The Future of Jordan's Qualified Industrial Zones (QIZs)

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Tables & Figures

Acronyms

EU, European Union
FTA, Free Trade Area
JUSFTA, Jordan United States Free Trade Agreement
GAFTA, Greater Arab Free Trade Area
QIZs, Qualified Industrial Zones
USA /US, United States of America
WTO, World Trade Organization

Introduction

The objective of this study is to provide input to Jordanian policy makers and stakeholders about the impact of the QIZs (Qualified Industrial Zones) and their future perspectives. This study builds on the previous study "*Ten Years of Qualified Industrial Zones: Absolute Success or Relative Success*", which was published by the Royal Scientific Society (RSS) and the Friedrich-Ebert-Stiftung in 2009. The need to revisit this topic came in light of various changes at the global, regional and national context.

Jordan is characterized by a scarcity of natural resources (water and oil) and vulnerability of its economy. It is a service economy and rich in human and intellectual capital. The natural resource constraints made long-term development and homegrown industries unattainable. On the other hand, youth represents about 60 % of the population, but unemployment and budget deficit were among the critical challenges for sustainable development. Jordan has for a long time during the 1960s, 70s and 80s been characterized by a trade deficit coupled with a limited manufacturing sector that resulted in imports surpassing exports. At that time, a restrictive trade policy was in place characterized by high custom duties, import-licensing requirements among other restrictive measures. Given Jordan's limited GNP and its dependence on worker's remittances and external aid, this made its economy conducive to external shocks (see Annex 1). Furthermore, Jordan has been severely affected by the state of war in the region since 1948, which put burden on its infrastructure due to waves of displaced peoples and migrants. These factors have made Jordan vulnerable to the effects of international and regional shocks.

After Jordan and Israel reached a peace treaty in 1994, they formulated a production-export cooperation framework, which led to the establishment of qualified industrial zones (QIZs). Although QIZs embodied elements conducive to generating financial advantages, and benefits did accrue in Jordan (see Annex 2), the overall results were below expectations. Although the QIZ framework has yielded benefits to Jordan, the added value of these gains were distorted by issues related to human rights, minimum wages and employment conditions.

During the late 1990s, trade liberalization came at the forefront of policies taking precedence, built on the realization that in order to enhance economic growth, integration into the world economy was a prerequisite. A significant step towards this goal was achieved as Jordan acceded to the World Trade Organization (WTO) in 2000. Such a step entailed an alignment of internal processes, procedures, technical and non-technical barriers related to trade such as customs procedures and tariff rates, in accordance to the WTO's guidelines to ensure transparency and good governance. As such, the accession marked a turning point in relation to Jordan's global position, paving the way for a major stepping-stone to be achieved in Jordan's external trade relations. In addition, Jordan embarked on several agreements regionally and internationally to capitalize on its trade position.

Regionally, Jordan had joined the Greater Arab Free Trade Area (GAFTA) by 1998 and signed the Agadir agreement with Tunisia, Morocco and Egypt in 2004, coming into force in 2006. Internationally, Jordan entered into an association agreement with the European Union by 1997, coming into power in 2002 and with the EFTA countries in 2002. Furthermore, Jordan entered into a Qualified Industrial Zones Agreement with the USA in 1997 and a FTA with the USA by 2000 coming into force by 2001. In 2005, Jordan entered into an FTA with Singapore, Canada and Turkey in 2010 and 2011 respectively.

The policy's climate in the early 1990s was aligned with the view that a regional economic development peace dividend was dependent on the positive outcome of the peace process between Jordan and Israel. The 1994 Peace Treaty between Jordan and Israel did bring economic advantages for countries like Jordan and Egypt. The political climate was conducive to intra-regional economic cooperation between Israel and the Arab countries.

The Qualifying Industrial Zones Agreement came into effect in 1997. The agreement was preceded by intense local debate about the nature of the agreement and its reference to normalizing relations with Israel; a main partner in the agreement. Although the agreement was marketed as a useful tool for export expansion, it has, however, political implications to support and speed up the peace process in the region. Hence, QIZs, building on the US-Israel FTA, were a US driven initiative with the objective of enhancing regional economic co-operation, stimulating the economies of the region and allowing for the integration between Israel and the rest of the Arab region.

The study has been divided into two parts, with the first chapter presenting the studies' key findings, and the second providing key background information and a more detailed presentation of the research findings.

Key Findings and Recommendations

1. The Impact of QIZs in Jordan

1.1. QIZs played a significant role in economic growth

The main advantage of the QIZ Agreement was the ability to export duty free products from Jordan to the US. Other advantages included the exemption from income and social security taxes as well as the acquiring of full ownership or control of plants within the boundaries of the QIZ, and full restoration of capital, profits and salaries as well as exemption from customs tariffs. The agreement does not include any time limits, renewal requirements or termination date.

The value added of the industrial sector, in general, was 2,045.9 million JD in 2010 and 2,151.5 million JD in 2011 of which the manufacturing sector's share added up to 1689.5 million JD and 1757.7 million JD for 2010 and 2011 respectively.[1] This translates into a share of 83 % in 2010 and 82 % in 2011 for the manufacturing sector. This reflects a high value add contribution of the manufacturing sector within the industrial sector (see Annex 2).

In addition, in 2010, the manufacturing sector employed around 212,412 workers and included 1314 establishments.[2] In the fourth quarter of 2011, it contributed 17.6 % to the GDP.[3] In terms of exports, the top exported products of the manufacturing sector were textiles growing at a rate of 13.8 % between 2010 and 2011, comprising around 15 % of domestic exports for both years.[4]

In 1997, Jordan exported less than $5 million worth of goods and imported an amount of $274 million. As a result, after the QIZ Agreement, the picture was completely different as illustrated in Annex 2. In 2001, Jordan exported more than $164 million worth of goods and imported around $280 million. After 2001, the rise in exports contributed to a positive trade balance between the US and Jordan, except for the years 2009 and 2011. Between 1998 and 2005, Jordan was ranked as the eighth exporter to the United States, moving from the 13th spot among the 20 Middle-East-North African (MENA) entities.[5]

It is evident that the QIZ Agreement brought significant returns to Jordan in the form of growth in exports, jobs and investments. A review of Jordan's international trade track record reflects an increase in the volume of exports to the USA, especially in textiles, post the QIZs (see Annex 4). This increase reached a peak in 2006, with exports growing to around a billion US dollars. As the growth in exports presented a form of success attributed to the QIZs, the success of other aspects of the agreement was debated, especially those relating to impact on local employment, value added, backward and forward linkages and impact on local communities. Although the final experience of Jordan differs from that of Egypt and Israel – the other two countries with similar agreements – the overall notion that this agreement was a tool to enhance regional economic integration is evident.

Much has changed for Jordan since the first QIZs operated back in 1997. Jordan formulated a number of other free trade agreements, including with countries such as Turkey, Canada, Singapore and the USA. This changing landscape requires a revision of the QIZ Agreement in terms of its relevancy, sustainability and impact. However, looking forward, the QIZ Agreement should be considered as a tool, among other agreements, that investors can benefit from and a solid base that can be utilized to move forward.

1.2. QIZs enhanced women's participation in the labor force

Historically, women's involvement in the Jordanian workforce was low. However, by 2010, Jordanian women filled more than 5,000 jobs in QIZs. This upsurge is reflected in the rising incomes with the number of Jordanian females working at the QIZs even surpassing those of their male counterparts. These opportunities paved the way for women to enter the labor force.

1 Ministry of Industry and Trade, Industrial statistics report for the year 2011

2 Ministry of Industry and Trade, Industrial statistics report for the year 2011 -Registered at the Ministry of Industry and Trade.

3 Ministry of Industry and Trade, Industrial statistics report for the year 2011

4 Ministry of Industry and Trade, Industrial statistics report for the year 2011

5 Foreign Affairs, Defense, and Trade Division, CRS Report for Congress, Qualifying Industrial Zones in Jordan and Egypt, Mary Jane Bolle, Alfred B. Prados, and Jeremy M. Sharp, 2006

1.3. There were concerns on working conditions and human rights for employees in QIZ

It is often the case that countries where labor costs are much lower than in industrial regions are ones in which human rights abuses are relatively higher. Reports of violations of human rights and poor employment conditions were voiced.

2. Lessons Learned and Future Perspectives

There are structural weaknesses in the Jordanian economy. These weaknesses stem mainly from the idiosyncrasies of the Jordanian labor market and the economy's over-dependence on external capital flows. While conventional economic reforms may lead to some level of macro-economic stability, they may not necessarily lead to a reduction in national unemployment. Hence, the country's growth strategies should be formulated within a developmental framework, which aims at diversifying the economy's structure, increasing productive investment in domestic economic sectors with high employment potential, and reducing the country's over dependence on external sources of revenues (Taghdisi, S. 2012).

Unfortunately, Jordan lacks real proportional advantage that would make its apparel industry globally competitive. Lack of natural input (unlike Egypt) made it hard to make apparel industry vertically integrated. The sustainability of any industry is a function of local needs, resource availability and external markets. Developing countries need special attention when negotiating future agreements.

Increased levels of economic growth tend to reduce the propensity for conflict, and there is a positive correlation between increased trade and long-term stability. However, the tensions in the Middle East mask the long-term stabilizing effect of economic development. The creation of QIZs was envisioned as a strategic direction in US efforts to warm up the cold peace process between Jordan and Israel and to integrate Israel in the regional economy. Paradoxically, the political and economic effects of the QIZ program in both countries and Egypt have contributed little to the long-term sustainability of economic development in both countries, or to peace with Israel.

QIZ exports are eventually being transitioned from the QIZ trade preference scheme to the JUSFTA scheme since exporters are always in search of agreements that upgrade and evolve their benefits. Working within the QIZ Agreement paved the way for a solid base from which working within the JUSFTA became possible. It is essential to leverage the fact that JUSFTA provides the benefit of diversifying the export base away from only textiles and hence provides a better chance at enhancing backward and forward linkages in the Jordanian economy. The importance of the QIZ Agreement is to be perceived within the context of an overall export and investment promotion strategy of the government as opposed to a standalone agreement. As such, regional integration is vital.

The main difference regarding rules of origin under the QIZ arrangement and the US-Jordan regional trade agreement (RTA) is the Israeli value-added in the case of the latter. Another distinction between these two schemes is the tariff treatment of textiles made in Jordan and the QIZ with staged tariff reductions in the former case versus an immediate duty free status in the latter. This distinction has disappeared since 2010 (Abren M. 2013). The full implementation of the US-Jordan RTA now allows Jordan to source its imported third-country materials from any other country in the world, while under QIZ a minimum content of Israeli imports was required.

North-South FTA and South-South FTA have a similar impact in terms of increasing trade in MENA countries and showing global market integration (Parra, M. et al. 2013). FTAs that include agricultural products, in which MENA countries have a clear comparative advantage, are more desirable for these countries than those only including industrial products. The inclusion of agricultural products in the liberalization is fairer for MENA countries than only including industrial products.

It should be noted that the agreement between Jordan and Singapore included trade liberalization for manufactured products. This agreement had a positive impact on Jordan manufactured exports, but negatively affects agricultural exports (Parra, M. et al., 2013). Besides, FTA has fostered increases in Turkish exports to the MENA region.

Given the adaptation of Jordan's exports from QIZ to a new FTA agreement, the USA FTA includes trade liberalization for certain agricultural products and has been very beneficial to US agricultural products. As documented in recent research by Parra et al. (2013), the FTA has increased MENA imports from the USA by 100 % and MENA exports to USA by 55 % (see Annex 4). However, because FTA appears to benefit US and Europe disproportionately, this may be perceived as a Western-led globalization.

The FTA concluded between USA and Jordan have a positive and significant effect on MENA exports, but the effect appeared two years after the FTA came into force. Busse, M. and Gronong, S. (2012) argued that the FTA did not had a robust impact on exports and imports due to the multilateral or preferential trade liberalization.

The FTAs and QIZs opened windows for opportunities to examine and validate the limits of regional economic integration in the Middle East. Efforts towards establishing better integration among Arab countries show satisfactory progress. The Great Arab Common Market Trade Agreement (GAFTA) in particular has been extremely successful in helping boost bilateral trade between Arab countries, while we do not find the same effect in the case of the Agadir agreement.

Jordan needs to orient its industrial policy to profit from tariff reductions in intermediate inputs to increase its productivity and be more competitive in international markets. Without a clear economic and social agenda, Jordan runs the risk of falling victim to dominant interests during negotiations. There are concerns that Jordan may lose its ability to protect certain sectors in which they do not know they have advantages or of which they do not realize the importance of protecting.

Trade liberalization should come with policies to support those who stand to lose from increased openness and alleviate the tensions associated with rapid social change. It should be noted that FTA and QIZs are not ubiquitous solutions; trade agreements and QIZs provide opportunities, not guaranteed results.

It is important to create innovative tools tailored for the local context such as the satellite factories under the QIZ Agreement to be adapted within the JUSFTA. Such tools would allow for more engagement of sectors and industries such as the ICT sector, which is perceived as a potential sector that would benefit from the JUSFTA. As such, it is recommended to conduct policy discussions with regard to key sectors like textiles, ICT, renewable energy, etc. with the Jordan Industrial Estates Company in order to engage different stakeholders to explore and define new opportunities under the JUSFTA.

It is further recommended to conduct an in-depth cross sectorial study on the impact of the JUSFTA to analyze the requirements of the rules of origins and to identify business opportunities through existing agreements regionally and globally (such as those with Turkey, Singapore and Canada).

Background and Detailed Research Findings

1. Jordan's International Trade Record

Jordan, with its limited natural resources, is classified by the UN as an Upper Middle Income country.[6] The national population has increased from 900,000 in 1961 to 4,139,000 in 1994 to 6,113,000 in 2010.[7] Some important macroeconomic indicators include.

Tab. 1: **Main indicators of the Jordanian economy**

	2003	2004	2005	2006	2007	2008	2009	2010
GDP at market prices (Million JD) *preliminary data	7228.8	8090.7	8925.4	10675.4	12131.4*	15593.4*	16912.2*	n.a.
GDP per capita (JD)	1382.2	1512.3	1630.8	1906.3	2119.8	2665.5	2828.1	3069.2
Growth rate of GDP at constant market prices (%)	4.2	8.6	8.1	8.1	8.2	7.2	5.5	2.3

Source: Department of Statistics, Statistical Yearbook, 2010

As Table 1 shows, a substantial increase in GDP per capita was accompanied by a growth in GDP at market prices (especially during the 2004–2008 period).

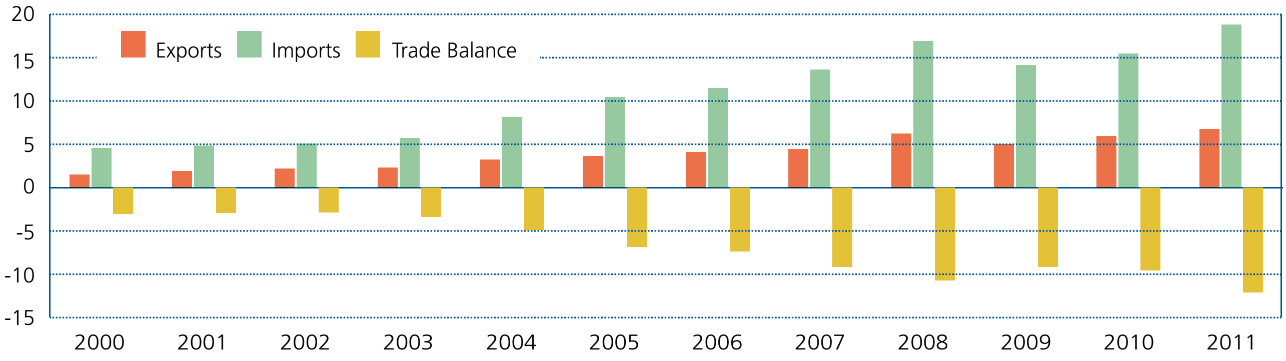
In an attempt to shed light on the past and future of the Qualified Industrial Zones (QIZs) agreement, a quick look at Jordan's performance before the QIZ Agreement is warranted.

At a local level, after the trade liberalization, the year 2000 marked a turning point (as shown in Figure 1). Although imports continued to grow, exports grew substantially. This increase in exports gained momentum, reaching a high during the year 2008.

By 2011, and in terms of composition of exports by commodity as shown in Figure 2, textiles comprised around 21 % of total exports, representing the second exported product among the top five exports preceded only by products of chemical industries.

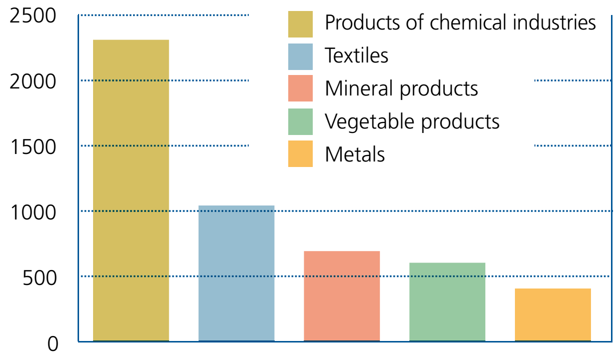
6 According to the latest : http://data.worldbank.org/country/jordan
7 Department of Statistics, Statistical Yearbook, 2010

Fig. 1: **Trade Balance (billion US$), 2000–2011**



Source: Department of Statistics, 2012

Fig. 2: **Top Five Exported Products (million US$), 2011**



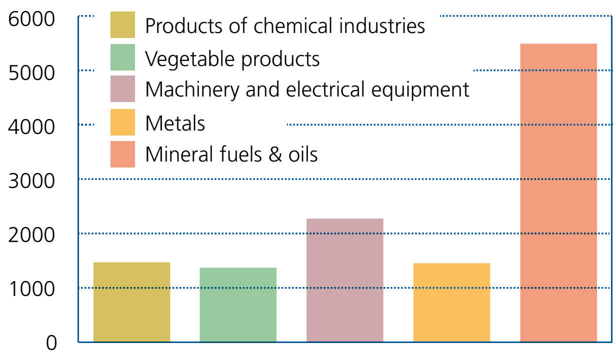
Source: Department of Statistics, 2012

On the other hand and as is reflected in Figure 3, the main imported products into Jordan by 2011 were minerals, fuels and oil, machinery and electrical equipment, vegetable products, products of chemical industries and metals.

In terms of geographic distribution as displayed in Figure 4, exports from Jordan to North America came in third after those exported to Arab countries and Asian non-Arab countries. Exports to North America amounted to around 16 % of the total exports in 2011.

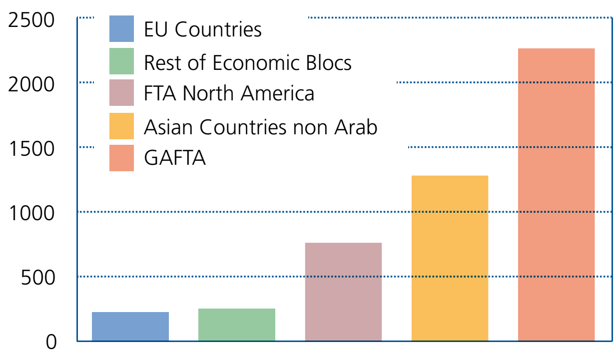
Imports from the main economic blocs above followed a different pattern in 2011 with imports from GAFTA countries leading followed by Asian countries (non-Arab), the EU, other economic blocs and finally, the FTA with North America.

Fig. 3: **Top Imported Products (million US$), 2011**



Source: Department of Statistics, 2012

Fig. 4: **Exports with the Main Economic Blocs (million JD), 2011**

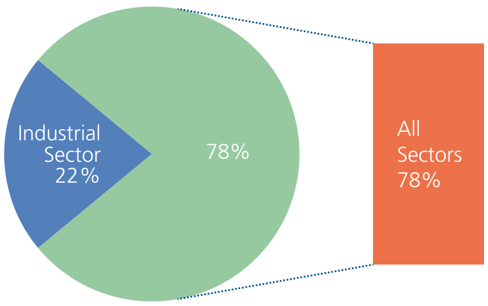


Source: Ministry of Industry and Trade,
Industrial Statistics Report for the year 2011

2. Key Statistics on QIZs in Jordan

The industrial sector in Jordan includes the manufacturing and mining sectors. The manufacturing sector, in turn, covers industries such as leather and footwear manufacturing, chemical industry, plastic industry, IT industry, furniture industry, food industry, etc. The mining sector, on the other hand, covers extraction industries. In general, the industrial sector was the sector that benefitted the most from the Investment Promotion Law in 2011 leading by 63 %.[8] As is shown in Figure 5, in 2010, 22 % of labor employed belonged to the industrial sector.

Fig. 5: **Percentage of Labor in the Industrial Sector of the Total Labor Force, 2010**



Source: Ministry of Industry and Trade, Industrial statistics report for the year 2011

Since the manufacturing sector covers the textile and garment industry, the focus would be on this sector. The value added of the industrial sector, in general, was 2,045.9 million JD in 2010 and 2,151.5 million JD in 2011 of which it was for the manufacturing sector 1689.5 million JD and 1757.7 million JD for 2010 and 2011 respectively.[9] This translates into a share of 83 % in 2010 and 82 % in 2011 for the manufacturing sector. This reflects a high value add contribution of the manufacturing sector within the industrial sector.

Additionally, in 2010, the manufacturing sector employed around 212,412 workers and included 1,314 establishments.[10] In the fourth quarter of 2011, it contributed 17.6 % to the GDP.[11] In terms of exports, the top exported products of the manufacturing sector were textiles growing at a rate of 13.8 % between 2010 and 2011 and comprising around 15 % of domestic exports for both years.[12]

The QIZ Agreement covers exports from geographically set areas in Jordan, while stipulating a minimum of 35 % of the exported good's value to be composed of local content. That content can be satisfied through (a) having 11.7 % as Jordanian and 8 % by Israeli manufacturers (7 % for high-tech products); the remainder to reach the 35 % value-added requirement can come from Jordan, the US, Israel, and/or the West Bank and Gaza[13] or (b) Jordanian and Israeli manufacturers must each contribute at least 20 % of the total cost of production of the QIZ product.

Furthermore, in terms of the value content requirement (35 %), imported material (material that did not originate in any of the countries that are party to the agreement: the West Bank, the Gaza Strip, a Jordanian QIZ, or Israel) can contribute to the local content in the event that it underwent two substantial transformations in any of the countries that are party to the agreement. The double transformation stipulated that the product first become a different intermediate product before being transformed again during final production. A joint technical committee was established to ensure the strict application of the principle of economic co-operation as designated in the agreement. Although the QIZ Agreement is not limited to the textiles and ready-made-garments industry, many opportunities arose there due to the high tariffs applied by the US on these items.

The first Jordanian QIZ, which was Irbid Qualifying Industrial Zone, was created in November 1997. There are currently six operating QIZ locations in Jordan: Al-Dulayal, Al-Rusaifa, Al-Hassan, Al-Tajamouat, Cyber City and Karak.

A quick literature review on this subject presents ample concrete research on the direct impact of QIZs on the Jordanian economy in terms of number of job opportunities created, volume of exports and investments. Other aspects such as the extent of technology transfer, creation of supporting industries, backward linkages and value added were less evident.

In terms of direct impact, a look at the investments and trade balance with the United States after implementation of QIZs reflects palpable growth in the export sector.

8 Ministry of Industry and Trade, Industrial statistics report for the year 2011

9 Ministry of Industry and Trade, Industrial statistics report for the year 2011

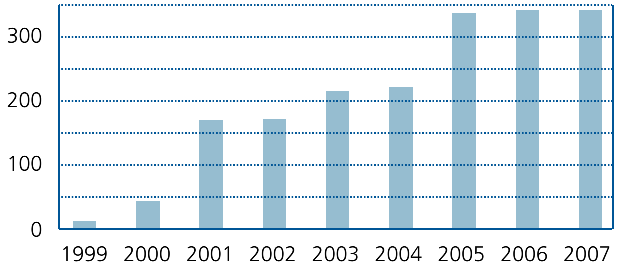
10 Ministry of Industry and Trade, Industrial statistics report for the year 2011

11 Ministry of Industry and Trade, Industrial statistics report for the year 2011

12 Ministry of Industry and Trade, Industrial statistics report for the year 2011

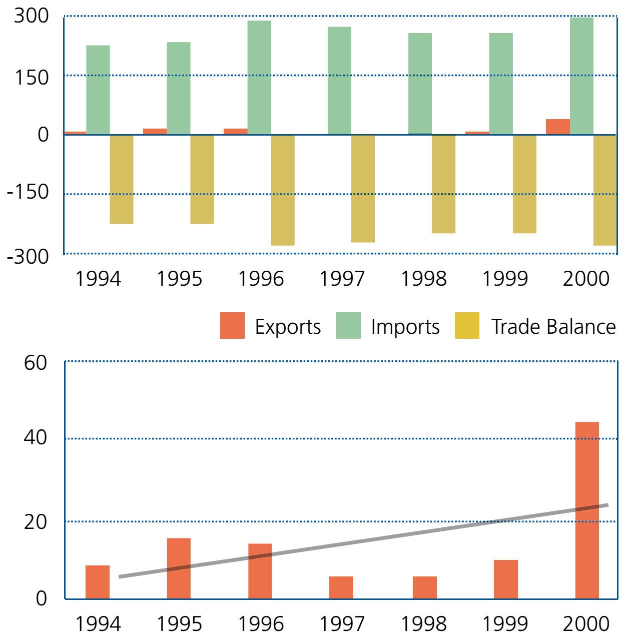
13 Originally set at 11.7 percent, the minimum Israeli content for Jordan QIZ goods was lowered to 8 percent in 2004 (7 percent for high-tech products).

Fig. 6: **QIZ Investments (million US$), 1999–2007**



Source: QIZ Unit – Ministry of Industry and Trade 2012

Fig. 7: **Trade Balance/Exports with the USA (million US$) 1994–2000**



Source: Department of Statistics, 2012

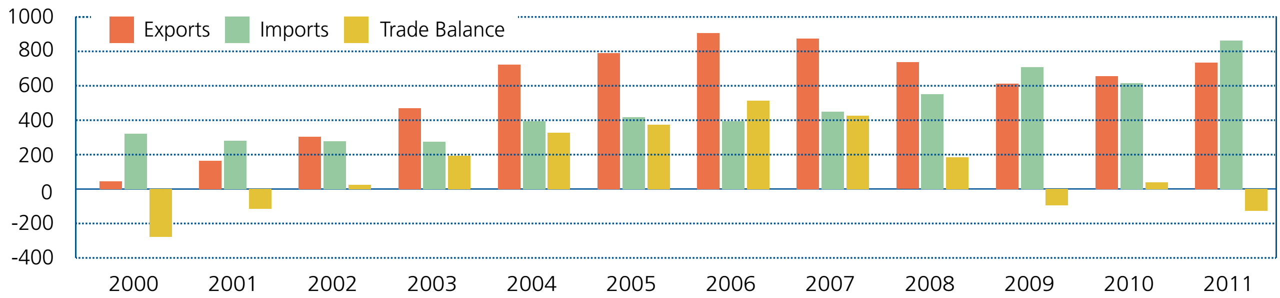
As displayed in Figure 6, before the QIZ Agreement investments in the industrial sector in Jordan were modest, driven by family businesses and state enterprises in the extraction industries. The agreement fueled investments, especially by Asian investors who deemed Jordan as ideal for exporting to the US circumventing quota limitations.

In terms of exports (see Figure 7), before the QIZ Agreement, a negative trade balance with the USA prevailed with imports greatly surpassing exports. In 1997, Jordan exported less than $5 million worth of goods and imported an amount of $ 274 million. As a result, after the QIZ Agreement, the results were completely different as is clear in the lower part of the figure. Exports started to grow substantially.

Just four years after 1997, in 2001, Jordan exported more than $164 million worth of goods and imported around $280 million. After 2001, the rise in exports contributed to a positive trade balance between both countries, except for the years 2009 and 2011. Hence, the impact of the QIZs on exports is undisputable.

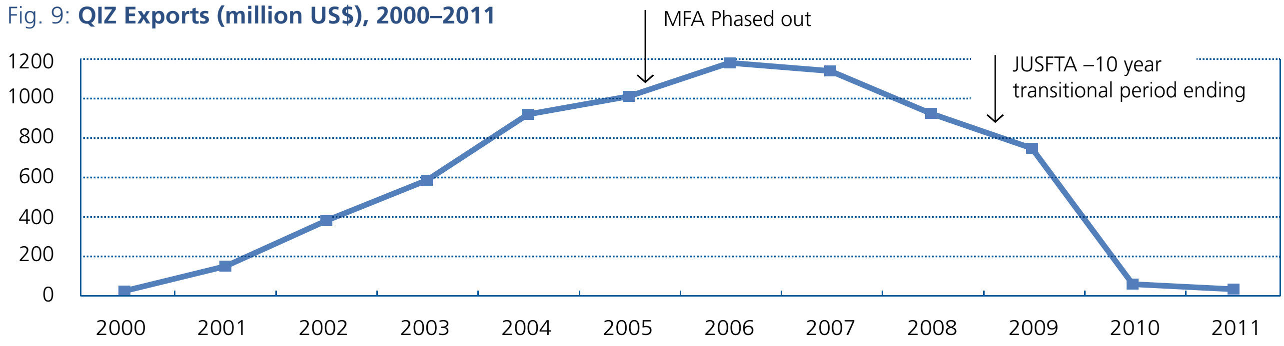
Major events were unfolding causing a discontinuity with the trend of exports (volume and value) after 2006:

Fig. 8: **Trade Balance with the USA (million US$), 2000–2011**



Source: Department of Statistics, 2012.

Fig. 9: **QIZ Exports (million US$), 2000–2011**



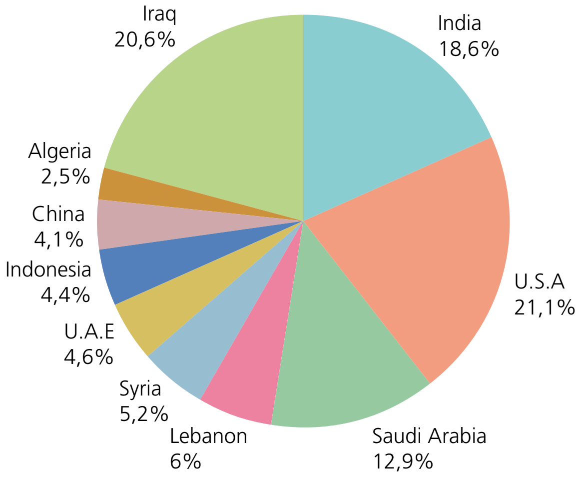
Source: QIZ Unit, Ministry of Industry and Trade

Tab. 2: **Domestic Exports by Commodity, 2006–2010 (JD000)**

*preliminary figures	2006	2007	2008	2009*	2010*
Textile yarn, fabrics, made up articles & related products	16321.0	19372.0	23604.0	20104.0	31920.0
Clothes	882235.0	843949.0	716755.0	589523.0	622682.0
Total Domestic Exports	2929310.0	3183707.0	4431113.0	3579166.0	4214774.0

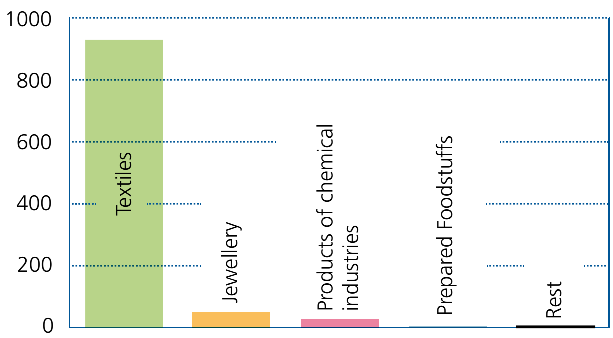
Source: Department of Statistics, Statistical Yearbook, 2010

Fig. 10: **Top 10 Export Countries, 2011**



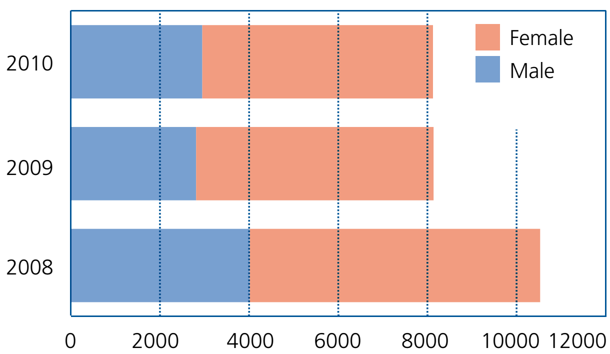
Source: Department of Statistics 2012

Fig. 11: **Top Five Exported Products to the US Market (million US$), 2011**



Source: Department of Statistics 2012

Fig. 12: **Male/Female Jordanian Workers, 2008–2010**



Source: Ministry of Labor 2011

- The phasing out of the Multi-Fiber Agreement by 2005 entailed that the once unique position of competitive advantage of Jordan vis-à-vis the QIZ Agreement did not exist anymore as developing country quotas on textile and clothing imports were abolished. This led to fierce competition from countries such as China, India and Bangladesh. In addition, this entailed that already existing foreign owned factories need not be present in a Jordanian QIZ in order to receive the benefits of duty free access to the US market.
- In 2006, the U.S. National Labor Commission released a report that created negative media attention as it cited labor abuses and lax oversight of labor standards in QIZ factories. The report, U.S.-Jordan Free Trade Agreement Descends into Human Trafficking and Involuntary Servitude, was compiled from interviews with foreign workers at QIZs in Jordan.
- The coming into effect of the JUSFTA.

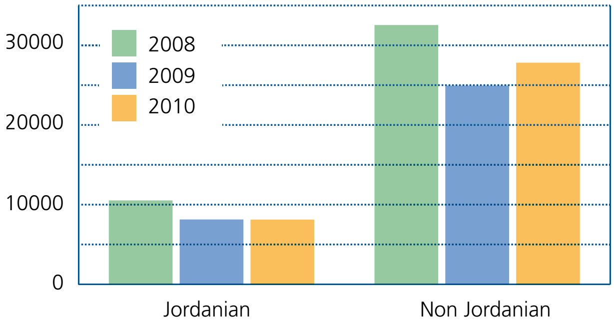
Despite the above, the share of textiles in domestic exports was significant. Figure 10 comprises the share of Jordanian domestic exports by commodity.

In addition, by 2011 (Figure 10), the US market became the number one destination of Jordanian exports with textiles topping the list of exported products.

Likewise in terms of product composition (Figure 11), textiles led the way for main top 5 exports to the US market.

Historically, although having reached high educational attainment, women's participation in the workforce was low. With more than 5,000 jobs in QIZs filled by Jordanians by 2010, this aspect has been reflected in the rising incomes, with the number of Jordanian females working at the QIZs even surpassing those of their male counterparts. These opportunities paved the way for women to enter the labor force.

Fig. 13: **Workers at the QIZs (Jordanians versus Non-Jordanians), 2008–2009**



Source: Ministry of Labor 2011

Ad Dulayl

It has been widely accepted that Ad Dulayl provides a valid example of how one QIZ has affected the local community through an increase in the economic activity in the form of new businesses.

Despite these improvements, a contentious issue remains: the growing share of foreign workers at the QIZs.

Many reasons behind the prevalence of foreign workers has been cited among which were; shortage of adequately local trained skilled workers, culture of shame, productivity and labor issues. It has been noted that such prevalence of unskilled workers exacerbates the unemployment challenges and hinders the economy's transformation into an industrialized economy. Taking note, the government has launched several programs aimed at training and recruiting skilled Jordanian workers.

In terms of the impact of the QIZ Agreement on other variables such as the transfer of technology, backward linkages and local communities, the following can be observed:

- Measuring value added of the QIZ Agreement has been inundated by uncertainty and debate. However, one recent study on the value added suggested that the total domestic value added was 36.9 % of industry output.[14]
- In order to benefit local communities and address the reluctance of women to work in QIZs factories, the government embarked on a project designed to establish satellite factories in a number of locations across the Kingdom. There are seven satellite factories employing 1281 workers.[15]
- The resulting imports of a large portion of raw and intermediate input entailed discouragement and hence modest backward linkages with domestic suppliers especially with the prerequisite of meeting the Israeli content.
- Since most of Jordan's QIZ exports belonged to the lower end of the spectrum of products of the industry, this entailed fierce competition from already established industries in developing and regional countries. The industry can be best described as traditional, by which it provided once the base for the other developing countries to move up the value chain. This contributed to being technologically dependent on foreign expertise and machinery. Furthermore, since the head offices of the investors were back in their home countries, especially given the short planning horizons of these investors, they did not transfer much technology other than that embedded in the capital equipment and the relatively few foreign workers who were skilled.[16]

Meetings at Tajamouat Industrial City-Amman

The following comprises the main discussion points raised during meeting 2 factories, a Labour office representative and a Manager at the City:
Main recommendations shared include; importance of having consistent government policies concerning the industrial sector, address the culture of shame and reduce customs duties.

Regardless, the presence of the QIZ Agreement has led to:

- Export growth in the garment industry, which leads to higher total exports and export earnings;
- Export diversification as opposed to the focus on only extraction industries;
- Value added; and
- QIZ Investments as QIZs may be credited with attracting FDI from countries that otherwise would not have invested in Jordan.

14 Better Work Jordan, The Apparel Industry and the Jordanian Economy: Calculating the Domestic Share of Sector Value Added, 2011

15 QIZ Unit, Ministry of Industry and Trade

16 Economic Research Forum, A Quiz on the net benefits of trade creation and trade diversion in the QIZs of Jordan and Egypt, Jeffrey Nugent and Abla Abdel-Latif, Working Paper Series No. 514, 2010

3. A Regional Comparison: QIZs in Egypt

In order to present a sound regional analysis of the QIZ Agreements, a comparison amongst the objectives set out in the QIZ Agreement of both Egypt and Jordan together with a description of the local context in both countries was seen as beneficial. Information in this section was based on a field visit to Egypt.

Jordan's QIZ Agreement was created with the aim of promoting economic cooperation through joint Jordanian – Israeli production of goods for export to the US with the ultimate objective of fostering economic development and investment in the region. The agreement extended duty free access to the US market by which the case did not exist earlier. However, the case was different for Israel since due to the 1985 U.S.-Israel Free Trade Area Agreement duty free eligibility already existed.

Egypt's textile and garments sector

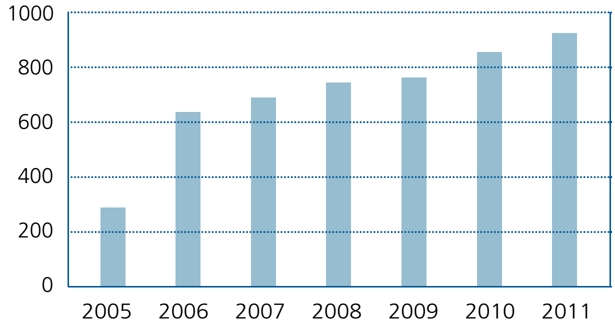
As of 2008, Egypt's textile and garments sector is comprised of 4535 enterprises (27 of which are public and 4508 private). These firms employ 1.5 million workers, and produce about \$3.2 billion of output accounting for 3.5% of GDP.

(Economic Research Forum, A Quiz on the net benefits of trade creation and trade diversion in the QIZs of Jordan and Egypt, Jeffrey Nugent and Abla Abdel-Latif, Working Paper Series No. 514, 2010)

In the case of Egypt, the local context differed from that in Jordan in several ways. The first relates to the fact that Egypt already has a significant textile and garment industry whereas Jordan built one as a result of the QIZ Agreement. The second is that Egypt already was exporting textiles and ready-made garments to the US market. Furthermore, Egypt's textile sector included state enterprises whereas the case in Jordan was different. Finally, Egypt had a more challenging business environment plagued by bureaucracy. A common note was the fact that, as with the case in Jordan, the agreement has been widely debated in Egypt because of having Israel as a partner country.

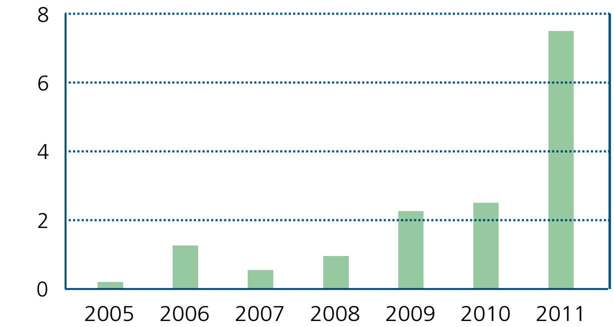
Before the QIZ Agreement with Egypt, Egyptian textile and ready-made garments were being exported to the US market. However, with the inevitable expiration of the Multi-Fiber Agreement (MFA) under the context of the World Trade Organization (WTO) at the end of 2004, the QIZ Agreement with Egypt was seen as one to save the already existing established industry. As stated above, the phasing out of the MFA agreement required those quota restrictions from developing countries be lifted. This entailed that competition with other exporting countries such as China, Bangladesh, Pakistan and India would be substantial. In addition, the QIZ Agreement was seen as a tool to absorb the growing labor force and to increase investments.

Fig. 14: **Textile & Ready Made Garments Exports Value Products (million US\$), 2005–2011**



Source: http://qizegypt.gov.eg/QIZ_Data.aspx

Fig. 15: **Food Value Exports Products, (million US\$), 2005–2011**



Source: http://qizegypt.gov.eg/QIZ_Data.aspx

With this taken into account, Egypt was keen to pursue a similar agreement to that of Jordan. Hence, the Egyptian QIZ Agreement was launched in 2004. The geographical areas were determined by the Egyptian government and approved by the US government and were based on export figures and the number of employees. These areas were spread out over four large geographical regions: Alexandria, Greater Cairo Area, Middle Delta Governorates and the Suez Canal Area.

Similar to Jordan's case, the QIZs areww supervised by a joint committee, which monitors the developments of the QIZ. As with the case of Jordan, QIZs are designated geographic areas within Egypt, whereby companies located within such zones are granted duty free access to the US markets given that they contain the necessary Israeli component (35 % of the product's value must be manufactured in an Egyptian QIZ, of which a minimum of 10.5 % must be Israeli inputs).

Exports of textiles and ready-made garments between 2005 and 2011 reached more than US\$ 4 billion with QIZ exporting companies, increasing from 54 companies in 2005 to 152 in 2011.[17] Specific ready-made garments include jackets, pants, shirts, tops, T-shirts, shorts, jackets, twin-sets and pullovers. Exported textiles include towels and bed sheets.

17 http://qizegypt.gov.eg/QIZ_Data.aspx

Even though the above figures reflect those for the textile and ready-made garment industry, Egyptian food industry exports to the US market are also on the rise since 2005.

Generally speaking, the QIZ Agreement played a very crucial role in Egyptian trade policy, but it explicitly added value to the ready-made-garments industry for the following reasons:

a) The US market is the largest for Egyptian exports of textiles and ready-made-garments exports; hence the agreement preserved this industry;

b) The US market is the only main market where Egyptian exporters did not enjoy duty free access similar to that in other countries where Egypt has concluded free trade agreements; and

c) The importance of QIZ is further compounded by the global competition and the involvement of several USFTAs with other countries such as Jordan, Morocco, Oman and Bahrain.

Two researchers at the Economic and Social Department of the Royal Scientific Society conducted a field visit to Egypt. The below Annex provides a list of interviewees. The following comprised the main discussion points from the meetings;

- The media handled the agreement from an economic dimension by highlighting the successes of creating more jobs and encouraging Egyptians to work in these zones. However, regardless of this media support, there was political hesitation due to the requirement of the Israeli component. The media, consequently, is regularly highlighting the need to lower the Israeli content to encourage local investors;

- The main driver behind being chosen to be qualified for QIZ status was the lower cost of exporting, new investments and work for existing labor;

- The fact that a component of the content requirements had to come from Israel created resistance;

- The Unions were not in favor of the agreement as it touches upon national independence given the Israeli component. They were in favor of an FTA with the US as it would not have the condition of the Israeli component;

- Support for the agreement increased as investments multiplied, but in the event an alternative can be identified that also targets the US market, it would be immediately implemented; and

- There was a slowdown in the industry in general so the agreement came in order to create opportunities in overseas markets and enter the U.S. market without taxes.

With regard to Israel, a group of leading Israeli textile and garment companies, led by Delta Galil Industries, paved the way for joint Jordanian Israeli ventures in Jordan. They were the first to start producing under the Jordanian QIZ Agreement. Together with a Jordanian partner, the Century Investment Group (CEIG) in Al-Hassan produces exports of textile, clothing, apparel, and medical uniforms estimated at 20–25 % of total Jordanian textile and garment exports; most of it directly to the US market, and a smaller part of it to Israel, for re-export.[18] Although by the mid-2000s, these Israeli companies sold their shares to CEIG, they have maintained relations through being subcontracted by the Israeli companies. In all, by the mid-2000s, only a few, mostly small, Israeli-owned production plants (or joint-ventures) remained in operation, with less than 10 companies producing today for Israeli businesses in the Jordanian QIZs, and probably about the same number of companies out of the QIZs, mostly as sub-contractors.[19]

As the political risk was perceived as high, together with administrative and logistical challenges, by Israeli investors, few would be engaged in the QIZs. However, a potential is identified given the JUSFTA with the opportunity for non-textile exports. In terms of exports to Israel, the following was recorded: US$ 7 million in 1996, US$ 28 million in 1997, to between US$ 110–120 in 2003 and US$ 75 million in 2010–2011.[20] On the other hand, imports also grew to around US$ 130 million a year in 2002–2003, then decreasing to US$ 90–100 million a year in 2010–2011.[21]

With respect to Egypt, Israeli exports to Egypt, prior to the QIZ Agreement in 2005, were under US$ 30 million, reached around US$ 130–150 million a year in 2005 and passed US$ 200 million in 2011.[22]

18 YGal Consulting, QIZs in Jordan and Egypt, 2011
19 YGal Consulting, QIZs in Jordan and Egypt, 2011
20 YGal Consulting, QIZs in Jordan and Egypt, 2011
21 YGal Consulting, QIZs in Jordan and Egypt, 2011
22 YGal Consulting, QIZs in Jordan and Egypt, 2011

4. Jordan after the QIZ Agreement and JUSFTA

In 2000, based on the success of QIZs experience, and Jordan's relation with the US, the US began to negotiate an FTA with Jordan. By October 24, 2000, Jordan and the United States entered into a free trade agreement (JUSFTA) with the objective of strengthening economic ties through a gradual elimination over ten years of tariffs applied to all goods, except alcohol and tobacco, traded between both countries. The JUSFTA went into effect in December 2001. The gradual elimination entailed that the agreement removes first the lowest tariffs while phasing out the highest tariffs over stages. The JUSFTA covers provisions related to goods and services, protection of intellectual property rights (IPR), the environment, labor, and electronic commerce.

In comparison with the QIZ Agreement, the FTA was a QIZ plus agreement that enhanced the Jordan US cooperation with another tool. It was the first U.S. FTA to include provisions on labor and the environment and state that e-commerce services/activities must be tariff free. It was the first U.S. FTA with an Arab country and only the fourth U.S. FTA given the agreement with Canada, Mexico and Israel. Furthermore, the US signed similar agreements with other countries of which were Bahrain, Morocco and Oman from the region.

Under the FTA, tariffs on the majority of apparel, textile made-up goods and footwear and travel goods were phased only during 2010. Hence, the duty free benefits provided by QIZs remained advantageous even after the coming into effect of the JUSFTA.

To receive duty-free treatment under the FTA, a product must meet a value-added content requirement (35 % of the appraised value of the article upon entry into the US).

The following comprises the main points of comparison between the QIZs arrangement of Jordan and that of the JUSFTA.[23]

- Jordan's QIZ Agreement was signed in 1998 and the JUSFTA was signed in 2000. The QIZ Agreement denotes areas designated by the Jordanian and Israeli authorities and approved by the U.S. government, where products of these zones can be exported duty free and quota free to the U.S., making use of the Israeli Free Trade Area Agreement with the U.S. No tariffs or duties were imposed. The agreement was signed in 2000. On the other hand, the JUSFTA is a bilateral treaty between Jordan and the United States that does not impose tariffs or duties for commerce conducted across their borders, eliminating tariffs on virtually all trade between the two countries during a transitional period (2001–2010). The tariff reductions came in four stages: tariffs of less than 5 % were phased out within the first two years; those that were between 5 and 10 % had been eliminated during four years, those between 10 and 20 % had been eliminated within five years, and those that contained more than 20 % were eliminated within 10 years.

- The geographic context of the QIZ Agreement are the borders of the QIZs, whereas for JUSFTA it is the borders of Jordan.

- Although the JUSFTA has no restrictions on value added, the QIZ Agreement has two methods to calculate value added:

  Method 1: 11.7 % content must be added by the Jordanian manufacturer in the QIZ (1/3 of the 35 %); 8 % content must be added by the Israeli manufacturer (7 % for High-tech products); The remainder of the 35 % can come from the QIZ, Israel, Gaza Strip, West Bank, or the U.S. (with a maximum of 15 % from the U.S.). For this method, only direct cost is applied to the calculation of the content.

  Method 2: Jordanian and Israeli manufacturers must each contribute at least 20 % of the total cost of production of the QIZ product. For this method, both direct and indirect cost is applied to the calculation of the content.

- In light of the value added restrictions, abiding by them under the QIZ Agreement guarantees exports. For the JUSFTA, since there are no such restrictions, no special export arrangements are required.

- In terms of impact on the local community, the QIZ Agreement entails the provision of job opportunities especially for female workers with no professional background or experience together with developing the surrounding local area around the QIZs by providing supporting services. Under the JUSFTA, job opportunities are found at the macro/national level.

- Labor, environment and dispute settlement provisions were not addressed in the QIZs as opposed to that of JUSFTA.

23 Sources: For the JUSFTA, The U.S.-Jordan Free Trade Agreement Fact Sheet and for the QIZs agreement, Your Guide to QIZ, ECB.Jordan Embassy

Exports through the JUSFTA picked up pace by 2010, the year by which tariffs on products similar to those exported under the QIZ Agreement were phased.

By 2012, only one QIZ, Irbid Qualifying Industrial Zone, exported under the QIZ Agreement for a total of US$ 21,422,000 as opposed to under the FTA US$ 239,994,236

In total, exports under the JUSFTA, up until October 2012, reached US$ 772,969,938 divided as follows;

Tab. 3: **Exports under the JUSFTA, 2012, US$**

Al-Dulayal Total	254,615,557
Al-Rusaifa Total	13,545,179
Al-Hassan Total	239,994,236
Al-Tajamouat Total	117,427,578
Cyber City Total	37,223,982
Karak Total	110,163,406
Total	772,969,938

Source: QIZ Unit, Ministry of Industry and Trade

In terms of relative contribution of each city, Figure 18 provides more information.

A comparison with exports from the above zones to Arab countries offers insightful results.

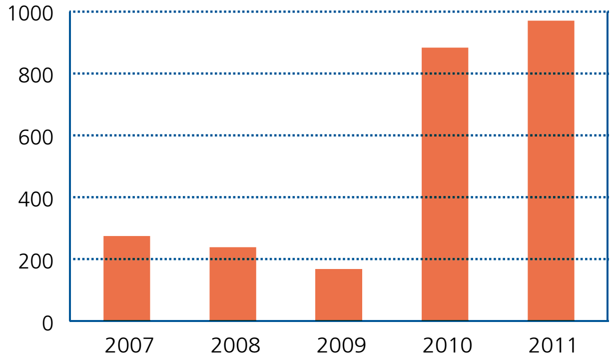
Tab. 4: **Exports to Arab Countries, 2012, US$**

Al-Dulayal Total	2,572,498
Al-Rusaifa Total	495
Al-Hassan Total	183,452
Al-Tajamouat Total	779,243
Cyber City Total	14,958
Karak Total	854,221
Total	4,404,868

Source: QIZ Unit, Ministry of Industry and Trade

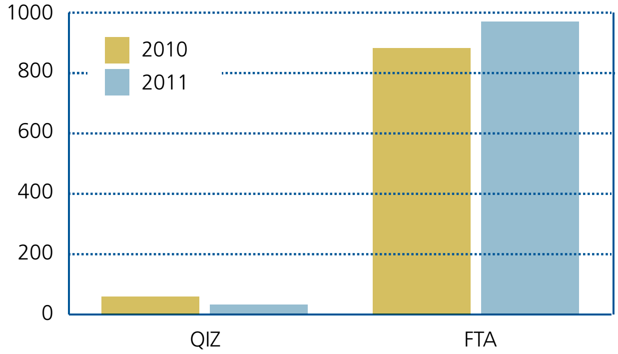
As a result, in 2012 and as is clear from the figure below, by the time the JUSFTA came into effect, QIZ exports had deceased while exports under the FTA were taking off.

Fig. 16: **Exports, JUSFTA (million US$), 2007–2011**



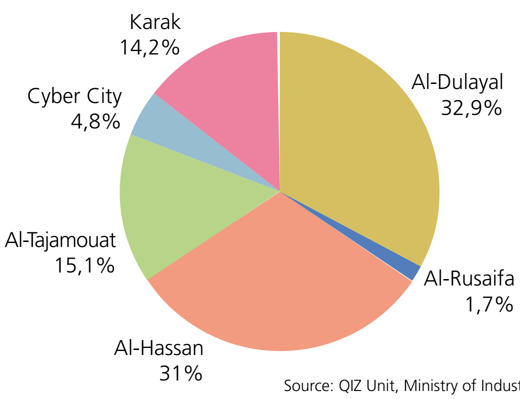
Source: QIZ Unit, Ministry of Industry and Trade

Fig. 17: **QIZ versus FTA, Exports (million US$), 2010–2011**



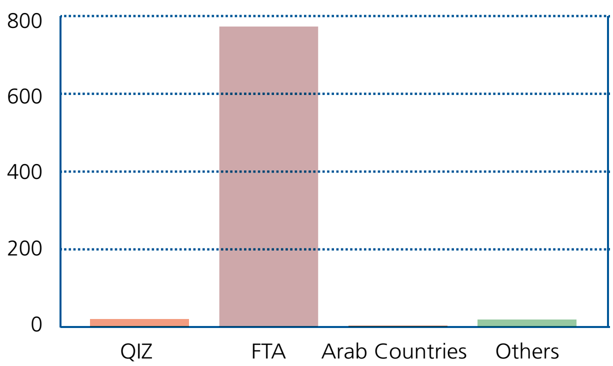
Source: QIZ Unit, Ministry of Industry and Trade

Fig. 18: **Exports under the JUSFTA-2012**



Source: QIZ Unit, Ministry of Industry and Trade

Fig. 19: **Exports, 2012 (million US$)**



Source: QIZ Unit, Ministry of Industry and Trade

Annex: List of Interviewees in Egypt

Al-Ahram Newspaper
Mr. Salem Wahby (Editor in Chief, Al-Ahram Economist & Chairman of Economist Journalist Association of Egypt)

Cairo Cotton Center
Mr. Magdy Tolba (Chairman, Cairo Cotton Center)

Egyptian Federation for Independent Trade Union, EFITU
Mr. Kamal Abou Aita (Chairman, EFITU) & Mr. Hassan Khallaf (Head of Foreign Affairs Committee, EFITU)

Port-Said Investors Association
Mr. Magdy Kamel (Executive Manager, Port-Said Investors Association)

PLAZA COMPANY

SABA COMPANY

Textile General Trade Union
Mr. Abdul Fattah Ibrahim (Chairman of the General Trade Union and Board Member of ETUF)

International Company for Agriculture Development "Farm Frites"

Ministry of Industry and Foreign Trade
Dr. Ahmed Zaki (Deputy Director of the QIZ Unit, Ministry of Industry and Foreign Trade)

Egyptian Trade Union Federation (ETUF)
Mr. Abdel Moneim El Gamal (Board of Director of ETUF & Director of GTUWW)

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