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THE US-JORDAN FREE TRADE AGREEMENT
AND
QUALIFYING INDUSTRIAL ZONES AS A MODEL FOR INDUSTRIAL DEVELOPMENT:

The Case of Jordan and its Implication for Middle East Region

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Preface

The Hashemite Kingdom of Jordan and the United States of America (USA) have a long history of co-operation in the political and economic fields. This co-operation targets key constraints to Jordan's economic development, focuses on strengthening human, social and institutional capacity and aims at improving management of water and other natural resources in Jordan, upon which sustainable development depends.

His Majesty King Abdullah II has been consistent in his drive to boast the Jordanian economy through the reform process and the government has remained committed to liberalizing the economy. His Majesty and the Economic Consultative Council have spent much energy on initiating and developing strategies that are designed to attract foreign direct investment with the creation of the Aqaba Special Economic Zone; and to retain Jordan's impressive human resource base by turning the country into a regional ICT hub.

Beyond its commitment to the reform program, Jordan is exerting efforts to wean itself from an aid- and foreign-remittance driven economy. Since 1999 the government is lobbying Jordan's major donor nations — the US, Japan and member states of the European Union — for expanded assistance.

Those countries are not entirely unsympathetic, but made clear three years ago that the days of debt write offs and handouts were nearing their end. Jordan did win some debt rescheduling, but in lieu of leniency donors committed themselves to ensuring Jordan's ascension to the World Trade Organization in May 2000, the coming into effect of the Association Agreement with the European Union in May 2002 and to developing other instruments that would facilitate the kingdom's economic progress.

The US has been especially active in making available alternative tools to stimulate the Jordanian economy and in September 2001 Jordan became the fourth country in the world — after Canada, Mexico and Israel — to secure a Free Trade Agreement (FTA) with the USA. The salient features of the FTA are: goods considered originating in Jordan must have a minimum 35 per cent value added in Jordan and tariffs on bilateral trade would be abolished over a ten-year period.

Until the FTA takes full effect in a decade, investors can also take advantage of another "tool" devized by the US after peace has failed to help Jordan realize greater economic growth. Industrialists who locate in any one of the Qualifying Industrial Zones (QIZ) can export duty and quota free to the US market — once they meet certain sets of criteria that impose a vague form of regional economic co-operation with Israel.

This paper, which aims at discussing the expected impacts of FTA and QIZ on the development perspectives for the Jordanian economy, highlights the areas of mutual concern to increase the benefits of the agreement, especially in the areas of industrial competitiveness and foreign investment.

This paper is one of several research co-operation activities between the Industrial Studies Division at the Royal Scientific Society and the Amman Office of the Friedrich-Ebert-Stiftung of Germany.

Amman, May 2002

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1.1 Introduction

Within the framework of openness, involvement in the world economy and foreign investment attractiveness, the government of Jordan joined the World Trade Organization (WTO) and signed a number of bilateral and multilateral trade agreements. Among these, the US–Jordan Free Trade Agreement (FTA), which was signed on 24 October 2000, and ratified on 24 September 2001. This agreement is the first to take place with an Arab country and the fourth that the USA signed after similar deals with Canada, Mexico, and Israel.

FTA, which is preceded by a Qualified Industrial Zones Agreement (QIZ), aims at strengthening the bonds of friendship, economic relations and co-operation between the two countries.

However, it is for the first time that the text of a trade agreement addresses issues of trade and environment, trade and labor and electronic commerce.

This paper will discuss the expected impacts of the FTA on the Jordanian economy. Therefore, it will be presented in four sections: the first will look into the major sections of the agreement, by emphasizing the environment and labor provisions. The second section will look at the trade relations between the two countries. The third will compare the benefits of QIZ and FTA, while the fourth will be devoted for concluding remarks.

1.2 FTA Major Sections

The FTA consists of 19 articles in seven major sections. These sections are:

1- **Tariff Elimination**: Tariffs on all trade between the two countries will be gradually eliminated over ten years in four stages as follows:

1 This paper is heavily based on the FTA document available at www.jedco.gov.jo.

- Tariffs currently less than 5% will be eliminated over two years,
- Tariffs between 5% and 10% will be eliminated over four years,
- Tariffs between 10% and 20% will be eliminated over five years, and
- Tariffs higher than 20% will be eliminated over 10 years.

While tariffs on some goods, such as poultry meat, apples, cars, and goods currently produced in QIZ will be phased out under a different schedule, these tariffs will reach zero tariff rates in 10 years. On the other hand, the two countries agreed to exclude cigarettes and alcohol imported to Jordan from these arrangements due to their high participation in the Jordanian budget revenues and the existence of local industries.

2- **Services**: Since joining the WTO in 2000, Jordan and US firms have had considerable access to each other's service markets. With the view to encourage greater US investments, Jordan undertook specific measures in many key sectors including energy distribution, convention services, printing and publication, courier services and transportation services. On the other hand, the USA agreed to grant eligible Jordanian nationals treaty-trade (E-1) and treaty-investor (E-2) visas, *subject to applicable provisions of US. immigration and related laws.*

3- **Intellectual Property Rights**: Jordan, in this respect, has undertaken several commitments concerning the protection of intellectual property rights to be implemented in transitional periods from date of entry into force of the FTA. These commitments relate to trade marks, geographical indications, patents, unfair competition, and other areas to ratify and implement the World Intellectual Property Organization's (WIPO) Copyright Treaty and its Performance and Phonograms Treaty (WPPT).

4- **Electronic Commerce**: Both countries committed themselves to promoting liberalized trade environment for electronic commerce in order to encourage investment in new technologies and stimulate the innovative use of networks to deliver products and services. So, they agreed to avoid imposing customs duties on electronic transmissions, unnecessary barriers to market access for digitized products and impede delivering services through electronic means.

5- **Labor provision**: Within the framework of the International Labour Organization's Declaration on Fundamental Principles and Rights at Work adopted in 1998, the two countries reaffirmed their support for the core labor standards to encourage trade. Each side agreed to enforce its existing labor laws and settle disagreements on enforcement of these laws through a dispute settlement process. However, both countries recognized that it is inappropriate to encourage trade by relaxing domestic laws. Therefore, each party shall strive to ensure that it does not waive or derogate from such laws as an encouragement for trade with the other party. For the purpose of this article, labor laws mean the status and regulations directly related to the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of forced or compulsory labor, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health.

However, under this section, the Jordanian labor law should be amended and redefine the worker, since the existing definition of the worker includes those who are in the age group 7-13 years old.

6- **Environmental provision**: By recognizing their rights to establish their own level of domestic environmental protection and environmental development policies and priorities, both countries agreed that each party should strive to ensure its laws provide for high levels of environmental protection, and avoid waiving or derogating from such laws as an encouragement for trade with the other party.

Furthermore, article 15 of the agreement calls for establishing a joint committee to supervize the proper implementation of the FTA, including those on the environment in general, and the Environmental Impact Assessment (EIA) in particular.

However, the EIA issue was made clear in the Jordanian environmental law. But due to the conflict of interest between the agencies involved in environmental issues, the carrying out of these EIA and the following-up of their recommendations is lacking behind. This situation, as referred to by concerned environmentalists and economists, may affect negatively the expected benefits of FTA.

As a result, there was a request to establish a Ministry of Environment in order to enforce the law and co-ordinate the efforts, *especially in the area of conducting EIA studies and following-up their recommendations.*

7- **Consulting and Dispute settlements**: By recognizing that transparency in the administration of international trade agreements fosters public understanding of international trade and strengthens the international trading system, both countries agreed that, in case of a dispute related to the interpretation and application of the agreement, either party may request consultations with the other party. Thus the other party should reply to the request for consultation and enter into them in good faith to arrive at a mutually agreeable resolution. If they failed to resolve their dispute within 60 days of the submission of such a request, either party may refer the matter to the joint committee. Furthermore, if the joint committee fails to resolve the matter within 90 days, or within such other period as the joint committee agreed, either party may refer the matter to a dispute settlement panel. In this case, any submission should be made available to the public within 10 days of the date of submission.

1.3 Trade Relations between the USA and Jordan

The last four years of trade between the two countries witnessed an improvement in the balance of trade in favour of Jordan. The following table summarizes the trend of trade, which reflects the increased share of the Jordanian exports from about 1.75% in 1997 to about 37% of total trade in 2001.

Table (1.1): External trade between Jordan and the USA
(in millions of US$)

Year	Export	Import	Total	Growth Rate(%)	Trade Deficit	Export as % of Total
1997	6.92	387.72	394.64	-	380.8	1.75
1998	7.90	363.88	371.78	-5.8	355.98	2.12
1999	13.14	366.12	379.26	2.0	352.98	3.46
2000	63.24	454.0	517.24	36.4	390.76	12.2
2001*	231.79	395.25	627.04	21.2	136.46	37.0

* Preliminary
Source: Central Bank of Jordan, Monthly Statistical Bulletin, February 2002

According to the data available at the Department of Statistics, the major commodities imported from the USA were wheat and foodstuffs (about 24%), machinery and mechanical appliances (about 20%) and vehicles, aircraft and associated transport

equipment (about 20%). For wheat and foodstuffs, they are already exempted from customs while vehicles are excluded from FTA.

As for major exports to USA markets, textile and textile articles amounted to about 70% of total exports, followed by raw hides and skins, leather, handbags and similar containers (about 20%).

1.4 QIZ and FTA

Despite the debate about the implication of the FTA on QIZ, the QIZ model will continue to exist under FTA Rules of Origin. These rules define goods originated in Jordan as those articles for which "the sum of the cost or value of the materials produced in Jordan, plus the direct costs of processing operations performed in Jordan, is not less than 35 percent of the appraised value of the article at the time it is entered into the U.S.". Because of the weak industrial base and weak applied research and development (R&D), there will be a room for QIZ for a longer time than originally expected.

The following table summarizes the comparison between FTA and QIZ in different items of concern:

Table (1.2): Summary comparison between FTA and QIZ

Item	FTA	QIZ
Legal status	FTA with Jordan	Depend on Israel
Inputs	35% within Jordan	35% from QIZ
Geography	Within all Jordan	Within limited areas
Labor	According to laws applied locally	Up to 35% foreign labor
Products	Commodities and services	Commodities
Direction	Both ways	From Jordan to the USA

It is noteworthy for the purposes of determining the 35% domestic content requirements under this agreement, that the cost or value of any US origin materials used in the production of any goods in Jordan can be counted towards this domestic content requirements in an amount up to 15% of the appraised value of the good.

1.5 Concluding Remarks

As part of the Jordanian efforts to enhance independence from vulnerability to neighborhood shocks and empower the export-oriented and private sector led development approach, the government of Jordan signed a number of bilateral and multilateral trade agreements among them the FTA.

In spite of the political implications, the FTA could provide a great chance to the Jordanian economy to enhance its competitiveness, attract more investment and diversify products.

Enhancing competitiveness needs a developed regulatory framework, a skilled labor force and applied research and development. As part of the Rules of Origin direct cost in the FTA the cost incurred for on-the-job training, and R&D are included as part of the 35% of the appraised value of the articles exported. On the other hand, FTA, by emphasizing the Intellectual Property Rights, should motivate the Jordanian industry's interest in design and development.

As for foreign investment attractiveness, the FTA did not specify the origin of investment, while it includes up to 35% as a Jordanian component. Therefore, investors who reached the quota in exporting to US markets in their countries may make use of this agreement and invest in Jordan.

Due to economies of scale, the FTA may enhance diversification of products and services, and increase production capacity of the Jordanian industrial sector in Jordan.

However, while FTA provides the chance to enter the US markets, it does not guarantee that. Therefore, an extra effort is needed from both public and private sectors to analyze the US market and publicize the agreement locally and regionally.

In addition, there is a need for a regulatory framework to enhance transparency and accountability to attract more foreign investment, which in turn introduces new types of business. This will in turn increase the R&D expenditure.

1.6 References

1. FTA documents at www.jedco.gov.jo.

2. Central Bank of Jordan, Monthly Statistical Bulletin, February 2002.

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4. An interview with Dr. Marwan Muasher (Ex-Ambassador to the USA), Al-Rai newspaper, 2 September, 2001.

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Part Two: Qualifying Industrial Zones as a Model for Industrial Development: The Case of Jordan and its Implications for the Middle East Region

By Riad al Khouri

2.1 Executive Summary

Qualifying Industrial Zones (QIZs), recently introduced to Jordan in the wake of the Jordan-Israel peace treaty, have proven to be an interesting model of industrial development for the kingdom. This is especially the case when Jordan's high unemployment and sluggish exports are considered, as QIZ has helped to provide jobs for thousands of people and to spur the sale of the kingdom's manufactured goods abroad.

Various types of extraterritorial economic arrangements including free zones (FZs) had already been spreading in the Middle East region, sometimes yielding considerable benefits. However, Jordan's older FZs have not proved to be particularly beneficial to the economy, for example in terms of employment. Moreover, the qualitative aspects of jobs generated by traditional FZ commercial and other operations are unimpressive.

The situation regarding Jordan's newer arrangements, in particular the QIZs, is more encouraging. QIZ employment-creation has been greater than that of traditional FZs. In terms of the types of jobs created and the technologies and training being applied, the situation looks superior to that of traditional FZs.

QIZ is still found only in Jordan. Studying this phenomenon 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 under US legislation establishing QIZ. This paper also discusses the important prospects provided by Jordan's Free Trade Area (FTA) with the USA and the issue's relation to QIZ, possibly interesting topics for other Middle East countries.

2.2 Definitions

A Free Zone (FZ) may be defined as "part of the territory of a state where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory and are not subject to the usual Customs control. In commercial free zones, goods are admitted pending subsequent disposal; goods admitted to industrial Free Zones may be subjected to authorized processing operations." (1) Commercial and industrial FZ models are found in Jordan in various combinations and variations.

The kingdom also hosts Qualifying Industrial Zones (QIZs), a special form of extraterritorial economic arrangement whose exports to the USA are tariff-free by US decree. QIZs so far exist only in Jordan (2) though permitted in Egypt and Palestine. An amendment to the US-Israel Free Trade Area Implementation Act of 1985, introduced into the US House of Representatives as HR 3074 in March 1996 and signed into law as PL 104-234, granted the US president additional proclamation authority to extend the US-Israel free trade area to include products from QIZs between Israel and Jordan. HR 3074 proposed to 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. The bill was referred to the House Committee on Ways and Means, which reported the bill (H. Rept. 104-495) in the same month. In its report, the Committee stated that "duty-free treatment for goods produced in the added zones could assist in supporting the peace process, increase employment, and stimulate the economy of the region." According to the rationale of the legislation, extending the free trade area to QIZs would also produce tangible economic benefits for Jordan and Egypt, the two Arab states that had signed peace treaties with Israel, "thereby broadening support for the peace process within these countries." The House passed HR 3074 by voice vote in April 1996, and the Senate passed it without amendment by unanimous consent in September 1996. The bill was signed into law in October 1996. (3)

The QIZ offers duty- and quota-free access to the US market for products manufactured by "qualifying" enterprises located in enclaves designated by the United States Trade Representative (USTR). Products must meet certain criteria to qualify under the program. The primary requirement for a product to qualify for QIZ benefits is that Jordanians and Israelis must share in appraised value, with possible input by the USA or the Palestinians, as follows:

- A manufacturer located within the QIZ must provide at least 11.7% value added, a minimum of 8% (7% for high-tech goods) must be provided by Israeli manufacturers, and 15.3% (16.3% for high tech goods) may be provided by Jordan, the USA, Palestine or Israel.
- Jordanian and Israeli manufacturers may each shoulder at least 20% of the total production costs, both direct and indirect.
- A combination of the two above methods.

Current practice is to grant overall QIZ status to an industrial estate, leaving it to individual manufacturers to seek approval for their products.

2.3 The role of free zones and other extraterritorial arrangements in economic development

In increasingly competitive and globalized international markets, many countries, in order to achieve economic goals that include promoting exports, are using FZs and other extraterritorial economic arrangements to attract foreign direct investment (FDI), stimulate job-creation, and enhance competitiveness. The use of FZs and other extraterritorial economic arrangements has increased, partly as a means of achieving new development patterns through localized and focused efforts that will lead to sustainable growth and genuine satisfactory economic transformation. Regionally, despite reforms and structural adjustment in Middle East countries, policy distortions, procedural inefficiencies, and infrastructure inadequacies continue to deter would-be investors and exporters. Many of these problems can be addressed only over the long term. Meanwhile, a reformed environment and streamlined procedures that are focused in a particular locality might lead to cost-effective and rapid results. (4)

Internationally, FZs are often seen to be effective in attracting FDI and generating non-traditional exports. FZs can also assist governments in developing and implementing various innovative concepts, including technology parks and industrial clusters, as well as in helping to apply a variety of policy reforms. In the Middle East region, however, the effectiveness of FZs in various countries has been seriously questioned. (5)

In any case, both in the region and globally, in order to continue attracting clients locally and internationally, many states have tried to elaborate on the original concept of FZs. To remain competitive, FZ administrators in these countries are selecting niche markets and planning projects to cater to specific needs of investors. The "rigid" concept of FZs has thus changed over the past decade, reflecting a new emphasis on viewing them as catalysts for economic liberalization and modernization.

One aspect of this has been expansion of the traditional idea of the FZ to encompass a broader range of activities. Commercial and manufacturing FZ facilities have thus evolved into "special FZs" often larger than their antecedents. Export FZs have changed from the traditional pure concept of industrial estates solely for export-oriented manufacturers, to various hybrid or specialized FZs catering to specific sectors or industries.

2.4 Free zones in the Middle East region

Just as FZs and other extraterritorial economic arrangements have made an impact internationally, they are also becoming more important in the Middle East region. This has partly been because governments have wished to address some or all of a set of inter-related problems that have increasingly characterized the regional economy in the past decade or so. These include:

- **Unstable growth**: For Jordan and most of the rest of the region, growth of real Gross Domestic Product (GDP) has fallen from higher rates in 1992-5 to annual ones of barely above population growth in the second half of the decade. (6) A main reason for this was the continuing drop in real oil prices and the consequent fall in the incomes of the Gulf Co-operation Council (GCC) subregion's economies and, less directly, the rest of the region. Instability and the absence of steady growth are also characteristics of most economies in the Middle East region, with Jordan, Syria, and other countries in the region recording year-on-year contractions in real per capita GDP in the course of the past decade.
- **Stagnant exports**: Exports growth in Jordan and other countries of the region is also weak. (7) Given other problems in the balance of payments, and issues of indebtedness in most countries of the region, the question of export promotion has thus become more important.
- **Weak FDI**: For a variety of reasons, including political instability and a poor legal environment, extensive FDI is still rare in most of the region. (8) This has been true of both the investments of transnational corporations as well as smaller investors targeting the region, including investors who originally come from the Middle East region. Changes in investment laws, such as took place in Syria in the early 90s or as is happening in Saudi Arabia currently, have attempted to reverse this trend but so far with limited success.

- **High unemployment**: The expansion in employment opportunities in most countries of the region has failed to keep pace with large number of annual entrants into the labor market caused by various factors including high population growth. (9) The result has been chronic double-digit unemployment in many regional economies such as Jordan and Syria.

Faced with these and other economic problems, several of the states of the region have been actively encouraging the setting up of FZs in recent years. Thus, parts of the Middle East region have witnessed something of a boom in FZ development.

Some countries in the region were early adopters of FZs. Yet, with few exceptions, historically the Middle East region has accounted for little FZ activity. However, the last few years have seen expanding FZ activity in the region. The experience of the Jebel Ali Free Zone (JAFZ) in Dubai has been important in this respect. Launched in 1985, JAFZ has acted as a major factor behind diversification of the economy of the United Arab Emirates (UAE) away from oil and gas. JAFZ accounts for well over half of non-traditional exports from Dubai, and the vast majority of FDI in non-oil-activities. The growth of the JAFZ has been strong, at a rate of about 150 firms annually since 1990.

In some other parts of the UAE, FZs are becoming an important source of employment in non-traditional industries; in the UAE non-oil sector in particular, FZs have become the primary source of employment, FDI and local investment, and exports. Sharjah FZs have been important in stimulating manufacturing. Sharjah accounts for about two fifths of all manufacturing units registered in the UAE, most of them located in FZs. The emirate of Ajman has become something of a center for light industry, especially textile and apparel manufacturing, which is mostly in its FZ. (10)

Set against some of these positive attributes, FZs in the region have also been criticized on various grounds, some of which are common to their counterparts in other parts of the world: (11)

1. The majority of FZ enterprises are engaged in trading, rather than manufacturing or higher value-added activity. More than 70% of JAFZ firms, for example, are traders. There are still relatively few FZs in the regions that are primarily industrial.
2. FZs often employ large numbers of expatriate workers. This has various negative aspects, including failure to transmit skills and technologies to local economies as expatriates leave after their work in FZs ends.

3. It is unclear whether some FZs have had a net positive economic benefit to a country, given the large public sector expenditures required for their establishment. Development of JAFZ, for example, required government capital investment of about two billion dollars. It is not clear that this has yielded an overall positive return, given the strong package of incentives provided to enterprises, including zero taxes and subsidized energy and water costs in addition to various facilities and services.
4. Many FZs in the Middle East region have suffered from restrictive policy frameworks, as has happened for example in the port of Aden in Yemen. While investment incentives are generous, restrictions and bureaucratic procedures erode their effectiveness through controls on FZ activity, cumbersome regulations, and flaws in fiscal incentives.

Within this overall regional and international setting, the following two sections will look at FZs and other extraterritorial economic arrangements in Jordan; in particular, the application of the QIZ model as an attempt to go beyond traditional FZs will be examined.

2.5 Free zones in Jordan

FZs in Jordan began in 1973, when a small public facility was established at the port of Aqaba to serve transit trade. Three years later, the government founded the Jordan Free Zones Corporation (JFZC) as a state entity to develop FZs, and the commercial/industrial Zarqa FZ followed in 1983, with two others - Sahab and Queen Alia International Airport (QAIA) - being established subsequently. Businesses located in FZs in Jordan enjoy the following exemptions:

- Project profits pay no Income and Social Service Taxes for twelve years as of the year of assessment that follows the start of production (but profits from commercial storage of goods for local consumption are excluded from this exemption).
- Salaries and allowances of non-Jordanian employees working in projects established in the FZs are free from Income and Social Service Taxes.
- Goods imported into the FZs or exported from them for other than the local market are free from import fees and customs duties.
- Buildings in the FZs are free from licensing fees, and from building and land taxes.

- Industrial products of FZs entering the local market are free from customs duties to the extent of the cost of local materials and other local expenses included in manufacture, while industries enjoy a 10% reduction in the rent of FZ land and installations.

In addition, the JFZC provides infrastructure in FZs, including water, electricity, roads, and telecommunications.

Though the last few years have witnessed attempts at improvement after new concepts were introduced, Jordanian FZs have in many cases suffered from several of the problems associated with their counterparts in the rest of the region and the developing world. Among the countries of the Middle East region, Jordan was an early adopter of FZs. Despite, or perhaps because of, this earlier start relative to other countries of the region, the economic contribution of FZs to the Jordanian economy has been small. In some respects, the Jordanian FZs set up in the 1970s and 80s have failed to keep pace with the development of the concept or of changes in the regional and global economies. Traditional, older Jordanian FZs generally exhibit a number of weaknesses compared to other schemes internationally. The most important was perhaps their commercial rather than industrial orientation, with the overwhelming majority of FZ projects engaged in trading and warehousing instead of industrial activity. Of the manufacturing entities in Jordan's traditional FZs, most are not even operating, partly as a result of the sanctions imposed on Iraq, the original market for some FZ industrial operations. Though only about fifty new industrial projects were built in state-run FZs in the 1990s, commercial projects there increased by several hundred over the same period. However, most of the latter are associated with smaller, traditional trading rather than with more innovative activities. In addition, the authorized capital of commercial projects makes up 95% of that of all investment in the FZs. The economic importance of these FZs to Jordan is also very small in terms of employment, totaling about 4,000 workers. (12)

The same pattern could now recur in the newly formed Jordan-Syria Free Zone, which began operations in 2000. First agreed in the 1970s, this project took over two decades to see the light of day partly for political reasons related to Jordanian-Syrian relations at a strategic level. Finally because of détente between the two countries in 1999-2000, this FZ began operating, though its orientation so far is mainly commercial. Thus, its fate could be similar to that of the other "classic" FZs in Jordan, with a smattering of industrial facilities being overshadowed by commercial operations. In any case, this project will remain vulnerable to shifts in the political relations between Jordan and Syria.

In the face of such a situation, and to accomplish more for the national economy than this modest record suggests, the past few years have seen the liberalization of the traditional FZ concept to encompass a broader range of activities, including establishment of specialized facilities catering for specific industries. A recent trend in Jordan has thus been the growing number of private free zones (PFZs). However, it should be noted that these are industrial and other enterprises given the status of FZs, and not businesses that were attracted into an existing FZ by its exemptions and privileges. PFZs in Jordan currently number eight, having directly created over 1,400 jobs in various parts of the country:

- Jordan Indo Chemicals project, producing phosphoric acid, Shidiyeh, 350 jobs.
- Jordan Japanese project, producing compound fertilizers, Aqaba, 103 jobs.
- Dutch Sulphochem project, storing and distributing chemicals used in paint and plastics industries, Aqaba, 30 jobs.
- Five PFZs for importing, slaughtering and distribution of sheep; Quwaira, Aqaba, and other areas; 1,000 jobs (mainly commercial).

In terms of industrial job-creation, the impact of these new private FZs may have been superior to older activities, but the numbers involved are small and not developing properly.

Table (2.1): Workforce in Jordanian PFZs, 1999-2001

	1999	2001
Industrial PFZs	453	453
Total for all PFZs	976	1483

Source: JFZC *Annual Report* 1999 p. 30, and www.free-zones.gov.jo

By creating such PFZs, Jordan has moved somewhat beyond the older, apparently less dynamic FZ model. However, PFZs have so far not expanded significantly or provided more industrial jobs. One problem in particular has been the failure to launch the proposed Jordan-Norwegian PFZ for the manufacturing of fertilizer at Shidiyeh and Aqaba, which was to have had a capital of JD170 million and was expected to create 1,000 jobs. (13) Had this taken place, along with other projects in related areas, the impact of PFZs

would have been more significant, and their possible role as a model in the development of heavy industry might have been taken more seriously. Meanwhile, as will be seen in the following section, the QIZ extraterritorial model has started to have an impact on employment in Jordan in lighter manufacturing.

2.6 Jordan's QIZs

QIZ projects have been multiplying in Jordan since 1998. New QIZs have since then being established in the south of the country and private ones in the central region to the east of Amman. The QIZ idea is attracting strong attention from US, Israeli and, increasingly, South Asian and Far East investors.

For Jordan, the potential for QIZs to create new jobs is one of their major attractions. The factories already in production had directly generated over 11,000 jobs for Jordanians as at end-August 2001 (up from about 6,000 in the year 2000) according to the QIZ Unit in Jordan's Ministry of Trade and Industry. The US Embassy in Amman privately estimates this figure in November 2001 to be even higher, perhaps up to 14,000. Typically, the areas where the QIZs have been set up are without other major fast-growing sources of employment; in this way, increased jobs in such parts of Jordan are additionally useful in helping to curb rural-urban migration and ease the pressure on Amman and other major cities. In any case, the employment generation capability of QIZ far outweighs that of FZ industrial projects.

Table (2.2): Workers in QIZs, end-August 2001

Working Labor	
Local	Foreign
11,466	4,774

Source: QIZ Unit, Ministry of Trade and Industry, Amman

The heaviest QIZ investment so far is in manufacturing clothing, including jeans and other sportswear, as well as in luggage manufacturing, destined for major US retail chains. In 1999 about \$2.4 million of QIZ products, mainly luggage, were exported, but the figure has since increased dramatically through garment exports.

Table (2.3): Value of QIZ exports, 1999-2001
in thousands of US$)

		1999	2000	2001 (till end-August)	1999-2001 (total)
Al-Hassan Estate	Total	2,442	18,449	41,020	61,912
	Luggage	*2,442*	*3,761*	*7,571*	*13,774*
	Garments	-	*14,688*	*33,449*	*48,137*
Al-Tajamouat		-	4,442	11,302	15,744
Karak Estate		-	2,300	15,595	17,894
Ad-Dulayl		-	-	8,353	8,353
Ruseifah subzone (Ez-Zay)		-	-	593	593
Al-Qastal Estate		-		1,076	1,076
Cyber City		-		137	137
All QIZ		**2,442**	**25,191**	**78,076**	**105,709**

Source: QIZ Unit, Ministry of Trade and Industry, Amman

Further analysis of export figures shows that the rate of increase during 2001 has also been very strong, with exports from end-April to end-August close to $50 million, according to the QIZ Unit of the Ministry of Trade and Industry. Another indication of expansion during this period is the number of companies producing, which was 27 at end-April and 30 at end-August 2001, with an additional 5 firms in the process of applying for Qualifying Status (according to the QIZ Unit).

Table (2.4): Number of QIZ firms, and value of capital and investments, end-August 2001

Number of firms	Registered Capital (in US$)	Value of Investments (in US$)
35	54,233,000	183,139,000

Source: QIZ Unit, Ministry of Trade and Industry, Amman

However, it is interesting to note that apart from Jordanians themselves, 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 the Boscan Company (14) but it is noteworthy that no non-Jordanian Arab firms have undertaken QIZ production openly on their own. The most recent figures (Table 2.5) show that two

thirds of the capital invested in QIZ is by firms classed as non-Arab, with only a small component (6%) being capital in all-Jordanian companies.

Table (2.5): Investment in QIZ by nationality and product, 2000 (in percentage)

Nationality / Type of product	Luggage	Garments	Total
Jordanian	-	6	6
Mixed	16	11	27
Arab	-	-	-
Foreign	-	67	67
Total	16	84	100

Source: Jordanian Industrial Estates Corporation

The other interesting point illustrated by Table 2.5 is that the production of QIZs is still restricted to only two types or products, and that even this is heavily dominated by garment production. However, this is slowly starting to change, and some changes have taken place in this situation since the start of 2001, including the introduction of a QIZ jewelry-making operation as well as an exporter operating in the Cyber City QIZ. Cyber City as a whole represents a major attempt at diversification away from the "traditional" QIZ products, and the project is partially presented as an information technology park. The project is located next to Jordan University of Science and Technology in Irbid; the university contributed over 4,000 dunums to the project. At maturity, Cyber City is planned by its developers (see endnote 14) to have approximately 500 tenants with a working population of 200,000; the tenants will mostly be manufacturers targeting the US market. To date, one Taiwanese company has commenced operations in Cyber City, and it is clearly far too early to judge whether the ambitious targets of the developers will be met.

What the start of business in Cyber City does further indicate, however, is that the concept of the privately run QIZ in Jordan continues to develop. In addition to Cyber City and the three public sector parks in Irbid, Karak, and Aqaba, a further four private sector centers (in Ad-Dulayl, Al-Tajamouat, Gateway, and Al-Qastal) have been designated QIZ areas as well as one sub-zone (Ez-Zay):

- Al-Tajamouat Industrial Estate is the first of the country's private QIZs to operate, having been designated in November 1999. Al-

Tajamouat is located in the Greater Amman area, 20 km from downtown Amman and 25 km from Queen Alia International Airport. The industrial park is owned and run by a private management company with a capital of JD10 million that constructs and markets a wide range of industrial buildings and workspaces for medium to light industry, as well as large-sized buildings serviced with industrial infrastructure. Al-Tajamouat is attracting interest from Pakistani, Hong Kong, Taiwanese, Korean and other Asian garment companies moving from Dubai to avoid US quotas. Jordanians are also investing in QIZ projects in Al-Tajamouat, which has six QIZ factories operating as well as two others in the pipeline. (15)

- Ad-Dulayl, the second private QIZ to begin operations, was launched in 2000 and is attracting garment factories from Pakistan, Sri Lanka and the UAE, among other places. Ad-Dulayl is 45 km northeast of Amman and 15 km from the city of Zarqa, thus tapping the abundant labor supply of Jordan's two largest urban centers. The number of projects in the zone has reached 6 with a total investment capital of JD14.2 million. (16) The project's high-profile success achieved by Jordanian management has led to political complications, though these did not in the end cause any practical difficulties or have a negative impact on operations of firms there. (17)
- Ez-Zay sub-zone is part of Ez-Zay Ready Wear Manufacturing Company, which is a Jordanian public shareholding corporation specialized in the manufacture of men's suits. The factory is located in Ruseifah, close to Amman. In December 2000 Ez-Zay was the first operation to receive QIZ status on an original site, as opposed to manufacturers who located to already designated QIZ areas. (This is analogous to the PFZ model mentioned in the above section.)
- Al-Qastal QIZ, located 35km from Amman, received QIZ status in 2000 and already has two projects. Following the three last QIZs mentioned above, Al-Qastal confirms the trend in private sector operated QIZ areas being designated in the center of the country.
- The Gateway QIZ, by contrast, uniquely lies on the banks of the Jordan River, straddling the border between the kingdom and Israel. Investors on both sides of the border will be able to integrate their manufacturing operations at reduced transaction costs without moving from their home bases. Moreover, since Gateway falls within both countries, there are special border crossing arrangements to facilitate the customs process.

This rapid expansion in QIZs has been relatively smooth, given the turbulent conditions of the regions and Jordan's internal difficulties. This has also been true of labor issues, and industrial relations in QIZ plants appear to be satisfactory, with few problems reported. However, some sensitivities have arisen regarding the issue of foreign labor in QIZs. There is an agreement between foreign firms and the Jordanian government regarding the number of foreign workers to be employed. The rule is that no more than 30% of the total workforce in a foreign plant that is just starting operations should be non-Jordanian, and that the latter should be phased out within a few years. The foreign firms justify such an arrangement as allowing them to start production swiftly and to train Jordanians more quickly. (In purely Jordan-owned QIZs, the labor force is almost completely Jordanian.)

By summer 2001 the Ministry of Labor announced that it would intensify its inspections of QIZs to verify that the provisions on labor are being properly implemented. The ministry is looking to its field employment offices to help employ Jordanian labor and make sure that no foreign workers are being employed in "restricted" professions. In 1999 the ministry issued regulations by which some jobs were restricted to Jordanian workers, including eighteen types of activity made available only to Jordanians. The ministry claims that QIZs are not adhering to the above-mentioned 30% provision, and that foreign workers are taking more than their agreed share of jobs. With up to 400,000 foreign laborers currently working in Jordan, this is clearly a sensitive issue. (18)

The question of foreign labor has been part of the QIZ issue since the model began to be implemented. The Jordan Investment Board has been instrumental in advertising QIZs by specifically emphasizing investment from Asian countries such as India, Taiwan, and Sri Lanka. When QIZs were first launched, expatriates from these countries and others comprized 50% of total labor employed. This was due to the lower productivity of Jordanian labor and the lack of experience needed in the garment industry. In addition, locals were less inclined to work extra hours for extra pay than expatriates. On the supervisory level most workers are still expatriates, but some investors expect that in a few years local workers will be able to take over such jobs. (19)

One problem that has been mentioned by QIZ managers is that employing locals also means that investors had to provide them with transport to and from the factories since most of those workers live in remote areas and cannot rely on public transportation, which turned out to be an expensive process to investors. As one company director mentioned for example "most families do not want their daughters stranded in the road waiting for taxis or irregular buses to pass by."(20) Many employees in QIZs come from villages, and there are no properly scheduled buses to take workers to the centers where the factories have arranged for transport to factories. All this clearly involves an inconvenience for QIZs; on the other hand, employing foreigners involves international transport expenses, as well as local accommodation costs.

In conclusion, the subject of "local vs foreign" labor is one that has concerned QIZs and the government alike, among other stakeholders. However, this issue has not caused major problems, nor have other practical matters come to the fore to cause significant headaches for QIZs, which have so far been a success story for Jordan.

2.7 The Jordan-US Free Trade Area: beyond QIZ?

Following the attacks on the US on 11 September 2001, the FTA with Jordan was quickly ratified to demonstrate political support for the kingdom. Jordan's enthusiastic acceptance of QIZ seems to have smoothed the process leading to the FTA, and the current US Ambassador to Jordan Edward Gnehm has publicly stated that the QIZ was "a sort of incubator for the FTA". He added that what the QIZs have done for industrial exports, "the FTA will do for all sectors of Jordan's economy". However, in order to take full advantage of the FTA, the Jordanian private sector "will need to act quickly", he warned, (21) and it remains to be seen whether the kingdom's business will be able to take proper advantage of the new pact.

Under the Jordan-US FTA, US tariffs on Jordanian imports will come down almost immediately, while Jordanian tariffs will be eliminated over ten years in four stages, with US products not covered by the FTA being cigarettes, alcoholic beverages, and cars. These exemptions, plus the graduated phasing out of tariffs, will assure some income from duties to the Jordanian Customs, still a major source of state revenue in the kingdom. Such measures will also help stem the inflow of US imports into the kingdom, while it attempts to boost its sales to the USA and redress a bilateral trade deficit that has averaged about $355 million over the past couple of years, about 18% of the overall merchandise trade deficit. The pact also includes safeguards to allow industries that can

prove they are being harmed by the FTA to invoke protection for a ten-year grace period, renewable for successive five-year terms.

The FTA allows the kingdom's businesses to profit greatly by exporting from Jordan to the USA free of duties and restrictions, eliminating duties on and commercial barriers to exports of Jordanian goods to the USA provided they are "goods originating" in Jordan. This mean that they have undergone a "substantial transformation" in the country, thus preventing the possibility of imports by Jordan from other countries entering the USA under the FTA without having undergone a certain amount of value added in the kingdom. The FTA defines "goods originating" in Jordan as articles for which the sum of the cost or value of the materials produced in the kingdom plus direct costs of processing in Jordan "is not less than 35% of the appraised value of the article" at the time of export.

Such rules of origin imply that the QIZ model will continue to exist under the FTA. Though the new pact will eventually make QIZ irrelevant over the long term, there will still be room for the latter for some time. 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 USA duty-free. QIZ 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 USA. In fact, the QIZ model remains robust, and approval came shortly before the FTA was signed for the establishment of two more QIZs in Jordan.

Implementation of the FTA is expected to facilitate a substantial expansion of Jordanian exports to the USA, which have historically been meagre. However, Jordan's exports to the USA have now become stronger due in part to the growth of QIZ output (Table 2.6) which now makes up well over half of annual Jordanian sales of goods to the US market. It should also be noted that non-QIZ exports are also rising, though at a slower pace.

Table (2.6): QIZ and total Jordanian exports to the USA (fob) 1998-2001 (in millions of US$)

	Total	QIZ	Non-QIZ	QIZ as % of total
1998	7.9	0	7.9	0
1999	13.1	2.4	10.7	18
2000	63.2	25.2	38.0	40
2001 (January-August)	136.3	78.1	58.2	57

Source: Central Bank of Jordan, Department of Research and Studies, *Monthly Statistical Bulletin*, November 2001, pp. 68-9; and QIZ Unit Ministry of Trade and Industry, Amman

However, the FTA could go beyond Jordanian business and facilitate investment by Arab countries in the kingdom. Jordan's status as the first and so far only Arab country to sign an FTA with the USA gives the kingdom a regional competitive advantage among neighboring Arab exporters. This will encourage the development of joint ventures between Jordanian and Arab counterparts, which in turn will benefit from economies of scale, in addition to duty-free entry to the US. As noted above, Arab business has so far not been taking advantage of QIZ in a significant way. Always provided of course that the 35% value added hurdle can be surmounted, the FTA could provide an opportunity for Arab investors from outside Jordan to penetrate the US market.

2.8 Conclusion

Whatever the political controversy surrounding them because of the inclusion of Israeli value-added in Jordanian products, QIZs have been multiplying in Jordan without any serious problems. This has proven to be a boon to employment. Jordanian officials have been quoted as estimating that by the end of the year 2002 "at least 15,000 more jobs" will have been created. (22) However, the progress of QIZ suggests that this figure may be reached sooner.

Unemployment continues to be a major problem in Jordan. The number of Jordanians out of work began to rise in the late 80s 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 2000 figure for unemployment among Jordanians is 14.4%, though the official 2001 figure might turn out to be a bit lower. (23) Unofficially, the level of unemployment in the country has been put much higher.

As QIZ production continues to expand, the model's employment effect will grow to start making a greater impact on the country's problem of creating jobs for a rapidly expanding labor force. Coupled with some job-creation in PFZs (if that model of industrial development can be properly deployed in Jordan) as well as in the Aqaba Special Economic Zone (ASEZ), the reduction in unemployment could be considerable. (24) On the other hand, benefits so far obtained from QIZs have been almost limited to garment exports, and there is a risk that such benefits will not be sustainable with the completion of the phasing-out of the textiles and clothing quotas and abolition of the Multilateral Fiber Agreement (MFA) in 2005. (25) This will mean that Jordan should diversify out of garment production as well as target niches within the clothing sector.

On one level, QIZ coupled with the US-Jordan FTA and other arrangements such as ASEZ and PFZs provides a chance for Jordan's economy in general and industry in particular to move forward at greater speed than has been possible for the past few years. However, the whole QIZ-FTA process appears to be heavily politicized. At the heart of QIZ lies a US attempt to bring Israel closer to her neighbors, including Jordan but also the Palestinians (and Egypt). In this political context, especially in the current post-11 September atmosphere, it might be feasible for other countries apart from Jordan to ask for QIZ privileges in return for political favors extended to the USA.

Alternatively, FTAs (or similar arrangements for liberalizing trade with the USA) could be sought by others in the region. (26) Egypt is an example of an Arab country that is eligible for QIZ status and with whom the USA has discussed a possible FTA. In 1997 the US Vice-President Gore and Egyptian President Mubarak agreed to explore the possibility of establishing a US-Egypt FTA. Since then, US and Egyptian officials have consulted on this matter and in July 1999 the two countries concluded a Trade and Investment Framework Agreement (TIFA). The TIFA provides a mechanism for facilitating the concrete measures needed to continue moving the two to freer trade. The benefits to Egypt from QIZ could parallel those of Jordan, particularly in the area of employment. It is also in the US interest to be prepared to conclude an agreement that will advance its economic interests in the region. Apart from expansion in trade, properly negotiated agreement will reduce such impediments to US business as may be caused by discriminatory import restrictions; protectionist standards, testing, labelling and certification requirements; inadequate intellectual property protection; various banking, securities, insurance, telecommunications, transport, and other services barriers; and anti-competitive practices. (27)

However, commercial problems remain between Egypt and the USA, and these must be resolved before any new trade arrangement such as QIZ or a FTA is considered. This is especially true in such areas as garments and textiles. The results of the latest WTO ministerial meeting, in Doha in November 2001, is an example of what problems a major textile manufacturer and exporter such as Egypt faces in the USA. In the wake of previous agreements, WTO members were to cut their restrictions on textiles imports by 26%, but on 3 November - before the Doha talks began - the Egyptian ministry of economy stated that the USA had only cut restrictions by 1.7%. In Doha, the USA again stayed firm against demands that it improves access to its textiles and clothing market, and the issue is still unresolved. (28)

On the other hand, the political factor must also be considered, as it could help to ease some commercial problems. Egypt is likely to benefit from some direct help from the USA according to the US State Department spokesman Richard Boucher speaking on 2 November, who mentioned that the USA might help Egypt overcome the renewed economic crisis through granting Egypt a FTA. (29) The USA already supplies Egypt with $2bn of economic and military aid per year, on top of the $14bn Washington granted Egypt in debt relief following Egypt's support for Kuwait in the 1990-1 Gulf conflict. Jordan also receives annual economic aid from the USA, worth $150 million, and military assistance estimated at $70 million.

Much as tariff-less access to the US market could be a bonus, it would be more of a political step, as Egypt mainly eyes the European market for exports, which is facilitated by Egypt's association agreement with the EU which is yet to be ratified. Insofar as the EU connection is more important for Egypt, QIZ or a FTA with the USA is less significant. However, the case of Jordan is interesting in showing how QIZ can rapidly boost exports to the USA, and also helps to promote signing of a FTA, which will presumably lead to even more trade. The dominance of the EU in Arab Mashreq markets would then be less marked.

Israel has also been a beneficiary of QIZ. This has been true in the political arena (30) but also commercially. (31) However, Israel is not competing with Jordan in the same way as Egypt or other Arab countries can and do compete with Jordan. Because of such competition, Jordan must move as quickly as possible to take further advantage of QIZ and to exploit the FTA, while reviewing its PFZ policy and using ASEZ effectively. Of course as such measures succeed, there will be attempts to copy them by others in the region, just as many Arab countries copied the JAFZ model. Insofar as such efforts by the kingdom's neighbors and competitors are successful, Jordan may then have to look beyond QIZ and other models for sustainable industrial development.

The 11 September attacks on the USA, however, may have changed certain factors. For example, the US market may be more difficult to penetrate now than it was earlier this year, partly as a result of security issues but also because of a possible drop in demand. The post-11 September situation may also have some implications regarding Asian textile businesses based in Jordan. In the process of gaining support from countries neighboring Afghanistan, the USA has lifted sanctions on India and Pakistan, and is considering the extension of technical and economic aid packages to these countries. These rewards may include trade agreements that would grant India and Pakistan the opportunity to export textiles to the USA on better terms. This in turn could potentially erode some of the benefits of duty-free access to the USA from Jordan's QIZs. (32)

Despite such changes, QIZ remains the kingdom's best bet in the short run to confront the problem of job-creation. Now in tandem with the FTA, Jordan has secured a unique position in the Arab world vis-à-vis the USA. The kingdom is now able to differentiate itself from the region and embark upon a new trajectory, benefiting from economic links to the USA that may help insulate Jordan somewhat against political and economic instability, always provided that these do not also impinge heavily on Israel and the USA, the pillars of QIZ.

2.9 Notes

1. According to *The International Convention on the Simplification and Harmonization of Customs Procedures* 1979 (the Kyoto Convention). For a discussion of various concepts of FZs and of related issues of definition, see Tahir, J. "An Assessment of Free Economic Zones in Arab Countries: Performance and Main Features", ERF Working Papers, no. 9926, Cairo 1999, pp. 3-4.
2. As of March 1998 when the US Trade Representative (USTR) officially designated Al-Hassan Industrial Estate in northern Jordan as a QIZ.

3. Ruebner, J. "US-Israel Free Trade Area: Jordanian-Israeli QIZs", CRS Report for Congress, Congressional Research Service, the Library of Congress, 30 March 2000).

4. See however Madani, D. "A Review of the Role and Impact of Export Processing Zones", World Bank Policy Research Papers, no. 2238, November 1999, for a more skeptical view of the overall effectiveness of FZs in expanding exports. Madani instead argues that the adoption of sound policies for an economy as a whole may in many cases be preferable to the setting up of a FZ enclave.

5. For discussions of problems with the FZ concept as applied regionally, see Rao, K. "Free Zones in the Middle East: Development Patterns and Future Potential", in: Hoekman and Kheir-El-Din (eds), "Trade Policy Developments in the Middle East and North Africa", Washington 2000; Tahir, op cit; and Tahir, J. "Free Economic Zones in Arab Countries in the Context of Arab Free Trade Areas and WTO Arrangements: Trends and Future Prospects" paper presented at the Arab Planning Institute's *International Conference on New Economic Developments and Their Impact on Arab Economies*, Tunis, 3-5 June 1998.

6. Central Bank of Jordan, Department of Research and Studies, "Monthly Statistical Bulletin", November 2001, p. 3.

7. Ibid., p. 64.

8. See UNCTAD, "World Investment Report 2000" for details of FDI in various countries of the region.

9. See Bulmer, E. "Rationalizing Public Sector Employment in the MENA Region", World Bank Working Paper Series, No. 19, December 2000, pp. 1-2 for an overview of employment challenges and policy objectives in the region.

10. Middle East Economic Digest (MEED), "Special Report: Free Zones", 18 February 2000, pp. 7-13.

11. A particular drawback faced by FZs in all Arab countries is that FZ goods are excluded from Arab trade agreements. Products processed in an Arab FZ cannot qualify for entry into any existing bilateral or regional trade agreements under The Agreement for Facilitating and Developing Trade Exchange between Arab States (Arab League Economic and Social Council Decision 848-d of 27 February 1982). The rationale for Arab FZ products being excluded from Arab trade agreements is that FZ firms already benefit from a duty-free import

advantage, and by also granting preferential trading access, FZ firms could threaten competing exporters not located in FZs and domestic producers in the importing country. This argument ignores the benefit to domestic firms from a number of duty-free import schemes (including temporary admission and duty drawback) that allow domestic exporters to import duty-free inputs and gain preferential export market access. This provides a double benefit to domestic manufacturers that are denied to FZ firms. This inconsistency is one reason why manufacturing investment in many of the area's FZs has been limited. The exclusion has been retained in the Arab FTA of 1997, contrary to the practice of other regional trade agreements, which generally permit access of FZ-produced goods. (Rao, op cit, p. 258) The effect of the regulation puts Arab-based FZ manufactures at a disadvantage insofar as markets for them exist or could be developed in other Arab countries.

12. Based on JFZC, "Annual Report 1992", p. 1, and information provided by JFZC and from its website www.free-zones.gov.jo.

13. Source: JFZC, "Annual Report 1999", p. 29-31; 0.71 Jordan dinar (JD) equals 1 US$

14. Boscan has the highest profile among QIZ companies and is an interesting example of Jordanian and other Arab investors working with foreigners. Boscan Middle East Investments Ltd (BMEI) is a holding group with established shareholders from the Far East and the Middle East, and is principally engaged in the design, manufacture and the sale of a wide range of travel goods (Luggage division) and textile apparel (Garment division) for the US market, as well as the development of information technology industrial park (Cyber City project).

15. The Luggage division manufactures a variety of travel luggage. The customers of the division are mainly licensees or owners of brand names who in turn sell to major department stores in the USA such as JC Penny. The Luggage division builds its production capacity around demand generated by USA-based customers, who up until now have demonstrated the capability to purchase the entire production output.

16. The Garment division is primarily engaged in the design manufacturing and sale of woven and knit garments such as casual pants, t-shirts and jeans. The division is located in Al-Hassan Industrial Estate and has head offices in Amman and Hong Kong. The division manufactures for major brand names

in the USA, including GAP, Tommy Hilfiger, Rafaella, and Ralph
Lauren, and major department stores such as JC Penny and K Mart. The garment division started its operations in 1999. The garment division main operating companies are Falcon Jordanian Garment Limited and South Asia Garment Industries Ltd.

17. BMIE is in joint venture with the Al-Ain group from the UAE and the Jordan University of Science and Technology to develop the Cyber City project (www.cybercity.com.jo).
18. Information supplied by Al-Tajamouat management.
19. Information supplied by Ad-Dulayl management.
20. Interview of a director of a factory in a private QIZ by the author, 19 July 2001.
21. Speaking in Amman at a conference on the Jordan-US FTA, 30 October 2001.
22. MEED (op cit, p. 13), quoting unnamed officials in Jordan's Industrial Estates Corporation.
23. Jordanian Department of Statistics, Household Surveys Directorate, *Employment and Unemployment Survey* various rounds, 2000-1
24. On 17 May 2001, HM King Abdullah II officially launched the ASEZ. Legislation was passed by Parliament in the summer of 2000 declaring ASEZ to be characterized by a special fiscal regime, with a tax ceiling of 5% and a sales tax (on retail) ceiling of 7% and a total absence of customs tariff. A six-person Commission governs the Zone, vested with all the required zoning, licensing, and regulating authority, and in charge of the implementation of an integrated master plan for the development of Aqaba. One large-scale development company that groups all the major stakeholders will carry this out. ASEZ is expected to attract substantial and qualitative investments in light industry among other sectors. The Jordanian government, in a report to Jordan's Parliament in July 2000, claimed that the ASEZ would create 67,000 job opportunities. Due in part to the post-11 September situation in the region and internationally, ASEZ may rely more in the short-run on Arab and other regional investors than on Western companies for investment.
25. See for example Xinshen, D. and Somwaru, A. "Impact Of The MFA Phase-Out on the World Economy: an Intertemporal, Global General Equilibrium Analysis", Trade and Macroeconomics Division, IFPRI Economic Research Service, US Department of Agriculture, 2001. This study focuses on the possible impact of the MFA phase-out on the world economy. Starting from analyzing trends in world textile and apparel trade (T&A), the study further focuses on the possible impacts of the MFA phase-out on the world T&A trade. The study found that the MFA phase-out would enlarge world trade of T&A and developing countries will further gain market share in world total exports. Almost all countries, including both the developing countries restrained by the MFA quotas and free from the MFA quotas, and the industrial countries, gain in term of social welfare post-MFA in the model, but developing countries currently free from the MFA quota restraints may lose their market shares.
26. For reactions from Egypt to the idea of launching QIZs there, see Tabler, A. "A window of opportunity? QIZs offer Israel's 'Peace Partners' a back door into the US market. Jordan has jumped at the chance, but Egypt is hesitant.", Business Monthly (the publication of the American Chamber of Commerce in Egypt), May 2000 (www.amcham.org.eg/HTML/Amcham.htm). Tabler notes that, despite Egypt's consistent reluctance, other Middle East countries seem eager to use QIZs. For example, Turkey announced in March 2000 its desire to establish QIZs in impoverished, strife-torn southeastern Anatolia, in order to foster peace and economic development through improved market access to the USA. However, there has been no significant response to this by the USA.
27. Statement on the US–Jordan Free Trade Agreement before the Senate Committee on Finance 20 March 2001 by Thomas Donohue, President and Chief Executive Officer of the US Chamber of Commerce. In his testimony, Donohue also mentioned the FTA potential for US exports. If the agreement had been in effect in 1998, US exports of cereals (other than wheat) from that year till 2000 could have increased by 14%, electrical machinery exports doubled, and exports of other machinery and of transport equipment grown by approximately 39%.
28. "Egypt Scrambling To Boost Trade", The Oxford Business Group Online Briefing, Volume 11, 23 November 2001.
29. Ibid.

30. For example, the weekly *Kol-Hair*, a paper of the Jerusalem area that is controlled by the *Haaretz* group, mentioned in its 13 July 2001 issue that since the Al-Aqsa Intifada started, commerce with Jordan has tripled, partly as a result of the growth of QIZs and Israeli investment in them. One Israeli businessperson interviewed made the telling point that had such investment also been made in the West Bank on time, the current Intifada would not have been started, calling in particular for greater high-tech investment as a more powerful contribution to prosperity and stability.

31. See Berger, S. "Jordan increasingly attractive despite current uncertainty", The Jerusalem Post, 12 June 2001. Although the Intifada has had a negative effect on both the Palestinian and Israeli economies, on the whole it has not deterred Israeli companies from continuing or even expanding their operations in neighboring Arab countries such as Jordan and Egypt. Over 60 Israeli-Jordanian projects export products to the US/QIZ, UK, Israel, and other countries. A textile firm managing director said his company was relocating its production lines to Jordan, primarily as a result of 10.2% rise in minimum wage that was introduced in Israel in April 2001. He said that increasing competition from the Far East makes it imperative for the company to lower its textile prices. He added that the current political situation has not effected his operations in Jordan and that he remains optimistic about long-term relations with Israel's eastern neighbor. Another textile executive added, "so far the [political] situation has been a non-issue." He explained that the textile company set up its operations in both Jordan and Egypt via their international subsidiaries, which then established joint ventures with local partners. As a result, the companies are considered European and only distantly known to be affiliated with Israel, but that has not in any way damaged their work relationship or daily interaction. The company does send a number of experts, many of whom are Israeli, to Jordan and Egypt, and predicted that even if that becomes problematic, he would be able to send alternate foreign workers from Europe and the US if necessary.

32. Jardaneh, D. "US-Jordan FTA Reaching the Finish Line", Atlas Investment Group, 17 October 2001.