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THE IMPACT OF THE PEACE PROCESS ON LABOUR-INTENSIVE INDUSTRIES: AN ANALYTICAL VIEW OF THE TEXTILE AND GARMENT SECTOR*

by

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INTRODUCTION

Abundant literature on implications of the peace process on economies of the region and on potentials for Arab-Israeli cooperation has been published in the 1990s, particularly with the initiation of the peace process with the Palestinians. Several international and regional conferences and seminars were held on the subject, concentrating on the identification of joint projects as well as on scenarios for the future. One of the thesis that has been continuously repeated and discussed in the literature and in the various forums, is that a new division of labour may be expected in the region, whereby Israel will specialize on high-technology products, while Arab countries concentrate more on labour-intensive industries. However, little in-depth research has been carried out on the impact brought about by the progress made in the peace process on the industrial sector of ESCWA countries, in order to assess properly emerging industrial cross borders relations.

This paper is concerned with the impact of the peace process on one labour-intensive industry, concentrating on one sector: textiles and garments. The emphasis placed on textiles and garments stems from the fact that this branch is a well-established labour-intensive industry, that contributes significantly to total manufacturing output, value added, exports, and to employment in countries affected by the peace process: Egypt, Jordan and the Palestinian National Authority Area. This industrial branch is also one of the major contributors to total export in Israel. Furthermore, textiles and garments have been selected in view of the fact that they are expected to be the most affected, positively or negatively, by the new patterns of economic relations in the region, as well as by international trade agreements and emerging economic blocs in the World. The impact of the new economic relations on this branch will depend, to a large extent, on several factors: the productivity of this branch, each country's comparative advantage, and therefore its competitiveness in the export market.

It is important to explore whether a trend towards a new division of labour is currently developing/ or may be developed in the future, and/or whether the current Israeli transfer of production of textiles and garments to neighbouring countries is the result of a deep crisis faced by Israeli firms in order to keep benefitting from accumulated competitive advantage gained earlier. The paper will focus on the Israeli production strategy towards the sector, the factors that are influencing the location of the Israeli production, and the main forms of industrial relations that are currently developing between Israel and neighbouring countries: through direct investment, subcontracting, joint ventures, transfer of technology and know how, or through other industrial links. The paper will conclude with a possible scenario for the future.

The findings of this paper are based on a wealth of accumulated existing literature and documentation, as well as on extensive interviews carried out with managers of textile and garment companies in the three following countries: Jordan, Egypt and the Palestinian National Authority Area. Discussions were held with around 50 companies that are involved in some relations with Israeli textile and garment firms: subcontracting, joint ventures or other forms of industrial relations.

I. THE ISSUE IN PERSPECTIVE

A. The Israeli industry: an overview

1. Structure of the industry

The textile and apparel industry in Israel is one of the major industrial sector, accounting, in 1995, for about 9% of total industrial output, 16% of total industrial employment, and about 9% of total industrial exports (excluding the export of diamonds). The industry which employs about 50,000 workers, consists of the following three main sectors:

(1) Textile fibers, spinning of yarns, weaving and knitting of fabrics

(2) Dyeing, printing and other textiles finishing operations

(3) Clothing and finished goods like household textiles.

The whole industry generated, in 1995, around US$ 3.4 billion of sales revenues; textiles and apparel accounting for 41% and 59% respectively of the total turnover. In terms of employment, the apparel sector, which is more labour intensive than the textile sector, employed around 60% of total employment. About one third of the production is exported, which corresponds to around one billion dollar in 1995, consisting mainly of apparel products (more than 68% of total exports of the industry). The production of the textile sector (fibers, yarns and fabrics), in fact, is mainly geared towards satisfying the needs of local apparel companies, as exports of textiles account only for 24.5% of total sales of this sector.

The industry is highly concentrated, in terms of size, output, and exports. Among the 446 companies which manufacture textiles, only 5 have more than 300 employees and 29 between 100 and 299 employees. In the manufacture of apparel, there are 2,368 companies that employ more than 5 workers; more than 95% of these companies are of small size, employing between 5 and 50 people, while only 9 companies have more than 300 employees, and 53 between 100 and 299 employees. The largest companies are vertically integrated, in the sense that they are involved in the same time in all operations: spinning, weaving, dyeing and printing, and manufacture of clothing.

The concentration of exports is reflected in the fact that only 9 companies account for more than 51% of all exports, and 3 for around the third of all exports, while a single company (Delta Galil) contributes alone to about 20% of all exports. Total exports is undertaken by around 200 enterprises, while all other companies (more than 2000) concentrate their activities on the local market (Israeli and Palestinian markets), or operate as subcontractors for the large enterprises[1].

2. Composition of exports of the apparel sector

Until 1992, and before the application of import liberalization measures, Israel was

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[1] Israeli Export Institute, **Israel export briefing - Israel's textiles and apparel industry**, Tel Aviv, June 1996

almost producing all its needs in apparel products. The main items exported by the sector comprise:

(1) Knitted wear: knitted cotton shirts and underwear
(2) Fashion wear: knitted young fashion and sport apparel products
(3) Men's suits, jeans and trousers
(4) Swimwear
(5) Infant's and Children wear, socks and pantyhose
(6) Home textiles: towels and bed linen

With the exception of fashion wear, the other products are generally produced at large-scale by the large export companies, with a relatively high degree of mechanization; they are generally characterized by high degree of standardization, which involves little change in the pattern and the style. This is in contrast with the fashion wear products that are very sensitive to fashion changes, in the sense they require frequent changes in styles (low degree of standardization)[2].

As the Israeli companies target mainly the medium to high quality segments of the market (in Europe and North America), they need to compete in quality and price. A relatively qualified skilled labour is needed for the mass production, but this labour can be trained in a relatively fast way. While the fashion wear is a more labour-intensive industry, is generally produced by small-sized workshops manufacturing small series of products for niche markets, and need a very well qualified personnel with long experience.

B. The problems encountered by Israel

Since early 1990s, the textile and apparel industry in Israel is facing a profound crisis, particularly in view of the fast changing world environment brought about by the international liberalization of trade and related agreements of the World Trade Organization (WTO), the European-Mediterranean initiative, the liberalization of the global economy and the domination of market forces. Global events are having also their impact on the country level, reflected in changes introduced by the Israeli government in economic and trade policies. Other policies and measures are being also undertaken by the government, in which more pressures were put on the growth of the textile and apparel sector.

The signs of crisis are reflected in the following:

(1) High cost of labour in Israel. Israeli law requires that the manufacturer pays a minimum wage of US $ 695 per month (with taxes, this amounts to $ 900 for the employer). In Jordan and other countries (particularly South East Asia countries), the monthly salary may range from $ 50 to $ 150 monthly[3], and between 200 and 250

[2]See Gordon Hanson, "Incomplete contracts, risks, and ownership", **International Economic Review**, Vol. 36, No. 2, May 1995.

[3]Assaf Nadiv, "Israel textile in crisis - No alternative for Arab Women", **Challenge**, No. 40, November-December 1996 (translated from the Hebrew by Challenge).

dollars in the West Bank and Gaza Strip.

(2) The significant reduction of subcontracting arrangements with Palestinian firms. During the Israeli occupation of the West Bank and Gaza Strip, Israeli firms were able to take advantage of the lower labour costs in the Palestinian territories to subcontract part of the production to Palestinian sewing factories. Subcontracting arrangements, in fact, have developed rapidly and expanded tremendously during occupation, while they witnessed since the last two years serious problems related mainly to the political instability and the frequent closure of the Palestinian territories. These problems came at a moment when Israeli companies are in urgent need to produce at lower cost in order to face the changes brought by regional and global events. Israeli firms need, therefore, to seek the services of cheap labour in other countries.

(3) Investment in the sector has declined significantly since 1993. In current prices, investment dropped by around 30%, from New Israeli Shekels NIS 273 million in 1993 to 200 million in 1995.[4]

(4) The difficulties faced by the Israeli textile and garment companies to get loans from banks which consider the sector as saturated, risky and little profitable. The high interest rate coupled with the relative stability of the Israeli shekel in recent years led to an increase in cost of financing; the foreign exchange has favoured imports over exports.

(5) The policy of the "Textiles Administration" at the Israeli Ministry of Industry and Trade to support only the creation or expansion of enterprises planning to invest in modern equipment, introduce sophisticated manufacturing methods, and conduct suitably aggressive marketing strategies [5]. Small companies with relatively outdated equipment and not economically efficient are therefore hurt by the recent policy of the Ministry.

(6) Reduction of subsidies and incentives to industrial enterprises, and increased liberalization of the Israeli market. However, companies that operate in overseas markets are offered incentives by the Law for the Encouragement of Capital Investments; a Special Fund helps companies operating in the local market to become more efficient and equip themselves with modern machinery.

(7) The continuous growth of imports since early 1990s, in view of the gradual reduction in customs duties on imports of U.S. and European textiles and garments, as stipulated in the free trade agreements with these countries. Imports grew faster than exports: for example, imports grew by 18% in 1995 as compared to 8% for exports. The imports of apparel products grew more rapidly than the imports of raw materials and semi-finished goods: 21% as compared to 11%. The expansion of imports have affected negatively the companies producing for the local market, and more particularly small

[4] Israeli Export Institute, Ibid..

[5] Israel Export Institute, "Israel's Textiles and Apparel Industry", in **Israel Export Briefing**, Tel Aviv, June 1996.

enterprises.

(8) The implementation of the Uruguay Round Trade Agreements, which means greater international competition in the export market. In fact, the markets of Europe and North America in which Israeli products enjoy free trade, will become more accessible to other countries, such as those from East Asia and Eastern Europe. By implementing these agreements, Israel will also suffer from increased competition in the local Israeli market, since the country is committed to reduce gradually the customs duties on imported garments from 72 per cent in 1995 to 12 per cent in the year 2000.

(9) The new environment regulations in Israel, that impose restrictions on dyeing and printing of fabrics, are putting pressures on Israeli firms to introduce anti-pollution measures, increasing therefore the cost of production and limiting the growth of this branch.

The crisis of the Israeli textile and garment industry will have its implications on neighbouring countries, through the development of new industrial links between Israeli and Arab firms. The textile and garment sector in both Egypt and Jordan could take advantage of the crisis that is facing the Israeli sector through: (1) developing direct links with foreign firms through subcontracting or joint ventures; and (2) benefitting from Israeli networks with foreign market, and from the Israeli technology and know how.

II. ISRAELI PRODUCTION STRATEGY WITHIN THE PEACE PROCESS

In order to survive, face the above challenges, and compete in the local and international market, Israeli textile and garment companies need to look for countries, that may provide cheap labour to the sector. The developments that took place in the peace process provide Israeli firms with opportunities to seek subcontracting or joint venture arrangements with Jordanian and Egyptian companies. The low labour costs in Jordan and Egypt and the geographical proximity of these two countries to Israel are important factors in the development of industrial relations.

Labour costs, however, cannot be considered as the sole factor that influences the location of Israeli production of textiles and garments; there are also other important factors that should be taken into consideration. The delocalization of Israeli production to lower-wage locations needs to be discussed, therefore, with reference to the new international division of labour, and other factors that are shaping industrial relations at the global level.

A. The new international division of labour

The activities of the Israeli companies in Jordan and Egypt, which started two years ago (1995), with the progress that was made in the peace process, cannot be dissociated from the global trend towards the division of labour between industrialized and developing countries. In the old international division of labour, the role of developing countries was to supply cheap raw materials (i.e cotton) to the developed countries; this role has changed today to that of supply of cheap labour (the New International Division of Labour). The New International Division of Labour (NIDL) is characterized by the transfer of the production, or part of it, from developed to developing countries, with the aim of taking advantage of the lower labour costs. The garment industry is one of the labour-intensive industries, which has been considered as falling under the NIDL, particularly that labour account for around 60% of production costs[6]. The advantages gained by the transfer of the production are thus important.

Delocalization of textile and apparel production is not new nor specific to Israeli firms. Industrialized countries, particularly European and US countries, started in the 1970s to delocalize clothing production to low-wage areas in developing countries, taking advantage of the cheap labour there. Delocalization, generally, can occur as defensive measure that enables firms to retain their market share and survive the fierce competition, or as a measure to increase profits. The current trend observed in Israeli transfer of production of garment to neighbouring countries can be considered more as a survival and defensive measure, in view of the serious problems faced by Israeli firms (mentioned above), and the need to restructure the industry in the context of increased competition in the world market.

One of the major weaknesses of the NIDL concept is that it explains the specialization of each country in certain production according to labour costs only. There are, however, a number of factors that also influence the location of the production, and may explain its delocalization. One of the important factors is related to the macro-economic and political environment in the developing countries where the production would be located; this includes the existence of a political stability, a consistent macroeconomic policy, an adequate business environment and relative absence of bureaucratic procedures, and existence of skilled labour force, etc. Other important factors that also have impact on the location of the production are related to: (1) the size and structure of the firm; (2) the nature of the product itself; (3) the technological content of the product; and (4) the trade policy and international trade agreements. The fact that the USA and countries of the EU are still major world producers of garments explain clearly the influence of factors, other than labour costs, on the location of production. All these factors will be taken into consideration to explain the current behaviour and trend of Israeli garment firms as well as the future trend in the delocalization process.

B. The "triangle manufacturing" or delocalization of production

1. The concept

Israeli exporters of garments produce generally according to specifications determined by the foreign company, or according to a design proposed by the Israeli company and agreed upon with the foreign firm. The arrangement with the foreign firm also entails the use of certain yarn and fabric, which could be produced locally or imported. In view of the high cost of labour in Israel, the Israeli firm subcontracts part of the production to sewing factories in neighbouring Arab countries. The mechanism by which US and European firms place orders with companies in Israel, which in turn subcontract part of the work to factories in lower wage locations such as the West Bank and the Gaza Strip, Jordan and Egypt, is known as

[6]Michael Scheffer, **The changing map of European textiles - Production and sourcing strategies of textiles and clothing firms**, L'Observatoire Europeen du Textile et de l'Habillement, Brussels, 1994.

4. **Industry specialization**

In order to survive and compete in the international market, Israeli textile and garment export companies are producing for the upper-end niche market. For that purpose, they need to develop new fabrics and novel products, place greater emphasis on design, and introduce sophisticated and computer-based machinery as well as modern manufacturing methods and management techniques. Israeli companies would specialize in the following:

(a) Role of marketing: securing export markets. Israeli companies have developed strong networks with foreign companies, particularly in Europe and the USA. They also enjoy preferential treatment in these markets.

(b) Design of garments: Israeli garment companies are well advanced in the design of patterns that meet the tastes of Western consumers. Several very well known foreign garment companies rely on designs made in Israel.

(c) Transfer of know how to neighbouring countries, for the production of specialty fabric, use of modern machinery, and advanced production process. Israeli companies have been able to innovate by producing special and high quality fabric, and introducing modern and computerized sewing machines.

III. FACTORS INFLUENCING THE LOCATION OF THE PRODUCTION

Several factors are influencing the selection of the new location of the production; as indicated above, labour costs alone cannot justify the delocalization of production to lower wage locations. There are other factors, equally important, that have their impact on the selection of the new location of production. These factors are related to: trade regulations and policies, political stability and business environment, availability of fabric, quality of product, fashion sensitivity of the product, delivery times, etc.

A. **Production costs and quality**

Labour costs can be considered as an important factor in the transfer of production from Israel to its neighbouring countries. Among these countries, Egypt offer the lower wages (60-90 dollars monthly), followed by Jordan (100-150), and then the West Bank and the Gaza Strip (250-300). These costs are relatively quite low when compared to average wage in the textile and apparel sector in Israel (900 dollars).

Although women dresses and men suits are among the most labour-intensive apparel products, less labour-intensive products, such as t-shirts, shirts and underwear, using more automated production lines are being subcontracted in neighbouring countries or sourced particularly in Egypt. Basic non-fashion goods are therefore those which production is transferred to neighbouring countries. This may be explained by the fact that large Israeli exporters are generally operating more on mass production products, which can be easily transferred to Egypt and Jordan. Skilled labour, in fact, can be trained in a relative short time. The introduction of computerized and more automated sewing machines by the Israelis helps in reducing the labour's margin of error.

According to a study prepared by the Israeli Export Institute (1996), the full ownership of a factory in Jordan or Egypt is, in terms of profit only, more profitable than joint venture which in turn is more profitable than subcontracting. The transfer of Israeli production to Egypt is more profitable than Jordan, because of the lower labour cost in Egypt[10]. Production costs increase, in fact, in joint ventures and subcontracting, because of the need of the Israeli manufacturer to send frequently technicians to help the local workers in using efficiently the machines, provide them with on-job-training, and undertake the quality control. Such additional cost is negligible in the case of Palestinian subcontractors, in view of the proximity of the Palestinian territories and also in view of their longer experience and skills acquired over long time, as indicated above. The proximity of Jordan to Israel renders transport cost of people and goods less costly than Egypt. This explains why subcontracting arrangements in Egypt witnessed a decline recently in favour of other forms of industrial relations.

B. Political stability and business environment

Should political stability prevails in the Palestinian territories, the Israeli producers will not find it necessary to move part of the production of garments to Egypt and Jordan. Although wages are higher in the Palestinian territories than in Jordan or Egypt, the Palestinian sewing factories present several advantages: long experience with Israeli manufacturers, confidence built for more than 20 years, trained work force, geographical proximity and lower transportation costs, daily contacts between Israeli and Palestinian firms, less bureaucratic procedures on the borders, integrated economies, easy banking transactions, etc.

Operations with Jordan are generally considered easier than with Egypt for the following main reasons:

- less bureaucratic procedures in Jordan, and possibility for Israelis to get visas more quickly

- Communications with Jordanians are easier, the latter showing more readiness to cooperate with Israelis, while in Egypt, there is generally more reluctance from the business community to cooperate with Israel.

C. Delivery time

Delivery time is an important factor in the selection of the location of the production. The importance of delivery time is greater for products that are highly fashion sensitive, which should respond to quick change in fashion and design, and more particularly those products that target small market niches. A quick change of the design of the product needs to be undertaken by the manufacturer in order to meet the requirements of the market. Delivery time in this case is more important than labour cost factor.

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[10] Israeli Export Institute, **Potentials for joint cooperation in the textile industry between Israel, Jordan and Egypt**, Israeli Export Institute, 1996 (translated from hebrew).

goods must be transported directly between the parties, but may temporarily pass through other territories.

On the other hand, cooperation agreements were signed between the European Union and some of the Mediterranean countries such as Jordan, Egypt, Lebanon, the Syrian Arab Republic and the West Bank and Gaza Strip. According to the EU agreement with the Mediterranean countries, customs duties on products originating in these countries were progressively abolished by 1st January 1993[14]. The same rule of origin that are in force with Israel apply to the other mediterranean countries.

Negotiations are currently underway for a Euro-Mediterranean Agreement between the European Union and Egypt, Jordan and Lebanon. The Agreement is expected to provide for a free trade area with the European Union by the year 2010, like the agreement that was signed in 1995 with Morocco and Tunisia. Clothing will benefit from such an agreement.

In view of the above, Israeli textile and garment companies cannot subcontract the sewing operations in Jordan and Egypt if they wish to export to EU countries, and take advantage of the cheap labour in Jordan and Egypt. These companies are using, however, the following mechanisms to overcome the obstacles of the rules of origin:

- Carrying out the design in Israel and securing the export market: in this case, fabric may be imported from Europe to Jordan or to Egypt, processed to a finished garment product, and then exported to one of the EU countries. The role of the Israeli firm will be also to provide the know how and the quality control, and supervise the production. This mechanism is being currently used by Israeli producers (Castro Company), particularly in Jordan.

- Exporting fabric from Israel or from a third country to one of the European countries, and "endogenising" the fabric there by paying customs duties. Endogenisation means that the fabric become a European fabric, which is then exported to Egypt or Jordan for further processing into garments. By doing so, the Egyptian or Jordanian company can meet the requirements of the rules of origin and export the garments to Europe free duty. One of the Israeli companies, Bagir company, is operating in such a way, by placing orders with an Egyptian company. The suits are exported to Marks and Spencer.

- Transferring the production of fabric to Jordan or Egypt (with Israeli know how), carrying out the design, securing the export market and manufacturing the finished garment product in one of these two countries. The Israeli Delta Galil company is operating in such a way in Egypt, through sourcing fabric and garments with local suppliers. Attempts are being made by the same Israeli company to produce fabric in Jordan.

- Transferring all the production in Jordan or Egypt through the establishment

[14] UNCTAD, **Handbook on the Trade Aspects of the Cooperation Agreements between the European Union and Selected Mediterranean Countries**, UNCTAD/ID/GSP/19, December 1994.

of 100% owned Israeli factory. Delta company have established a factory in the Cairo free zone, that export underwear and t-shirts to Marks and Spencer.

- A fourth mechanism that may be used in the near future will be the establishment of a free trade area between Israel and Jordan, or between Israel and Egypt. Under such arrangement, the "cumulative" origin rule will apply, as it is currently applied between Algeria, Morocco and Tunisia. The establishment of a free industrial zone between Israel and Egypt or Jordan is also another option, provided that the zone is established in the Israeli side. Currently, some Jordanian and Israeli firms are calling on the European Union to accept the cumulative rules of origin between the two countries.

2. With the United States

The USA-Israel Free Trade Agreement, signed in 1985, provides for gradual elimination of all tariff between the two countries by 1995. The Agreement permits also the entry of goods, including textile and garment products, without any quotas. The rules of origin that govern the Israeli exports to the USA differ radically from those applied in the Agreement with the European Union. In order to be considered as an Israeli product and be eligible for a duty free entry in the USA, the product must satisfy the following conditions:

- The components of the product should have undergone a material alteration

- 35 per cent of the value added should be the result of work executed in Israel

- It should have been shipped directly from Israel to the USA.

Under this agreement, cutting the fabric, for example, is considered as the stage where the alteration of the materials took place, which means that Israeli companies can execute the sewing stage in neighbouring countries, and benefit from the advantages of the Agreement, provided that 35 per cent of the value of the final product has been worked in Israel and dispatched directly from Israel to the USA. The terms of this Agreement, in fact, are enabling several Israeli companies to subcontract the sewing, and in some cases the finishing operations, in Jordan or Egypt. In this respect, it is worth mentioning that the 1996 new stricter regulations governing the determination of origin for countries with which the USA has trade agreements do not apply to Israel. Under these new regulations, for an apparel product, for example, the country of origin is considered as the country where the sewing stage has been carried out[15].

In view of the preferential treatment Israeli goods have in the US market (no quotas and no customs duties), Israeli exporters find more profitable to subcontract part of the operations in Jordan or Egypt, and export the finished products from Israel, rather than from Jordan or Egypt. In fact, Jordanian garment goods are not exempted from customs in the USA, though they are not subject to quotas restrictions. Egyptian yarn and fabric, and cotton-based apparel products, are subject to quotas, while all products are subject to customs duties

[15] Israel Export Institute, ibid.

in the US.

3. With EFTA

Signed in 1993, the Free Trade Agreement between Israel and EFTA provides for immediate and full elimination of most tariff and duties. The agreement is quite similar to the Agreement with the European Union, as the same rules of origin apply.

IV. DELOCALIZATION OF PRODUCTION

Israeli companies are transferring the production of textiles and garments to the Palestinian territories, Egypt and Jordan through one or more of the following four types of arrangements: subcontracting; sourcing and placement of orders; joint ventures; and establishment of a factory with 100 per cent Israeli ownership. While in the Palestinian territories, subcontracting arrangements are the only means of delocalization of Israeli production, in Jordan, delocalization is carried out through subcontracting and joint ventures, and in Egypt through the abovementioned four types. These types of arrangements in industrial relations will be discussed and assessed, with the aim of understanding current trends and potentials for future relations between Israel and its neighbouring countries.

A. Subcontracting

1. Forms and mechanisms

a. Forms

The manufacturer can subcontract one or more of the following operations in the production of apparel products, depending on cost of subcontracting operations and skills of the subcontractor: (1) Preparation of the patterns according to specifications requested; (2) Cutting the fabric; (3) Sewing and assembly of parts of the garment; (4) Trimmings; and (5) Finishing, such as washing, ironing and packing. In this regard, it is important to note that in subcontracting, materials are owned by the manufacturer.

Subcontracting arrangements in the Palestinian territories, Jordan and Egypt are, in many aspects, identical. They take generally various forms:

(1) The Israeli firm supplies the subcontractor with a pre-cut fabric for its sewing; the semi-finished product is returned back to Israel for finishing and packing.

(2) The sewing, finishing and packing operations are undertaken by the Arab company, using a pre-cut fabric from Israel. The finished product is returned back to Israel. In some cases, in Jordan, the quality control is undertaken by representatives of the Israeli manufacturer in the site of the subcontractor's company itself.

(3) Cutting, sewing, finishing and packing operations are undertaken by the Jordanian or Palestinian company. In Jordan, in particular, cutting of the fabric is undertaken in special cases when export is made directly from Jordan to Europe. In this case, the

European fabric is imported by the Israeli company and cut in Jordan according to specifications, but the finished product is not returned back to Israel but is directly exported from Jordan to Europe. Quality control is carried out by representatives of the Israeli company in the factory. In this respect, it should be noted that according to the trade agreement between Jordan and the European Union, export of ready-made garments using European fabric enjoys duty free entry to Europe.

(4) All operations, from preparing the patterns according to specifications, to cutting the fabric, to sewing and finishing, are undertaken by the subcontractor. The fabric, in this case, is provided by the manufacturer. There are, however, very few companies in the West Bank that undertake all above operations, and none in Jordan. These companies are the large ones (such as Badran Company in Tulkarem) employing more than 300 employees. Badran Company produces for very well known companies such as Arrow and Timberland, but through the Israeli firm which supplies the fabric and secures the export market, playing thus the role of a mediator and a marketing agent.

b. Mechanisms of subcontracting arrangements

In contrast to the West Bank and Gaza, where Israeli firms were able to monitor and control subcontracted work on a daily basis, Israelis cannot commute daily to Egypt, or even to Jordan where a full day is needed (in view of the time spent in border crossing). While in the West Bank and the Gaza Strip, the presence of Israeli technicians is less necessary (except for new and modern machinery) today because of the long experience, skills and know how acquired by Palestinian subcontractors during more than 20 years, in Jordan, Israeli firms encountered serious difficulties. The major problem was the inexperience of the Jordanian garment companies which are unable to produce high quality products according to Israeli specifications: poor management, unskilled and inexperienced labour force, etc.. In order to solve this problem, Israeli firms are using one or more of the following means:

(1) Placement of Israeli technician(s) - often of Arab origin - in the Jordanian factories to guide the workers, provide on-the-job training, monitor and control their work, and to assist in the management of the production; and provision of training to key personnel of the Jordanian factories in the Israeli companies. The technician undertakes the quality control in each step of the production process. In this respect, it should be noted that representatives of Israeli and/or foreign companies are carrying out the quality control on a sample of the production on the site (in the Jordanian companies). Owners of Jordanian companies mentioned the advantages gained in subcontracting: transfer of know how, better management of production, higher quality of products, and more skilled labour. In some cases, Israeli companies use the services of Palestinian technicians.

(2) Use of Palestinian garment factories as intermediary. In this regard, it is worth mentioning the case of a well established Palestinian garment company in the West Bank which established early in 1995 an office in Jordan that operates as intermediary between an Israeli company and Jordanian firms. The office receives the orders from the Israeli company, carries out the cut of the fabrics in Jordan, and subcontracts the sewing, finishing and packing to a number of Jordanian garment factories. The strength of the intermediate company lies in the following:

- The quality of work undertaken by the Palestinian company is well known by the Israeli companies; strong business relationships and trust have been built during the last 20 years.

- The intermediate company was able to make available a number of skilled technicians from the West Bank to assist the Jordanian garment factories in undertaking the work. The technician is managing and controlling all operations in production, with the aim of securing high quality products. The technician provides on-the-job training to the Jordanian workers, and undertakes the quality control in each step of the production process.

Under such subcontracting arrangement, the Israeli company is playing only the role of a marketing company that is securing the orders from foreign firms and supplying the fabric, while the Palestinian company is playing the role of intermediary and transfer of know how to Jordanian factories.

The low quality of labour in the Jordanian garment factories explained the reason of failure of many Israeli companies which tried to subcontract work in Jordan without arranging to have a physical presence there. Only few Israeli companies have succeeded until now in Jordan.

c. <u>Nature of subcontractors firms in Jordan and PNA area</u>

The large Jordanian enterprises and those that are well-established in the market, have not shown particular interest to work for Israeli garment companies, for the following reasons:

(1) They operate at almost full capacity and do not face serious problems in marketing: in the local and export market.

(2) They consider that the profit margin is relatively low in subcontracting.

(3) Since the subcontracted work will be sold on the Israeli and export market under Israeli name, they are not able to develop brand name.

(4) They are not ready to take the risk in the absence of Israeli companies' commitment to secure long-term, regular and continuous supply.

(5) They prefer to work as partners (on equal footing) with the Israeli companies, and not merely as labourers suffering domination and exploitation.

(6) They are politically cautious in view of the resistance of a segment of the labour force in Jordan to work for Israel (for political and religious reasons).

A number of Jordanian garment factories are increasingly involved in subcontracting arrangements with Israeli firms. The factories which showed interest and started to work for Israeli companies are those which have the following characteristics:

(1) They are generally medium-sized companies, and most of them are newly established (in the 1990s). They generally have more than 100 machines.

(2) They suffer serious problems in competing in the local and export market, and operate at less than 50 per cent of their production capacity. These companies view subcontracting as an opportunity to use the idle capacity, and start make profits.

(3) They have been producing low quality garments, and have poor management of the production.

(4) Some of them have been established very recently because of the opportunities subcontracting is offering.

It is worth mentioning, in this regard, that the Israeli firms which are subcontracting part of their production in Jordan and in Egypt are the large exporters in Israel producing at large-scale non-fashion garments; they need therefore to subcontract production to at least medium-sized or large enterprises, and not to small-scale ones. The same is being practiced by these Israeli exporters in the West Bank and the Gaza Strip; most of the Palestinian sewing factories which are small-sized factories work for small-scale Israeli workshops that cater mainly to the need of the local Israeli market.

2. Subcontracting relations: risk, trust and domination[16]

a. Control and bargaining power in subcontracting relations

Subcontracting entails a relationship of dependence of the subcontractor vis-a-vis the manufacturer (or client). The subcontracting agreement is, in many aspects, similar to the work contract, which is generally in favour of the employer. As in the relation of employer/labourer, the manufacturer controls the work of the subcontractor, as regard the quantity, quality of work and the time to complete it. In contrast with the worker, the subcontractor generally owns the factors of production (the machines), and controls the management of the enterprise.

A number of factors place the subcontractor in a weaker position vis-à-vis the manufacturer. The dependence of the subcontractor is greater when: (1) Obviously the subcontractor comes from a country that is under economic and political domination of the manufacturer's country; (2) the subcontractor works mainly for one client (manufacturer); (3) the enterprise is small in size; and (4) the assets of the enterprise have a low degree of substitution[17].

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[16]The part related to the Palestinian territories in subcontracting relations (risk, trust and domination) is based on: A. Mansour, **Palestine-Israel: Subcontracting arrangements in the garment industry**, The Palestine Economic Policy Research Institute (MAS), Ramallah (West Bank), forthcoming July 1997.

[17]Bernard Baudry, **Contrat, Autorite et Confiance: une etude des mecanismes de coordination dans la relation de sous-traitance**, Universite Pierre Mendes France, Institut de Recherche sur la Production et le Developpement (IREPD), Grenoble (France), janvier 1993.

(1) Economic and political domination

There is no doubt that the dependence of the Palestinian firm is greater than the Jordanian or Egyptian subcontractor, in view of the economic domination and control by Israel of the Palestinian territories. During occupation, the Palestinian population was repressed and their economy was completely dependent on Israel. The dependence of the Palestinian firm continued after the Oslo peace accords, though taking different forms, since Israel continues to consider the relations with the Palestinian territories as relations of domination and control. Furthermore, the frequent closure of the Palestinian territories has prevented the owners of Palestinian sewing factories to negotiate directly the price with the manufacturer who exploits the closure to impose the price of the piece of the product, and often reduce it, or delays the payment, with little opposition from the subcontractor. The absence of a formal contract between the two parties places the subcontractor in a weaker position.

(2) Dependence on one client

The dependence is greater when the subcontractor realizes a significant portion of its total sales with one client (manufacturer). The situation differs between Palestinian and both Jordanian and Egyptian subcontractors. In the Palestinian territories, subcontractors were working during occupation for several Israeli manufacturers in the same time. Since the Oslo peace accords, few have subcontracting arrangements with more than one or two Israeli manufacturers, and few are able to substitute one manufacturer with another one. The restrictions imposed on the movement of people from the Palestinian territories to Israel have rendered it extremely difficult for Palestinian firms to contact new manufacturers, and therefore they become dependent on one manufacturer to secure income. Furthermore, Palestinian firms cannot shift production to the local market, in view of the limited size of the market as compared to existing production capacities. Under these conditions, the existence of a large number of sewing factories in the West Bank and the Gaza Strip has placed the Palestinian subcontractors in a weaker position. The closure of the Palestinian territories, which placed Israeli firms in a stronger position in their relations with Palestinian subcontractors, is also a factor of weakness for Israeli firms. The latter have to seek low-wage locations in neighbouring countries in order to survive and increase their ability to compete in the international market.

However, the bargaining power of the Jordanian or Egyptian companies are greater in subcontracting relations with Israeli firms. In Jordan, the limited number of the Jordanian companies that are prepared to work under subcontracting arrangements place these companies in a better bargaining position towards Israeli manufacturers. According to managers of Jordanian garment companies, several Israeli firms are approaching them to undertake subcontracting work; the demand generated by Israeli firms is quite greater than the existing production capacities in Jordan. New firms are being created in Jordan to exploit the opportunities of operating under subcontracting arrangements.

In Egypt, while the size of production capacities in garments is quite large, the reluctance of most Egyptian sewing factories to cooperate with Israeli manufacturers (for political reasons) have placed the latter in a weaker bargaining power.

(3) Dependence and size of the enterprise

The dependence of the subcontractor is greater when the enterprise is small in size, which means that the manufacturer can easily replace its services with another enterprise. The small size of most Palestinian sewing factories, and their large numbers, place them in a weak position vis-a-vis Israeli manufacturers. The subcontractor has to accept the conditions imposed by the Israeli manufacturer, if he wish to continue receiving orders, since the closure and market depression place the Palestinian subcontractors in an unfavourable bargaining power. The negotiating power of the subcontractor is also weakened by the fact that he is not able to visit regularly the manufacturer supplying the work and select the most profitable opportunities.

In contrast to the West Bank and the Gaza Strip, the enterprises working under subcontracting arrangements in Jordan and Egypt are generally of medium size. The main reason is that small-scale enterprises are not yet prepared to meet the requirements of the large Israeli exporters in terms of quality, quantity and delivery time. There are only very few medium- and large-sized industries in the sector in Jordan. While in the Palestinian territories, most of the subcontracting arrangements are initiated by Israeli small-scale enterprises in order to meet the needs of the local market in Israel, and partially the export market.

(4) Dependence and degree of substitution of the assets

The dependence of the subcontractor is greater when the assets of the enterprise have a low degree of substitution, which means that the subcontractor cannot redeploy his assets, quickly and without cost, to meet the requirements of another client. Since most of the subcontracting takes place at the sewing stage, the redeployment of machines to meet the requirements of another manufacturer can be done without serious problems, although, in some cases, the subcontractor needs to buy some specialized and computerized machines to undertake specific operations for the manufacturer. In the Palestinian territories, Palestinian subcontractors used, before the closure, to work for several manufacturers, without facing the problem of changing the assets. The same applies to Jordan and Egypt. In Jordan, for example, one of the garment company which worked around one year under subcontracting arrangement with a large Israeli producer (Lodzia Company) has stopped operations with the latter company, and works currently with another Israeli company (under joint venture agreement) without introducing major changes in the asset (machines). The reason is that subcontracting is not very profitable. It is worth mentioning that the Jordanian company has around 100 machines, employs 150 workers and produce an average of 6,000 t-shirts per day. The relatively high degree of substitution in the sewing operations provides therefore the subcontractor with greater flexibility in meeting the needs of Israeli manufacturers.

b. <u>Risk and trust in subcontracting relations</u>

Subcontracting agreement (relations) cannot be assimilated to a simple market relation, where price is determined only by supply and demand, and where the selection of the subcontractor by the manufacturer is based only on price and quality. In addition to the price factor, there are also other factors - risks and uncertainty, trust and confidence - which determine the selection of the subcontractor. The risk and uncertainty for the manufacturer occur from the time the contract is effected to the time the product is manufactured by the subcontractor. This uncertainty results from the difficulty for the client to control the actions of the subcontractor, and which results from the asymmetrical information[18] that exists between the client and the subcontractor. Asymmetrical information means that the client is not sure (lacks the information) if the subcontractor will respect all elements agreed upon in the subcontracting arrangement, particularly to produce according to agreed specifications and at high quality, to meet the deadline and deliver the product on time, and to make efforts to reduce cost of production and increase productivity. The reputation of the subcontractor is therefore an important element in reducing the risk factor for the manufacturer.

In the case of the Palestinian territories, the time factor has been determinant for the Israeli manufacturer to judge on the credibility of the subcontractor, as trust and personal relations were built for more than 20 years between the Israeli and Palestinian firms. In fact, there have never been a formal contract signed by the two parties, and the contract has not been used as a tool to reduce the risk of subcontracting arrangement. It is worth mentioning that because of the existing trust, the Israeli manufacturer continues, though at lesser extent, to subcontract part of the production in the Palestinian factories, despite the current political situation.

The relations between the Israeli manufacturer and the subcontractor in Jordan are quite different than what is observed in the Palestinian territories. A formal contract governs the relations with the subcontractor in Jordan. Since the relations are recent (2-3 years), trust has not been yet established between the two parties, and risks are greater (if we exclude the political factor). In subcontracting, there is also the problem of loyalty. There is no guarantee that the Jordanian company will continue to work for the same Israeli firm, despite the fact that the latter have invested time and resources to upgrade the skills of the workers (through training and supervision of work), organize the production, introduce modern machinery and improve the quality of the product. If offered better prices and conditions, the subcontractor may in fact work with another Israeli company.

On the other hand, there is also an uncertainty for the subcontractor, resulting from future actions of the manufacturer. The subcontractor faces always the risk of not getting new orders from the manufacturer, or the risk of a renegotiation of the agreement by the manufacturer with the purpose of reducing the prices. Such an uncertainty for the subcontractor limits, in fact, his motivation to invest in the modernization of the equipment and in innovation.

B. Sourcing and placement of orders

While subcontracting and joint ventures arrangements characterized mainly industrial relations with Jordan, in Egypt, the most practiced arrangements are sourcing and placement of orders by Israeli firms, in view of the existence of a good infrastructure in textile and garment production.

Under the sourcing arrangement, the Egyptian firm owns the assets and raw materials,

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[18]Ibid..

undertakes the additional investment needed for meeting the demand of the Israeli company, while the latter controls the quality through the placement of Israeli technicians (mainly from Arab origin) in the Egyptian firm, and secure the export market. The Israeli Delta company is sourcing fabrics with two fabric companies, and garments products, mainly underwear and t-shirts, with around six garment companies. While the fabric is further processed into garments in the Delta factory in Cairo, the production of garments is exported mainly in the USA and Europe, under well-known international brand names, such as Hanes, Ralph Lauren, Baby Gro, etc.. Sourcing is being also practiced by other Israeli companies, such as Bagir company, whereby the Egyptian company produces around 250-300 men suits per day for export. In this connection, it is worth mentioning that Egyptian companies producing under sourcing arrangements, have expanded dramatically in recent years. One of the Egyptian company that produces t-shirts and underwear, for example, has now 350 machines operating under sourcing arrangement with Delta, as compared to 50 machines two years ago.

Although the Egyptian companies bear alone the risk of additional investment to meet the Israeli demand, the advantages are, according to managers of garment companies, numerous. These companies, like most other garment companies, were, in the past, exporting mainly to the lower-end of the market: low quality and low prices, sometimes with little profit. International competition in this type of products has increased in recent years and will become more stronger with the liberalization of international trade in the near future. In fact, Egyptian companies face fierce competition from South East Asia firms which are able to produce at quite lower cost than Egyptian companies, in view of the lower cost of labour and raw materials, and the larger size of the firms. The alliance made by Egyptian companies with Israeli firms has enabled them to reach the upper-end of the market: high quality and high prices. In fact, Israeli garment companies are able to compete only in the high quality export market. Such an alliance has also a long-term advantage to the Egyptian company; it allows the latter to build closer relationships with the foreign firm, in addition to be known by other international companies. In the long-term, the Egyptian company may secure directly the export market, and without Israeli intermediation.

Placement of orders with Egyptian garment companies is being undertaken mainly by three Israeli trading companies which have established representation offices in Cairo. These companies play mainly the role of intermediary between foreign and Egyptian firms. They take orders from foreign firms and place them with Egyptian companies. Their role is confined only to securing the export market, against a commission charge. Generally, these trading companies are not reaching the high quality export market. It is estimated that the total sales made by Egyptian companies through the Israeli trading companies may reach roughly US$ 40-50 million per year.

C. Joint ventures

In addition to subcontracting arrangements, the large Israeli manufacturers are also establishing joint ventures in Jordan and Egypt, as an additional means of delocalizing production. In Jordan, a joint venture company (50-50%), Century Wear, was established end 1995, between the Jordanian investment company, Century Investment Group (CIG), and the Israeli Delta Company. Delta itself is a subsidiary of the US mother company, Sara Lee. Part of Delta production is destined to Sara Lee. Under the joint venture agreement, Delta provides Century Wear with the technical know how and the export market. The management of the joint venture is run by the Jordanian counterpart. The joint venture is considered by CIG as more profitable than subcontracting; in joint venture, transfer of technical expertise is greater. Century Wear receives from Delta company the pre-cut fabric, undertakes the sewing, finishing and packaging (plus label: made in Israel, and price). The production is returned back to Israel and exported, particularly to the US market. Cutting of the fabric will be soon carried out in the company.

Century Wear has two factories: one producing underwear (men and ladies) and t-shirts; the second producing bra. The first factory started production in February 1996, and expanded continuously, from 200 to 300 machines, so now the factory has 10 production lines and employs 350 workers (women). There is only one shift, 8 hours a day. It produces under very reputable US brand names: Victoria Secret, Structure, Ralph Lauren, Hanes, Banana Republic and J. Crew. The production has reached its high level of half-million units of garments in March 1997. Under the joint venture agreement, Century Wear is paid according to standard hour (cost plus overhead plus profit) from Delta company. Century Wear will not share profit with Delta company in existing export markets which were secured by the Israeli company, but only in new markets opened by the joint venture.

The second factory started, in January 1997, with two lines of production (25 workers and 34 machines). It is expected that by the end of 1997, there will be 10 lines of production (210 workers and 170 machines). The factory produces bra under the brand name, Victoria Secret. Competitors are very few in the world. The production requires highly technical know how and expertise.

The quality control is undertaken on the production line, and on each unit of the finished product. After packaging, a quality control is undertaken on a sample. The quality control is carried out by Israeli technicians, and also by representatives of Delta and Sara Lee company which undertake visits from time to time.

The joint venture arrangement has its advantages over subcontracting, and also its disadvantages.

(1) The advantages of the joint venture for the Israeli manufacturer are:

- It is a long term arrangement in which the Israeli manufacturer can secure long-term production, with high quality and delivery on time;

- The Israeli manufacturer is directly responsible of the quality of production, and of the daily operation of the joint venture, and therefore is in better control of the production and management of the enterprise;

- All the procedures and related problems in establishing the factory are the responsibility of the Jordanian or Egyptian partner.

(2) The disadvantages of such arrangement are:

- The Israeli manufacturer has to consult his partner each time he intends to introduce any changes in the factory: investment, expansion, introduction of new products, etc.

- The joint venture require large investment, as the Israeli counterpart needs to invest a capital amounting to 50 per cent of the joint venture.

- Additional expenses will be borne by the Israeli manufacturer in order for its management and technical team to visit the joint venture.

D. Total direct ownership

The establishment of 100 per cent Israeli factory will enable the Israeli manufacturer to control all the operations and to take the decisions alone, in terms of selection of the workers and the machines, and control of management and production processes. However, such arrangement requires large investment, and the move of a management team from Israel to Jordan or Egypt, in addition to facing alone the administrative and bureaucratic procedures of the government in the countries concerned. Moreover, the Israeli management has to deal with all problems related to the management of human resources. The absence of a local counterpart will make such option difficult to implement for most Israeli companies.

However, one of the largest Israeli company - Delta - established a 100 per cent ownership of a garment factory in the Cairo free zone (Al-Nasr city), operating 350 machines, using local cheap labour, employing 450 workers, and producing underwear and t-shirts. The production is exported to Marks and Spencer under the label "Made in Egypt". The current production reached 34,000 units per day of both underwear and t-shirts. The company relies mainly on Egyptian technicians, with the assistance of very few Israeli quality controllers. However, a number of Egyptian technicians have been trained in Israel on the use of modern machinery and production management. Most of the workers are provided with on-the-job training, and need around one year to become semi-skilled. The factory operates semi-automated and pre-programmed machines. In order to be able to export to the United Kingdom, and meets the requirements of the rules of origin, the company is relying on Egyptian knitted fabric.

Delta company in Egypt is currently building additional lines of production and expanding its production. It is expected that, by the year 2000, the factory will employ around 1,800 workers, which represent 4 times the current level of employment. Delta also envisages to continue the vertical integration of its production in Egypt, through the use of Egyptian threads.

One of the problem faced is that the company is not allowed to sell the second quality product or outdated machinery (from the free zone) in the local market. In fact, the practice of most companies is to carefully control the quality of finished products that are destined to export, by selecting only the pieces that meet the specifications of the foreign client, and selling the second quality product in the local market. The company is therefore forced to sell the remaining quantity in foreign markets at losses.

V. IMPACT OF THE PEACE PROCESS: A SCENARIO FOR THE FUTURE

The current trends observed in industrial relations in the textile and garment sector between Israel and neighbouring countries is likely to continue and even to expand, particularly if positive developments take place in the peace process. It is expected that future trends will be as follows:

A. Delocalization of Israeli integrated production

In view of the serious crisis faced by the textile and garment sector in Israel, it is likely that production of the sector, mainly that is geared towards export, will be phased out, and partially transferred to neighbouring countries (mainly Jordan and Egypt) in the next 5 to 10 years. The Israeli firms producing for the local market, and which generally subcontract part of their operations in the West Bank and the Gaza Strip, will probably have to close in view of liberalization of imports in Israel.

Delocalization will consist of the transfer of the vertically integrated production: from the production of fabrics, dyeing and printing, sewing and finishing of garments. Such a strategy will enable Israeli firms to overcome the constraint related to the rejection by the European Union of the application of the cumulative rules of origin principle between Israel and both Egypt and Jordan, as long as the latter and Israel are not governed by a free trade agreement between them. Delocalization to free industrial zones on the Jordanian or Egyptian-Israeli borders, or to industrial zones on the green line in Gaza or the West Bank, is another possibility. In these zones, cheap and abundant labour can be used, while in the same time, the problem of the rules of origin can be overcome.

Israeli firms, however, will take in charge the design of the product and the research and development geared towards the introduction of specialty fabrics, improvement of the quality of existing fabrics, and the development of computerized machinery. They will also secure the export markets through their strong networking with foreign companies.

In case there will be little progress in the peace process, Israeli firms will have to look for other countries, such as Morocco and Turkey, where they could transfer their production, In this respect, it should be noted that some Israeli firms have already established joint ventures in Turkey, and subcontracted production in Morocco, taking advantage of the cheap labour in both countries.

B. Joint ventures in Jordan, as the main form of delocalization

The short experience in industrial relations between Israel and both Jordan and Egypt have shown that joint ventures between Israeli and Arab firms appeared to be the most advantageous for all parties. For the Arab side, the advantages of joint ventures over subcontracting are that the relation is more on equal footing and profits are greater. For Israeli firms, joint ventures are a more long term arrangement whereas the manufacturer can rely on a continuous supply of finished products.

On the other hand, the large Israeli companies which are part of multinationals are being encouraged by the latter to establish joint ventures. For the multinationals, the establishment of joint ventures will contribute in building up peace in the region, and will benefit from it in opening new markets for their products. In fact, joint ventures may be less affected by instabilities in the peace process, as compared to trade or to other forms of industrial relations. The interest of the parties will be so linked together that it will be costly to terminate the partnership arrangement, in case of political problems.

C. Sourcing in Egypt, as the main form of delocalization

Israeli sourcing of garment production with suppliers in Egypt will continue to expand in the future, mainly because of the availability of an appropriate infrastructure in textiles production. Sourcing will take also increased importance when Israeli firms will start to be involved in spinning activities in Egypt to produce improved yarn and threads. Although the cost of Egyptian cotton is higher than international prices, its has the advantage over its competitors to be of higher quality and is well-known internationally.

Sourcing will be the main form of delocalization of Israeli production to Egypt, as subcontracting has proved not to be very profitable for the two sides. In view of the political sensitivity in Egypt, sourcing appears to provide more independence to the Egyptian manufacturer than subcontracting or joint ventures. Although direct Israeli ownership of production in neighbouring countries is considered the most profitable option for Israeli textile and garment industry, its expansion, however, will depend to a large extent to progress that could be made in the peace process.

D. New opportunities for the Arab textile and garment sector

The phasing out of the Israeli production of textiles and garments and its partial transfer to neighbouring countries will result in the following:

(1) Orientation of investment in Jordan towards the establishment of joint ventures with Israeli firms. In view of the small number of medium and large-scale firms in Jordan, great opportunities exist for new investors to enter the business. In Egypt, opportunities for joint ventures are confined more to existing firms.

(2) Increased possibilities will be available in the future for Jordanian and Egyptian companies to operate directly with foreign firms, without Israeli intermediation. In fact, Arab firms will benefit from the transfer of technology and know how from Israel. Moreover, the alliance made by Egyptian and Jordanian companies with Israeli firms has enabled them to reach the high quality export market, where Israeli garment companies can only compete. In the long-term, the Arab firms would be better known by foreign companies. The latter may found that it will be more profitable to them to work directly with Arab firms.

(3) Palestinian companies, facing difficulties in operating under subcontracting arrangements with Israeli firms in view of the closures, will have opportunities for subcontracting or joint ventures in the new industrial zones that are being established on the green line. However, in case the security and political

situation improves, Israeli garment companies would prefer to continue subcontracting part of the production to the Palestinian territories rather than operating in Egypt or Jordan, in view of the existence of a highly skilled labour force in Palestinian sewing factories, and the geographical proximity.

E. Jordan, as a bridge to Middle East market?

There are signs that Jordan may play, in the future, a sort of bridge for Israeli investment with the aim of penetrating the Middle East market. A number of joint ventures between Israeli and Jordanian firms are being established in Jordan, with an eye on the Middle East market. One of the garment joint venture company which produces garments for export to Europe and the USA (under the label: made in Israel), is planning to produce high quality products for the Jordanian market (under the label: made in Jordan), to be exported in the future to the Middle East market, particularly the countries of the Gulf Cooperation Council. It should be noted, however, that only high quality products targeting the upper-end of the market can compete in the Middle East market.

A number of joint ventures in other industries are being established in Jordan, with the aim of exporting to the Middle East market. For example, a joint venture with the Israeli Tadiran company has been established recently to produce alkaline batteries. Tadiran is closing its alkaline battery factory in Israel, for environment reasons, and transfer the production to Irbid, Jordan. The production in Jordan will start soon. The factory is expected to operate 3 shifts, with annual sales reaching US $ 30 million. The production will be sold in the local market, Israel and Middle East markets (and probably in the foreign markets). The product will be produced under a jordanian brand name (made in Jordan). The factory will employ around 100 workers. Another joint venture with an Israeli company to produce italian jewelry (gold). The factory will employ 100 workers. The main market will be the Gulf countries.

Another large Israeli venture, Koor Industries, has established a special company called Koor Peace Projects Ltd, with the aim of entering the Arab market through joint ventures with Jordanian companies. An investment joint venture company (50-50%) was created recently between Koor Peace Projects Ltd. and the Jordanian Social Security Fund, with the aim of investing in new or in existing projects that can cater to the needs of the Jordanian and Arab market. The joint investment company is still in the phase of preparing the feasibility studies for a number of projects. In this connection, it is worth mentioning that Koor industries has established a joint venture with another Jordanian company to produce pudding for the local market. The joint venture is expected to enter new products and sell in the Middle East market.

It is important to note that the current trend observed in Jordan is part of multinationals policy to secure larger markets through joint ventures, which in turn will help in building up a situation of peace, as indicated above. For example, Delta company and Koor Industries are part of US multinationals. This trend is expected to continue in the future, especially if progress are made in the peace process. In view of the difficulties Israel face in exporting its products to the Middle East markets (because of political sensitivity and high production cost in Israel), the alternative is to use Jordan as a bridge for investment in joint ventures that can cater to the needs of the Arab market.

F. GENERALIZATION OF THE CASE OF TEXTILES AND GARMENTS TO OTHER LABOUR-INTENSIVE INDUSTRIES?

The transfer of Israeli production of textiles and garments is been undertaken, because mainly of the crisis faced by Israeli firms. The results of the findings of this paper may not be copied directly to other labour-intensive industries, though many trends in emerging cross border industrial relations may be repeated in other branches. It is recommended that in-depth research of other labour-intensive industries be conducted in order to understand the extent to which the case of textile and garments could be generalized to other industrial branches, or if specific relations will characterize other labour-intensive industries.