Jordan’s Qualified Industrial Zones: A Qualified Success?

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A THESIS

in

Middle Eastern Political Economy

Presented to the Faculties of the University of Pennsylvania in Partial

Fulfillment of the Requirements for the Degree of Master of Arts

2005

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I. Introduction

On October 26, 1994, Jordan, under the auspices and direction of the United States, signed peace accords with Israel. A seemingly intractable problem, the Israeli-Arab conflict, looked as if it would soon be resolved. As the world looked favorably on the treaty, the two sides and the United States started towards practical implementation. Congress, in its efforts to strengthen the peace, passed a novel economic agreement in 1996 that was meant to build people-to-people relationships between businessmen, who were seen as mostly apolitical and therefore more pliable. The agreement extended the US-Israel Free Trade Agreement (FTA) to include qualified industrial zones (QIZs) in Jordan that would allow manufacturers to export there to the US duty- and quota-free. But there was a twist that distinguished these zones from other free trade zones – part of the content would have to come from the Jordan's traditional enemy, Israel.

In August of 1997, I went to Jordan for ten months to do economic research. At that time, the QIZs were a new phenomenon, and there was heated discussion over the political, moral and economic consequences of the peace process and these new industrial zones. Two of the first entrepreneurs were highly charismatic individuals, one Israeli and one Jordanian, and they were the darlings of the foreign press.[1] In Jordan, though, there was considerable criticism against "normalization with Israel."[2] The true impact of the QIZs was still unknown.

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[1] Ellin, Abby. "Give Tech A Chance." Business 2.0, August 08, 2000. found at http://www.business2.com/b2/web/articles/0,17863,528114,00.html.
[2] Whewell, Tim. "Jordan feels Mid-East tensions." BBC Radio 4. 21 December 2001. Found at http://news.bbc.co.uk/1/hi/programmes/crossing_continents/1072679.stm.

I returned to Jordan in January of 2005 to interview government officials, factory owners, Qualified Industrial Zone management representatives, and non-governmental organization officials. Economic issues had eclipsed any political discussion; people were criticizing the government's approach to the long-term sustainability of the QIZs and worrying about the economic impact of the QIZs failing with their large workforce. There have been few assessments of the QIZs[3] This paper will look at the changes that the QIZs have undergone over the past ten years.

Almost 10 years after the original QIZ agreement was signed, the success of the QIZs are still in contention. Politically, the situation between Jordan and Israel is poor, especially as the Al-Aqsa intifadah continues and the security wall is built. It is my view that the QIZs were formed in a particular moment when person-to-person contact was seen as the most direct way to solidify peace in the Middle East. In hindsight, it was not possible for the QIZs, by themselves, to countervail the deteriorating situation between Palestinians and Israelis. Moreover, people-to-people conflict does not change mindsets; shared economic interests may make for temporary alliances, but larger events overtake these alliances. Based on my research, the working relationship between Israel and Jordan is still just that, about working, contracts and supplies, not larger issues of justice or peace. The QIZs are helpful only in building institutions and relationships that, if the situation improves, can become a catalyst for longer-term relations.

On the economic front, the QIZs are chaotic and, at best, mixed successes. The statistics are impressive: exports increased from $2.4 million to almost $1 billion in 8 years, and

[3] There are two main independent (non-governmental) surveys, and only one, by Khouri and Kardoush, of these has been published.

the labor force went from zero to more than 24,000 in the same period. But, these exports are mainly reworked raw materials, with a very small amount of the value added in the region (35% including the Israeli share). This value is further discounted, since it includes depreciation, wages for foreigners and rent. The labor force is only half Jordanian, and the rest of the workers save as much as possible to remit to their families in their home countries. The linkages between the QIZs and the rest of the Jordanian economy are limited, at best, and the future of the QIZs are in doubt.

The QIZs have not and will not lead economic development in Jordan, yet it is my contention that they have laid the foundation for future development. The process of setting up the QIZs, dealing with foreign and local investors, and building the infrastructure so that these companies can export is the foundation for future development. The government and private sector in Jordan has learned how to attract foreign investment, and their success in building exports to the US help market the country. The QIZs have put Jordan on investors' maps, and now the government must turn this knowledge into future investments, something that the King is doing now.

The QIZ agreement is a perfect example of good intentions of framers leading to significant results, albeit in directions far from the original intentions. Economic results have eclipsed the political dimension of the agreement on both sides. Yet, while the political results have been limited, to be optimistic, there is some basis of hope in Israelis and Jordanians working together, building transnational processes and even companies.

The paper is divided into five main sections. In the first section, I will lay out the context for the agreement and go into the details of the agreement itself. In the second and third section, I will assess the political and economic repercussions of the QIZs. In the fourth section, I will talk about future challenges to the QIZ, from competition in Egypt to the new Jordan-US Free Trade Agreement. In the fifth section, I will talk about the rhetoric of the government and its responses to the concerns of critics and what this tells us about the effects of the QIZs within Jordanian political discourse. Finally, I will conclude with lessons learned through the case of the QIZs in Jordan.

II. Background:

Jordan is a small country, and, to many observers and even to some of its own citizens, it is an artificial country carved out of the larger, historic countries surrounding it by British policy after World War II. The country has no significant resources, and it has dealt with the repercussions of every major conflict in the region, from the many wars with Israel to the Gulf War and the resulting backlash against Palestinians for their support of Saddam Hussein. Throughout this time, Jordan has been able to export workers to other countries (mainly in the Gulf, but also Europe and America); these workers have sent back large amounts of remittances to their families, remittances which helped propel Jordan through its most difficult times.

The first Gulf War had two dangerous repercussions for Jordan. First, the country suffered directly from not siding with the US, with significant pressure brought on King Hussein by the US and Europe for his moral support of Saddam Hussein. Second, a large number of Jordanians who were of Palestinian heritage were expelled from Gulf countries, especially Kuwait, due to the PLO's support of Saddam Hussein. These Palestinians came back to Jordan, unemployed.

The Jordanians who returned to the country in 1991 and after boosted the economy significantly (17% real GDP growth in 1992[4]), but this growth was driven by consumption and temporary. Real GDP growth had fallen back below 1% by 1995[5]. The unemployment rate was also very high (around 15% by government statistics, and higher

[4] Central Bank of Jordan, Monthly Statistical Bulletin, July 2000, p. 6
[5] Ibid, p. 6

by non-official estimates), and economic growth was not keeping up with the population growth rate, which was at 4.1 children per woman, meaning that the population would double every 20 years[6]. It would have been very difficult for Jordan to grow enough to provide employment to its large unemployed population, and this high population growth complicated the issue even further.

In this context, Jordan saw the peace accords with Israel as a way to benefit from the US's willingness to provide economic incentives to Israel's partners. After the Palestinians, led by Yassir Arafat, signed the Oslo Accords, Jordan started to negotiate with Israel.

The QIZs, a US-inspired program were seen as a way to alleviate the country's unemployment issue through faster job growth in manufacturing industries:

> "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…served…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."[7]

The economic goals were secondary to the idea of offering a peace dividend to Israel's peace process partners. As a political carrot, the QIZ agreement was seen as extremely appetizing. The original agreement was actually not a new agreement between Israel, Jordan and the US, rather it was the extension of the existing Israel-US Free Trade

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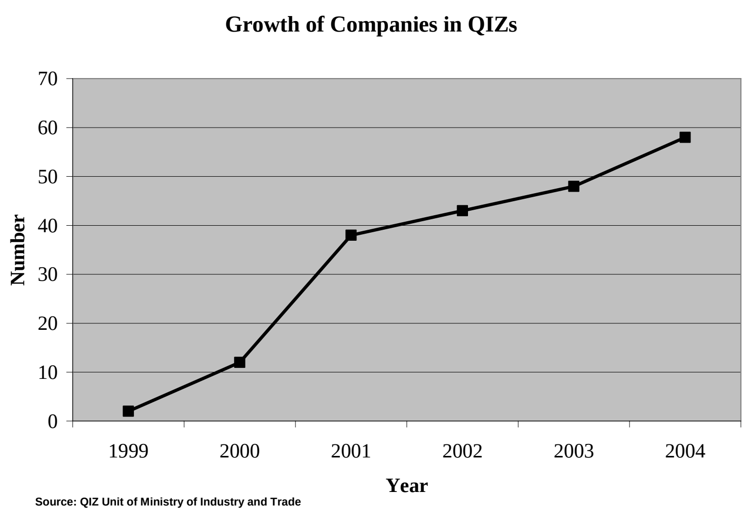
[6] Bloom, David E., David Canning, Kinga Huzarski, David Levy, A.K. Nandakumar, and Jaypee Sevilla: "Demographic Transition and Economic Opportunity: The Case of Jordan," Commissioned by *USAID*, found at http://www.riverpath.com/library/demography/demographic_transition.asp, p. 8, April 2001.
[7] Kardoosh, Marwan A. and Riad al Khouri, "Qualifying Industrial Zones and Sustainable Development in Jordan." September 2004. Presented at the ERF 11th Annual Conference in Beirut, Dec. 14-16, 2004.

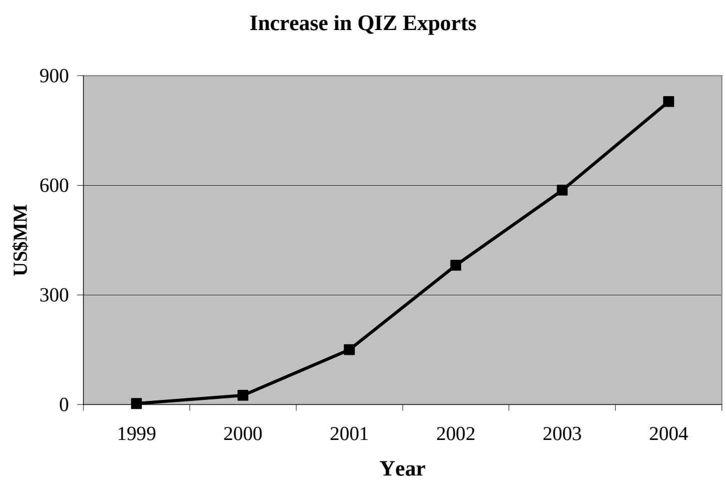
Agreement (FTA). Congress, as proposed by Congressmen Clay Shaw (R-FL) and Phil Crane (R-IL) and supported by both Democrats, Republicans and the President, included the West Bank and Gaza as part of the FTA along with other qualified zones that could exist in neighboring countries. In the original Congressional Record on the bill, economic development was seen as central to the passing of the legislation, but little was said about Jordan in particular.

Journalists and sundry commentators grew optimistic as the first QIZ was set up and two companies, Delta Textiles from Israel and Century Investment Group (CIG) from Jordan, led by a charismatic young Jordanian of Palestinian descent, established the first company and began exporting goods to the US. The two main goals of the project – development of the economy of Jordan and political normalization between the two sides – seemed well on their way to being realized.



Jordan, for its part, saw these two goals of the industrial zones as distinct. The country wanted to take advantage of these zones for economic reasons, but it was less enthralled with the idea of doing business with Israel. In addition there was considerable negative reaction from Jordanians towards those working with Israelis, especially since a majority of Jordanian citizens are of Palestinian descent. Local organizations would release the names of those working with Israel, in the hopes of forcing them to sever ties.[8] Over time, though, Jordanians viewed the QIZs as a completely economic agreement, and the political issues took a back seat to the economic results. Now few commentators see the QIZs as a political success[9], especially as the larger events such as the renewed intifada occurred and the Arab world lost confidence in the peace process.

At the same time, the economic importance of the QIZs grew, and the government stepped up its efforts to use these QIZs as a way of jumpstarting industrial manufacturing in a country with no history of it. Jordan's manufacturing as a percentage of GDP stayed between 11% and 13% throughout the 90s[10]. Manufacturing is a quick way for countries to employ large numbers of people. Jordan has very few raw materials, so materials would be imported, assembled or transformed into "qualified" products and exported to the US. The QIZs would be focused almost solely on manufacturing, because US tariffs and quotas were on goods (not on services, for example), and the first companies that set up shop in the QIZs were textile companies.



[8] "New list in the names of Jordanians normalizing with Israel." Arab News, Jan. 23, 2001. From http://www.arabicnews.com/ansub/Daily/Day/010123/2001012314.htm accessed on April 12, 2004.

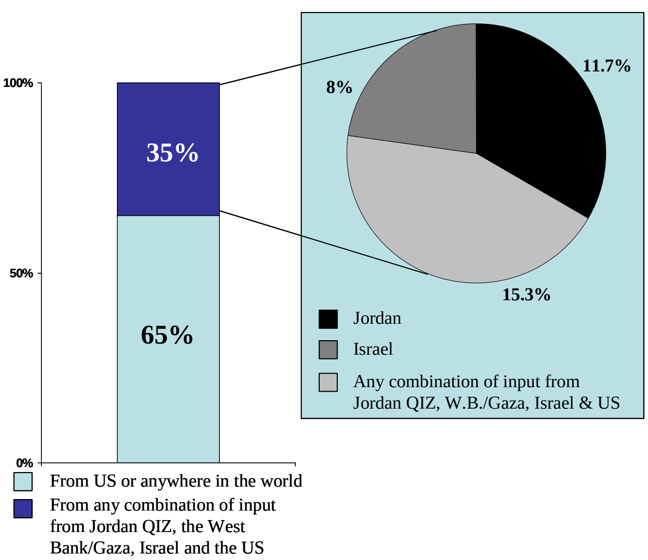
[9] Moore, Pete. "QIZs, FTAs, USAID and the MEFTA: A Political Economy of Acronyms." Middle East Report, Spring 2005, MER 234.

[10] Statistics on GDP by sector were found through United Nations Statistics division database found at the Penn Library: http://hdl.library.upenn.edu/1017/7058.

Given Israel's technological superiority and higher wage level, the QIZs were hoped to be centers of technology transfers from Israel to Jordan. In terms of technology, Israel filed 4,842 patent applications at the US Patent and Trademark Office from 1992 to 1996 and were issued 2,004 patents, while Jordan, during the same time period, filed for 12 patents and were issued one[11]. Although superficial, this statistic indicates the relative magnitude of technological innovation in the two countries. At the same time, Israelis seized on the opportunity to increase exports to the American market by way of a less expensive workforce. GDP per capita in the Jordanian market was around $3,770 in 1996. This is significantly less than in Israel where the per capita GDP in Israel was $18,730.[12] Even more importantly, the minimum wage in Jordan is set at approximately $140 per month, which is much less than the Israeli minimum wage of around $730 (3,335.18 Israeli New Shekels as of July 2003).

Content Requirements

The heart of the QIZ agreement is the content rule that permit a product to be exported to the US tariff-free. Currently, 35% of the value of the product must be added in Jordan or Israel. This value can be accrued through a number a ways: materials,



[11] 1996 US Patent and Trademark Office, Annual Report. http://www.uspto.gov/web/offices/com/annual/1996/
[12] Statistics for both Israel and Jordan were found through United Nations Statistics division database found at the Penn Library: http://hdl.library.upenn.edu/1017/7058.

labor or overhead expenses, including rent or depreciation. In addition, the agreement allows double substantial transformation which means that any good that has been doubly transformed in Jordan to be counted as Jordanian content. In the case of textiles, double substantial transformation can be cutting and sewing, after which the full value of the cloth would count as Jordanian content.

Due to the high prices of goods in Israel, producers in Jordan decided to add the bare minimum of content from across the border. Producers would look for the cheapest and smallest accessories to add, and to this day Israel mainly provides packaging and accessories like buttons, zippers or tags to products manufactured in the QIZs. Due to the high cost of Israeli goods, the Jordanian negotiators, due to pressure from QIZ manufacturers, went back to the negotiating table and amended the agreement in February of 1999 to decrease the amount of content from Israel (from 11% to 8% and just 7% for high-technology goods) needed to qualify for QIZ-status.

Process

Manufacturers in the QIZs are qualified by a board composed of both Jordanian and Israeli representatives. A company must be qualified every year, and each shipment must be qualified before it is exported. Inputs into the final products shipped out can be approved once a year, and the US side takes the approval of the joint committee at face value.

The process of qualifying goods and working with investors and companies in the QIZ has become much more efficient over time. Jordanian ministries, specifically the Ministry of Industry and Trade, have made great strides in streamlining the process. Interviews with government workers in the division in charge of the QIZs told me that at the beginning, it was chaotic. The process of approving shipments took too long, and the government employees were overworked and unable to deal with the volume of approvals needed[13]. Over time, though, the division approves shipments in about an hour. This streamlining is a piece of larger changes that the government has undertaken to make Jordan more attractive to investors. The Jordan Investment Promotion Board has also streamlined the process for investors to incorporate and provides better service.

Changes like these are key in attracting foreign investors and promoting entrepreneurship among locals. As the QIZs fade in importance, the bureaucratic infrastructure will remain, and the future of investment depends on the quality of customer service and treatment that entrepreneurs receive from the government. This legacy may be the most important tangible result of the QIZ agreements.

Overview of types of QIZs:

The first actual zone was set up in 1996, and the number has expanded to thirteen today, although not all are being used (see chart below for active zones). The first manufacturers involved were mainly Jordanian pioneers that were able to find Israeli partners through the help of the QIZ organization.

Public vs. Private

[13] Author interview with Anna Maria Salameh at the American Chamber of Commerce in Jordan. Ms. Salameh was a former member of the QIZ Unit at the Ministry of Industry and Trade.

The QIZs themselves can be run as either private or public enterprises. The first QIZ, the Hassan Industrial Estate, is run by a quasi-governmental agency, the Jordan Industrial Estates Corporation (JIEC), which involves the private sector in its management.

	QIZ	Income Tax Rate Exemptions	Custom Duties Exemptions	Land m^2*	Building m2*	Shipping to New York* **	Population Density	Distance from Capital	Distance from Aqaba Port
Public	Al-Hassan Industrial Estate (Irbid)	50% for 10 years + 100% for 2 years	100% on fixed assets and 15% on spare parts	30 / 2.5	75 - 90 / 15	1624 / 2334	925,000	70 km North	400 km
Public	Al-Hussein Bin Abdullah II Industrial Estate (Al-Karak)	75% for 10 years + 100% for 2 years	100% on fixed assets and 15% on spare parts	15 / 2.5	70 / 15	1499 / 2209	208,000	118 km South	140 km
Public	Aqaba Industrial Estate	5%	100%	32 / 3.5	140 / 16	1282 / 1708	82,000	350 km South	10 km
Private	Ad-Dulayl Industrial Park	75% for 10 years	100% on fixed assets and 15% on spare parts	32 / NA	53 / 21.5	1065 / 1562	815,000	45 km East	360 km
Private	Al Tajamouat Industrial City	50% for 10 years	100% on fixed assets and 15% on spare parts	NA / 35 - 40	140 / 22	1136 / 1400	2,000,000	18 km East	395 km
Private	Jordan Gateway Project	100% for 12 years	100%	NA / 35 - 40	NA / 30 - 42	NA / 2201	39,000	92 km North	420 km
Private	CyberCity	100% for 12 years	100%	30 / 2.5	140 / 19	1437 / 1846	875,000	65 km North	408 km
Private	Al Qastal Industrial Park	50% for 10 years	100% on fixed assets and 15% on spare parts	13 - 25 / NA	40 / 60	1540 / 2485	2,000,000	22 km South	300 km
Private	Al Mushatta Qualifying Industrial Zone	75% for 10 years	100%	Under Development	Under Development	1350 / 2272	2,000,000	25 km South	300 km

*In Jordanian Dinar (1JD = USD1.41) **Approximate
Source: Jordan Investment Board

In addition, there are a number of associations like the Jordan Investment Board, the Jordan Trade Associations or the Jordanian-American Commerce Board that promote the zones and serve as board members on the local QIZ authorities' boards. In addition, the Jordanian government has provided a number of monetary incentives for companies to invest in the QIZs.

Private

Most privately-run QIZs were started by real estate developers who saw an opportunity to develop their existing property into an industrial zone. These companies charge a significantly higher level of rent (as seen in the chart above), but they also provide more services. Zaid Marar of Al-Tajamouat Industrial Zone said that his group markets the zone as a one-stop shop that can provide all services to foreign investors: legal services, human resources, social services, and security and administrative services.[14] These services will drive growth in the future, since the owners realized that selling land, as has been done in the past, will not lead to on-going revenues. Both Al-Tajamouat and Ad-Dulayl have moved to a rental model, and both are offering a number of services and trying to expand these services. Additionally, they are marketing their zones to all types of foreign investors (Safeway, for example), not just investors interested in the QIZ-aspect.

The private companies are able to take advantage of the promotion of the Jordanian government, yet they are not afforded the same benefits for the zones, specifically in the case of tax exemptions. In interviews, management of these private zones say that this has been a source of complaints, and the government, now realizing the importance of the QIZs, has moved to exempt the private QIZs from income tax as well.[15] Recently, Ad-Dulayl group was able to place a 4 million Jordanian dinar (US$5.6 million) bond issue, and when talking about the deal, they noted that the government will be putting the private and the public QIZs on the same level footing.[16]

One company in particular, Zay, applied to convert its production facilities into a QIZ, making it the smallest zone in Jordan. Zay is actually one of the most impressive local companies (see sidebar below).

Sidebar: *El-Zay Fashion*

El-Zay is the only company to qualify its own factory as a Qualified Industrial Zone. The company is locally-owned, and its success belies the idea that Jordanian workers

[14] Author interview with Zaid Marar, Al Tajamouat Industrial Zone.
[15] Author interview with Muhanned Turk, PrimeFive.
[16] Interview with Henry Azzam, Jordinvest.

are not productive. All of the workers in the El-Zay factories are local, and they have been able to market and produce for the US effectively. The company has its own line of men's clothing (suits, ties, shirts, formalwear etc.), and it also produces and sells other brands such as Harrods, Kenneth Cole, and Perry Ellis. The company exports not only to the US, but also Denmark and Italy as well as most Arab countries.

In addition, El-Zay has been a training ground for other companies within Jordan; PrimeFive, another locally-owned factory, was started by an El-Zay employee. Training like this is what gives hope to proponents of the QIZs, because if every factory "graduates" managers who start own factories, then the QIZs will prove their economic worth.

These private zones and the skills they are learning in attracting and servicing companies are the future of economic development in the region. That these companies are moving beyond the QIZs shows their ambitions, and they are in key positions to make this happen.

Reasons for Investment:

Foreign have invested in the QIZs for two main reasons: exports are both duty-free and quota-free. The US still charges significant duties on clothing (of up to 33% on some types of clothing from certain countries). Since the QIZs provide duty-free entry into the US, companies from East Asia can save a significant amount for their distributors (who normally pay the duties). These duties are significant enough to force Asian companies that are still subject to these duties to search abroad for low-cost zones where they are exempt. The QIZs were very attractive for clothing manufacturers, because they were exempt from both duties and quotas.

Quotas and MFA

Historically, quotes on production exported to the US from Jordan have been even more important historically. In 1973, the developed countries signed the Multifiber Agreement (MFA), a way to protect textile industries in their own countries and even in developing economies. The MFA was an agreement by mainly developed countries (i.e. the EU and the US) to place quotas on products imported from developing countries. From the start, the MFA had adverse effects on the garment and textile industry, as the Financial Times reported:

> Unlike most other sectors, the clothing industry has globalised in response to closed - not open - markets. As exports from one developing country hit their MFA ceilings, the predominantly Asian companies controlling production shifted it to others not yet covered by quotas. Such "quota-hopping" has led to clothing industries springing up in places such as Mauritius, where none existed before. The system has also fragmented the supply chain by forcing companies to spread different stages of production across plants in several countries.[17]

Phasing out the MFA was seen as a way to fix this state of affairs, and from the start there were many developing countries that viewed this favorably. As time went on, and as rents from this fragmented manufacturing accrued in countries that would not have had a garment industry on their own, the countries benefiting from the MFA started lobbying to keep the system in place. Jordan, a fairly recent benefactor of the system had little leverage. In 1995, the Agreement on Textile and Clothing (ATC) stipulated the abolition of quotas on imports of textile products from WTO member countries by 2005.[18]

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[17] http://yaleglobal.yale.edu/display.article?id=4269 - Garment Industry Faces a Global Shake-UpGuy de Jonquières *The Financial Times*, 19 July 2004

[18] Marouani, Mohamed A. "The Impact of the Multifiber Agreement Phaseout on Unemployment in Tunisia: a Prospective Dynamic Analysis," 2005.

Quotas are even more expensive than duties, because they were historically sold directly by the government to companies. Chinese and other East Asian firms were significantly hurt by these quotes, since they were forced to pay a large amount to get a license to export. A study done by the World Bank has shown that these quotas added significantly to production costs[19]. East Asian firms from countries who already exceeded their quotas relocated throughout the world to manufacture clothing for the EU and US markets.

In 2005, the MFA quotas were completely phased out, leaving Jordan without one of its strongest selling points. In 2002, for example, quotas on luggage were phased out, and the result may be similar to what will happen to Jordan over the next year. When the quotas for luggage goods were abolished, companies stopped producing luggage in the QIZs. [20] In the US, Chinese exports flooded the luggage market, and Chinas has the largest share in the luggage market currently in the US.[21]

Despite knowing that quotas were being phased out, companies based in Jordan expanded in the past year and new companies have come into the market. The main reason that Jordan is still competitive is due to the tariff-free status of exports to the US market. The temporary nature of this advantage is understood

Types of Projects in the QIZs

Type of Product	No. of Companies	(%)
Knitted and Woven Garments	58	90.6%
Textiles	1	1.6%
Gold	2	3.1%
Plastic Molds	1	1.6%
Bed Sheets	1	1.6%
Printing	1	1.6%
Total	**64**	

Source: Jordan Investment Board

[19] Faini, Ricardo, Jaime de Melo and Wendy Takacs. “A Primer on the MFA Maze.” Policy Research Working Papers, World Bank, February 1993.
[20] Kardoosh and Khouri
[21] Nordas, Hildegunn Kyvik, “The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing.” Discussion Paper No. 5, 2004, World Trade Organization, Geneva, Switzerland.

by the Jordanians and their foreign investors. Over the long term, the QIZs will be redundant, due to the Free Trade Agreements into which the US is entering with multiple partners inside the Middle East.

Types of investments:

The Jordanian government was optimistic from the start that there would be room for more than one type of industry in the QIZs, but it quickly became apparent that only industries effected by quotas or tariffs would be interested in investing in Jordan.

Textiles and Garments

The chart above lists the types of projects found in the QIZ; over 90% of the projects are in the textiles and garments sectors.

The textile industry, in general, has been a way for developing countries to build a manufacturing infrastructure. In my interviews in Jordan, many people told me about countries like Japan, Korea and China that were able to move up the industrial rungs through solid textile sectors.[22] As Hildegunn Nordas wrote in a paper for the WTO:

> Job creation in the [clothing sector] has been particularly strong for women in poor countries, who previously had no income opportunities other than household or the informal sector. Moreover, it is a sector where relatively modern technology can be adopted even in poor countries at relatively low investment costs.[23]

[22] Author interviews with Gina Farraj and Ibrahim Saif.
[23] Nordas, p. 1.

Henry Azzam, an economist in Jordan, has estimated that for textiles, "fabrics constitute around 60% of the garment's cost of production, labour 15% and other costs such as housing, catering, electricity, depreciations etc. around 25%."[24]

For a country like Jordan with almost no material resources and high unemployment, a labor-intensive, global industry like garments can be quite attractive. Azzam states that: "Because fabrics are internationally traded commodities, their prices are market-driven and are generally the same for all producers. It is labour and other costs of production that render one supplier more efficient than others."[25] The high tariffs and quotas on clothing historically have meant that Jordan is an economical choice for garment manufacturers, even if labor is not especially competitive. Special interests in the US have been responsible for this situation, because they have been able to raise tariffs on specific industries like clothing, while other industries are tariff free, like technology.[26] Although, there was no real textile or garment industry historically in Jordan, the companies investing are less interested in long-term industry knowledge than specific tariff and quota arbitration and a large, low-paid work force.

QIZ: $ Value / Piece				
(in millions)	**2003**		**2004**	
	Exports ($)	Exports (#)	Exports ($)	Exports (#)
Total (January - July)	309.1	70.8	449.0	99.7
$ Value / Piece	$4.37		$4.50	

Source: Kardoosh and Khouri

The industry in Jordan focuses on one small part of the garment industry: cut and trim. According to one Ministry of Planning report: "Excluding one company,

[24] Azzam, Henry. "Can the Region's Textile Industry Cope with the End of the Multi Fiber Agreement." *Jordinvest Weekly Analysis*, 2004.
[25] Ibid
[26] Gresser, Edward. "US Tariff System Hits the Poor Hardest." *The Straits Times*, April 6, 2002.

production stages accomplished in all QIZ companies are no more than Cutting, Sewing, Trimming, and Ironing and Packaging. Some companies do washing for some kinds of garments. In some cases, companies do cutting in Israel in order to cover the Israeli share for garments that do not require accessories."[27] Additionally, the market segments that companies target in the QIZs are low-priced goods sold at discount stores such as Walmart, Kmart, Target and Woolworths (see chart above for average value per piece). Some companies did have relationships with companies such as the Gap and Levi's, but once again only the cutting, sewing, trimming and washing.[28]

In the long-term, as another report by the Ministry of Planning has advised[29], Jordan should move up the supply chain ladder and start providing much more sophisticated clothing. Jordan, anecdotally, has seen some linkages, but not yet in the direction that the government wants. There is a great deal of research and design in garment manufacturing, but currently none of that happens in Jordan. In fact, according to interviews with company officials, no design work is done at all. Other backward linkages, such as textile manufacturing or the manufacturing of accessories for the clothing produced, seems less likely in Jordan, but there has been success in other economies. One example is Bangladesh, which, Nordas reports, grew linkages between the industry and the economy: "The import value of textiles was about 60 per cent of the export value of clothing in 1991, but it had declined to about 40 per cent by 2001, indicating that backward linkages have developed over time."[30]

[27] Report called Qualifying Industrial Zones
[28] Author Interview with Muhammed Turk
[29] Presentation prepared by Soraya Salti for the Ministry of Planning
[30] Nordas, p. 10.

The other hope is that the Jordanian manufacturers will be able to produce higher quality, more expensive goods. One local manager talked about specializing in areas like skiwear,[31] but it remains to be seen whether he will be successful. Moreover, it will be more difficult to find forward linkages, goods being sold in the Jordanian market, if the goods produced are destined only for high-income Western economies (that have snow).

Luggage

Although the QIZs are almost entirely devoted to low-quality clothing, in the past there were other industries in the zones, such as luggage manufacturing. When quotes on luggage were lifted at the beginning of 2002, luggage companies left the zones almost immediately.[32] This example demonstrates the fragility of the QIZ situation, especially with the recent lifting of the quotas for most clothing.

Footwear

There are few if any companies that are actively producing footwear in the QIZs, despite tariffs on footwear being higher than many of the tariffs on clothing, (25-48% on most products). Nike has talked about building a factory in Jordan, but there has been no progress on this so far.[33] The reason that there are few footwear manufacturers is mainly due to higher capital expenses for footwear.[34] Garment factories require a much lower capital expenditure. This fact again points to the unwillingness of companies to make long-term investments in Jordan.

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[31] Author Interview with Muhammed Turk
[32] Kardoosh and Khouri
[33] Kardoosh and Khouri
[34] Author interview with Marwan Kardoosh

High-Tech

Technology investment has been a focus for the Jordanian government, and there is even a high-tech QIZ, although it has failed completely to bring in foreign investment. The reasons for investing in textiles are not applicable to high-technology, since there are few, if any, tariffs on technology goods or services currently between the US and Jordan.[35] Additionally, the location of the QIZs, outside of the capital city, does not attract qualified workers.

Supporting Industries

Besides attracting large numbers of foreign investors, the QIZs have helped build some supporting industries. The largest are the management companies running the QIZs. These families, in general, were politically savvy, rich families that had the capital to invest in land early on. Even excluding the management companies that run the QIZs themselves, Jordanian companies have played a role in providing extra capacity and accessories needed for production by the companies. Most of these smaller contractors are run by Jordanians who saw an opportunity to provide services to the larger companies in the zones. Often, one of the companies in the zones will have to fulfill a large order in short time, so they will subcontract out this business to companies nearby.[36] It is conceivable that over time, these companies will be able to get contracts on their own, although most are probably not sophisticated to do so currently. Additionally, some

[35] Gresser, editorial page.
[36] From author interview with Dina Khayyat.

investors have complained that local Jordanian companies are raising prices of the accessories used in QIZ goods.[37]

The amazing increase in exports from the Jordanian QIZs to the US has provided a great opportunity for the Jordanian private sector, but it has not fully taken advantage of the situation. The precariousness of the situation is underlined by the highly concentrated textile industry in a country that has had little expertise in or reason for the industry. The bureaucracy for exporting has developed and streamlined, and the companies managing the zones themselves have learned to compete more effectively, but is this enough for long-term development?

[37] Kardoosh and Khouri

III. Political Assessments

> Indeed, regional institutions have been important elements in normalizing Arab-Israeli relations because they create opportunities for regional parties to address common problems and develop interests that cut across the Arab-Israeli fault-line. The process of institution building does not necessarily create functional interdependencies among regional parties, but it can lead to common understandings about regional problems and turn divisive political issues into mere "technical" problems open to solution. Such institutions can also facilitate the multilateralization of regional relations, where Arabs and Israelis can find themselves on the same side of a policy issue.[38]

Kayle is concerned with the MENABANK, another institution created as an ancillary to the Oslo Accords, but her remarks emphasize the assumptions and logic of this polical/economic plan. The political goal of the QIZs was clear: to foster normalization between Israel and Jordan on a citizen-to-citizen level.

Yet, many observers have seen little evidence of linkages working on the micro-level: "Jordanians who know Israelis," according to Jordanian political analyst Rami Khouri, "are just as critical of Israeli actions as are Jordanians who refuse to meet with Israelis or travel to Israel."[39] In the past eight years, the deteriorating situation of the peace process has had an adverse impact on relations between the two countries. It is difficult to parse out the effect of the QIZs in building working relations between the two sides, because the deteriorating situation has taken over any other discourse. It is clear that the intended goal of normalization became impossible with the restart of the intifadah on both sides. Palestinians in Jordan were unlikely to rethink their relationships with Israelis as their relatives on the over side of the Jordan river were fighting the Israelis.

[38] Kaye, Dalia Dassa, "Banking on Peace: Lessons from the Middle East Development Bank." Feb. 1999 Institute on Global Conflict and Cooperation, p.2.
[39] Moore, Pete and Andrew Schrank, "Commerce and Conflict: US Effort to Counter Terrorism With Trade May Backfire." Middle East Policy. 1 October 2003. Volume 10, Issue 3. quoting Rami Khouri, "Some Jordanians Gain, Many Do Not," Jerusalem Post, October 22, 1999

There are few Israeli-Jordanian joint ventures in the QIZs, and so Israelis have become suppliers to manufacturers in Jordan. Since most of the managers running the factories are foreign, face-to-face meetings between Jordanians and Israelis are rare. The few people that do interact with Israelis may find common economic ground, but they still disagree on political issues.

Compounding this, the very real imbalance between the Israel and Jordan (see chart above) has heightened many Jordanians feelings of Israeli exploitation. The Israeli accessories used in QIZ products, for real economic reasons, are very expensive compared to accessories imported from abroad. For this reason, some investors have complained that the Israelis are exploiting QIZ companies, since Israeli suppliers know their goods are needed for qualification. It is likely that some of this has happened, but in general, the Israeli content is expensive, because wages in Israel are so high. The government received considerable pressure from Jordanian businessmen on the issue of high prices, and it was able to renegotiate the agreement with Israel and the US to lower the content rule for Israeli goods from 11% of the value to 8% (and 7% for high-technology products). This criticism was mainly economic, but the role of politics should not be undervalued.

Jordanian business associations were quietly supportive of the QIZs and economic normalization of Israel at the start of the process, but after the election of Netanyahu and with the deterioration of the situation in the West Bank and Gaza, they came out actively against it.[40] Businessmen in Jordan, as a general rule, would rather not work with Israelis, and those of Palestinian decent (the majority of people in Jordan) find it even more difficult. Although the business lobbies in Jordan are ineffective, the fact that a business organization opposing an agreement with such economic benefits suggests that the political will for peace with Israel was lacking. Since that time, the QIZs have continued to grow, but the opposition to normalization with Israel has remained.

In my interviews, people did mention that some workers will not work in the QIZs for political reasons.[41] It is unclear to what extent this is having on recruitment in the QIZs. In general, though, political issues have been pushed to the side, and most of the criticism of the QIZs is now based on economics, rather than normalization.

In addition, foreign investors have not been scared away by the higher tensions in the region as a whole, from Israel to Iraq. These investors have been from India, Pakistan, China, and other Asian countries, and they do not have the same fears of conflict or the prejudices that Westerners might have. Most of them also are coming purely for economic reasons, and the Israeli-Palestinian conflict or the Iraq war has little direct impact on Jordanian production or even shipping through Israel.

The stated political goals of the QIZ agreement was always tenuous, since the original agreement stemmed from the extension of the Israeli-US FTA, rather than new agreements with Jordan (and later Egypt). The Jordanian side had little input into the agreement from the start, although it later was able to negotiate better terms. The QIZs

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[40] Moore, Pete W. "Business-State Relations after Liberalization in Jordan." *Economic Liberalization, Democratization and Civil Society in the Developing World*. Ed. Remonda Bensabat Kleinberg and Janine A. Clark. New York: St. Martin's Press, p. 196. 2000.
[41] Author interview with Ibrahim Saif.

were seen as furthering the peace process, but the confluence of economic interests could not overcome deep-seated prejudices or larger events.

IV: Economic Assessments

Historically, textile industries have been the main starting point for economic growth in developing economies. Japan, Korea and now China were all able to use their expertise in textile and garment manufacturing to jump to higher value-added products.

> "…the clothing sector plays a major role in job creation and many countries have been able to upgrade their clothing sectors by moving from assembly of imported cut fabrics and accessories to full-package production over time. Mexico's experience suggests that trade liberalization is important for this upgrading to take place, because a relatively free trade regime provides sufficient flexibility for the production networks to operate and rules of origin become less of a problem."[42]

For Jordan, garments, in particular, have been a way to produce amazing headline statistics of 100% or more growth per year in exports to the US. Yet, there is significant disagreement over the true economic benefits of this export growth.

Value-Added within Jordan

According to a report by the Jordanian Ministry of Planning Competitiveness Team, the QIZs have played a role in economic development, but not as much as expected. Because so much of the labor costs (40% of the value added) stem from foreign workers, and many of the other expenses are from depreciation and maintenance, Jordan is not benefiting proportionally from the massive rise in exports (see chart below for details).

Total Value Added (11.7%)									
Direct Labor Cost (40%)		Direct Processing Costs (60%)							
Wages - Locals	Wages - Foreigners	Depreciation & Maintenance	Utilities	Rent	Transport	Workers Welfare	Govt Expenses	Medical Insurance	Misc.
58%	42%	20%	11%	14%	21%	9%	6%	8%	11%
Source: Ministry of Planning - Competitiveness Team									

[42] Nordas, p. 7.

Currently, the agreement stipulates that all Jordanian content must be produced in the QIZs. This inflexibility means that supporting industries are not developing in the way that economists would expect, given the enormous increase in exports.

In other supporting industries, such as banks, insurance companies and other service providers, the QIZs have been important growth drivers. Local construction companies have been able to take a large part in the growth of the QIZs, since the construction is usually of a simple design, like warehouses or large airport hangers that are then insulated and electrified. Foreign workers also need housing that must be built in these locations, since they are usually far from the center of towns, and transport, so both industries have been impacted positively.

Foreign Direct Investment

The foreign direct investment (FDI) into the QIZs has not been of the quality anticipated at the start of the zones. The Jordanian government took advantage of its ability to sell Jordan as a tariff- and quota-free zone. The resulting investors are in an industry that even government officials characterize as footloose. These companies have little loyalty to a country or region.

Usually these companies in the QIZs are subsidiaries of larger foreign companies. The goal of this investment is to make a short-term profit. This short-term goal has meant even weaker links to the Jordanian economy. There is little urgency to localize the workforce, and add-on investments follow the same short-term goals. Some companies are willing to pull out at short notice due to negative results or less expensive opportunities elsewhere. Finally, there is little knowledge transfer from these foreign subsidiaries, since all of the high value-added roles like design, marketing, business development are handled by the mother company.

Local investment in the QIZs is limited to just a few companies, and even companies from Arab countries have a small footprint, despite a good business environment and the similarities in culture.

Employment

The number of Jordanians employed by these factories, while impressive, are only a little more than half of the potential, with immigrant workers making up the rest – this in a country where the official rate of unemployment is holding steady at 15%[43], but unofficially is much higher. The QIZs have provided opportunities for women and rural workers that have not existed previously.

Women are the main employees of the QIZs, since men are not willing to work for the low wages.

Number of QIZ employees as estimated by the Ministry of Labor

Zone	No. of Companies	No. of Employees		
		Jordanian	Foreign	Total
Al-Hasan Industrial City	37	11,321	6,824	18,145
Al-Tajamouat Industrial City	29	5,381	6,889	12,270
Ad-Dulayl Industrial City	15	3,274	4,867	8,141
Al-Rusayfeh Industrial City	2	855	25	880
Al-Karak Industrial City	3	2,245	2,001	4,246
Al-Jeezeh Industrial City	2	612	379	991
Total	**88**	**23,688**	**20,985**	**44,673**

Source: Ministry of Labor

The reason that men were less likely to take these types of jobs was due both to the type of work being offered as well as the low wages. In a patriarchal culture such as Jordan's, working in the garment industry was not considered a socially acceptable job. Wages in the zones are also considered low, although in some factories it is possible to make

[43] Department of State, "Jordan Country Commercial Guide," 2004.

significantly more than the minimum wage with overtime. As one economist told me, Jordanians are able to make more money doing small ad hoc jobs every few days without having to be at a job and becoming professional.[44]

Labor Force in QIZs

Year	Employment (000s)			Employment (%)	
	Local	Foreign	Total	Local	Foreign
2001	13,300	5,700	19,000	70%	30%
2002	13,900	9,600	23,500	59%	41%
2003	15,214	11,339	26,553	57%	43%

Source: QIZ Unit, Ministry of Industry and Trade

Wages in the QIZ are regulated by the government, and companies in the QIZ must pay the minimum wage. Minimum wage in Jordan is about $3.75 a day. This minimum wage is actually fairly high compared to the minimum wage in Asian countries, for instance China has a minimum wage of approximately $2.20 in Beijing and $2.56 in Shanghai.[45] Additional benefits, like social security, must also be added to these wages.

All of these expenses, while not considerable, do hurt the competitiveness of producing in Jordan. As quotas and tariffs are lifted, it will become much harder for Jordan to compete in bringing low-skilled businesses to the country, especially since less expensive and more productive expatriate workers come with additional expenses.

Expatriate Workers

Residency Permit Fees for Foreign Workers

Fees per year	JD	US$
For year 1 of the project	150	212
For year 2 of the project	225	317
For year 3 of the project	300	423

Source: Jordan Investment Board

Foreign workers are also covered by the same minimum wage and the social security benefits that cover local workers. Companies must acquire residency permits for each of

[44] Author interview with Ibrahim Saif.
[45] Welford, Richard, "New minimum wage rules in China," CSR Asia Weekly, found on April 7, 2005 at http://www.csr-asia.com/index.php/archives/2004/07/26/new-minimum-wage-rules/.

their workers, with fees based on the life of the project (see chart above). The purpose for these fees is to put pressure on factory owners to nationalize their work force. As officials told me, the government is cognizant that foreign workers are needed for these factories, and therefore fees at the start of a project are lower than later.[46] As the company has time to train local workers, the goal is to increase the number of Jordanians in the work force. Unfortunately, as can be seen in the chart above, the number of local workers has not matched the growth of the zones.

Foreign workers are considered to be more industrious workers, especially since they have come to the country solely for work. They are not distracted by family demands or other issues, and they are willing to work overtime and on the weekends, because they want to save money for their eventual repatriation. Exploitation is officially very low: "The Textile Labor Union reported that only one complaint was received by an expatriate worker regarding the living conditions and working conditions of those workers in Jordan."[47] Unofficially, considerable anecdotal evidence points to unsatisfactory conditions.[48] One example was the closing of the Tamaashi factory, which left up to 50 Indian workers without pay, food or a ticket home. Most factory workers pay for a one-way ticket to Jordan from the workers' home countries, and when the workers are finished, they are then bought a return-trip ticket. Obviously, if a factory owner closes shop overnight, this process can leave many stranded without any way to return home.

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[46] Author Interview with Sana Abbadi

[47] Saif, Ibrahim. "Imposed Integration or Effective Regional Cooperation: The Case of the Qualified Industrial Zones in Jordan." Unpublished paper, p. 10.

[48] Glantz, Aaron. "Jordan's Sweatshops: the Carrot or the Stick of US Policy?" *CorpWatch*. Feb. 23, 2003. Found at http://www.corpwatch.org/article.php?id=5688.

Local Workers

Due to these additional expenses, some manufacturers have started to train Jordanians. Jordanians that are trained in the factories can quickly become as productive as foreigners, and there is less fear of turn-over. The El-Zay company is an example of a local company competing effectively with only local workers (see sidebar above). Another factory owner said that his biggest problem is finding local workers, but once found, he provides a number of incentives, including quick raises above the minimum wage to lower turnover.[49] These workers are more cost-effective over time, since no residency fees are needed, and other expenses such as plane tickets and housing are unnecessary.

One area where the QIZs have been especially effective, as mentioned above, is allowing female laborers to enter the work force. Jordan is a conservative culture, and parts of society consider women working outside of the home, especially from lower-income households, as corrupt. This view is even more pronounced, since many of these jobs are outside of the woman's hometown. The QIZs have been surprisingly effective in making the culture reconsider this traditional notion. One interviewee told me an account that the daughter of a Muslim Brotherhood leader was allowed to work in one of the first factories in Irbid.[50] This fact is surprising on two levels: a presumably prototypically conservative male was allowing his daughter to work in a factory outside of the home and was, moreover, nominally working with Israelis daily. It is easy to discount this phenomenon as anecdotal and not reflective of society as a whole, but I believe it points

[49] Author interview with Muhammed Turk
[50] Author interview with Soraya Salti

to larger trends – trends that the QIZs have pushed along towards modernizing the Jordanian workforce and Jordanian society as a whole.

Because of the minimum wage regulations, women are paid the same rates as men in the QIZs, and some, in turn, become the major breadwinner for their family, quite a turn of affairs. These jobs, in general, are the first opportunity that these women have had outside of the house, and they are becoming exposed to many different people, strong regulations and rules as well as the work ethic of the company. It is hard to estimate what effect this will have on Jordan over time, but it can only push the country towards greater progress and, hopefully, equality for women.

Rural workers

In Jordan, where there has been a long history of government welfare and the primacy of public-sector jobs, especially in the rural areas, the QIZs have been the main employment option for many people who would otherwise join the public sector or never join the labor force at all.[51] Increasing the number of jobs in rural parts of Jordan curbs rural-urban migration and eases pressure on Amman and other major cities.[52] Arab countries are notorious for their centralization (Cairo in Egypt is the pre-eminent example), so any way to stem this centralization, by offering good jobs nearer to people's homes, helps build a stronger decentralized economy. As benefit to the companies, these rural workers are more likely to stay at the factory and have lower turnover overall.[53]

Training

[51] Saif, p. 19.
[52] Saif, p. 19.
[53] Author interview with Ibrahim Saif

Turnover is a major issue in general, and one that the government is making changes. Training is seen as a way to both increase the number of local workers and to reduce turnover, since the training process will provide companies with workers who are truly interested in the job and who have the skills necessary.

Past training projects have not been successful, despite costing considerable money, since few of the graduates have either looked for or found work within the QIZs. One training program was virtually a complete failure, because the officials running it did not screen applicants effectively.[54] A large number of college students were part of the training pool, for which they received three months wages. At the end of the three months, these students returned to the university to complete their study, funding their living expenses by the salary they received during training. The government must choose appropriate trainees to make these programs effective in the future.

Even workers who actually wanted to work in the factories after graduation did not receive the necessary skills. The machines which were used to train workers were normal sewing machines, yet the machines in the factory are industrial machines for which a different set of skills are necessary.

A recent agreement between the Ministry of Labor and two private QIZs is the start of a public-private partnership to train worker. Both Al-Dulayl and Al-Tajamouat Industrial Estates will provide a three-month training/probation period for local workers, paid for by the Ministry of Labor. The graduates of these programs will then receive offers of

[54] Author interview with Ibrahim Saif

permanent employment in one of the QIZ factories.[55] These management companies will work with companies in their zones to train these people, producing workers with the appropriate skills for the factories.

Another major issue is what many Jordanian interviewees said was a lack of "cultural and work ethics." In many interviews, a major complaint was that Jordanian workers do not have the same work ethic as foreign workers. Many workers are seen as lazy, partly due to their disinterest in overtime work. Many companies complained that the workers were not used to being paid by piece and that they did not really understand the importance of the working hours. The government is now funding a campaign to "create a positive attitude towards work in this industry and raise awareness through TV, radio and national press advertising."[56] The work ethic issue highlights the difficulty of integrating local workers into QIZ companies.

Transportation Issues

Another problem for the QIZ companies is poor transportation due to congestion in the Aqaba port. According to the Jordanian Ministry of Planning[57] it is cheaper to ship goods out of Aqaba, but the shipping time is considerably slower, for geographic reasons. Goods from Aqaba must go through the Suez canal or around Africa

Shipping a 40 foot container				
	East Coast (NY)		West Coast (LA)	
Comparison Measures	Aqaba	Haifa	Aqaba	Haifa
Transit time (Days)	30-33	17-22	35	45
Trucking Cost (US$)	400-500	750	620	750
Shipping Cost (US$)	2200	2900-3200	3000	3500

Source: Jordan's Competitiveness Book, 2003

55 Kardoosh and Khouri
56 Minister of Industry and Trade presentation on the future of the garment industry.
57 Author interview with Naseem Rahahleh

to reach the US, while goods from Haifa can go through the Mediterranean straight to the Atlantic.

Since the Iraq war, there has been considerable traffic in the Aqaba port, as the US Army and private contractors have diverted sea traffic servicing Iraq to Aqaba. The ports in Saudi Arabia, specifically Jeddah, are also extremely over capacity. Some of this traffic is being diverted to Aqaba, and at least one transportation company is opening up offices in Aqaba to divert some of its capacity destined for Saudi Arabia through Aqaba. It is unlikely that the situation in Aqaba will resolve itself anytime soon.

Haifa has its own problems that could potentially threaten the QIZs. The industry in Israel is highly unionized, and there has been considerable agitation over issues of pay and benefits. This has led to severe strikes which have been very detrimental to QIZ companies in the past. In addition, businesspeople in Jordan complain that the high number of holidays in Israel also hampers efficient logistics, yet most companies still ship through Haifa, due to the even worse situation in Aqaba.

The trucking situation in Jordan is now changing to the government intervention in a recent trucking strike. The changes should make the system even better for QIZ owners, since they will now receive priority on the waiting lists. There are some bright spots here with Jordan having very good roads and a considerable police presence on the roads which should lead to higher safety.

Financing Issues

In addition to transportation issues, financing is also a problem for QIZ companies. "The financial system appears to make little provision for the needs of QIZ manufacturers, particularly those that have come from abroad."[58] More importantly, although the Jordanian government does have some concessions for financing of inputs for products that will later by exported from the QIZs, it is inadequate for many companies. One Jordanian interviewee complained of his inability to get a bank credit to guarantee his imports, even though he had a large purchase order from the GAP.[59] In Jordan, where banks have considerable liquidity, it is surprising that they are not willing to extend credit more easily. The government, as I talk about below, is involved in resolving many of these financing issues, but time will see how effective it is.

Building an Infrastructure

Although the QIZs are not as tied into the Jordanian economy as was expected at the beginning of the agreement, they still play an important role in employing large numbers of Jordanians. More importantly, they have forced the Jordanian government and private sector to build the infrastructure for investors. The transportation, training and financing issues raised by the QIZs influence all foreign direct investment and local investment in the country. New processes in the Ministries and the King's role in pushing for developments have shown that Jordan can be a welcoming place for investors and that there is a long way to go. As the QIZs fade in importance, this infrastructure will hopefully provide for long-term economic development in the country.

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[58] Kardoosh and Khouri.
[59] Author interview with Muhammed Turk

V. Challenges Going Forward

The QIZs are facing three main challenges going forward: the expiration of the MFA, talked about above, the opening of the Egyptian QIZs and the gradual implementation of the US-Jordan Free Trade Agreement. The first two will lead to foreign investors leaving the QIZs in the next few years, despite the improvements by the government. Companies that compete solely on price will always move to countries with lower labor and raw materials cost, two areas where Jordan is not competitive. The FTA, on the other hand, should allow local companies to move out of the QIZs and expand their linkages with the rest of the economy.

MFA expiration

The Jordanian QIZs have been able to continue attracting new investment, mainly from companies that have already made investments in Jordan. It is unlikely that these companies will leave in the very near-term, but over time, the higher labor costs in Jordan will cut into profit margins.

The expiration of the MFA has been public knowledge since 1995, and it is unlikely that the companies in the QIZs have not analyzed their own ability to compete effectively after it expires. The ability of these investors to arbitrate rules of origin and quota differences *is* their competitive advantage. These companies know in detail what products are subject to tariffs, and they are opportunistic in manufacturing only these products for the US market. Due to this knowledge and the fact that investment continues to come into

Jordan, the ending of the MFA should not have a significant short-term impact, but the enormous growth of exports will slow considerably over the rest of 2005 and beyond.

A report by the Ministry of Planning shows that companies from some countries (for example Pakistan and Taiwan) will stop production because of their low tariff rates for their exports to the US. Chinese and Hong Kong companies will still produce some garments in Jordan, because they are subject to higher tariffs.[60]

Some evidence in support of this view is given by luggage manufacturers. Jordan had a small luggage manufacturing sector within the QIZs up until 2002, when quotas on luggage imports into the US were abolished. Chinese manufacturers were able to increase their exports by significantly in the next few years. Chinese exports in other sectors, such as hosiery, are still increasing, so it is possible that Jordan can work in the short-term to keep some investors.

What may hamper the Chinese, specifically, from exporting directly from China to the US (and therefore obviating the need for investment in the Jordanian QIZs) is the current political climate in the US vis-à-vis the US-Chinese trade imbalance. There is considerable tension in the US due to the fear that China will be the only supplier of goods to the US markets. China, understanding this fear, has self-imposed some quotas on goods, meaning that Chinese investors in the Jordanian QIZs may be persuaded by Chinese authorities to stay. Additionally, the US has the ability to impose some anti-

[60] Ministry of Planning Presentation on QIZs. Given to author during interview with Naseem Rahahleh.

dumping measures on China or grant it "market economy" status that will limit its ability to export to the US market.[61]

Manufacturers in Jordan are currently living in the post-MFA world, and they have been working under that assumption for at least the last year. In spite of the fears that all manufacturers would immediately leave on New Year's Eve, investors are expanding their projects and producing, as evidenced by increased exports in the Al Hassan Industrial Estates.[62] Inexorably, though, exports will plateau as it becomes more difficult to attract new investors, especially with the rise of the Egyptian QIZs and other free trade agreements all over the world.

Egyptian QIZs

A bigger threat and one that could have strong medium-term implications on the continued success of the QIZs is the opening of similar QIZs in Egypt. When Clinton signed the QIZ agreement into force, Egypt was one of the countries eligible to host the QIZs, yet it took until 2004 for the US to demarcate the QIZ territories. Specifically, the US designated three QIZs --- the Greater Cairo QIZ; the Alexandria QIZ; and the Suez Canal Zone QIZ that includes an industrial area of Port Said.[63] Egypt signed the deal on December 14th, 2004, and the government has acted quickly to build on the existing infrastructure to deal with foreign investors. "The ministry [of Foreign Trade and

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[61]Zemborain, Luis, "U.S.-China trade spat extends to dumping, UPI, Washington DC, March 11, 2005, found on April 11, 2005 at http://washtimes.com/upi-breaking/20050311-024040-2642r.htm
[62] "Exports to US top $1.9 billion." *Jordan Times*. March 9, 2005. Found at http://www.jaba.org.jo/newsdetails.asp?id=208
[63] USTR Website, "Egyptian QIZ Fact Sheet," 12/14/2004, found on April 3, 2005, http://www.ustr.gov/Document_Library/Fact_Sheets/2004/Fostering_Trade_in_the_Middle_East_An_Israel_Egypt_Trade_Partnership.html

Industry] reportedly received some 300 applications on the first day of registration. To date, 397 factories have been approved as QIZ companies and are currently eligible to export goods free of duties. Of the factories accepted, 157 (40%) previously exported goods to the United States."[64]

Politically, Jordanian investors were especially critical of the US for signing a deal with Egypt, since they saw the Jordanian QIZ agreement as a reward for their political accommodation with Israel. Many of the people I interviewed were very fearful that companies in these Egyptian QIZs would take advantage the lower labor and transportation costs and attract investment away from Jordan. Egypt is closer to shipping markets, and the direct access to the Mediterranean means quicker access to US markets. In Jordan, as mentioned above, products are almost always shipped through Haifa, because Aqaba is too congested. In addition, although Egyptians are notoriously known for their Byzantine bureaucracy, Jordanian observers came away from a visit to Egypt's proposed QIZs very impressed with the government's desire to streamline investment.[65]

In addition, Egypt is able to produce the raw materials used as inputs for garments produced in the QIZs. Egypt's long history as a cotton manufacturer makes it a more appropriate exporter of garments than Jordan, a country that must import all of the raw materials. This shortened lead time will reduce companies' costs even further. Foreign companies may not be willing to source from Egyptian suppliers at the start, especially

[64] Salama, Vivian, "Qualified Industrial Progress," Business Today (Egypt), April 2005, found on April 11, 2005 at http://www.businesstodayegypt.com/article.aspx?ArticleID=4813.
[65] From interview with Zaid Marar of Al-Tajamaout Industrial Group.

considering the poor state of Egypt's mainly public spinning companies, but overtime the private sector will be able to provide these materials cost effectively.[66]

On the Egyptian side, the QIZs have received significant press (including an article by Thomas Friedman in the *New York Times*[67]), but there has been more political criticism in Egypt than there was in Jordan. Although Egypt has had a longer history of normalization with Israel than Jordan has, it has been a cold peace rather than a warm one, with little trade or interaction, except tourism in the Sinai. Given the large numbers of companies applying for QIZ status, politics does not look like a barrier to the QIZs' economic success.

For Jordan there is the hope that Egypt will remain uncompetitive. Calculations made by the managers of Ad-Dulayl, one of the private QIZs, point to a 15% advantage to manufacturers in Jordan over Egypt.[68] This difference is due mainly to low productivity by Egyptian workers and higher input prices due to the larger amount of content required from Israel (11% vs. 8%). Another factory owner believes that it will take Egypt two years to be truly competitive with Jordan in terms of worker productivity.[69] If this long lead time is true, Jordanian exports to the US should continue to rise in the near term, but companies will eventually move to Egypt if productivity there increases.

Jordan-US Free Trade Agreement

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66 Schemm, Paul. "Threadbare Industry." *Cairo Magazine.* April 16, 2005. Found at http://www.cairomagazine.com/?module=displaystory&story_id=807&format=html
67 Friedman, Thomas. "New Signs on the Arab Street." *New York Times*. March 14, 2005, p. 11.
68 Author interview with Diana Khayyat
69 Author interview with Muhammed Turk

Although the Jordan-US Free Trade Agreement is a challenge to the QIZs, it is also an opportunity for Jordanians. If all manufacturers moved out of the QIZs into the rest of the Jordanian and work to build relations with service and supporting companies there, the main criticism of the QIZs (that they are not integrated with the Jordanian economy) would fade.

The Jordanian-US Free Trade Agreement (FTA) has been in force only since Dec. 17, 2001, and many of its tariff reductions will take place gradually. The Free Trade Agreement was clearly written with the QIZs in mind. Free trade in the textile sectors that have the largest tariffs will not be reduced until 10 years after the effective date of the agreement.[70] The negotiators on the US side can only have meant to protect the QIZs, because without the demand that products must have Israeli content, then it is unlikely that these companies would buy from Israel. In many ways, although the QIZ agreement is an aid project for Jordan, it is also supporting industries in Israel that should probably not exist, given the high labor costs and low value-added.

The content rules that the FTA will require are also a stumbling block to a larger garment manufacturing industry. Jordan was unable to negotiate less strict content limits, and 35% will continue to be the required content added in Jordan. The difference between the QIZs and the FTA will be a non-issue for many years, although over time the FTA could increase the integration of QIZ companies in the Jordanian economy.

In the larger framework of freer trade, the Jordan-US FTA harbingers a time when almost all countries will have the same access to the US market. As this time approaches, the

[70] Kardoosh and Khouri

economic rationale for the QIZs will diminish, especially considering the higher labor costs in Jordan compared to Southeast Asia or elsewhere in the region. Jordan must take advantage of the skills it is learning in servicing the QIZ companies and training employees that may start their own business in the future to build the infrastructure for long-term development.

VI: Rhetoric of Government:

The Jordanian government has become more and more interested in the QIZs, especially with the large amount of exports from these zones. At the beginning, the government had a very laissez-faire approach, and it did very little to make sure that the zones would bring long-term economic changes to the country. In a report in 1997, the Ministry of Planning predicted, with considerable accuracy, the substantial increase in exports and jobs due to the QIZ. At the same time, the researcher clearly pointed out that after 2005, the QIZs would lose one of its two main economic rationales. Yet, the government put little effort into building local investment in the QIZs or extending linkages between the QIZs and the rest of the economy.

Recently, the government has been very proactive about building the QIZs into real economic development. The Minister of Industry and Trade presented "Jordan's Garment Strategy and Action Plan Beyond 2005" that described how the government would foster long-term economic development through the QIZs, such as focusing on more than one export market, decreasing the number of foreign laborers, and supporting the infrastructure of all exports. It is this action plan, along with my interviews with government officials that I will deal with in this section.

The Minister expressed a renewed emphasis on investment promotion. Considerable criticism has been directed at the Jordan Investment Board (JIB) for not proactively promoting the QIZs. The JIB has devoted most of its attention to attracting garment and textile companies from Asian countries, because of the ability to market the quota-free status of the zones. As the quotas fall away, it will be harder and harder to attract these companies, since investment in their home countries will make long-term economic sense. The JIB has known about this problem for many years, yet there has been little change. Now, with a new administration, JIB's goal is to bring in companies from various countries working in market niches focused on quality, not cost. The end result should be an industry that does not have to compete on cost alone.

In addition, the government clearly understands the logistical problems that the QIZs are facing. It has cancelled the sales tax on contractors and sub-contractors in the transportation sector, and it is working on facilitating customs' clearing procedures.[71] The King has demonstrated his commitment by working directly with the parties involved in the trucking strike that happened in late 2004. The infrastructure of exporting and importing in Jordan is about at the level of comparable countries, yet the QIZs are creating pressure to upgrade it to a level more commensurate with a country that is fully export-driven. This upgrading can only lead to a better economic environment in Jordan, because it will make both foreign and local investors more competitive.

What comes through strongly in the Minister's presentation is the dependence on foreign donors. For every action item, the Minister listed the status and what agencies are responsible for it. Many of the agencies responsible are fully funded by foreign donors, and even when a particular agency is not mentioned, the Minister mentions "Donor Programs." It is difficult to see how long the country will be able to rely so heavily on foreign donors, and it does not seem likely that it can produce sustainable economic growth through aid.

[71] Presentation by Minister of Industry and Trade.

As part of its external relations, the government is working to build relations with the EU through the EuroMed agreements and the Jordan-EU Association Agreement. As the second largest textile market, the EU is a good match for Jordan, especially due to the quick transport times. Unfortunately, the EU is not willing to give preferential treatment to Jordanian goods over other Arab countries' goods, and it is not possible for Jordan to compete on price alone without this preferential treatment. The government is working on diagonal accumulation with other countries, but none are as fruitful as the existing QIZs.

It remains to be seen whether the government's rhetoric will be turned into action. There has been griping in the private sector that little is being done to make it easier for local companies to do well. In my research, I came across many organizations working on small and medium enterprises – mostly funded by foreign governments – but it is difficult to evaluate the effectiveness of those organizations in building the entrepreneurial atmosphere the country needs to compete in the global economy.

Overall, the government is working hard to make Jordan friendly to investors and companies. And it is not all rhetoric – the actions of the King at Davos and Silicon Valley lead the rest of the government. As one commenter surmised, King Abdullah is more interested in economics than politics, unlike his father.[72] "He has been trying to shift Jordan's economy away from dependence on the Middle East and more toward the West. The U.S.-Jordan free trade agreement is part of this strategy."[73] This turn may be helpful in the short-run, but Jordan is too small and far away to really be a viable partner of the

[72] Author interview with Soraya Salti
[73] Sasley, Brent E. "Changes and Continuities in Jordanian Foreign Policy." Middle East Review of International Affairs, Vol. 6, No. 1 (March 2002)

US. It is more likely that it will stay dependent on the US until the Middle East unifies economically, hopefully through true peace with Israel and greater democracy in Arab countries.

VII. Conclusion:

Economic development is messy, chaotic and never seems to go in exactly the direction planned. Unintended consequences have a life of their own, with spurts of development that were unexpected. The QIZs are a perfect example; the political goals of the program -- the main thrust of the agreement -- took a back seat to the significant economic changes. The political goal of normalization between Jordan and Israel has faltered because of the worsening situation in Israel, yet the economic goal has grown beyond the limited development that was expected. Exports have increased exponentially, women have entered the labor force, and the infrastructure of the country has had to meet these changes. Many of these results will be short lived, as the QIZs lose their economic importance, but the underlying changes in infrastructure and culture will remain. The QIZs, unfortunately, cannot lead to a thriving textile business in Jordan, but they have provided the framework for future development.

Jordan, in 1996, was ill prepared to attract foreign investment, and the textile industry was non-existent. The QIZs forced the government to build the processes for investment and incorporation and led to significant changes in the way investors think of Jordan. It is clear that "[u]sing trade agreements to commit to—and engage in—both services-related regulatory reform and further trade opening can enhance the credibility of reforms by increasing stakeholder interests in their implementation."[74] The stakeholders here are the companies investing in the country, the managers of the QIZs and the government officials who started to see the power of the QIZs. They pushed for changes, and they were successful.

[74] Hoekman, Bernard and Patrick Messerlin, "Harnessing Trade for Development and Growth in the Middle East." Report by the Council on Foreign Relations Study Group on Middle East Trade Options, 2002.

The cultural changes are no less important. The thousands of, mainly, women, who entered the work force for the first time, have been indoctrinated in the culture of working. They have, in many cases, become the primary wage earner for their family, and they have had to interact with all types of people, from Jordanians to foreigners.

And there has been real economic benefit to Jordan. The QIZs have added, at the least $100 million in economic activity in 2004 alone, and the public relations value of being a large exporter to the US is significant. The government has been able to market the country more effectively, and the large number of companies coming from elsewhere would not have come to Jordan without the QIZs. Supporting industries have taken advantage of the construction activity and ability to provide more lucrative services to these factories. For example, Al Dulayl, previously a small, sleepy village, has seen economic activity that would not have been possible without the Khayyat family qualifying the industrial zone there. Finally, there is a wave of Jordanian managers that have trained in factories in the QIZs, either foreign or local, and the hope is that these managers will start their own businesses, which is slowly coming true.

The QIZs' lack of linkages to the Jordanian economy is problematic. The QIZs *are* artificial, in that they have created an industry untethered to the local economy. The government, from the start, should have made it easier for local investors to take advantage of the QIZs through better financing, technical assistance and a better environment for entrepreneurship, yet, it has made significant changes as the QIZs have grown. The economic development plans may be arriving too late to build the linkages for the sustainability of the textile industry, but they will provide the base for future investment, especially with the Jordan-US Free Trade Agreement coming into effect.

The QIZs have been successful, although not exactly in the way that the original framers of the agreement expected. The zones have been able to bring increased attention to the Jordanian economy, and the country has opened its doors and gained valuable experience in attracting foreign direct investment through trade missions, attending trade fairs and streamlining incorporation procedures. Not all of these changes are due to the QIZs themselves; rather, they are part and parcel of larger economic changes at which the QIZs were the forefront. The infrastructure, both physical in roads and bureaucratic in allowing businesses to incorporate easily, for these zones will be a key to attracting foreign investors in the future. The manufacturers themselves are making money in Jordan, or so we can ascertain from their immediate expansion plans; companies in an industry as footloose as garment manufacturing are not patient enough to wait for even medium-term returns. The private companies already running the QIZs (and more are coming on line now) are gaining excellent experience in providing services to foreign and local companies. As the mix of companies in the QIZs change, the expertise of these private companies will grow and hopefully prove persuasive enough to attract more foreign direct investment.

As the foreign garment manufacturers leave the QIZs, and they will in the next few years, the local manufacturers will remain and have to compete against low cost providers from China, India and Egypt. The country will have to attract more investors and persuade Jordanians to become entrepreneurs themselves. These changes are necessary, and Jordan is in a much better position to make them now than they were in 1996. The QIZs have proven the viability of businesses in Jordan, and they have left an infrastructure that will lead to long-term growth.

Unfortunately, the same cannot be said for the political results of the QIZ agreement. Relations between Israel and Jordan have not improved in the 10 years since the peace agreement was signed, yet there is hope even here. If significant changes happen in Israel and the peace process is seen as just, then the present economic relationships between Jordanians and Israelis could be the catalyst for a true normalization. It is difficult to be optimistic right now, but cross-border institutions show that Israelis and Jordanians can work together when their interests are aligned.

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