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**QUALIFYING INDUSTRIAL ZONES (QIZs) AS A MODEL
FOR INDUSTRIAL DEVELOPMENT: THE CASE OF
JORDAN AND ITS IMPLICATION FOR
THE ESCWA REGION**

by

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Qualifying Industrial Zones as a Model for Industrial Development: the Case of Jordan and its Implications for the ESCWA Region

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SUMMARY

Various types of Free Zones (FZs) are spreading in Jordan and elsewhere in the ESCWA region, sometimes yielding impressive benefits in such areas as job-creation. However, this has been a largely recent phenomenon for Jordan. Statistics on FZ performance in the kingdom, though not detailed, show that older FZs have provided relatively limited benefits to the economy, for example in terms of employment. Moreover, the qualitative aspects of jobs generated by traditional FZs' commercial operations or low-tech manufacturing are unimpressive.

The situation regarding Jordan's newer FZs, in particular the Qualifying Industrial Zones (QIZs), which were established after 1998, is more encouraging. QIZ employment-creation has been greater than that of older FZs. In terms of the types of jobs created and the technologies and training being applied, the situation is less clear but looks superior to that of traditional FZs. QIZ is still found only in Jordan. Studying this phenomenon may prove useful for other countries in the ESCWA region that could profit from it under the right circumstances. Egypt and Palestine in particular are allowed by the United States legislation establishing QIZ to apply the new model. The paper also discusses Jordan's proposed Free Trade Area with the US and the issue's relation to QIZ, also interesting topics for other ESCWA countries.

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A. Methodology and definitions

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

Some types of FZs found in the region include:

Cargo: heavily used by re-exporters and primarily found in airports and seaports.

Commercial: accommodating traders storing materials in a FZ in order to avoid paying duties before their products are ready to enter countries.

Export processing and industrial: for manufacturing firms wishing to avoid duties and taxes until their products are exported or are ready to enter countries.

QIZ: An FZ whose exports to the United States are tariff-free by US decree, so far significant only in Jordan (2) though permitted in Egypt and Palestine. (3)

With the important exception of QIZs, all of these types exist elsewhere in the world.

B. The role of free zones in economic development

In increasingly competitive and globalized international markets, FZs are being used by ESCWA countries to achieve various economic aims that include promoting exports, attracting foreign direct investment (FDI), stimulating job-creation, and enhancing competitiveness. The use of FZs has increased, partly as a means of achieving new development patterns through localized and focused efforts that will lead to sustainable growth and genuine satisfactory economic transformation. Despite reforms and structural adjustment in ESCWA countries, policy distortions, procedural inefficiencies, and infrastructure inadequacies continue to deter would-be investors and exporters. Many of these problems can be addressed only over the long term; meanwhile, a reformed environment and streamlined procedures that are focused in a particular locality might lead to cost-effective and rapid results. (4)

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

In any case, both in the region and globally, in order to continue attracting clients locally and internationally, many states have tried to elaborate on the original concept of FZs. To remain competitive, FZ administrators in these countries are selecting niche markets and planning projects to cater to specific needs of investors. The “rigid” concept of FZs has

thus changed over the past decade, reflecting a new emphasis on viewing them as catalysts for economic liberalization and modernization.

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

C. Free zones in the ESCWA region

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

1. **Unstable growth:** For the region as a whole, growth of real GDP has fallen from an annual average of 4% in 1992-5 to 1.9% in 1996-9. (6) A main reason for this was the continuing drop in real oil prices and the consequent fall in the incomes of the Gulf Cooperation Council (GCC) subregion's economies and, less directly, the rest of the region. Instability and the absence of steady growth are also characteristics of most economies in the ESCWA region. Only Egypt and Lebanon did not record any contractions in annual changes in real GDP in 1991-9. (7)
2. **Stagnant exports:** Exports in most countries of the region are also weak, and the percentage of merchandise exports to GDP in many countries of the ESCWA region is falling. (8) Given other weaknesses in the balance of payments, and problems of indebtedness in most countries of the region, the issue of export promotion has thus become more important.
3. **Weak FDI:** For a variety of reasons, including political instability and a poor legal environment, extensive FDI is still rare in most of the region. This has been true of both the investments of transnational corporations, as well as smaller investors targeting the region, including investors who originally come from the ESCWA region. Changes in investment laws, such as took place in Syria in the early 90s or as is happening in Saudi Arabia today, have attempted to reverse this trend, but so far with limited success.
4. **High unemployment:** The expansion in employment opportunities in most countries of the region has failed to keep pace with large number of annual entrants into the labor market caused by various factors including high population growth. The result has been chronic double-digit unemployment in many regional economies such as Jordan and Syria.
5. **The pressure of globalization:** The regime of international commerce represented by World Trade Organization (WTO) is by no means free of significant tariff and other barriers. With most countries of the region (except for Iraq and Syria) having acceded to

the organization or obtained observer status the practical implications of implementation of WTO provisions is now becoming an issue. ESCWA region exporters are competing with those in other countries that are operating in a duty- and tax-free environment. Even with lower tariffs, anti-export biases remain, and these may be indirectly compensated for through the use of FZs.

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

Some countries in the region were early adopters of FZs. Yet, with few exceptions, historically the ESCWA region has accounted for little FZ activity. Although statistics are unreliable, the region's FZs represent a small share of global FZ export and employment. FZ jobs account for less than one percent of total national employment in most ESCWA region countries. However, the last few years have seen expanding FZ activity in the region, and increasing numbers of FZs are being developed. (9)

The experience of the Jebel Ali Free Zone (JAFZ) in Dubai has been important in this respect. Launched in 1985, JAFZ has acted as a major factor behind diversification of the UAE economy away from oil and gas. JAFZ accounts for well over half of nontraditional exports from Dubai, and the vast majority of FDI in nonoil-activities. The growth of the JAFZ has been above international norms, at a rate of about 150 firms annually since 1990. Purchases by JAFZ-based enterprises from the domestic market exceeded \$700 million in 1997.

At end-1999, 1,650 firms were registered in the JAFZ, employing some 50,000 people, compared with 1,490 firms a year earlier (22% are manufacturers, the rest are in distribution and services). Drawn from 90 countries, the largest non-UAE national groupings are the UK with about 200, India (190) the US (130) and Japan and Germany (about 60 each).

In some other parts of the GCC, FZs are becoming an important source of employment in nontraditional industries; in the UAE nonoil sector in particular, FZs have become the primary source of employment, FDI and local investment, and exports. Sharjah FZs have been important in stimulating manufacturing. Sharjah accounted for 41% of all manufacturing units registered in the UAE, most of them located in FZs. The emirate of Ajman has become something of a center for light industry, especially textile and apparel manufacturing, which is mostly in its FZ. (10)

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

1. The majority of FZ enterprises are engaged in trading, rather than manufacturing or

higher value-added activity. More than seventy percent of JAFZ firms, for example, are traders. There are still relatively few FZs in the region that are primarily industrial.

2. FZs often employ large numbers of expatriate workers. This has various negative aspects, including failure to transmit skills and technologies to local economies as expatriates leave after their work in FZs ends.

3. It is unclear whether some FZs have had a net positive economic benefit to a country, given the large public sector expenditures required for their establishment. Development of JAFZ, for example, required government capital investment of about two billion dollars. It is not clear that this has yielded an overall positive return, given the strong package of incentives provided to enterprises - including zero taxes and subsidized energy and water costs in addition to various facilities and services.

4. Many ESCWA region FZs have suffered from restrictive policy frameworks. While investment incentives are generous, restrictions and bureaucratic procedures erode their effectiveness through controls on FZ activity, cumbersome regulations, and flaws in fiscal incentives. (12)

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

D. Free zones in Jordan

FZs in Jordan began in 1973, when a small public facility was established at the port of Aqaba to serve transit trade. Three years later, the government founded the Jordan Free Zones Corporation (JFZC) as a state entity to develop FZs. Businesses located in FZs in the kingdom enjoy the following exemptions:

- ☐ Project profits pay no Income and Social Service Taxes for twelve years as of the year of assessment that follows the start of production. Profits from commercial storage of goods for local consumption are excluded from this exemption.
- ☐ Salaries and allowances of non-Jordanian employees working in projects established in the FZs are free from Income and Social Service Taxes.
- ☐ Goods imported into the FZs or exported therefrom for other than the local market are free from import fees and customs duties.
- ☐ Buildings in the FZs are free from licensing fees, and from building and land taxes.
- ☐ Industrial products of FZs entering the local market are free from customs duties to the extent of the cost of local materials and other local expenses included in manufacture. In addition, industrial projects enjoy a ten percent reduction in the rent of FZ land and installations.

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

Though the last few years have witnessed something of an improvement after new concepts were introduced, Jordanian FZs had in many cases suffered from several of the problems associated with their counterparts in the rest of the region and the developing world. Among the countries of the ESCWA region, Jordan was an early adopter of FZs. The kingdom's first commercial FZ was established in Aqaba in 1973, and the commercial/industrial Zarqa FZ followed in 1983, with two others – Sahab and Queen Alia International Airport (QAIA) – being established later. Despite, or perhaps because of, this head start relative to other countries of the region, the economic contribution of FZs to the Jordanian economy has been small. In some respects, the Jordanian FZs set up in the 1970s and 80s have failed to keep pace with the development of the concept or of changes in the regional and global economies. Jordanian FZs developed as isolated enclaves, both in terms of the underlying policy framework and of geographic location, with no important linkages to the rest of the economy. FZs were physically located in relatively remote areas. Jordan's FZs represent a small share of regional FZ export and employment, as well as a negligible proportion of national industrial output. Traditional, older Jordanian FZs generally exhibit a number of weaknesses compared to other schemes internationally. The most important was perhaps their commercial rather than industrial orientation, with most FZ projects (93%) engaged in trading and warehousing instead of industrial activity. Of the manufacturing entities in Jordan's four traditional FZs, the vast majority are not even operating, partly as a result of the sanctions imposed on Iraq, the original market for some FZ industrial operations.

Table 1: Number of businesses in JFZC FZs, end-1999

| | Zarqa | Aqaba | Sahab | QAIA | Total | Percentage |
|------------|--------------|--------------|--------------|-------------|--------------|-------------------|
| Industrial | * 73 | 2 | 4 | - | 79 | 7 |
| Total | 1014 | 83 | 41 | 11 | 1149 | |

* Includes 59 non-operational industrial activities. The percentage of industrial projects actually operating to total projects is thus less than two percent.

(Source: JFZC *Annual Report* 1999 p 25)

Though only 54 new industrial projects were built in the four state-run FZs since 1992, commercial projects there increased by 622 over the same period. (13) However, most of the latter are associated with smaller, traditional trading rather than with more innovative activities. In addition, the authorized capital of commercial projects makes up 95% of that

of all investment in the FZs. The economic importance of these FZs to Jordan is also very small in terms of employment, totaling less than 4000 workers at the end of 1999.

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

Table 2: Workforce in JFZC FZ projects, end-1999

| | Zarqa | Aqaba | Sahab | Airport | Total | Percentage |
|------------|--------------|--------------|--------------|----------------|--------------|-------------------|
| Industrial | 1153 | 45 | 27 | - | 1225 | 31 |
| Total | 3389 | 421 | 150 | 4 | 3964 | |

(Source: JFZC *Annual Report* 1999 p 27)

In the face of such a situation, and to accomplish more for the national economy than this modest record suggests, the past few years have seen the liberalization of the traditional FZ concept to encompass a broader range of activities, including establishment of specialized facilities catering for specific industries. A notable recent trend in Jordan has thus been the growing number of privately owned and operated FZs. However, it should be noted that these are industrial and other enterprises given the status of FZs, and not businesses that were attracted into an existing FZ by its exemptions and privileges.

Table 3: Private FZs, end-1999

| | Capital (in millions of Jordan dinars*) | Percentage |
|--|--|-------------------|
| The Jordan-Indo Chemicals Co. | 119 | |
| The Jordanian-Japanese Fertilizers Co. | 17 | |
| Total Industrial | 136 | 82 |
| Total capital of all private FZ projects | 165 | |

* 0.71 Jordan dinars (JD) equals 1 US dollar
(Source: JFZC *Annual Report* 1999 p 29)

Table 4: Private FZs under establishment, end-1999

| | Capital (in millions of JD) | Percentage |
|--------------------------------|-----------------------------------|------------|
| Industrial | | |
| Jordan Magnesia Co. | 30 | |
| Jordan Bromine Co. | 42 | |
| Potassium Nitrate Project | 5 | |
| Jordan Norwegian Chemicals Co. | 170 | |
| Total | 248 | 96 |
| Other | 11 | 4 |
| Grand Total | 259 | |

(Source: JFZC *Annual Report* 1999 p 31)

FZ status has thus been given to individual projects, including heavy industry plants manufacturing fertilizer and other products using local raw materials. In terms of job-creation, the impact of these new private FZs has been superior to older activities.

Table 5: Workforce in Private FZs, end-1999

| | Manpower | Percentage |
|---------------------------|----------|------------|
| Industrial Private FZs | 453 | 46 |
| Total for all Private FZs | 976 | |

(Source: JFZC *Annual Report* 1999 p 30)

The Jordan Indo Chemicals Private FZ, producing phosphoric acid, provides 350 jobs, and the Jordan Japanese Private FZ, producing compound fertilizers in Aqaba, has created over 100 new job opportunities. In addition, the Jordan Norwegian Private FZ area for the manufacturing of fertilizer will create 1000 jobs; private FZ storage and other projects will also create over 1000 new jobs, and the remaining planned private FZs will also have a comparable job-creation impact. Several applications for the establishment of private FZs are still under consideration.

By creating such private FZs, Jordan has thus moved beyond the older, apparently less productive FZ model. However, it is still too early to tell if such activities will expand to provide more jobs. If not, the new model will have been a failure. Meanwhile, as will be

seen in the following section, the QIZ model has started to have impact on employment in the kingdom.

E. Jordan's Qualifying Industrial Zones

Jordan's older FZs have declined in importance as far as industrial production is concerned, with most activities remaining there related to traditional types of commerce. The JFZC's new role now seems to be the supervision of private FZs that are concentrating on heavy industry and certain types of services. Recent indications are also that light manufacturing will become more the domain of QIZs.

QIZ projects have been multiplying in Jordan since 1998 when the Al-Hassan industrial estate in the north of the country received QIZ designation from the USTR. New QIZs have since then being established in the south of the country and private ones in the central region to the east of Amman.

The QIZ offers duty-and quota-free access to the US market for products manufactured by "qualifying" enterprises located in enclaves designated by the USTR. Products must meet certain criteria to qualify under the program. These include a 35% minimum content rule, 11.7% of which must be of Jordanian origin and 7-8% from Israel; the remainder to reach the 35% requirement can be from US, Jordanian, Israeli, or West Bank and Gaza sources. Current practice is to grant overall QIZ status to an industrial estate, leaving it to individual manufacturers to seek approval for their products.

The QIZ idea is attracting strong attention from US, Israeli and, increasingly, South Asian and Far East investors. The Al-Hassan facility includes four companies that are already producing for the US market. Dozens of other firms have signed contracts to operate in the FZ, and around twenty are already in the process of establishing factories.

As far as Jordan is concerned, the potential for QIZs to create new jobs is one of their major attractions. The factories already in production have directly produced about 6,000 new jobs for Jordanians, as well as having an indirect benefit on various sectors in diverse parts of the country. Typically, the areas where the QIZs have been set up are without other major fast-growing sources of employment; in this way, increased jobs in such parts of Jordan are additionally useful in helping to curb rural-urban migration and ease the pressure on Amman and other major cities.

The heaviest QIZ investment so far is in manufacturing clothing, including jeans and other sportswear, as well as in luggage manufacturing, destined for major US retail chains. Boscan, the largest QIZ operation undertaken so far, is producing both types of goods. Boscan is already operating three facilities at Al-Hassan, and plans to set up nine more. The group was established in 1998 as a QIZ with an initial investment of \$120 million.

Boscan's Jordanian workforce totals 1540 and expatriate labor 1090. The latter are to be phased out over the next few years; meanwhile, the company says it has had job

applications from 2000 Jordanians. Total monthly salaries of Boscan's current Jordanian workers amounts to \$300,000, or an average of JD138 per person. (14) Monthly salaries for the lowest paid workers starts from eighty dinars, the country's statutory minimum wage, in the first three months probation period (also statutory).

In 1999, about \$2.4 million of QIZ products, mainly luggage (HST code 4202.12) were exported. Exports of similar products in 1998 - pre-QIZ - were only \$380,000. (15) In the year 2000, \$1.8 million worth of such products have been exported in the January-July period; at an annual rate, this would yield luggage exports of close to \$3.1 million. For the future, Boscan plans to export at the monthly rate of \$1 million, eventually increasing this amount to \$3.5 million per month. These figures represent a large increase on the country's previous capacity in this product, as well as in relation to Jordanian exports to the US in general (see table 5 below). This amounts to the introduction of a new export industry into the country, which creates jobs and, though not a higher-tech activity, does involve some transfer of technology to Jordan.

In the first seven months of 2000, according to certificates of origin issued by the Jordanian authorities, QIZ exports were close to \$4.7 million, equivalent to an annual rate of about \$8 million. Apart from the \$1.8 million of luggage, the rest was in garments, about \$2.2 million of which were products classified under HST 61 (knitted or crocheted apparel or clothing) and the rest under HST 62 (apparel or clothing not knitted or crocheted). Jordanian exports of these items in 1998 were about \$1.5 million and \$45.4 million respectively. (16) In 1999, the country's total exports of clothing were \$49.2 million, and exports in the first four months of 2000 were \$25.8 million, equivalent to \$77.4 million at an annual rate. QIZ exports of garments thus represent a considerable addition to the country's total exports of these goods.

Table 6: QIZ exports, January-July 2000

| Product | HTS Code | Value (millions of dollars) |
|----------------|-----------------|--|
| Luggage | 4202.12 | 1.800 |
| Garments | 6104.62 | 1.576 |
| Garments | 6109.90 | 0.182 |
| Garments | 6110.20 | 0.321 |
| Garments | 6110.30 | 0.163 |
| Garments | 6204.12 | 0.543 |
| Garments | 6207.29 | 0.091 |
| Total | | 4.676 |

(Source: Jordanian Ministry of Industry and Trade, QIZ Department)

In addition to Al-Hassan and other more recently established QIZs managed by the public sector, the concept of the privately run QIZ has now taken hold in Jordan. Al-Tajamouat Industrial Estate is one of the country's two private QIZs, designated as such in November 1999. Al-Tajamouat is attracting interest from Pakistani and other Asian textile and garment companies moving from Dubai to avoid US quotas, though, like Al-Hassan, Al-Tajamouat also contains non-QIZ producers. Al-Tajamouat provides ready-built factory space for medium to small factories and has three QIZ factories operating, as well as three other QIZ projects under development. Employing a total of 550 local workers, the ones already operating all manufacture apparel and include: a Pakistani/US venture (already producing in Pakistan and Dubai) employing 200, of whom around 25% are Jordanian; a Pakistani firm employing 300, of whom around 25% are Jordanian; and a Jordanian jeans-production facility employing 50 Jordanians.

Other QIZ operations that will begin soon in Al-Tajamouat include a textile firm from Hong Kong (employing 600) and Taiwan (with 1000 workers); a Jordanian apparel firm is also set to start production there, employing 200 Jordanians. More clothing manufacturers, from Korea and from Honk Kong and potentially employing a further 1000 between them, have expressed a serious interest. (17)

The country's other private QIZ is the 345,000 sqm Ad-Dulayl Industrial Park, about half of which will be occupied before the end of 2000. Among the eight companies that will start garment factories in Ad-Dulayl are ones from Pakistan, Sri Lanka and the UAE. Three of these factories will begin production this year, and the rest will do so by the end of January 2001. Total estimated employment would be around 7000. (18)

According to both the foreign firms and Jordanian government sources, there is an understanding between the two sides regarding the number of foreign workers to be employed. The rule of thumb is that no more than 35% of the total workforce in a foreign plant should be non-Jordanian, and that the latter should be phased out within a few years. The foreign firms justify such an arrangement as allowing them to start production swiftly and to train Jordanians more quickly. In any case, industrial relations in QIZ plants appear to be satisfactory, with almost no problems of any kind reported as a result of the employment of foreigners. (In purely Jordan-owned QIZs, the labor force is almost completely Jordanian.)

F. The Jordan-US Free Trade Area: beyond QIZ?

Jordan and the US have negotiated a free trade agreement (FTA) and the two countries committed to ratifying it as quickly as possible. Under the pact, US tariffs on Jordanian imports will come down almost immediately, while Jordanian tariffs will be eliminated over ten years in four stages, with US products not covered by the FTA being cigarettes, alcoholic beverages, and cars. These exemptions, plus the graduated phasing out of tariffs, will assure some income from duties to the Jordanian Customs, still a major source of state revenue in the kingdom. Such measures will also help stem the inflow of US imports into the kingdom while it attempts to boost its sales to the US and redress a bilateral trade deficit that has averaged about \$355 million over the past couple of years, about 18% of the overall merchandise trade deficit. The pact also includes safeguards to allow industries that can prove they are being harmed by the FTA to invoke protection for a ten-year grace period, renewable for successive five-year terms.

The FTA allows the kingdom's businesses to profit greatly by exporting from Jordan to the US free of duties and restrictions, eliminating duties on and commercial barriers to exports of Jordanian goods to the US provided they are "goods originating" in Jordan. This means that they have undergone a "substantial transformation" in the country, thus preventing the possibility of imports by Jordan from other countries entering the US under the FTA without having undergone a certain amount of value added in the kingdom. The FTA defines "goods originating" in Jordan as articles for which the sum of the cost or value of the materials produced in the kingdom plus direct costs of processing in Jordan "is not less than 35% of the appraised value of the article" at the time of export. (19)

Such rules of origin imply that the QIZ model will continue to exist under the FTA. Though the new pact will eventually make QIZ irrelevant over the long term, there will still be room for the latter for some time. This is because the FTA calls for the imposition of a relatively high 35% minimum on the Jordanian content of value-added in order for a product to enter the US duty-free. QIZ mitigates this by allowing Israeli and Palestinian inputs to contribute cumulatively to the required Jordanian value added. (As mentioned above, QIZ allows for the inclusion of 7-8% Israeli content, with as little as 11.7% Jordanian value added.) Insofar as a 35% level will not be easy to achieve, the easier terms of QIZ will prove more advantageous for Jordanians wishing to sell their products in the

US. In fact, the QIZ model remains robust, and approval came shortly before the FTA was signed for the establishment of two more QIZs in Jordan.

Implementation of the FTA is expected to facilitate a substantial expansion of Jordanian exports to the US, which have historically been meager. However, Jordan's exports to the US are stronger due in part to the growth of QIZs. QIZ exports in January-July 2000, the latest period for which official figures are available, made up 21% of Jordanian exports to the US. Exports in January-July 2000 were 67% up on the figure for all of last year, as well as 338% above the \$5 million of the same seven months in 1999. (20)

Table 7: Jordanian exports to the US (fob) 1997-2000 (in millions of dollars)

| | |
|---------------------|------|
| 1997 | 6.9 |
| 1998 | 7.9 |
| 1999 | 13.1 |
| 2000 (January-July) | 21.9 |

(Source: Central Bank of Jordan, Department of Research and Studies *Monthly Statistical Bulletin*, October 2000, pp 66-7)

G. Conclusion

Whatever the political controversy surrounding them because of the inclusion of Israeli value-added in Jordanian products (21), QIZs have been multiplying in Jordan without any serious problems. This has proven to be a boon to employment. Jordanian officials have been quoted as estimating that by the end of the year 2002 "at least 15,000 more jobs" will have been created. (22) Unemployment continues to be a major problem in Jordan. The number of Jordanians out of work began to rise in the late 80s and climbed to dramatic proportions in 1990-1, after which unemployment remained high, though with a slight fall in 1999/2000. The actual levels of unemployment are the subject of debate. The official 2000 figure for unemployment among Jordanians is 14.4%. The official 1999 figure was 15.6%. (23) Unofficially, the level of unemployment in the country has been put several percentage points higher.

As QIZ production continues to expand, the model's employment effect will grow to start making a greater impact on the country's problem of creating jobs for a rapidly expanding labor force. Coupled with job-creation in private but non-QIZ FZs, as well as in the Aqaba Special Economic Zone (ASEZ), the dent made in unemployment could be considerable. (24) On the other hand, Jordanian QIZ production will probably not in the near future have a significant effect on the balance of merchandise trade deficit, which totaled \$2.23 billion in 1999. (25)

The introduction of the US-Jordan FTA will eventually overtake QIZ. Free trade with the US will probably have an even stronger impact on employment, creating yet more jobs along the lines of the present QIZs. The impact on the balance of trade however could be

negative if increased US exports to Jordan outweigh the rise in imports from there. Insofar as relieving unemployment might be a higher priority for Jordan or other countries that might gain or use QIZ status than relieving trade deficits, QIZ would be a superior model to adopt than FTA. Jordan could thus have its cake and eat it by a long phasing-in of cuts on tariffs imposed on US products to slow the rush of US imports into the kingdom, while continuing to implement the QIZ methodology vigorously.

At the heart of QIZ lies a US attempt to bring Israel closer to her neighbors, including Jordan but also the Palestinians (and Egypt). (26) In this political context, it would be feasible for Jordan to ask for slower application of measures to facilitate US imports into the kingdom. This strategy of seeking or keeping QIZ privileges, coupled with temporarily "one-way" FTAs (or similar arrangements for liberalizing trade to protect ESCWA region markets for a time from a flood of US imports) could be adopted by Jordan as well as others in the region. (27) On the other hand, for those states where the prospects of an FTA with the US may be slim, QIZ could offer the best opportunity of penetrating the lucrative US market.

NOTES

1. According to *The International Convention on the Simplification and Harmonization of Customs Procedures* 1979 (the Kyoto Convention). For a discussion of various concepts of FZs and of related issues of definition, see Tahir J "An Assessment of Free Economic Zones in Arab Countries: Performance and Main Features" pp 3-4, *ERF Working Papers* no. 9926 (Cairo, 1999)
2. As of March 1998 when the United States Trade Representative (USTR) officially designated Al-Hassan Industrial Estate in northern Jordan as a QIZ.
3. An amendment to the United States-Israel Free Trade Area Implementation Act of 1985, introduced into the US House of Representatives as HR 3074 in March 1996 and signed into law as PL 104-234, granted the US President additional proclamation authority to extend the United States-Israel free trade area to include products from QIZs between Israel and Jordan. HR 3074 proposed to provide the President with additional proclamation authority to extend the United States-Israel free trade area to cover articles grown, produced, or manufactured in the West Bank, the Gaza Strip, or a QIZ between Israel and Jordan or Israel and Egypt. The bill was referred to the House Committee on Ways and Means, which reported the bill (H. Rept. 104-495) in the same month. In its report, the Committee stated that "duty-free treatment for goods produced in the added zones could assist in supporting the peace process, increase employment, and stimulate the economy of the region." According to the rationale of the legislation, extending the free trade area to QIZs would also produce tangible economic benefits for Jordan and Egypt, the two Arab states that had signed peace treaties with Israel, "thereby broadening support for the peace process within these countries." The House passed HR 3074 by voice vote in April 1996, and the Senate passed it without amendment by unanimous consent in

September 1996. The bill was signed into law in October 1996. (Ruebner, J "United States-Israel Free Trade Area: Jordanian-Israeli Qualifying Industrial Zones" *CRS Report for Congress*, Congressional Research Service, the Library of Congress, 30 March 2000)

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

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

6. ESCWA *Statistical Abstract of the ESCWA Region* (New York, 1999) p 205

7. Ibid

8. Jordan's merchandise exports are typical of such a trend. They were 1.005 billion Jordan dinars (JD) the equivalent of a little more than \$1.4 billion in 1995 (\$1=JD0.71), rising marginally to JD1.040 billion in 1996 and JD1.067 billion in 1997, only to retreat to JD1.046 billion in 1998 and rise very slightly again to JD1.051 billion in 1999. With GDP growth averaging about two percent annually since 1995, exports as a percentage of GDP have thus stagnated; and exports per capita have contracted, given average annual population growth of around three percent over the same period. (Source: Central Bank of Jordan Department of Research and Studies *Monthly Statistical Bulletin*, October 2000, p 58.)

9. Tahir (1998, pp 4-5) lists twenty ESCWA region FZs as existing and seven as planned, based on information available up to the mid-1990s. Rao (op cit p 247) using late 1990s data puts the figure at 28, with 20 planned (p. 248). Current figures are even higher, with the "planned" projects of the past few years largely being launched, and new developments approved.

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

11. A particular drawback faced by FZs in all Arab countries is that FZ goods are excluded from Arab trade agreements. Products processed in an Arab FZ cannot qualify for entry into any existing bilateral or regional trade agreements under The Agreement for

Facilitating and Developing Trade Exchange between Arab States (Arab League Economic and Social Council Decision 848-d of 27 February 1982). The rationale for Arab FZ products being excluded from Arab trade agreements is that FZ firms already benefit from a duty-free import advantage, and by also granting preferential trading access, FZ firms could threaten competing exporters not located in FZs and domestic producers in the importing country. This argument ignores the benefit to domestic firms from a number of duty-free import schemes (including temporary admission and duty drawback) that allow domestic exporters to import duty-free inputs and gain preferential export market access. This provides a double benefit to domestic manufacturers that are denied to FZ firms. This inconsistency is one reason why manufacturing investment in many of the area's FZs has been limited. The exclusion has been retained in the Arab Free Trade Agreement of 1997, contrary to the practice of other regional trade agreements, which generally permit access of FZ-produced goods. (Rao op cit p 258) The effect of the regulation puts Arab-based FZ manufactures at a disadvantage insofar as markets for them exist or could be developed in other Arab countries.

12. See "Development of Free Zones in the ESCWA Region" in *ESCWA Transport Bulletin* no. 6, December 1995, p 47 for a list of nine major problems facing free zones in the region in the mid-90s. Unfortunately, five years later these problems remain more or less severe in most of the region's FZs.

13. Figures for 1992 from JFZC *Annual Report* 1992, p 1.

14. Information supplied by Boscan management

15. Jordan Department of Statistics *External Trade Statistics, Part One*, 1998, p14

16. Ibid p. 15

17. Information supplied by Al-Tajamouat management

18. Information supplied by Ad-Dulayl management

19. Sawalha F "Officials convinced FTA with US will create golden opportunities" *Jordan Times* 1 November 2000

20. Central Bank of Jordan, Department of Research and Studies *Monthly Statistical Bulletin*, October 2000, pp 66-7

21. For the controversy among Jordanians surrounding the introduction of QIZs into the country, see Alul G "Irbid's new industrial park leaves Jordanians divided" *Jordan Times* 13 December 1997.

22. *MEED* op cit p 13, quoting unnamed officials in Jordan's Industrial Estates Corporation

23. Jordanian Department of Statistics, Household Surveys Directorate, *Employment and Unemployment Survey (First Round) February 2000*, May 2000, p 22

24. The Jordanian government, in a report to Jordan's Parliament in July 2000, claimed that the ASEZ would create 67,000 job opportunities.

25. Central Bank of Jordan, op cit p 58

26. As expressed for example during the passage of the QIZ measure through the US House of Representatives (see footnote 3 above)

27. For recent reactions from Egypt to the idea of launching QIZs there, see Tabler A "A window of opportunity? Qualifying Industrial Zones offer Israel's 'Peace Partners' a back door into the US market. Jordan has jumped at the chance, but Egypt is hesitant." In *Business Monthly* the publication of the American Chamber of Commerce in Egypt, May 2000 (amcham.org.eg/html/News_Publication/BusinessMonthly/Current/Summ9.ht). Tabler notes that, despite Egypt's consistent reluctance, other Middle East countries seem eager to use QIZs. For example, Turkey announced last March its desire to establish QIZs in impoverished, strife-torn southeastern Anatolia, in order to foster peace and economic development through improved market access to the US.

1870-1871

1872-1873

1874-1875

1876-1877

1878-1879

1880-1881

1882-1883