to shape to create components for a shirt. The components are then assembled in the QIZ to produce the finished shirt. The processing in the QIZ results in a double substantial transformation of the woven fabric imported initially.

The conversion of the fabric into components of a shirt produces a new and different intermediate article of commerce, which itself is substantially transformed when processed into a shirt. As a result, the cost or value of the constituent materials (the Pakistani woven fabric) may be counted toward the 35% value-added requirement.

It is worth noting, finally, that double substantial transformation of imported inputs does not need to take place in a single country, provided the other country, where the product is to be subject to some kind of processing, is also a beneficiary of the QIZ agreement. Typically, the imported fabric is being cut to shape in Israel then shipped to Jordan for sewing and assembly. (See section "VII-C" for more details.)

A joint technical committee was established to ensure the strict enforcement of the principle of "economic co-operation" pursuant to the agreement. The committee is comprised of three representatives: one from Jordan, one from Israel, plus an observer from the Office of the US Trade Representative. The joint committee decides which products will be eligible for duty-free entry to the US market. Decisions are normally made within ten days of receipt of all the necessary paperwork.

Products become eligible for duty-free access to the US market provided Arab countries include Israel in a diagonal cumulation system, but which cannot include Arab countries without Israel.[33] Diagonal cumulation means that the value of the input originating from any of these countries is allowed to be counted as domestic inputs in the production of the ultimate product, where more than two states are party to a single agreement, in this case QIZ.

More specifically, 11.7% of the local content requirement must be Jordanian, with 7-8% coming from Israel (referred to here as "Method I"). The remainder to reach the 35% value-added requirement, 15.3% (16.3% for hi-tech products), may be provided by Jordan, the US, the West Bank and Gaza or Israel.[34] The rule is that no more than 15% of the appraised value of the good at the time of export may come from the US and still be counted as domestic inputs.[35]

Initially both Jordan and Israel agreed to contribute and maintain at least one-third of the minimum 35% value added requirement (11.7% each). However, because of the high prices of Israeli inputs, both countries decided to amend the agreement by February 1999.[36] A five-year grace period was established in which minimum Israeli content was reduced to as little as 7% for high-tech and 8% for all other goods.[37] The reduction period, which ended in February 2004, was designed to allow more Jordanian companies to benefit from the scheme during the initial stages of production. Though no formal announcement has been made, all indications point that the two countries have agreed to maintain the concession contained in the original grace period indefinitely.

Given that Jordan had spent the good part of 2003 and the early days of 2004 trying hard to lower the Israeli minimum content requirement, some say to 5%[38], the simple maintenance of the status quo may be considered disappointing. The boom in exports notwithstanding, QIZ manufacturers are still finding it difficult to meet the condition that 7% of the good's value must come from Israel.[39]

An alternative method to meet the QIZ agreement requirements would be for the Jordanian manufacturer in the QIZ and the Israeli partner to each shoulder at least 20% of the total cost of production (both direct and indirect), provided that it excludes any profit (referred to here as "Method II"). Cost of production may include, however, wages and salaries, fringe benefits for production workers, depreciation of capital investment, marketing expenses and/or spending on research and development. The parties can also pursue some combination of the two aforementioned methods, I and II (referred to here as "Method III").

However, important as the second and third methods may be, in practice no QIZ manufacturer has tried to use either when applying for QIZ treatment in the US.

Finally, it should be stressed that all approved enterprises operating within the geographical boundaries of a QIZ also enjoy exemption from paying prevailing Jordanian income and social security taxes (these can go up to 35% and 10%, respectively). QIZs also allow foreign investors to acquire full ownership or control of plants within their boundaries.

In addition, QIZs offer investors full repatriation of capital, profits, and salaries as well as exemption from customs tariffs (which remain substantial on a wide range of materials imported normally into Jordan). It is noteworthy that for investment purposes QIZs are favorably treated as "Zone B" projects unless they fall geographically in Zone C, thus receiving even more favorable treatment.[40]

VI. QIZ Growth and Proliferation

QIZs in Jordan currently number thirteen, including one single-factory zone.[41] Of these, the vast majority is in private hands. Only three are owned and run by the government. To date, seven zones have commenced operations.[42] It is also noteworthy that once the initial legal framework has taken shape, the government of Jordan subsidizes the cost of utilities, communications facilities, and transport infrastructure.

How sizable is investment in these zones, and are the results achieved worth the resources expended? In an attempt to address this question, we will elaborate on selected zones.

Al Hassan Industrial Estate

The Al Hassan Industrial Estate, which was established in 1991, is located in the greater Irbid area, 72 kms north of Amman. Having received privileged US import status in 1998, Jordan's oldest QIZ is one of the largest, providing ready-built factory space for medium and small units. A two-year head start on most of its counterparts enabled the Al Hassan Industrial Estate to acquire an impressive number of tenants on its 100.5 ha site, now home to some 58 companies.[43]

Of these, only 14 are engaged in production for exports under the QIZ provisions. Drawn from nine countries including the US, China, India, and Pakistan, the companies, approved by the Jordan Ministry of Industry and Trade as eligible for QIZ treatment, are estimated to have already generated over 5,200 jobs for Jordanians as at end-July 2003 (latest available).

What the above figures further indicate is that manufacturing activity at the Al Hassan Industrial Estate remains predominantly non-QIZ. It includes local operations subcontracted by Israeli firms, moving some of their production lines to Jordan to take advantage of the cheaper labor and land costs.

Al-Hussein Bin Abdullah II Industrial Estate

Al-Hussein Bin Abdullah II Industrial Estate is one of the country's three QIZs owned by the Jordan Industrial Estates Corporation[44], designated as such in the latter part of 2000. The zone is located in the Karak governorate, 110 km south of Amman, and is linked by highway to the port city of Aqaba. Built on an area of 1,885,000 square meters, Al-Hussein provides a wide range of standard factory buildings for light to medium industry. Serviced land plots, in different sizes and shapes, are also available for sale or lease.

The number of projects in the zone has reached three as at end-December 2003, of which two are exporting to the US under the provisions of the QIZ arrangement. In terms of job creation, the QIZ Unit at the Ministry of Trade and Industry estimates that the two factories already in production have created over 1,760 new jobs for Jordanians.

What the start of business in Karak indicates is that the use of the QIZ model in less developed rural areas has increased, partly as a means of addressing some of the regional divides in Jordan.

Al-Tajamouat Industrial City

Designated as a QIZ in November 1999, Al-Tajamouat Industrial City (TIC) is Jordan's first private park to be set up and become operational. Al-Tajamouat industrial park is owned and run by a private management company with a paid-in capital of JD10 m that constructs and markets a wide range of ready- and tailor-made industrial buildings for medium to light industry, as well as large buildings serviced with industrial infrastructure.

Covering an area of 420,000 square meters east of Amman, Al-Tajamouat has attracted investment from several Asian textile and garment companies moving from Dubai to avoid US quotas[45], though, like Al Hassan Al-Tajamouat also contains non-QIZ producers.

Since production began in earnest in 2000, the TIC has attracted 32 companies[46] (with many more in the pipeline), of which 19 are engaged in QIZ production.[47] In 2000, less than $5 m of QIZ products were exported, but the figure has since soared through garment production. The comparable export figure for 2003 was close to $151 m.[48]

The zone's impressive growth looks set to continue. Apart from the 5 new companies due to begin operation over the next few months, a land expansion project should double the size of the park. To date, an additional 100,000 square meters plot has been secured.[49]

In addition to the investment incentives, Al-Tajamouat Industrial City markets itself on location. Strategically placed next to a 60 meter-wide highway, the zone is particularly well positioned for access to most areas of the country, 20 km from downtown Amman and 25 km from Queen Alia International Airport.

Ad-Dulayl Industrial Park

Ad-Dulayl Industrial Park (ADIP) is a private-sector initiative launched in 2000 on a 345,000 square-meter site, 45 km northeast of the Amman. The zone is operated by a private Jordanian concern, the Middle East Agricultural and Trading Co, with assets exceeding JD10 m. ADIP provides and markets industrial land plots for light, medium, and large-scale factories. Plot areas range between 4,000 square meters up to 50,000 square meters.

Moreover, since ADIP falls in a Zone C area (the least developed, according to the Investment Promotion Law No. 16 of 1995 and its amendments in the year 2000) it enjoys a special fiscal regime, which is much milder than that enjoyed by other QIZs. For example and, subject to approval by the Investment Promotion Committee, Article 7 of the Investment Promotion Law grants any project that falls within Zone C a 75% exemption from income and social services taxes for a ten year-period from approval. It is worth stressing (again) that for investment purposes QIZs are treated as Zone B projects unless they fall in Zone C.

ADIP is currently host to twelve companies, from Pakistan, Sri Lanka, India, the UAE, Honk Kong, and Jordan.

Al-Qastal QIZ

Strategically located next to the Queen Alia International Airport, the Al-Qastal QIZ is a privately owned industrial park covering an area of 4,000,000 square-meters south of Amman. Total investment by company is estimated to have reached $22.6 m by end-September 2003, while exports moving out of the zone reached $1.9 m in the same period.

One operator heavily dominates investment, the United Textile Group, with established shareholders from Pakistan and Jordan. The company is principally engaged in the design, manufacture and sale of a wide range of textile apparel for the US market. The group is one of two companies that have set up shop in Al-Qastal.

Cybercity

Billed as Jordan’s first information technology park, Cybercity purports to represent a bold departure from the traditional way investors have approached the QIZ model, in that it is the first to concentrate on a non-textile product. As well as enjoying QIZ designation, Cybercity has been granted a "Special Export Free Zone" status, which provides a 12-year tax holiday and other incentives for tenant companies.

The supposed tech-park is jointly owned by Boscan Middle East Investment Ltd, a holding group with established shareholders from the Far East and Jordan, the Al-Ain group from the UAE, and the Jordan University of Science and Technology (JUST).

The project, located close to the JUST in Irbid and less than 70 km from Amman, covers 4 m sq ms, making it the largest operating QIZ in Jordan today. Cybercity is said to have basic infrastructure for up to 500 tenants.[50]

Since the project was unveiled in October of 2000, three companies have commenced operations with a total investment capital of almost $17 m. Of these, two are in fact engaged in QIZ exporting. That said, it should be noted that both companies are producing of garments.

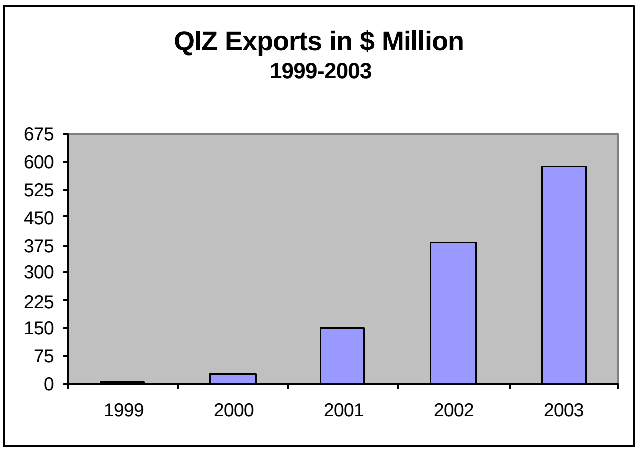
Ez-Zay

The only export processing zone in Jordan to receive QIZ status on its original site, in contrast to manufacturers who located in QIZs post facto, Ez-Zay sub-zone is also Jordan's first single-factory QIZ specialized in the manufacture of men's suits. Launched in December 2000, the sub-zone operation is owned and run by Ez-Zay Ready Wear Manufacturing Company with a capital of $8.5 m. Total investment is estimated at close to $11 m, while exports from the zone reached $6.5 m in 2003.

VII. Exports and Investment

A. Exports

One area in which QIZs have had indisputable positive effects on Jordan is exports. According to certificates of origin issued by the Jordanian authorities, QIZ exports are soaring: from $2.4 m in 1999 to $150.1 m in 2001, and nearly $586.6 m last year (see graph below).



Source: QIZ Unit, Ministry of Industry & Trade

Apart from less than $400,000 from jewelry, the rest was derived from garments, about $399.6 m of which were products classified under HST 61 (knitted or crocheted apparel or clothing) and the rest under HST 62 (apparel or clothing not knitted or crocheted).

These figures represent a large increase on the country's previous capacity in such products, as well as in relation to Jordanian exports to the US. Jordanian exports of these items in 1998 (pre-QIZ) were about $1.5 m and $45.4 m, respectively. QIZ exports of garments thus represent a considerable addition to the country's total exports of these goods.

Further analysis of export figures shows that the rate of increase during 2004 has also been very strong, with exports from 1 January to end- July close to $449 million (compared to $309.1 million in the January-July period of the year before); in annual terms, this would amount to exports of close to $770 million.

Of course, this is good news: both in terms of export diversification and the value added that comes from such manufactured products, as opposed to mining non-renewable natural resources such as raw phosphates or potash (Jordan's more "traditional" sources of export earnings).[51] This has helped insulate Jordan's tradable sector from some of the price fluctuations associated with primary exports such as phosphate and potash.

However, many of these ready-made garments are low value items (see table below), which incidentally are also being manufactured and exported by many other developing countries. QIZ exporters have restricted themselves to assembly of low-cost discount clothing without independently exporting branded merchandise.

Table (1)
QIZ: $ Value/Piece

	2003		2004	
	Exports ($)	Qty/Pieces	Amount/$	Qty/ Pieces
Total (January-July)	309,146,629	70,833,003	449,038,296	99,675,475
$ value / piece	**4.36**		**4.51**	

Source QIZ Unit, Jordan Ministry of Industry and Trade

Analysis of trends in the manufacturing sector reveals that growth in real manufacturing value added was significantly slower than is expected from a mere look at the sector's stellar export performance.[52]

Also noteworthy is that the output of QIZs remains restricted to only two types of products and is heavily dominated by garments. A host of reasons can be cited for this, but the argument that these are goods ordinarily attracting the highest customs duties in the US is not one of them.[53] Had that been the case, most investors would have looked more at footwear, yet no QIZ company appears to be active in the production of shoes.[54]

More relevant explanations are linked to adoption by companies from developed countries of delocalization policies for a limited number of manufactured goods. The ILO, in a report on labor standards in export processing zones, stresses this fact: "a striking feature of EPZs has been their development into "monocultural" industrial estates rather than into well-balanced industrial parks as originally planned."[55]

The other interesting point illustrated by Table 2 below is that the composition of exports has changed. In 1999, travel goods, mainly luggage with outer surface of plastics or of textile materials, made up the vast majority of the total value of QIZ exports. Since then, however, the figure has dropped dramatically due to lifting of quotas on luggage on 1 January 2002. To take one publicized case, because of that same reason, the Chinese firm Boscan, previously a big exporter of travel goods destined for major department stores in the US, ceased production in Jordan and returned to China.

Table (2)
QIZ Exports, 1999-2003 ($ M)

		1999	2000	2001	2002	2003
QIZ exports (total)		**2.4**	**25.2**	**150.1**	**380.4**	**586.6**
Al Hassan		2.4	18.4		123.9	186.5
	Luggage	2.4	3.7			
	Garments	-	14.7			
Ad Dulayl			-		61.1	84.6
Al Karak			2.3		74.6	99.8
Al Qastal			-		2.2	4.4
Al Tajamouat			4.4		80.2	150.6.6
Cyber City			-		29.8	52.3
Ez-Zay			-		8.7	6.4

Source QIZ Unit, Jordan Ministry of Industry and Trade

These arguments notwithstanding, it should be stressed that even if gross exports are high, their positive impact on the host economy is determined by the effect on wages and salaries paid to Jordanian laborers, and on domestic investment through profits retained and then re-invested in Jordan. To the extent that the value added embodied in QIZ exports ends up as wages and salaries paid to expatriate labor, or as profits remitted abroad, neither employment nor investment in the domestic economy will reap any direct benefits.

B. Investment

The heaviest QIZ investment so far is in ready-made clothing, including sweaters, trousers and other sportswear, destined for major US retail chains. Such activity is footloose[56]; it corresponds to the manufacture of "mature" goods for which, according to Vernon's product cycle theory, there is a progressive delocalization of production from industrialized regions to less developed countries with lower labor costs. Where conditions change, plants can easily be relocated (sunk costs are typically low) as production technologies are standardized with low- skilled workers. [57] This raises the issue of employment insecurity since most QIZ manufacturers provide assembly-type jobs (see section on labor below).

At the same time, QIZ manufacturing activity remains traditional, labor intensive and technologically dependent on foreign expertise. The vast majority of QIZ investments are still sunset industries and old manufacturing activity. This has resulted in poor development of local skill and fewer spin-off industries than in other countries. Production of products other than garments remains limited, if not practically absent. There is little evidence of the New Economy in the QIZ industrial structure.

In fact, an 'enclave economy' might be emerging in Jordan, where most of the investments stay within the QIZ and where nearly 100% of demand for raw material is met through imports. This has led some to argue that these zones constitute little more than a means for TCs to exploit Jordan's unique trade position vis-à-vis the US while contributing very little to the long-term economic development of Jordan. In a nutshell, these are no more than "screwdriver" factories that import all their intermediate goods for simple assembly and repackaging for export.

On the positive side, QIZs may be credited with attracting FDI from countries that otherwise would not have invested in Jordan. Jordan's seven operational QIZs currently play host to 51 companies[58] drawn from over a dozen different countries.

Since production began in earnest in 1998, QIZ companies have invested close to $182 m, the vast majority of which has come from Asian investors relocating to Jordan to avoid US quotas. However, it is interesting to note that apart from Jordanians themselves, and with the notable exception of two investors from the UAE, no company with purely Arab capital appears to be active in QIZ production, at least none that has been declared to be so. Some Arab capital is involved in the "mixed" category, including for example one investor from Libya. In these, the foreign partner is usually responsible for day-to-day management or technical support.

The most recent figures from the Jordan Investment Board show that 88% of the capital invested in the QIZ sector is by firms classed as non-Arab, with only a small albeit rising component (5.7%) invested in all-Jordanian companies. Attitudes as well as weak infrastructure have been important factors in this respect.

Despite, or perhaps because of, their slow start relative to foreign companies, either due to inclusion of Israeli value-added in Jordanian products, or because they were shackled by infrastructure problems and the institutional environment, learning and implementation processes by Jordanian companies took time, if only to ensure that local involvement in QIZs was to be successful.

C. Have QIZs been the cause of trade diversion?

Were it not for the QIZ agreement and its generous provisions, it is highly likely that Jordanian exports to the US would have remained meager. In 1998, pre-QIZ, Jordan sold less than $8 m worth of goods in the US market. Five years later, in 2003, Jordan sold about $660.7 m worth of goods there, equivalent to more than a quarter of its exports that year.

However, thanks to QIZ, garment manufacturers in Israel are outsourcing work to Jordanian companies – something they used to contract-out to Palestinian workers in the West Bank and Gaza. Other things being equal, such trade diversion is not a good thing for the West Bank and Gaza, which saw significant trade activity with Israel being diverted to Jordan.

Looking outside Jordan at the region as a whole, one crucial criterion on which the QIZ model should be judged, therefore, is whether the dynamic trade-creating and investment-inducing impacts of the scheme have outweighed some of the trade-diverting effects discussed above. Insofar as the aims of QIZ consist of supporting the peace process, increasing employment, and stimulating the economy of the region, this would be accomplished by trade creation, and not, other things being equal, by trade diversion. In this respect, QIZ may be a boon to Jordanians, but not – by the standards of its creators – an unqualified success looked at regionally.

VIII. Labor

A major indicator of the success of an EPZ-strategy is the number of jobs created. Like most zone-operating countries, Jordan is a labor-surplus economy with an urgent need for employment creation.

The number of Jordanians out of work began to rise in the late 1980s and climbed to dramatic proportions in 1990-91, after which unemployment remained high, though with a slight fall in 1999/2000. The actual levels of unemployment are the subject of debate. The official 2002 figure for unemployment among Jordanians is 15.3% (close to 196,000 unemployed persons). Unofficially, the level of unemployment in the country has been put much higher.

Job creation was a central objective of the whole QIZ program. Employment in the QIZs, measured by its share in total manufacturing employment, rose from 16.4% in 2001 to 20.2% in 2003. The number of Jordanians working in a QIZ has grown steadily, from 13,300 in 2001 to 13,900 in 2002 and to 15,214 in 2003. This growth was accompanied, however, by a more rapid rise in the number of foreign workers being brought into the QIZ sector, from 5,700 in 2001 to 9,600 in 2002 and to 11,339 in 2003. Indeed, by one measure, that of the total number of local vs. foreign employees as a percentage of the whole QIZ workforce, the trend towards higher foreign employment has risen from about 30% in 2001 to almost 43% two years later.

Table (3a):
QIZ Workforce 2001-3

	QIZ Employment Figures			**Ratio / Total**	
Year	Local	Expatriates	Total	Local	Expatriates
2001	13,300	5,700	19,000	70.0%	30.0%
2002	13,900	9,600	23,500	59.1%	40.9%
2003	15,214	11,339	26,553	57.3%	42.7%

Source QIZ Unit at the Ministry of Industry and Trade

Table (3b):
QIZ Workforce relative to Total Employment in Manufacturing

	QIZ Employment Figures	**Industrial Employment in Jordan (Paid Workers)**	
Year	Total		Total
2001	19,000	115,731.0	**16.4%**
2002	23,500	128,899.0	**18.2%**
2003	26,553	131,700.0	**20.2%**

Source Ibid, and the Jordan Department of Statistics

Still, despite the impressive growth of jobs in QIZs, the impact on employment at the national level remains rather limited. This is particularly true in view of the very large numbers of new entrants into the labor force annually. Past high rates of population growth are projected to bring more than 50,000 new entrants each year to the labor market.

Although comparable data on the indirect employment effects of QIZs are still not available, the vast majority of people interviewed for this paper believe the figure for such indirect effects to range between 0 and 0.5. Certainly, the discussion on backward linkages will help ascertain this observation. Internationally, the common average is that for every five jobs inside the zone, one is generated indirectly outside.[59]

Moreover, the qualitative aspects of jobs generated by QIZ operations are unimpressive (see section on the "Characteristic of work in a QIZ"). Of course, it could be argued that without the zones, which have had noticeable, immediate local employment effects, the deficit in the number of job opportunities in a few Jordanian governorates might have been much worse.

The causes of rising concentration of foreign workers in the QIZ sector are complex. In general, a chronic shortage of adequately trained workers has been cited as the main reason, though other factors may have also come into play.

If anything, foreign workers are often perceived to be far more efficient than their local counterparts. The general manager of a QIZ factory in Irbid has even been quoted in the local press as saying that although he "cannot blame Jordanian laborers for lacking the industrial basics…training them [local workers] requires more time." He added that while "hiring foreign workers is very expensive, we need them [guest laborers] to survive."[60]

There is also a suspicion that local workers are reluctant to accept specific jobs for fear that it might degrade their social status. At the same time, Jordanian workers are reckoned to be more demanding financially and are often prone to politicization resulting in unproductive work culture. Some industrialists argue that preventing them from importing more foreign workers could undermine QIZ competitiveness' and prompt investors to relocate.[61]

Level of experience aside, it is also commonly alleged that expatriates are more willing to work overtime than locals. While the majority of migrant workers are young males, a significant proportion of Jordanian laborers are women that are less inclined to work late hours. An interesting example in this regard quoted an unnamed QIZ company director who notes "most families do not want their daughters stranded in the road waiting for taxis or irregular buses to pass by."[62]

To this end, an increasing number of zones are now offering on-site dormitories for their workers. The important point made by this example is that it is one of the first occasions where QIZ stakeholders have shown interest in a QIZ labor-related issue.

Notwithstanding all of the above, for the labor unions these arguments have proved problematic. They say that the predominantly overseas industrialists are exploiting Jordan's open-door policy with regard to foreign labor by bringing in cheap migrant workers. [63] Unions argue instead that the money being poured into international recruitment should be used to train local laborers. Other, more extreme, skeptics claim that cheap migrant workers are not only to blame for the country's high rate of unemployment, but are also seen as a threat to social culture. [64] They feel that it is imperative that measures to combat this trend are taken, particularly in view of the high rate of unemployment prevailing in Jordan today.

Much depends on government management of the process. Although formally, there are no restrictions on the employment of foreign nationals in a QIZ, it appears that there is some kind of understanding between QIZ investors and the government that no more than 30% of the total workforce in a foreign plant may be non- Jordanian, and that they should be phased out within a few years. The foreign firms justify such an arrangement as allowing them to start production without delay and to train Jordanians more quickly. In purely Jordanian-owned QIZs the situation looks significantly different to that of the rest, with only a small proportion of workers coming from abroad. Ez-Zay QIZ seems to provide the obvious test case with the whole of its workforce (626 persons) being local.

Table (4)
QIZ Workforce (end-July 2003)

	Local	Foreign	Total
Ad Dulayl	1,845	3,092	4,937
Al Hassan	5,202	2,347	7,549
Al Karak	1,762	1,370	3,132
Al Qastal	986	267	1,253
Al Tajamouat	4,235	3,507	7,742
Cyber City	558	756	1,314
Ez-Zay	626	0	626
Totals	**15,214**	**11,339**	**26,553**

Source QIZ Unit, Ministry of Trade and Industry, Amman

Workers at the heart of the explosion in QIZ job migration are increasingly coming from East Asia and the Indian subcontinent, including China, India, Pakistan and Bangladesh. They are part of a vast swathe of economic migrants coming to the Middle East in search of work that they are unable to find at home.

With the rate of Jordan's unemployment remaining stubbornly high, a battle is starting to brew over foreign workers in QIZs. The government recently introduced a number of new regulations aimed at curbing employment of non-Jordanians in the QIZ sector. The proposed changes range from imposing new limits on the employment of foreign workers to preventing it altogether for certain types of jobs. For example, the government in 1999 issued regulations by which some jobs were restricted to Jordanian workers, including eighteen types of activity made available only to locals.

More recently, the Jordanian authorities announced new regulations aimed at tightening the control over the import of foreign laborers. These included, among other things, making employers pay in advance for the work permits they require. The government is hoping that these new regulations will discourage employers from hiring more guest workers. QIZ manufacturers on the other hand were outraged by the move, arguing instead that foreign workers are the oil that has kept the motor of the zones humming. In the same vein, and within a campaign to halt the growth of migrant workers, the government began in 2001-2 imposing sanctions on QIZ factories that do not gradually phase out guest workers.

These efforts notwithstanding, the unease over foreign workers in QIZs has mutated and could still grow. The official Jordanian press agency reported in early 2003 that a memorandum of understanding was reached between senior management at Ad-Dulayl, the second private QIZ to begin operation in the country, and the Jordan Ministry of Labor (MoL) on replacing guest workers with locals. According to the terms of the agreement, the MoL will pay for a three-month training/probation period, at the end of which successful "graduates" would receive offers of permanent employment in one of the QIZ factories. A similar agreement, to train apprentices to become textile workers or otherwise, was reached between the MoL and Al-Tajamouat Industrial Estate. In the south, in Tafileh and the districts of Shobak and Wadi Musa, the Ministry is targeting young jobseekers and, in particular, women, as part of bolder measures to combat poverty and unemployment in rural areas.[65]

Even if the government appears now to be no more than tinkering, taken all together, it is clear that a major move could be underway that could dramatically change Jordan's entry policy for foreign laborers. Jordan, which has traditionally pursued a fairly liberal policy with regard to foreign labor, seems to be changing its policy, but this may be easier said than done.

A reason for possible difficulties of a new policy is that existing vocational training centers do not effectively address matters brought up by the wish to replace foreign workers with locals. In fact, those who complete vocational training are often ill prepared to meet the skill and knowledge requirements of modern manufacturing. It is also still true that supply driven training programs do not correspond to the realities of labor needs in manufacturing.

A critical review of the vocational training programs in Jordan[66] today shows that they:

- Are limited in number (35 centers with 12 in the pipeline), and will remain so over the next few years, in the absence of dramatic changes that might include, among other things, more involvement from the private sector
- Provide traditional training programs inconsistent with market needs of a modern economy facing globalization
- Follow outdated curricula, suffer from a serious shortage of equipment and tools, and include limited skill development focus and/or practical field experience.

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Many programs offered today suffer from a lack of conceptual clarity and an inadequate understanding of the complex nature of the environment in which they have to be implemented. As one senior official at the Ministry of Trade and Industry mentioned for example "VTC garment sector apprentices are often trained on home-sewing machines that are very different from the equipment at the QIZ sites."[67]

It is therefore imperative that measures to combat such problems are taken, particularly in view of the continuous and rapid growth in QIZ output. A recent strategy paper sponsored by the Euro Jordanian Action for the Development of Enterprise (EJADA) program, and embraced by the Jordan Ministry of Industry and Trade confirmed this view.

To counteract these market forces, and facilitate a smooth expansion of QIZ exports, VTCs have to be supported.[68] Existing VTCs must be strengthened by new management methods, improved skills, and technology. Setting up an adequate evaluation mechanism for trainers' capabilities and training programs is also crucial.

The situation regarding the "on-the-job" training programs in QIZs is more encouraging, despite some pockets of poor management. Of course, training continues to be of relatively short duration and task-specific.[69] Though the logic behind short, focused, employer-driven and -provided training is understandable, it does not help workers develop skills needed to pursue better career prospects after ending work in a QIZ.

In any case, the effectiveness of "on-the-job training" programs, in terms of skill development, hands-on approach, and ability to cultivate industrial culture directly on-site, far outweighs that of the VTCs.

Awareness of the need to improve basic skill levels within the workforce has grown in Jordan over the past few years, and the issue of training is now high on the national agenda. A significant development in this regard is the decision by the government to launch a major program aimed at training 4,000 locals for the types of skills needed by QIZ manufacturers.

Training for individuals who will be assigned as trainers will also be supported. A leading Tunisian firm has been contracted to undertake the task. A total of JD1.5 m has been allocated for this program. The government, through the Jordan MoL, will pay each trainee JD120 upon successful completion of the 5-week long course. Recent indications are that some 460 trainees have successfully completed the training program, which is continuing.

As QIZ production continues to grow, further sizeable employment gains are expected. Coupled with government commitments to provide additional large-scale funding for new employment initiatives, the reduction in the rate of joblessness could be considerable. Nevertheless, the hoped-for reduction in unemployment may not be feasible without a more direct attack on one of its key weaknesses, namely, ill-thought-out training schemes that *de facto* mostly benefit foreign workers by leaving locals poorly prepared.

While various government vocational training centers as well as private-public sector partnerships are exerting new efforts, they have been only partially successful and have not kept pace with the growing demand for technically trained QIZ workers. A joint effort by all concerned parties would be most useful. The trick of course is to bring down unemployment; once that happens, a lot of the headaches regarding guest workers in QIZs will disappear. The argument of the anti-foreign workers camp is that these are helping to raise local unemployment, but the seeming inability of the vocational training system to help locals replace foreigners weakens such a point of view.

IX. Characteristics of Work in a QIZ[70]

One of the most distinctive features of QIZs is the high proportion of women in the workforce, often very young.[71] Mostly aged 18-30, most of the women are single, with secondary school education and little or no previous work experience.

More often than not, employers regard women as particularly suited to perform the monotonous and repetitive nature of work in the type of industries in the QIZs. In effect, women present the advantage of being less demanding than men with regard to wages (rightly or wrongly, companies and others consider female salaries to be a mere supplement to a family's income), and at the same time are appreciated for their dexterity in performing relatively simple manual tasks.

For a country like Jordan, where unemployment continues to be a major problem, and where women's participation in the labor force has historically been low, more jobs for females is certainly goods news. Not only have new jobs been created, but also QIZs have introduced Jordanian workers to the more rigorous culture of industrial employment, including notions of punctuality, quality control, and deadlines.

Aside from raising family incomes, the economic empowerment of women through the QIZ model has unexpectedly resulted in what many have described as the creation of a new working class in Jordan. As such, QIZ employment affords women an independent source of income and more status within the household and society as wage earners.

Despite the foregoing, there can be no room for complacency. For example, the ILO, in a recent report on women workers in the textiles and garments industries in Jordan, expressed concern over working conditions in QIZs, noting that these are "not very positive." Moreover, the working conditions in some of the factories "are poor in many ways." In fact, a number of QIZ factories have been found to have poor lighting and ventilation as well as inadequate sanitation facilities.

According to the report, skill development is "non-existent" in QIZs. For the vast majority of workers, training is relatively short and task-specific. Consequently, it does not provide the basis for upward mobility within the enterprise, nor does it help workers develop the types of skills needed to pursue better career prospects after they stop working in a QIZ.

This again helps to confirm the footloose nature of FDI in QIZs, and raises the issue of employment insecurity, since most of these zones provide mainly assembly-type jobs.

Among the features of work in QIZs, the report cites low wage growth, describing chances of a salary raise or promotion as 'slim'. Partly as a result, labor turnover is abnormally high, productivity is low, and absenteeism, stress, and fatigue are very common. While a QIZ worker maintains his/her job for an average of 19.4 months, the comparable average for non-QIZ workers is over four times that at 81.7 months.

Overtime and irregular working hours are also characteristic of most QIZs. Although QIZ basic wages are generally equal to comparable salaries outside the zones, higher take-home-pay is often achieved through "piece rates."

Wages, working conditions and labor relations are thus the three areas in which there has been the most criticism about the situation of workers in QIZs. For the most part, these problems stem from undesirable practices on the part of certain employers and the failure of the MoL to sanction those practices before they became deeply rooted. Negative reports about the increasing incidence of payroll delinquency are largely responsible for this. [72]

Needless to say, when the practices in question and the misery that they spark are multiplied in factories in different zones around the country, the situation inevitably leads to a stigmatization of QIZs as a whole. However, it is important to point out that such practices are not common to all employers in the QIZ sector; they only concern a minority of the firms in operation.

X. Backward Linkages

Drawing upon the existing literature on the subject, it is often claimed that the most important contribution that EPZs can potentially make to the process of economic development is derived from the degree to which backward linkages (i.e. link to the production lines of local inputs used in the QIZ production facilities) are established between manufacturers in EPZs and domestic suppliers.[73]

A successful integration of these zones into expanding markets for locally manufactured products and intermediate goods would in turn allow the host country to capture an ever-growing proportion of the value added to each item being exported out of these plants. South Korea provides the archetypal example of successful integration and productive linkages between EPZs and the rest of the economy.

Backward linkages are not only expected to create new demand for domestically produced inputs, they also help to employ underused resources, generate foreign exchange inflow, provide training, and facilitate a minimal transfer of technology (see section below).

However, as Madani notes, the creation of backward linkages seems largely conditional on the spread and depth of the industrial base of the country in which such zones are established. It is only in countries where the industrial base is deep and wide that such linkages become of significant impact.

Unfortunately, in Jordan, QIZs have not produced backward linkages to any significant extent. Much of this comes from making virtues of Jordan's main liabilities, namely: a small domestic market and a narrow industrial base. As a result, the QIZ sector remains heavily dependent on importing intermediate goods, materials and accessories (e.g. button, threads, zippers, etc.) for simple assembly. Roughly 90-95% of fabric used in QIZ production is imported.[74]

One possible explanation for this would be that foreign firms, which account for the bulk of the investments in the QIZ sector, tend to have a higher propensity to import from known sources abroad than from domestic suppliers. That the latter have not marketed themselves to QIZs is perhaps a fault of Jordanian businesses, which do not in many cases demonstrate the dynamism needed to promote linkages. However, where linkages did in fact occur, these have been rather limited, with slow delivery, incompatibility, and poor quality often being cited as problems. What is clear however is that no systematic effort by the government or business associations has taken place to promote such linkages, while individual attempts by QIZ firms and local producers alike have not been particularly successful.

The concept of net exports (exports of finished goods less imports of intermediate goods and materials) is a commonly used indicator of backward linkages and of the locally generated value added by an EPZ. Unfortunately, time-series data on the importation of intermediate goods and materials into QIZs is not available before the year 2002 for firm conclusions to be drawn, and that even is confined to the three zones owned and run by the government.

However, from what is available one can observe that relatively little value is in fact added in Jordan, though there is considerable variance around this mean. For instance, the Jordan Department of Statistics estimates that intermediate imports account for 58.5% of the value of exports being shipped from Al-Dulayl QIZ.

By sharp contrast, the situation in Al-Karak QIZ is more encouraging with the comparable figure currently reckoned at around 43.5%. In any case, caution must be taken when interpreting these findings, due in part to considerations of time lag where manufacturers have a tendency to build up inventories in one period, only to run them down in another. Still, that does not detract from the conclusion that the net benefit of QIZs to Jordan's economy may be less than meets the eye. This is particularly true if one remembers that most of the firms generating those exports are foreign-owned and that approximately 43% of workers are non-Jordanian. What this means is that the QIZ sector has high potential to improve its value-added if able to use local fabrics and accessories and replace foreign workers with local laborers.

At the same time, Jordan's heavy dependence on imported raw materials has led over the years to a significant erosion of competitiveness by increasing the lead time and cost of production. This is something that must be dealt with in what promises to be a highly competitive post-MFA era. The lead-time from the day an order is actually placed to the shipment date in Jordan ranges from 60 days (if raw materials and accessories are ordered from suppliers in the region) to 90 (if the inputs are brought in from Asia) compared to 19-45 days in India and Sri Lanka. For some other countries, the lead- time is only 12 days.

Of course, what this suggests is that efficient backward linkages to local suppliers could reduce lead-time, but that of course has not happened. However, unless Jordan manages a substantial reduction in its lead-time, domestic production of quality fabrics for export will be left in a very disadvantageous position. The country could save considerable foreign exchange by increasing domestic production of yarn and fabric. For that to happen, a larger inflow of FDI investment maybe needed.

It should be understood by policy makers that if QIZs are to have a catalytic effect on local industry and thereby contribute to the creation of more jobs, they cannot continue to operate in virtual isolation from the rest of the economy.

One of the ways in which this could be achieved is for the government of Jordan to extend 'equal footing' policies to firms outside QIZs. Schrank (2001) defines an equal footing policy as one that "extends the privileges and regards of EPZ status to non-EPZ sub-contractors and suppliers." According to Madani (1999), unless domestic firms benefit from privileges equal to those enjoyed by firms inside these zones, bestowing them only on EPZ firms discriminates against domestic firms located outside the EPZ.

By extension, our analysis has shown that when it comes to importing inputs of capital and intermediate goods, companies in a QIZ are treated somewhat differently than those outside it. More specifically, the bank guarantee that QIZ companies need to present to the Jordanian Customs Department when importing goods into the country under the Temporary Admission scheme is half what it is for Jordanian importers located outside a QIZ.

Temporary Admission involves the entry of goods, raw materials, equipment or other items into the country with a freeze on duties, taxes and other fees for a period of one year renewable against a bank guarantee. The guarantee is released upon either re-exporting of the finished product, the equipment, and the goods, or surrendering these to Customs. It is thus our view that this anomaly should be removed, within the context of simplifying Temporary Admission.

It might also be feasible for the government to encourage QIZ producers to sell their products on the local market.[75] Otherwise, potential for forward linkages vanishes as well.

BOX 1 - The Case of Lesotho: Major Challenges in Strengthening Linkages*

Lesotho is a developing country heavily dependent on its South African neighbor. Despite many obstacles, Lesotho has managed to develop a flourishing garment industry and become the largest exporter of garments in Sub-Saharan Africa. However, the country faces major challenges in strengthening linkages between the foreign-owned garment sector and the rest of the economy.

Many issues in Lesotho's garment sector are relevant for Jordan, especially government policy that affects the industry's expansion and competitiveness. A combination of factors helped attract investors (mainly Asian) to the Lesotho garment sector: political stability, relatively well-educated and productive labor, an active export and investment promotion policy, access to South African infrastructure, and preferential access to the EU and US markets. In particular, the US African Growth and Opportunity Act (AGOA) helped trigger an industry boom, though it is important to emphasize that the first investments started long before the introduction of AGOA.

The garment industry has created a large number of jobs for mainly female labor. In 2003, 43 firms with 43,000 employees (90% women) operated in the industry, with several investment projects under way. In addition, numerous small manufacturers produce for the domestic market. Chinese Taipei-owned companies dominate the industry and production is almost entirely focused on jeans (60%) and t-shirts (40%) for the US market. All inputs are sourced from abroad, but rules of origin that will apply from 2007 have prompted investment in fabric, spinning, and knitting facilities.

However, due to low local value-added, the linkages between garments and domestic industry are limited. The private sector is polarized and there is no co-ordination to voice common concerns to the state. Weak institutional capacity and a poor public-private dialog also undermine the ability of the trade policymaking process to handle complex policy issues. Larger firms tend to rely on their own networks for trade information, while smaller ones are quite unaware of production standards and market opportunities. Overall, there are very limited links between the foreign-owned export sector and domestic firms, e.g. in terms of providing inputs and services.

The main challenge for the garment industry might be changing market access conditions. Elimination of MFA quotas will probably mean stronger competition from China and other Asian producers. Domestically, the government faces major challenges to further develop and diversify the economy. For garments, there is a need to enhance linkages between foreign firms and the local economy by improving the business climate, supporting local entrepreneurs, and enhancing on-the-job training. This is complicated by weak entrepreneurship in Lesotho, big cultural differences between foreign investors and local people, and declining quality of the vocational component in education. Training facilities are lacking, partly because of the reluctance of foreign employers to train and promote local employees. Lack of dialog between government and the private sector may also seriously undermine ability to handle trade-related challenges. In this respect, donors have been very active in supporting the trade policymaking process, particularly through the Integrated Framework for Trade-Related Technical Assistance.

Lesotho's garment industry undoubtedly makes important contributions to economic growth, exports, and employment, but spillover effects into the local economy are limited and it remains to be seen how foreign-owned export enterprises respond to changing market access conditions. In any case, the economy has now become dependent on one major industry, which causes vulnerability. Further diversifying and promoting local entrepreneurship should be high on the government's agenda.

* *We are grateful to Raed Safadi and researchers at the OECD for information on Lesotho*

XI. Technology Transfer

The United Nations Industrial Development Organization (UNIDO) defines technology transfer as 'the process by which knowledge related to the transformation of inputs into competitive products is acquired by national entities and whose source is foreign'.[76] This could be realized through new capital equipment, upgrading/refining the educational system (which can then supply more adaptable workers to particular production requirements), and more training on- and off-the job.

In this vein, for Jordan there is expectation that the production technologies and organizational know-how introduced by foreign investors in a QIZ would contribute to the upgrading of workers' skills; and conviction that the presence of efficient foreign enterprises would have a ‘demonstration effect’ on indigenous firms and that the fostering of linkages between foreign and local enterprises and industries would facilitate positive technological spillovers.

Typically, however, technology transfer has occurred where foreign firms in the EPZs have been encouraged to go into joint ventures with local manufactures. The government might thus find it in the interest of the sector to provide incentives for partnership. QIZ firms are obviously profit oriented and see Jordanian firms as competitors, especially since local firms can qualify for QIZ status provided they meet required criteria.[77]

In Jordan, the fact remains that virtually all companies operating in a QIZ today are labor intensive, low-tech assembly firms, with scant access to advanced technology. This means that any potential benefit that QIZs may offer in terms of the transfer of technological resources is practically confined to the labor aspect alone. This of course means that QIZs may have positive developmental consequences for the country with regard to aspects of technology transfer related to labor training. However, and as has been made clear above, training practices and the course of technology transfer within QIZ factories can lead to little upgrading. Even where this has occurred, it has been very limited and, in consequence, has had limited value to other sectors. In any case, it is worth stressing that in industry such as garments, technology has not changed in many years, so there is little new skill transfer occurring.

A main lesson learned from an examination of the prospects for technology transfer and backward linkages in the QIZ sector is that these were in no small measure a function of the attitudes and capacities of local manufacturers in the national customs area of Jordan (who are, not coincidently, the problem in the first place). These appeared to be limited, but that situation may be on the way to being ameliorated by a more vigorous partnership between the government and private business to face up to the challenges of the post-MFA era. [78] In particular, the Ministry of Industry and Trade has formed a committee with various garment and textile sector stakeholders to propose steps that need to be taken in this connection from next year.[79] However, it is still too early to tell if this will bear fruit, although the “big bang” that will be caused by the end of the Multi Fiber Agreement (MFA) is looming. In any case, this committee has articulated a strategy for garment and textile export development (see Appendix).

XII. MFA of 2005 and its Relation to the QIZ model

A. Background to the Multi Fiber Agreement

Since 1974, the MFA has governed world trade in textiles and garments, providing the basis on which industrialized countries have been able to restrict imports from the developing world. The MFA was brought in as a supposedly short-term measure, mainly to give industrialized countries breathing space to adjust to rising competition from cheap imports, but at the GATT Uruguay Round in 1994 it was agreed that the protectionist policies of the agreement could no longer be sustained in the context of the WTO. The outcome in Marrakech, where the Uruguay round was concluded, saw the introduction of the Agreement on Textiles and Clothing (ATC), which progressively phases out quotas on textiles and clothing over a decade . Complete removal of quotas will be achieved at the end of the ten-year transition period, i.e. by 1 January 2005.

There are two aspects to this process: a four-stage removal of existing quotas contained in bilateral agreements previously negotiated on products covered under the MFA (two stages have already been completed) and an increase in quota growth rates for products still under restriction during the transition period (i.e. pending complete phase-out in 2005). At each stage, products amounting to a certain minimum percentage of the volume of a country's imports in 1990 are to be included in the integration process.

Stages I and II (beginning at the start of 1995 and ending December 31 2001) saw elimination of no less than one-third of an importing country's textile and apparel quotas (based on import volumes in 1990). Phase III, which began 1 January 2002 and is scheduled to be completed end-2004, calls for the elimination of an additional 18% of quotas. The remaining 49% of quotas are to be abolished on 1 January 2005.

For products kept under restraint, the agreement lays down a formula for increasing the existing quota level during the first three stages of the phase-out period, with somewhat larger increases permitted for the smaller supplying countries, at least initially.

Table (5)
MFA Phase-Out

Stage		1st Aspect: Four-stage removal of existing quotas under the MFA	2nd Aspect: Permitted Growth Rates in Remaining Quotas (%)	
			Major Supplying Countries	Small Supplying Countries
I	1995-97	16	16	25
II	1998-2001	17	25	27
III	2002-04	18	27	27
IV	2005	49	No Quotas	No Quotas

Other noteworthy aspects of the ATC are the condition that each stage should include products from four segments of the textiles and clothing industry. These are: tops and yarns, fabrics, made-up textiles, and clothing items.

However, as successful as members of the WTO were in reaching an agreement on textiles and clothing, they were just as unsuccessful in structuring it in a manner that would have effectively brought these products under the jurisdiction of the GATT framework throughout the phase-out period. Spinanger (1998) sees it as "a masterpiece of watering down and postponing." The more influential members of the WTO, including the US and the EU, succeeded in diluting the liberalization process by including a far wider range of textile and clothing products in the basket of products to be liberalized than was ever included to begin with[80], while at the same time postponing any significant liberalization until the final phase of tariff liberalization on 1 January 2005. (The ATC covers a broad range of products, including: animal, vegetable and most man-made fibers, silk and products with textile components.)

To date only 20% of the products integrated in the first three phases of the ATC were in fact subject to quotas.[81] The lists of products liberalized so far by the US and other developed countries are particularly illustrative of this point.[82] This means, of course, that the remaining 80% of quotas must be eliminated during the final stage. (In a conference on the future of textiles and clothing after 2005, WTO Director-General Panitchpakdi Supachai criticized the US for continuing to drag its feet on implanting the agreement on clothing and textiles, noting that Washington still maintains 701 quotas on textile and textile-related products.)[83]

It is clear from the above that importing countries have largely chosen to postpone integration of the most heavily protected products until 2005. In fact, most of the sectors 'liberalized' so far were not restricted in the first place, and restrictions on items of clothing and ready-made garments that are typically the most important export for the poorest developing countries have hardly been affected. That in itself has raised concerns about the capacity of many countries to respond to what would then be a sudden change in trading opportunities.

B. Outcome of the MFA phase-out: an International Perspective

Whatever the specific outcome of the MFA phase-out, one thing seems certain: with the dismantling of quotas on textiles and clothing, Asian manufacturers will move their overseas investments to better performing locations, profiting from the occasion to concentrate activities to benefit from economies of scale and improve productivity. In the long run there could be greater stability as the location of garment production becomes determined more by market forces and considerations of efficiency than by the arbitrary imposition of quotas.

Among developing countries, China is likely to gain most from the elimination of quotas on textiles and clothing in 2005. Not only does China have a huge pool of relatively cheap and highly disciplined workforce, but it also has its own textile industry and will benefit from Hong Kong's well established financial and marketing expertise, as well as excellent shipping connections resulting in fairly rapid transit time to the US and Europe. China is already emerging as a dominant supplier of apparel, even though it is highly constrained by quotas, and its products are generally of low or medium quality.

Some of China's neighbors – notably India and Pakistan – are also predicted to benefit on the basis of low wages and access to domestically produced fabrics. Korea is also seen as having the advantages of its own (especially synthetic) fabrics, together with high productivity and overall efficiency.[84]

Jordan, on the other hand, is expected to lose part, if not all, of its competitive advantage once quotas on trade in textiles and garments are removed. The worst-case scenario of course will be the departure of investors to other countries, where competitiveness is higher, leading in turn to greater unemployment.

Jordan is a clear example of a country that developed a garment industry not only by virtue of tariff preferences it enjoys but also as a direct result of the MFA. QIZ's sudden success has frequently – if by no means universally – been attributed to quota-free status. Much as tariff-less access to the US market could continue to be a bonus under the provisions of the QIZ program, import duties are generally far less costly to exporting countries than are quota restrictions.[85] Previously constrained by them, QIZ investors from Asia will soon be able to base their locational decisions on market criteria rather than on the availability of quotas. The general assumption is that some firms will relocate as relative costs change with the termination of quotas.

Are these fears justified? The answer is a tentative yes. A simple way to figure out the future is to extrapolate from the past. To take one publicized example, the Boscan luggage factory, previously an exporter of travel goods destined for major department stores in the US, has ceased production in Jordan and returned to China. Its decision, advertently, came weeks after quotas on luggage exports were eliminated on 1 January 2002 under the third phase of the ATC.

Once quotas are removed, the only way for a lot of firms to stay competitive is to cut costs and/or raise productivity. Supporters of this view are quick to point out that the level of pay found in QIZ factories, whilst admittedly low by Western standards, actually compares unfavorably to conditions in similar industries in India, Pakistan, Sri Lanka, China, or Bangladesh, giving these investors even more incentives to relocate.

Looking at individual cases, however, the situation is more complex than it might seem at first. China is a case in point: though its emergence as overall winner under MFA phase-out is inevitable (as is QIZ becoming irrelevant in the long run) in the short run it is in no small measure a function of the Chinese Protocol of Accession to the WTO.

The US is keeping provisions against import surges of Chinese textiles and other products, for 12 years in most cases. In a further sop to American producer lobbies, special anti-dumping provisions, which define China as a "non-market" economy, will continue for 15 years.

The more these mechanisms are invoked against China, the greater the likelihood that QIZ investors from that country will stay in Jordan. It will also be interesting to see how successful the Jordanian government will be in drawing investors' attention to these factors.

The situation regarding other investors in the QIZ is less clear-cut. What remains obvious, however, is that these manufacturers will be ready to relocate if they perceive benefits from doing so.

Initial work on a strategy to help prepare the Jordanian garment industry began in mid-2002, with work centered in the Ministry of Industry and Trade. With the support of EJADA, three consultants were contracted to develop a 10-year strategy for Jordan's textile and apparel industry, including ways to minimize the shock of quota elimination. The consultants recently completed a draft analysis of the textiles and apparel industry in Jordan.

Additional assistance is being provided by USAID through the Jordan-US Business Partnership (JUSBP). In co-operation with seven Jordanian garment companies, JUSBP launched the Jordan Garment Accessories and Textiles Exporters Association (JGATE). To co-ordinate development efforts in the garment industry, JUSBP is also assisting in the establishment of a National Committee from all related stakeholders to formulate a national strategy to face the challenge of quota elimination.

In any case, given the multiplicity of factors determining outcomes of global integration, the post-2005 scenario cannot be predicted with a great degree of certainty. [86] Irrespective of the possible trajectories that the sector may assume, the long-term impact of quota removal on Jordan is likely to be negative.

C. Jordan and the MFA

While garment exports from Jordan are competitive at the present time, and will remain so over the next twelve months, much must be done – both now and in the future - if Jordan wishes to maintain (or increase) its market share under the future situation of free competition. With less than six months to go, the garment industry in general, and QIZ exporters in particular, must do everything possible to increase their competitiveness as they prepare to face the world of unrestricted trade.

In the post-2005 era, QIZ exports will lose the competitive advantage previously conferred by quota-free exporting to the US; developed country quotas on textile and clothing imports will by then be abolished, thus allowing once highly-constrained exporters such as China, India and Bangladesh to dominate the global market.

If QIZs were to remain a valid investment proposition beyond the year 2005, one inevitable strategy would be to push for greater diversification. The biggest challenge before the country is to diversify the QIZ export base away from garments and more towards fashion-wear and higher value-added items. By moving up the value chain, Jordan can avoid competition from low-cost suppliers such as China and India, as well as increase its export revenue base.

Equally important as it prepares to face a quota-free market environment, Jordan needs to help exporters find their competitive niches within the clothing sector, avoiding the competition instead of outgunning it. Typically, these (niches) ought to be sizeable (to get enough customers to make a profit), reachable (there should be publications, media, organizations, or events for your market to be able to let potential customers know you exist) and sustainable (a niche that can support the business over the long term).

In the present Jordanian context, this may not be so easy to achieve. Greater diversification, like the targeting of niches in the clothing sector, is a complex process that will require thorough planning and must involve all stakeholders. To start with, the country desperately needs to upgrade the skills of its workforce.

Vocational training, whether sponsored by the firms themselves or otherwise, will seldom be successful without complementary actions undertaken by the state. The latter must also take similar initiatives, with effective rules and action. Job training, counseling and placement should thus be considered where appropriate. Teaching people the type of skills required in the cutting and assembly of fashion-wear and then making sure that their talents are effectively deployed is an important part of this process.

The problems, however, are not solely those of product diversification. Finding profitable niches is far from being an easy task. Here again, the government has a crucial role to play. It can, for example, help set up a data bank, providing Jordanian exporters with continuously updated data. Interviews with a number of QIZ investors suggested considerable uncertainty regarding the behavior of competitors and their responses to the new global environment.

A considerable gap also exists in knowledge about trade and investment flows. This is understandable, given that most entrepreneur interactions are with buyers who merely specify their product needs, provide the designs, etc. The emerging global environment, however, calls for more strategic action with regard to major competitors.

Another option would be for the government to encourage investment in sectors not previously tapped. One of these is footwear, still subject to high tariffs in the US. For the time being, however, such a proposition remains elusive due to, among other reasons, considerations of cost.

Unlike the relatively low level of capital investment needed in the clothing industry, footwear manufacturing, and the technology associated with it, require high capital investment (at least initially). Here again, much as the private sector can be effective in offering a strategic response to the needs of investors, it cannot do it alone. Nor can the government.

An alliance between government and private business, however, offers the advantages of private sector dynamism – technological know-how, managerial efficiency, and the entrepreneurial spirit - along with the social responsibility, local knowledge, and job generation concerns of the public sector. Government policies, to the extent that they focus on encouraging and facilitating investment outside garments, provide an added incentive for those that have so far decided to opt out of such activity.

There is also an urgent need to provide workers with adequate training. Once more, much must be done before the Vocational Training Corporation can claim to have its graduates adequately provided with the skill and knowledge requirements of modern manufacturing. Progress on enrollment in vocational training needs to be augmented by wider reforms to improve the quality and not only the quantity of graduates.

Not that this is the end of the story: whatever happens on the investment and labor fronts, Jordan will still have to invest in the development of supporting industries. Typically, these would be engaged in the production of PVC compounds, micro-injected embossed logos, outsoles, soling sheets, rubber sheets, synthetic leathers and many other footwear components.

This is - to put it mildly - a potentially costly option, one that could require an aggregate investment of hundreds of millions of dinars, if not more. With the state treasury sinking deeper in penury, initiatives of product diversification and evolving new export items will have to be taken up by the private sector. In all cases, the development of new industries, when feasible, should be evaluated in terms of their overall contribution to the Jordanian economy and not in terms of the profits they will deliver to TCs.

Labor productivity, non-wage cost and the exchange rate are also equally significant factors if QIZ exporters are to remain competitive. Where labor productivity is low, as has been the case in Jordan so far, the per unit production cost of output tends to be high even if wages were to fall. That is to say, it is not reduction in wage levels, but rather improving labor productivity through appropriate incentives (such as offering attractive remuneration to match higher productivity), which would be an ideal competitive strategy.

A less controlled, more open market system will also mean that the relative competitiveness of the QIZ model will largely, though not exclusively, depend on:

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- **Jordan's tariff source of preference:** Only quotas on trade in clothing and textiles will be removed on 1 January 2005, while peak tariff rates in industrial countries will continue to apply. Insofar as US tariffs on textile and apparel remain relatively high, it may be much more attractive for investors to set-base in a Jordanian QIZ than elsewhere. The problem is that such privileges are being extended to a larger group of countries, often for political reasons. In the process of reaching out to the Arab and Muslim world following the war in Iraq, the US is considering to grant other countries in the region the opportunity to export textiles to the US on better terms. This in turn could potentially erode some of the benefits of duty-free access to the US from Jordan's QIZs.

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- **Diversification of export markets:** Jordan will have to actively pursue a balanced market diversification strategy to lower dependence and increase leverage with primary customers. A QIZ agreement with the EU, with whom the Partnership Agreement has been problematic in terms of its ability to spur Jordanian exports, might be a solution. For this to happen, a free trade area agreement between Jordan and Israel would be needed (see Box 2 below for more details). However, in the present atmosphere in the region, the juxtaposition of Jordan and Israel in a free trade pact could prove problematic.

- **Solving the problem of inadequate financing for QIZ manufacturers:** While some attempts have begun over the past few years to support the financing of QIZ manufacturers, the vast majority of such firms do not have meaningful access to credit from Jordanian banks (who happen to be floating a sea of liquidity). The lack of bank credit is likely to retard the process by which QIZ firms grow into their optimal size. The financial system appears to make little provision for the needs of QIZ manufacturers, particularly those that have come from abroad. Even those who do, often complain that the vast majority of investors have no assets for collateral. This adds (once more) to the footloose nature of FDI in QIZs. A two-track solution to this problem may have some merit. Primary emphasis should be placed on facilitating lending to those engaged in QIZ production. To do this, one possibility might be to lower the rate of interest on credit facilities extended to manufacturers engaged in QIZ production. Of course, if that were to happen, the local value added generated by the QIZ sector will be greater. In the same vein of outreach, the Jordanian government may wish to consider raising the minimum capital requirement for the QIZ sector. By raising the minimum capital requirement from its current level, the Ministry would discourage fly-by-night investors from coming to Jordan.

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- **Sourcing from the cheapest and most efficient suppliers to help minimize the lead time:** Apart from directly helping exporters locate the best possible suppliers, in terms of price, quality, lead time and transport costs, weakness in the area of sourcing may to some extent be remedied through reducing the Israeli value-added requirement. It is in fact much cheaper for QIZ manufacturers to bring in the 8% minimum Israeli content requirement from Asia instead.

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- **Improving export logistics:** A glaring example of Jordan's weakness in this respect has been the transport sector, with the port of Aqaba providing a case in point. Despite some positive achievements here and there, the transport sector's critical infrastructure as a whole remains years, if not farther, behind that of most other middle-income countries including some within the region. While some upgrading of technology has taken place in Aqaba, the port's existing container terminal has not been upgraded to an acceptable level. Partly as a result, the port has lost some of its business to other better-equipped ports elsewhere in the region. In fact, approximately 50-60% of QIZ exports today are being shipped from Haifa and not Aqaba – a practice adopted because of better service frequency (though the former is far more expensive than the latter). This indicates that, for the vast majority of QIZ exporters, considerations of lead-time are far more important than the extra cost associated with shipping via Haifa.

Comparison of Shipping a 40-foot Container to the East Coast		
	Aqaba	Haifa
Transit Time (days)	30-33	17-22
Trucking Costs ($)	400-500	750
Shipping Costs ($)	2200	2900-3200

Recent developments concerning the war in Iraq have exacerbated an already fragile situation. Congestion at the port of Aqaba is now the biggest problem Jordanian policymakers need to address. Ever since the beginning of July 2003, the Aqaba Ports Corporation (APC) has been handling the highest volume of containers in its history, much of this volume resulting from the shipment of humanitarian aid to Iraq. A massive surge in imports of cars destined for Iraq added to the congestion over the same period. This has meant that ships have to queue much longer than usual to discharge their cargo. The delays in getting goods out of the port have promoted some QIZ manufacturers – who remain heavily reliant on imports of raw materials - to look for alternative (often more expensive) ports in the region.

Contingency measures are already in place to help to alleviate the congestion. A shipping yard has been allocated specifically for QIZ containers. Measures also include a plan to introduce a new shipping route — from Irbid to New York via Aqaba. If successful, shipping time would be cut to 21 days, and will cost $700 less (per container) than it would by going through the Port of Haifa. In addition, the APC has promised to put into operation five more straddle carriers, to be brought from the Saudi Port of Jeddah, and two mobile cranes at an estimated total cost of JD 6 m.

Box 2 Jordan – Israel FTA agreement

At a major international gathering in Jordan in 2004, Jordan and Israel upgraded the protocol on "economic and trade co-operation" existing between them since October 1995 as a prelude to penetration of the EU market.[87] The agreement will eliminate customs duties and other commercial barriers to bilateral trade on more than 1,900 goods originating in Jordan and Israel.[88] However, it is interesting to note that the list of goods, to be exempt from duties on two- way trade between Jordan and Israel, is yet to be finalized.[89] This could of course delay the actual implementation of the agreement.

The agreement is part of the "Pan European Cumulation of Origin" program, launched by the EU in 2003, to help encourage South -South integration.[90] Once approved by the EU, materials originating in Jordan and/or Israel could count towards fulfillment of Jordan's EU Association Agreement rules of origin.[91] The new pact, it is hoped, will unleash a surge in exports from Jordan to the EU.

In general, merchandise trade between Jordan and the EU has been predominantly unidirectional: in 2003, Jordanian exports to the EU countries totaled JD55.3 m (up from JD44.8 m in the year before). By sharp contrast, 26.5% of Jordan's purchases from abroad came from the EU, equivalent to some JD1.05 billion. (According to al Khouri and Tovias (2003), Jordan is currently the least trade-dependent on the EU among all Mediterranean Non Member Countries.)

XIII. The US- Jordan Free Trade Area Agreement

Taking the QIZ model a step further, Washington and Amman have now begun implementing a Free Trade Area (FTA) agreement, along the lines of the accord existing since 1985 between the US and Israel. Among Arab countries, only Jordan has so far signed a FTA agreement with the US. Only Canada, Mexico and Israel have signed similar agreements with the US. Jordan's enthusiastic acceptance of the QIZ program seems to have smoothed the process leading to the FTA agreement.

The Agreement provides for a far-reaching liberalization of trade relations, enhanced financial and technical co-operation, and close collaboration in many areas, including environmental matters.

Like other countries that have signed similar agreement with the US, Jordan's improved access to the world's largest consumer market is expected to increase opportunities for Jordanian exporters, attract foreign investment, and stimulate economic development with trade playing its full role as locomotive for the domestic economy. However, it will take at least a few years for this agreement to have a substantial impact, as Jordanian companies make important adjustments to the way they produce and market their goods as a prelude to penetration of the US market.

An interesting contrast between exporting under the terms of the QIZ program and the US-Jordan FTA is that the under the former the Israelis, with their expertise in accessing the US market, have been directly involved in marketing these products in the US. Under the US-Jordan-FTA, that would no longer be possible. Much will depend on the availability of financial and technical support needed to implement such change, along the lines of the EU's MEDA program.

To that end, the "Trade, Investment Jordan-America Reciprocal Agreement" (TIJARA) provides a mechanism for facilitating the concrete measures needed to continue moving the two to freer trade. This is especially true in such areas as trade diversification, as it could help ease some of the commercial problems Jordanian exporters may face in the coming years. The program will help to address Jordanian manufacturers' problems in a number of ways. First, it will provide a platform on which local and American businesses can directly come together, elevating Jordanian goods to US price, quality and innovation standards. Second, it will directly help Jordanian manufacturers proactively respond to future competition, which is likely to emerge once the US extends technical and economic aid packages to other countries in the region.

The Agreement, which came into force on December 17th 2001, will eliminate duties and commercial barriers to bilateral trade in goods and services originating in the US and Jordan. The US – Jordan FTA provides for a tariff system made up of 14 thousand tariff lines, with an average tariff rate of 6 percent**.** The FTA agreement provides for the 'staging' of tariff cuts, with US products not initially covered by the agreement being cigarettes, alcohol and cars.

Annex 2.1 to the Agreement defines five general staging categories, A through E. For products covered by categories A through D, the progressive reduction of tariffs shall be implemented in four stages. Typically, the higher the base rate of the tariff, the longer the FTA allows for its elimination.

Tariffs of less than 5% will be phased out in two years from the day the accord comes into force; those of 5-10% will be eliminated in four years, 10-20% will be gone in five years, and those more than 20% will be eliminated in 10 years.

Table (6)
Jordan-US Tariff Phase-out Schedule for Categories A-D

Category	Tariffs will be eliminated over
A	2 years (50% reduction per year)
B	4 years (25% reduction per year)
C	5 years (50% per year)
D	10 years (50% per year)

It is noteworthy that in each of these categories the staged reductions will be taken from a base tariff rate, with that being equivalent to the most favored country (MFN) bound rate in both countries on 8 June 2000.

For goods that come under the fifth group, Category E, US and/or Jordanian tariffs will come down as per each country's respective commitments under the WTO. Of these, one area of special interest to Jordan is pharmaceuticals, now regularly making up around 10% of the value of Jordan's merchandise exports. In general, duties on Category E products have already been eliminated or will be eliminated by 1 January 2005.

What this means is that the FTA agreement is somewhat irrelevant to Jordanian exporters of products that fall under category E, since such products already have (or will very soon have) duty-free access to the US market on easier terms.

In addition to the general staging categories set out in Annex 2.1 to the Agreement, the pact also includes special staging categories. These are sorted under eight groups, category F through M.

Under categories F through I, US tariffs on Jordanian imports will come down as follows:

- ✓ Goods of Jordanian origin provided for on items in staging category F shall retain the base rate of customs duty until January 1, year ten of the Agreement, at which time such goods shall be duty-free.
- ✓ Rates of duty on goods of Jordanian origin provided for on items in staging category G shall be eliminated entirely and such goods shall be duty-free on January 1 of year one.
- ✓ Rates of duty on goods of Jordanian origin provided for on items in staging category H shall remain at base rates for the first three years of implementation. Beginning January 1 of year four, rates of duty shall be reduced by five percent; by 10% in year five; by 10% in year six. Thereafter, the rates of duty shall be reduced in equal annual steps, and the duty on such goods shall be 44.5% of the base rate effective January 1 of year ten.

As for categories I through M, Jordanian tariffs on imports from the US will come down as follows:

- o Rates of duty on goods of US origin provided for on items in staging category I shall be removed in eight equal annual stages, beginning upon January 1 of year one, and such goods shall be duty-free effective January 1 of year eight.
- o Rates of duty on goods of US origin provided for on items in staging category J shall be reduced by one percentage point annually, beginning upon January 1 of year one, for the first five years of implementation. Thereafter, the rates of duty shall be reduced in five equal annual stages, and such goods shall be duty-free effective January 1 of year ten.
- o Rates of duty on goods of US origin provided for on items in staging category K shall be reduced by one percentage point annually, beginning upon January 1 of year one, for the first two years of implementation, and shall remain unchanged for the next three years of implementation. Thereafter, the rates of duty shall be reduced in five equal annual stages, and such goods shall be duty-free effective January 1 of year ten.
- o Rates of duty on goods of US origin provided for on items in staging category L shall remain at base rates for the first three years of implementation. Beginning January 1 of year four, rates of duty shall be reduced by five percent; by 10% in year five; by 10% in year six. Thereafter, the rates of duty shall be reduced in equal annual steps, and the duty on such goods shall be 44.5% of the base rate effective January 1 of year ten.

- Rates of duty on goods of US origin provided for on items in staging category M shall remain at base rates through the first four years of implementation of the Agreement. Beginning upon January 1 of year five, the rates of duty shall be reduced in six equal annual stages, and such goods shall be duty-free effective January 1 of year ten.

Examples of products subject to a delayed tariff reduction schedule include:

1) **Beer, wine and certain spirits**. Both Jordan and the US have agreed to delay any reduction of tariffs on these products for three years after the inception of the agreement and, in any case, tariffs will be reduced only to 44.5% of the base rate.

2) **Some textile products**. The US will not reduce its tariffs on a few textile products until 10 years after the effective date of the agreement. These products include: trunks and suitcases with outer surface of plastics or textiles; T-shirts made of man-made fibers; women's and girl's cotton suits; and sweaters or sweatshirts made of cotton or man-made fibers. It is noteworthy that these products represent the bulk of QIZ exports.

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3) **Poultry, apples, and cars**. To provide additional protection for import sensitive products, the reduction of Jordan's import duties on apples and poultry will occur in small increments of no more than 1 percentage point over the first five years of the agreement. Similarly, no reduction of duty will be made on vehicles for transport of persons for the first five years. Thereafter, the reduction of tariffs on all these products will be accelerated.

By contrast, the list of goods identified for accelerated tariff reduction by the FTA includes agricultural products, quota-class goods and GSP exports from Jordan. Under the FTA, effective US tariffs on "in-quota" imports of agricultural goods from Jordan will be eliminated immediately. Likewise, Jordanian exports under the GSP will be absorbed into the FTA and made duty-free from the day the agreement goes into effect.

Outside the trade sphere, the FTA includes, for the first time ever in the context of a trade agreement, provisions addressing commerce as it relates to the environment, labor and electronic trade. Other provisions address such areas as intellectual property rights protection, rules of origin, and the balance of payments. Because the US has already signed a Bilateral Investment Treaty with Jordan, the FTA does not include an investment chapter. On the environment, the US and Jordan have recognized the objective of sustainable development and agreed to avoid relaxing environmental laws to encourage trade.

The agreement also includes key provisions that reconfirm the relationship between free trade and the protection of workers rights'. The US-Jordan FTA agreement, while restating the existing commitment of both countries to the ILO's core labor standards, neither imposes new ones nor bars change or reform of national laws as each country sees fit.

It does, however, enable each partner to request consultations and if necessary, impartial dispute settlement in the event that one FTA partner believes another is avoiding enforcement of existing national laws, with the intent of gaining a trade or investment advantage.

The Agreement breaks new policy ground as the first Free Trade Area agreement ever to address issues related to electronic commerce and the Internet. In this regard, both countries agreed to avoid imposing customs duties on electronic transmissions, creating unnecessary barriers to market access for digitized products, or impeding electronic delivery of services.

As for the obligations contained in the intellectual property section of the FTA, Jordan has committed to ratify (as the US has already done) the World Intellectual Property Organization's newly drafted treaties ensuring protection of software and sound recordings on the Internet. These treaties supplement the substantive standards for protection in the TRIPS Agreement and take into account the advent of the Internet.

So as not to 'unduly' hurt Jordanian industries, the pact also includes safeguards to determine whether the FTA has caused 'serious injury' to local producers, as a result of a dramatic rise in competing imports. The safeguards allow industries that can prove they are being harmed by the trade agreement with the US to invoke protection for a period that does not exceed four years or the ten-year transitional period.[92]

Because the agreement provides for reciprocal treatment, the safeguard provision, like other stipulations under the FTA, applies to US industries in the same manner that it does to their Jordanian counterparts.

As is the case with trade in goods, the FTA provides for a liberalization of bilateral trade in services, stating that "each Party shall accord to services and service suppliers of the other Party, in respect of all measures affecting the supply of services, treatment no less favorable than that it accords to its own like services and service suppliers."[93]

To receive duty-free treatment under the FTA, three conditions must be met.[94] First, the article must be a product 'originating' in Jordan, or if any third-country materials are used, those materials must be substantially transformed into a Jordanian 'origin' product through a manufacturing or processing operation. The objective of this rule is to prevent third-country products from simply passing their goods through Jordan to capitalize on the duty-free provision upon entry to the US. Second, it must be imported directly into the US. This is to ensure that qualifying goods that originate in Jordan are not mixed with non-qualifying items while en-route to the US. Third, an eligible product must satisfy a value-added content requirement.

The value content requirements stipulates that the sum of the cost or value of the materials produced in Jordan (or the US), plus the direct costs of processing operations performed in the beneficiary country (or countries), must represent at least 35% of the appraised value of the article upon entry into the US.

The FTA, however, provides for the cumulation of inputs between Jordan and the US, whereby the cost or value of materials used in the production of an article in one party, and which are products of the other, may be counted towards the 35% minimum content requirement.[95] The maximum contribution of one country to the production of an article at the other may not exceed 15% of the appraised value of the good.

By allowing for US inputs to contribute cumulatively to the required Jordanian value added needed under the FTA, American or Jordanian producers would be encouraged to source from each other, rather than from a third party, thereby further intensifying bilateral trade between the two countries. It is hoped that this will also make it 'easier' for investors to do business under the FTA.

In principle this should not be a problem. However, it remains to be seen whether Jordanian manufacturers will be able to take proper advantage of this provision, given the high price of US raw materials, as well as other obstacles to bilateral trade between the two countries including natural geographic barriers (vast distances) and the associated transport costs.

Surely allowing for US inputs to contribute cumulatively to the required Jordanian value added would have been more feasible had the two countries shared a border, as has happened for example in the US and Mexico through a production-sharing scheme called *maquiladora*, under provisions of the North American Free Trade Agreement of 1994.

Such rules of origin imply that the QIZ model will continue to exist under the FTA. This is because the FTA calls for the imposition of a relatively high 35% minimum on the Jordanian content of value-added in order for a product to enter the US duty-free. The QIZ model mitigates this by allowing Israeli and Palestinian inputs to contribute cumulatively to the required Jordanian value added. (As mentioned above, QIZ allows for the inclusion of 7-8% Israeli content, with as little as 11.7% Jordanian value added.)

Insofar as a 35% level will not be easy to achieve, the easier terms of QIZ will prove more advantageous for Jordanians wishing to sell their products in the US. In fact, the QIZ model remains robust, as approvals for the establishment of two more QIZs came in late January 2004, almost three years after the FTA was signed into law.

This isn't to imply that the FTA will not go beyond QIZ (it will, by making all of Jordan one big QIZ), or that the latter became obsolete the very day the former came into force. After all the QIZ is being called a "sort of incubator for the FTA"[96] because of its potential to pick up where the QIZ leaves off, by making it easier for Jordanian as well as other Arab investors to penetrate the US market duty-free without having to include Israel in any form.

Though there is no doubt that the US-Jordan FTA agreement will eventually make the QIZ program irrelevant over the long term, there will still be room for the latter at least over the next 5 to 10 years. This is because of the long, ten-year phase out of US duties on Jordanian textile and apparel products. Under the US-Jordan FTA agreement, US tariffs on Jordanian exports of textile and apparel will be reduced only gradually. In fact, four of Jordan's top 5 exports to the US by value in 2003 (all under the terms of the QIZ provisions) will see no reduction in duty at all for 10 years (see table belo w).

Table (7)
Jordan's Top 5 QIZ Exports to the US, 2003[97]

	HTS Code	Product Description	QIZ Export Value 2003 In $US	US Duty Rate (Year 2000)	FTA Staging Category
Top Five QIZ Exports to the US by Value	61102020	Sweaters, pullovers, and similar articles, knitted or crocheted of cotton, nesoi	139,326,375	18.2 %	No Change Until Yr 10
	62046240	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton nesoi	120,820,764	17.0%	5 Years (C)
	61103030	Sweaters, pullovers and similar articles, knitted or crocheted, of man-made fibers, nesoi	50,403,543	32.9%	No Change Until Yr 10
	61046220	Women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	42,171,816	15.6%	No Change Until Yr 10
	61051000	Men's or boy's cotton shorts, knitted or crocheted	41,327,812	20.2%	10 Years (D)
Subtotal			**394,050,310**		
All Other			**197,995,588**		
Total			**592,045,898**		

Looking over the next few years, the US is currently placing a good deal of faith in the commercial spirit of the Arab world. In an effort to reach out to the Arab and Muslim world following the war in Iraq, US President, George W. Bush, set a goal in 2003 of creating a reform-linked free trade accord with Middle Eastern countries by 2013. The agreement seeks to rekindle goodwill in Arab states with the promise of trade and development. Bush administration officials have been quoted in the press as saying they would pursue that effort by negotiating bilateral agreements with countries ranging from Morocco to Iran and eventually stitching them together in a single trade pact. The plan proposes to build on the free trade agreements the US already has with Israel and Jordan while making Arab countries full members of the WTO.

As part of the program, the US will negotiate bilateral investment treaties with individual Arab countries. The US will also help establish a Middle Eastern finance facility for small and medium-sized businesses and for creating new jobs. In addition, the agreement envisages helping Arab states reform their commercial codes with the aim to promote transparency and fight corruption.

At the heart of US-Middle East Free Trade Area agreement is a US attempt to bring Israel closer to her neighbors. Of course the success of the plan hinges on whether the White House can broker a fair settlement to the Israeli-Palestinian conflict and establish a democratic regime in post-Saddam Hussein Iraq.

Whatever economic benefits may be drawn from a US-Middle Eastern Free Trade pact, these will remain on the hypothetical domain without a prior spur on the peace process. It is in fact difficult to envisage Arab countries trading freely with Israel without any significant advance in the peace process.

While prospects of exporting to the US free of duties and restrictions may be appealing to most Arab states, for Jordan such rewards could potentially erode some of the benefits of duty-free access to the US from Jordan's own FTA agreement with the latter. In such a setting, Jordanian manufacturers may, for example, find it difficult to compete with producers of similar commodities in the Gulf and elsewhere in the region.

The issue of rules of origin is significant in this respect because of the importance of cumulation. Providing Arab countries with the right to "diagonal cumulation" could in fact help to establish backward and forward industrial linkages in the Arab region, enhance the potential for intra-regional trade, and possibly offset some of Jordan's losses from having to share its unique position in the Arab World vis-à-vis the US with so many other countries in the region.

By the same token, others fear that providing Jordan and other Arab countries the right to combine value added into exports to allow goods to enter the US duty-free could threaten to destabilize efforts towards an AFTA. Simply put, Arab manufacturers could choose to export to the US, because of the access that it offers instead of pursuing regional integration in accordance with the AFTA agreement.

XIV. Conclusion & Future Outlook

No matter how successful present performance might be, the outlook for Jordan's QIZ is uncertain. For a start, the "Egyptian threat" is now looming, and some investors have indicated that once Egypt gets a QIZ, they will be out of Jordan quickly (in as little as 3 months according to one).[98] Of course, such a move would be normal: going to a country that manufactures many of its own raw materials for garments and has generally lower costs of production is normal for any industry, especially a footloose one that happened to come to Jordan because of a concessionary trade arrangement. In any case, even in the event that the threat from Egypt does not materialize, trade concessions in other economies near Jordan could still act to lure QIZ firms away and effectively shut the industry down.

Ironically, such a worst case scenario could have been – and maybe can still be - avoided by building linkages that would help create an efficient cluster. Unfortunately, the situation among Jordanian QIZs suggests that this may not happen. For example, QIZ manufacturers have indicated that on the rare occasions when they approach Jordanian firms for greater co-operation than that absolutely mandated by the rules of cumulation, the response has not been one indicating a desire to build a longer-term relationship with the foreign company. Those firms prefer to deal with Israelis who offer a more efficient method of supplying inputs based on a steadier relationship. By contrast, some Jordanian firms have used hit-and-run tactics designed to gouge the maximum profit out of a foreign buyer, thus intimidating him and preventing the formation of a long-term relationship.[99]

Yet another obstacle to clustering is the variety of nationalities involved in Jordanian QIZs. One of the reasons QIZ companies had tended not to cooperate is that they all came from very different countries. Therefore, the Indians don't want to work with the Chinese and so on. [100]

A further complaint that has come up again is the legislative vacuum at the private QIZs, which is cited as a shortcoming that prevents these estates from benefiting from the incentives and tax exemptions of the Investment Promotion Law and from the services of the Greater Amman Municipality. The argument is that private QIZs lack a legislative framework to define and regulate their work, unlike the three public ones.[101]

In conclusion, its should be stressed that although QIZs contain elements of potential sustainability that could still lead to the emergence of a continuing rise in Jordanian exports, their situation now is precarious and potentially unsustainable. Transfer of technology and the creation of backward linkages are clearly important parts of the 'Cluster Scenario' that would be an ideal longer-term result of the arrival of these garment firms in Jordan at the turn of the 21st century.

To profit more effectively from their presence and the whole QIZ model, the Jordanian government clearly needs to do more. It is still not too late to help QIZs make a positive impact on the country's export regime, but if vigorous action is not taken now, the result will have been an unsustainable spike in Jordanian exports for a few years. That would be beneficial for a few, but hardly enough compared to what the country needs for its long-term development.

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XV. Appendix

Jordan's Garment Strategy and Action Plan Beyond 2005

Strategy

- Developing garment sector, and enhancing its competitiveness to:

  - Serve as an engine of growth for Jordanian exports and investment. Jordan has to take advantage of the increased international demand on garments and its duty free access to the EU and the US to expand its exports and investments.
  - Be able to face the challenges of integrating the sector within the GATT 1994 of the WTO by the end of 2004, through upgrading the industrial environment and companies within the sector enabling them to build on mass consumer success and to increase their added value, their productivity as well as their market segment.

- **Target Growth during 2003-2010, should the strategy be implemented:**

  Probable estimate of a yearly average export growth rate of 28% (3% as a result of the productivity improvement from existing investments and 25% from new ones)

Target Export volume:	**JD2.128 million**
Job creation:	**88,000**
Company creation number:	**JD620 million**
Additional investment:	**JD620 million**
Addition Industrial area building:	**1,006,000 m2**

International Cooperation

- Organize US and EU Buyers and investors conferences to take place as soon as possible to strengthen relation with buyers and establish strategic alliances.
- Arrange and continue meetings with QIZ investors to identify bottlenecks facing their investments.
- Work on the creation of an internationally recognized National Accreditation is to be done on a company level and reflecting this with a proper media campaign.
- Jordan can make use of the available mechanisms within the WTO agreements to remedy trade distortions resulting from subsidies, dumping, or increase in imports.
- Encourage on a bilateral basis, the governments of the US and the EU to take trade remedy measures (safeguards, antidumping and subsidies countervailing measures) against textiles and clothing trade distortions, caused by exports from major competing countries, pursuant to available mechanisms within the WTO agreements.
- Organize conferences with he following (who have similar concerns):US, EU and textile and clothing associations

- Mexico, Canada and the Caribbean countries
- MEDA countries: Jordan, Tunisia, Morocco, Turkey, Egypt, and Eastern European states

Export Promotion

To achieve these targets in the strategy, Jordan has to promote and diversify its exports, extend it to Europe and the gulf countries and penetrate higher market niches in the US and EU. Thus the following action plan is recommended:

- Improve the implementation of the Jordan–EU Association Agreement through:
  - Signing Free Trade Agreements with MEDA Countries such as Turkey to allow accumulation of Origin within the Pan-Euro-Med accumulation System.
  - The implementation of a survey enabling the improvement of sourcing of fabrics and trimmings
- Implement an export oriented promotion program through:
  - Promoting the image of Jordan as an exporter of Garments in international magazines and websites
- Gear donor programs' assistance to companies towards providing them with the needed support to market their products abroad by:
  - Market research.
  - Design of collections.
  - Catalogue and virtual exhibition.
- Creation of a competent and liable body acting as a facilitator for exporters and importers regarding logistical issues and implementation of agreements and building capacity.
- Design a Trade Fair Plan with required budget including road shows and virtual exhibitions
- Implement a regional market study for potential export markets
- Amend the current relevant legislation to allow full foreign ownership to International Trading companies (export houses). And extend to them the advantages given to exporters by the investment Promotion Law
- Establish trade and investment offices in targeted markets (US, EU and Gulf) to provide all types of services for Jordanian manufacturers as well as buyers, and aim at promoting investments and exports in the garments and textile sector
- Research product items that give Jordan the competitive edge over other producers and provide the incentives to the local industry to switch to such items as the National Upgrading Program allows
- Encourage exporting of higher market niche goods
- Encourage the production of new technical innovative garments such as work uniforms with specialized specifications.
- Conduct a study aiming at means of increasing the local value added and vertical integration

- Encourage Jordanian to invest in platform companies.

Investment Promotion

- Ensure stability, transparency, non-discrepancy and consistency in the investment laws and the relevant legislation and in the advantages given to investors by the incitement Promotion Law and work on developing clear definitions of the terms used in such laws
- Grant incentives to the companies, which could invest their profits back into the project
- Provide incentives to facilitate factories mergers, treating it as a new investment under the Investment Promotion Law
- Provide incentives for the purchase of ailing companies and trading it as a new investment under the investment Promotion Law.
- Request additional funds from EU and US to support FDI
- Plan for attraction 100 new garment investors to invest in Jordan within the next two yeas (with an emphasis on high market niches)
- Encourage new investments in the garment and textile industry, accessories and supporting industries, especially among Jordanians.
- Conduct a study t remove distortion in the advantages given to the QIZ investors and equate these benefits to non-QIZ investors within the sector
- Extend the scope of the Investment promotion Law to include services: embroidery, maintenance, finishing etc.
- Study the possibility of allowing private QIZ areas developers the temporary entry of the inputs required for the construction of the facilities in accordance with the Investment Promotion Law permitting those investors who construct their own facilities.
- Highlight the potential of this sector in Investment Promotion campaigns
- Identify related and supporting foreign investment institutions in the targeted markets, and establish cooperation with them
- Identify required approvals for company creation until its operation and work on elimination unnecessary obstacles reaching a target of 48 hours

Human Resources Management

Training

- 11,800 machine operators in cutting, finishing, maintenance and repair yearly
- 600 middle staff management: quality control (100), line supervision (300), Trainers (100) maintenance management (60), pattern making and cutting (40)
- 100 qualified Jordanians to assume responsibilities in: design (20), production planning (20), productivity improvement (20), quality management (20), and production techniques (20).

Strengthen and upgrade the capacity of the Vocational Training Centers

- Work on categorizing laborers in the sector as semi-skilled and very skilled and work on providing training programs needed for each category as per the VTC categorization booklet
- Adopt national training curricula, making use of such successful programs developed by the private sector
- Improve selection criteria for trainees for national training programs for this sector to ensure sustainable employment.
- Establish a Steering Committee composed of the VTC and the private sector to review training programs and curricula to keep up with changes in the market demand.

Enhance the training capabilities of the private sector

- Encourage on the job training initiatives and provide foreign labor allowance incentives for companies providing such programs for local laborers.
- Enlarge private sector training initiatives (Ad-Dulayl, Tajamouat village program and others).
- Provide incentives for investment in training centers: the building cost plus the upgrading advantage.
- Establish a committee from the Ministry of Labor, the Ministry of Justice, employers, and labor representatives to consider articles of the Labor Law to give some flexibility in employment contracts in such fields linking pay with productivity.
- Build capacity within the Ministry of Labor to be more privative to the needs of the private sector.
- Reduce the annual work permit costs for foreign laborers to JD150 for a transitional period of 3 years, allowing foreign laborers up to 50% to be replaced gradually by local laborers.

Logistics Improvements

- Increasing public transportation to the industrial estates
- Canceling the sales tax amongst contractors and sub-contractors covering all services
- Facilitating custom clearing on Saturdays and national holidays
- Addressing the elevation of the exaggerated rates due to the monopoly practices of the United Inland Transport Company through liberalizing the sector
- Constructing industrial wastewater plants capable of handling effluent generated from textile and garment dying, finishing and washing procedures
- Conducting a study of the locally manufactured fabric and work on subcategorizing the HS codes of these products with the aim of exempting fabrics and accessories to avoid bank guarantees required by the Temporary

Entry program, while protecting the locally produced fabrics and benchmarking with international procedures.

- Targeting to reach clearing and loading a container in one day
- Providing Industrial Estates with ADSL lines to improve communications
- Developing an Aqaba port strategy

Company Upgrading and Quality

Neighboring and other major garment manufacturing countries have adopted corporate modernization and upgrading programs to increase their competitiveness, therefore similar efforts should be undertaken for designing quality instruction manuals, procedures, and documentation

Financial System Improvement

Form a committee comprising of two members from the National Committee, two foreign investors, representatives from the local banks and the Jordanian Loan Guarantee Corporation to recommend solutions to bridge the gap between supply and demand in the financial system

Strategy Implementation

- Secure endorsement and support for the strategy by the cabinetry as a national strategy.
- Establish a Higher Board for Garment and Textile Industry
- Coordinate with the established Financial System Improvements Committee and the Labor Regulations Committee and set a timeframe for outputs
- Schedule all the activities, and define the entities in charge of the implementation of each task
- Presenting the strategy to all stakeholders, including donor community.
- Assign an entity body with authority to be in charge of monitoring the implementation of strategy and the action plan

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XVII. Endnotes

1 Schrank, A "Export Processing Zones: Free Market Islands or Bridges to Structural Transformation?" Development Policy Review 2001, 19(2): 223-242

2 Madani, D "A Review of the Role and Impact of Export Processing Zones" World Bank - Country Economics Department, 1999

3 Ibid.

4 According to a report by the Brussels-based International Confederation of Free Trade Unions (EPZs: Symbols of Exploitation and a Development Dead-End, September 2003).

5 For details on Egypt's bid to host QIZs, see the article by Greenbaum "QIZ talks with Egypt make progress" as published by Globes [online] - www.globes.co.il 2 February 2004. Greenbaum notes that a delegation of Egyptian manufacturers had recently visited Israel to push forward negotiations for a QIZ arrangement between Israel, Egypt and the US, along the lines of the QIZ accord existing since 1997 between Jordan, Israel and the US. Greenbaum adds that an initial round of talks was held between Israel's Ministry of Industry, Trade, Labor and Communications the Egyptian Ministry of Foreign Trade in Jerusalem. Gabi Bar, deputy director of the Middle East desk at the Ministry of Industry, Trade, Labor, and Communications foreign trade division, is quoted as saying that the next round of QIZ talks are likely to take place in Cairo, and that both sides are hoping to reach an agreement on the matter sooner than later.

It was further reported in Al-Ahram weekly (Cairo) 10 - 16 June 2004 that on 1 June, the US and Egypt also finalized an agreement establishing QIZ. The US ambassador in Egypt David Welch "explained that the QIZ agreement is an opportunity offered under US law for trade preferences to the US that have some content from Israel (around 11 per cent) [sic] as well as any of the neighboring countries who participate." Welch, however, indicated that there is not yet a government-to-government agreement to pursue this. "I'm reasonably hopeful that we will see progress in the coming weeks and months on this possibility, which, if it happens, will be very good because QIZs, which are in place presently only in Jordan, have meant a great deal for Jordanian exports to the US," Welch argued. The article added "To Egyptian economic decision-makers, the finalization of the QIZs agreement is the first step towards finalizing a free trade agreement (FTA) between Egypt and the US. Welch indicated that the conclusion of an FTA requires a genuine sentiment of economic reform in Egypt. The QIZ agreement, however, received sharp criticism from leftist opposition because it means more economic cooperation and commercial exchange between Egypt and Israel." However, several months on, little progress appears to have been made on this score.

Starting a QIZ in the Palestinian territories has proved more difficult, although intensive efforts led to the inclusion in the Wye River Memorandum of a protocol for the long-delayed Gaza Industrial Estate, and that estate opened shortly thereafter, during US President Clinton's mid-December 1998 visit to Israel and Gaza.

6 In a bid to replicate Jordan's success in exporting to the US, Turkey has mooted the idea of setting up QIZs with Israel. However, it is important to note that the program proposed for Turkey differs markedly from that created for Jordan: The latter's QIZ program is open to all manufactured goods, but the version proposed for Turkey is less generous in that it excludes clothes, fabrics, leather goods, and shoes from the list of Turkish goods to be eligible for duty-free treatment in the US. The declared aim of the program is to set up industrial parks in Turkey from which high-tech, non-textile goods could be exported duty-free to the US. For more details on this proposal, see Gresser E "A New US Trade Relationship with Turkey Good Idea, Plan Needs Work", Policy Report, September 2002. See also an interview with Turkish State Minister Kursad Tuzmen, Anadolu Agency 6 April 2004, in which he seems to say that Turkey has not given up on its insistence to include textile-based products in the agreement. In any case, the article is notably entitled "Tuzmen: We Proposed Only High-tech Products Be Produced in QIZ Expected to Be Set up with US" suggesting that an agreement is imminent.

7 Rodríguez-Clare, A "Microeconomic Interventions After the Washington Consensus", Research Department Inter-American Development Bank, August 2004

8 See for example Bost, F "Les Zones Franches en Afrique Subsaharienne" Centre Francais du Commerce Exterieur

9 United States Agency for International Development (USAID) Jordan "Statement of Work, Export Trade and Productive Investment Project" unpublished, Amman, November, 1989

10 For a detailed description of aspects of the country's foreign trade policy before WTO accession, see al Khouri "Non-tariff Barriers to Trade in Jordan, Lebanon, and Saudi Arabia" in World Bank Institute Trade Policy Developments in the Middle East and North Africa 2000

11 "Jordan: Selected Issues and Statistical Appendix" IMF Country Report No. 04/121May 2004

12 Ibid

13 As expressed in interviews with the authors, August 2004

14 For a recent discussion of the issue of technology transfer through FDI in developing countries, see Hoekman, B and Javorcik, B S "Policies Facilitating Firm Adjustment to Globalization" World Bank, August 2004

15 Schrank, A op cit

16 For a critical review of the theory behind export processing zones, see the paper by Dorsati, M op cit

17 Ibid.

18 However, there is no strong proof that positive productivity externalities generated by foreign presence actually exist: "today's policy literature is filled with extravagant claims about positive spillovers from FDI but the evidence is sobering." Rodrik (1999)

19 al Khouri, R "Qualifying Industrial Zones as a Model for Industrial Development: the Case of Jordan and its Implications for the Region" Friedrich-Ebert-Stiftung, December 2001, www.fes-jordan.org

20 For more precise employment figures see section VIII below.

21 "Jordan Quarterly Publication" first quarter 2003, Jordan Country Unit - The World Bank Group p7, www.worldbank.org

22 Ge, W "The Dynamics of Export-Processing Zones", No. 144 December 1999 UNCTAD/OSG/DP/144

23 Source "Determination of Origin of Goods Processed in a Qualifying Industrial Zone or in Israel and the West Bank" US Customs Service – General Notice, www.customs.ustreas.gov

24 The World Bank - Social and Economic Development Sector Unit Middle East and North Africa Region, Report No. 24425-JO "Jordan Development Policy Review: A Reforming State in a Volatile Region" November, 2002 pp.16-17

25 Moore, P "The Newest Jordan: Free Trade, Peace and an Ace in the Hole" as cited on the Middle East Report Online, 26 June 2003

26 Ruebner, J "US-Israel Free Trade Area: Jordanian-Israeli Qualifying Industrial Zones" CRS Report for Congress, Match 2001

27 US Customs Service – General Notice, op cit. It is worth mentioning that the appraised value of a product is determined in accordance with the WTO agreement on Customs and Valuation.

28 According to the Jordan Investment Board Website (www.jordaninvestment.com)

29 US Customs Service – General Notice, op cit

30 Ibid.

31 As expressed, for example, in http://www.ad-dulayl.com/.

32 As illustrated, for example, in http://www.altajamouat.com/_html/qiz/2_6_4.html

33 It should be noted that under the 1985 US–Israel Free Trade Area Agreement, almost all products of Israel are eligible for duty-free entry into the US, except for some agricultural goods on which non-tariff protection including import bans, quotas, and fees is allowed. However, industrial land and labor costs remain high in Israel. Within this perspective, the QIZ scheme provides Israel with access to cheaper labor and land through developing alliances and/or supplier links with Jordanian companies.

34 QIZ manufacturers appear to have so far opted out of using inputs originating in the West Bank and Gaza. According to Moore (2003), there can only be one logical explanation for this: Israeli closures have made impossible the transport of such components to the assembly factories in Jordan; but a reason could also be that the decision not to use components from the West Bank and Gaza was largely influenced by considerations of cost-efficiency.

35 QIZ Unit at the Jordan Ministry of Industry and Trade, "Your Guide to QIZ" a special investor brochure pp1-2

36 As mentioned in numerous press reports, as, for instance, the item by Tabler, A. "Regional tensions aside, Egypt and the US continue to consider schemes to boost bilateral trade" (http://www.electricink.net).

37 Moore (2003) notes that Israeli inputs commonly amount to little more than labels and zippers, as well as packaging undertaken prior to shipment from the Israeli port of Haifa.

38 As noted in the article by Globes (www.globes.co.il) "Egyptian industrialists arriving to discuss QIZ", 24 December 2003

39 As expressed in interviews with the authors, August 2004

40 In gauging the real value of the concessions accorded to manufactures that locate in a QIZ with regard to income tax and social security levies, one should note that significant concessions in this regard existed even before the initiation of the QIZs. Projects approved by the Jordan Investment Board as eligible for treatment under the Investment Promotion Law enjoy a ten-year exemption from income and social services taxes at the following rates depending on the sector and the Zone (A, B, or C) in which the project is located: "A" 25 percent, "B" 50 percent, or "C" 75 percent. Where a project is expanded, improved or modernized to increase its production capacity, it receives an additional year of exemption for an increase in production, which is not less than 25% for a maximum of 4 years.

41 In early 2004, the Office of the US Trade Representative designated two more zones as eligible for QIZ status: the Resources Company for Development and Investment Zone and the Al Hallabat Industrial Park (as cited in the Federal Register / Vol. 69, No. 18/ 28 January 2004)

42 It is noteworthy that most of these zones have been set up away from Greater Amman, the explicit objective being to discourage urban concentration on the one hand, and encourage job creation and economic development in rural and peripheral areas on the other (two QIZs are in the north; four in the center but not close to Amman, and one in the south.)

43 Jordan Industrial Estates Corporation website www.jiec.com

44 The third is the Aqaba International Industrial Estate (AIIE), established in 2001 by the Jordan Industrial Estates Corporation. The park received QIZ status shortly after. A consortium made up of Parsons Brinckerhoff International (PBI) of the US and the Turkish developer SUTA Construction was formed to plan, finance, develop and manage the 275-hectare site. The AIIE, located just east of the Aqaba International Airport and 12 km north of the port, markets itself on its ability to sell locally, thanks to the Aqaba Special Economic Zone's free zone status. However, this may not be very important under the present circumstances of limited tourism and a local population of only 90,000 with small purchasing power. By end-2004, the zone's developers are planning to have created 4,000 new jobs. To date, two companies (non-QIZ) have commenced operations in the zone: one produces mattresses and the other plastic bags used for shipping.

45 According to the managing director of Al-Tajamouat, cited in the Middle East Economic Digest (MEED), 18 February 2000 ("Special Report: Free Zones").

46 According to senior managers at Al-Tajamouat

47 QIZ Unit at the Ministry of Industry and Trade

48 According to the QIZ Unit at the Ministry of Industry and Trade and the Jordan Investment Board

49 Information obtained from al-Tajamouat website http://www.altajamouat.com.

50 al Khouri op cit, pp 8-9

51 Though the trend for over a decade has been to strengthen forward linkages in the phosphate and potash industries by engaging in increasingly sophisticated downstream processing and manufacturing

52 For more details, see Kardoosh M "The Jordanian Economy into the Third Millennium: Staying the Course in a Dim Regional Climate", the Higher Council for Science & Technology, August 2003

53 For textiles and clothing, the QIZ program circumvents a US duty of up to 22 percent

54 In 2003, Nike announced its desire to establish a factory in Jordan, most probably in a QIZ. However, there has been no significant developments on this score since.

55 ILO [1996], 'Labor standards in Export Processing Zones: A southern African perspective', Southern Africa multi-disciplinary advisory team International Labor Organization, presented at the 1996 meeting of the SADC employment and labor sector, Lilongwe, Malawi, 1- 5 April 1996

56 for a more skeptical view of this categorization see UNCTAD 1993 "Export Processing Zones: Role of Foreign Direct Investment and Developmental Impact", TD/B/WG.1/6, Geneva

57 See, for example, Oh W "Export Processing Zones in the Republic of Korea: Economic Impact and Social Issues", Multinational Enterprises Program Working Paper No. 75, ILO Geneva. Oh notes how some investors in the Masan EPZ in South Korea relocated once their tax holidays expired.

58 According to the QIZ Unit at the Ministry of Industry and Trade

59 As noted in the report by the International Labor Organization "Export processing zones: Addressing the social and labor issues" (http://www.transnationale.org/pays/epz.htm)

60 "Investors applaud decision to cut work permit fee in QIZs" in the Jordan Times, 7 October 2001.

61 For comments on the productivity of local QIZ workers, see "Textile companies warn of shortage of skilled labor" in the Jordan Times, 29-30 November 2002. In an interview to the paper, a textile firm general manager said that labor productivity among guest workers was significantly higher than that of local labor. Using as a benchmark the number of minutes it usually takes to manufacture a T -shirt, he added that the productivity of the foreign workers is approximately 13% higher relative to the comparable figure for indigenous workers. He ended by saying that while the international standard time it takes to produce a T-shirt is 3.5 minutes, in Jordan it is 5-6 minutes.

62 Al Khouri op cit

63 Jordan Times 29-30 November 2002 op cit. Reacting to comments made by a general manager of a textile company, who alleged that foreign workers are far more productive than locals, Fathallah Emrani President of the General Federation of Jordanian Trade Unions described such claims as 'hogwash'. He added that Jordanian workers are just as capable as other workers and in some cases are more productive than their foreign counterparts.

64 "Unions to discuss labour market controls, legislation at meeting with Tarawneh" in the Jordan Times, 13 September 1998. The article mentioned that ever since the QIZ in Irbid began operation, the city has been flooded with female workers from Asia foreign workers who decided to complement their daily job by working as prostitutes at night.

65 See, for example, “Labor Ministry to train, recruit women from southern governorates” in the Jordan Times, 15 January 2003 The article mentioned that since the Jordan Ministry of Labor began implementing a nationwide plan to ease the acute shortage of jobs in rural areas, “hundreds of women have been offered training and consequently been recruited to work in a QIZ in Sahab.”

66 “Country Report: An Overview of Vocational Education and Training in the Hashemite Kingdom of Jordan”, European Training Foundation 2000

67 According to interviews by the author with officials at the Ministry of Industry and Trade; as they deemed the issue sensitive, all insisted on anonymity.

68 An example of practical steps to improve this particular situation came about in 2003 in Aqaba, where USAID has launched a training center for garment workers (effectively breaking the rules). Developers hope to train up to 100 workers each month. Though information about the project remains sketchy, and it is still not clear whether the targets of the developers will be met, the initiative is a step in the right direction.

69 See “Women Workers in the Textiles and Garments Industries in Jordan: A Research on the Impact of Globalization”, Jordan Ministry of Labor and the International Labor Organization, January 2002 pp 16-17

70 This section draws heavily on the finding of “Women Workers in the Textiles and Garments Industries in Jordan: a Research on the Impact of Globalization”, Jordan Ministry of Labor and the International Labor Organization, January 2002 pp 1-35

71 The number of women working in QIZs is not known with great precision: the QIZ Unit at the Ministry of Industry and Trade, close to 5 years since establishment, still has no labor statistics broken down by gender. Unofficial estimates put the share of women in the QIZ workforce at around 80 percent, as cited in Gray, S “Women Benefit from Business Estates Jobs” Survey- Jordan Financial Times; 7 November 2000. More recently, Moore (2003) estimated the ratio of women to men in the QIZ labor force at 2:1.

72 See, for example, the Jordan Times, 24 January 2003 “Industrialist Abandons Clothing Plant in Irbid's QIZ” for an illustration of this problem; See also “5 companies 2-4 months delinquent in paying workers” in the Jordan Times, 30 April 2003

73 See however Madani D *op cit* for a more skeptical view of this assumption. Madani instead argues that “while the creation and development of backward linkages with the domestic industry is an important long term goal for many countries in which EPZs are active, a low net export ratio is not per se a negative outcome.” According to Madani, the goals set by policy makers for the zone may determine the importance of the net export ratio. That is to say, the volume of trade and level of activity of the firms may be large enough to provide other benefits – such as a large employment spillover effect –partially making up for weak backward linkages.

74 Based on an interview by the author with senior management at the Al-Tajamouat Industrial City; December 2003

75 An attempt to promote this idea was made late in 2002 by the US ambassador to Jordan Edward Gnehm, but nothing has happened since. Source "No obstacle to putting high-quality QIZ products on local market — US envoy" in the Jordan Times, 9 December 2002

76 As cited in R. M. Buitelaar and R. D. Pérez, 'Maquila, Economic Reform and Corporate Strategies', World Development, 28, 9 (2000), 1633-34.

77 Hoekman, B & Javorcik, B S *op cit*

78 Compare this to the case of Lesotho cited above, where a weakness of that country's garment sector is lack of co-operation between the government and private business.

79 This committee in the first half of 2004 produced an official report on "The General Framework for a National Strategy to Confront the Challenges of 2005 to the Garment and Textile Sector." The report, which contains details of proposed actions to be taken by the public and private sectors, has been submitted to the Cabinet.

80 Product Coverage of the Agreement on Textiles and Clothing, by HS code: 3005, 3306, 3921, 4202 Chapters: 50-63, with the notable exception of 5001-03, 5101-03, 5201-02, 5301-02) 6405-06, 6505-05, 6601,7019,8708,8804,9113,9502,9612; as cited in Lu'ay S. Jadoun "Textile and Clothing Products within the Framework of the World Trade Organization", foreign Trade Plicy & Relations Department, Ministry of Industry & Trade

81 Knappe, M "The Agreement on Textiles & Clothing: The ATC implementation So Far", International Trade Centre UCNTAD/WTO

82 For an illustration of this point see Spinanger, D "Textiles Beyond the MFA Phase-Out" CSGR Working Paper No. 13/98 July 1998

83 "WTO Head Suggests Pre-Deadline Easing of Textile Quotas" May 2003; as cited on www.sweatshopswatch.org

84 See Kathuria, S Martin, W and Bhardwaj, A "Implications of MFA Abolition for South Asian Countries", Paper presented at the NCAER-World Bank WTO 2000 South Asia Workshop, New Delhi, 20-21 December, 2000 for an in-depth examination of the outlook for South Asian countries after the abolition of quotas in 2005. The study found that although South Asia as a whole would profit from the MFA phase-out, the gains would not be uniform across the region.

85 As noted in numerous papers, including the one by Appelbaum, R "Assessing the Impact of the Phasing-out of the Agreement on Textiles and Clothing on Apparel Exports on the Least Developed and Developing Countries" Center for Global Studies, Institute for Social, Behavioral, and Economic Research University of California at Santa Barbara November 4, 2003.

86 As expressed for example to the authors by QIZ managers interviewed in July 2004

87 Talks to establish a free trade area between Jordan and Israel date back to the early 1990s. In fact, Article 7, paragraph 2 b of the October 1994 Peace Treaty between Jordan and Israel clearly states that "the parties [Jordan and Israel] will enter into negotiations with a view of concluding agreements on economic co-operation, including trade and the establishment of a free trade area…"

88 Source: "Olmert to Amman to sign free trade agreement with Jordan" as published in Ha'aretz English Edition, 16 May 2004 www.haaretzdaily.com

89 Ibid.

90 A similar provision of cumulative rules of origin among Arab countries that had entered into association agreements with the EU has been noted for its absence from such accords, signifying failure in the negotiating strategies of the Arab countries concerned.

91 Interviews in May-June 2004 of senior officials at the Ministry of Industry and Trade indicate that Jordan was at first interested in a European QIZ-like arrangement, along the lines of the accord existing since 1997 between Jordan, Israel and the US. However, there has been no significant response to this by the EU.

92 See Ruebner, J "US-Jordan Free Trade Agreement" CRS Report for Congress RL30652, 1 May 2001, pp 12-13 for an overview of selected provisions of the Jordan-US FTA.

93 Ibid, quoting Article 3.2(b) of the Jordan-US FTA

94 See O'Shea, B and Rosenow, S "US-Jordan Free Trade Agreement: Rules of Origin Manual" USAID AMIR Program, August 2001, pp 1-3 for a more critical discussion of the FTA in general, and its rules of origin in particular.

95 O'Shea, B and Rosenow, S op cit, pp 21-23

96 Quoting the then US Ambassador to Jordan Edward Gnehm speaking in Amman at a conference on the Jordan-US FTA, 30 October 2001

97 Source US International Trade Commission (USITC) http://www.usitc.gov, and O'Shea B, "US-Jordan Free Trade Agreement: Staged Tariff Elimination – Implications for Business" US Agency for International Development (USAID)

98 According to a South Asian manufacturer interviewed by the authors in August 2004, expressing the sentiments of some of his colleagues.

99 This type of behavior was reported by managers interviewed at Tajamouat QIZ, August 2004.

100 Ibid

101 "Private QIZs lack privileges enjoyed by three public industrial zones" 21 August, 2004 Petra News Agency