Securing Peace through Trade Dividends: Qualifying Industrial Zones

Malkawi, Bashar H.

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Securing Peace through Trade Dividends: Qualifying Industrial Zones between the U.S, Israel, Jordan, and Egypt

Bashar H. Malkawi[1]

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[1] Bashar H. Malkawi is a third-year SJD candidate at American University Washington College of Law. Mr. Malkawi received his LL.B from Yarmouk University, Jordan. In 2001, he graduated with LL.M in International Trade Law from the University of Arizona. Mr. Malkawi will assume a teaching position as professor of law at the Hashemite University of Jordan, Fall 2005.

I. Introduction

In 1994, in the aftermath of the peace treaty between Israel and Jordan, the U.S, Israel, and Jordan began to explore economic ways to support the peace treaty that otherwise may not hold water.[2] Earlier in this process, Israel offered to conclude an FTA but Jordan declined.[3] Other initiatives involved Middle East and North Africa economic summits (Casablanca 1994, Amman 1995, Cairo 1996, and Doha 1997). These economic summits faded with the last being the Doha summit of 1997. Other projects included the establishment of a Middle East Development Bank that would facilitate private and public investment in the Middle East and North Africa. The Bank never progressed beyond studies on its creation.[4]

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[2] To secure economic dividends, the peace treaty, in article 7, states that Israel and Jordan would enter into negotiations on various economic agreements including a free trade area between them. See Treaty of Peace Between the State of Israel and the Hashemite Kingdom of Jordan, Oct. 26, 1994, 34 I.L.M. 43, 49 (1995). The parties signed a Memorandum of Understanding regarding the opening of branches of Jordan's banks in the Palestinian territories. The parties signed an Agreement on Trade and Economic Cooperation. Additionally, the parties concluded a transport agreement. However, all these agreements require follow-on negotiations for specifics and adjustments based on the current political arena.

[3] Absent motivational studies, one can speculate that two reasons would explain why the parties chose to implement QIZs approach rather than a direct trade relationship through an FTA between Israel and Jordan. First, Israel is an economic giant compared with its neighbor. It trades increasingly in high tech and agricultural products such as flowers, strawberries, avocados, and other exotic food. There could be no or little demand for these products in Jordan. As such, they are not naturally trading partners. For example, of total Israel exports in 2003 valued at some $27.7 billion, exports to Jordan amounted to only $80 million. However, the low volume of direct trade between Israel and Jordan could be attributed to could be attributed to barriers erected by Israel in areas such as standards, export documentation, and health and safety. Second, there could have been concern that Israeli industries could crowd out Jordan's industries. For example, Israel is the home to Teva pharmaceutical, in Petach Tikva near Tel Aviv, the largest maker of generic medicine in the world. It is the home of Hazera Quality Seeds, a large Israeli company specializing in genetically modifying technology especially in the area of fresh tomato seeds which account for a large share in the U.S market along with Novartis and Monsanto. Moreover, it is the home of Tecnomatix Technologies, a software company that helps manufacturers coordinate designers, engineers, and factories. Therefore, QIZs would be economically more feasible.

[4] See Prospects Seen as Uncertain for Middle East Development Bank, 11 Int'l Trade Rep. (BNA) 43 d49 (Nov. 2, 1994) (the future of the bank is imperiled because it requires a substantial capital investment for

Other successful efforts culminated first by the establishment of qualifying industrial zones ("QIZs"), an acronym pronounced like quiz in English, generally along the Israeli-Jordanian borders. QIZs do not require U.S congressional approval. They could be established by a presidential proclamation.[5] This would give the critics little leverage to quiz them and stop the pact or force changes.

They offer opportunities for greater Israeli and Jordanian understanding through personal and professional across the border contacts necessitated by the day-to-day operation of these QIZs. It is peace by putting aside old history of mischief and misgiving. The goal of the QIZs is also to provide desperately needed jobs to Jordanians taking advantage of unlimited pool of cheap labor and tax benefits.[6] Labor is in Jordanian currency while the final product is in U.S dollar. Therefore, QIZs are very attractive.

II. General Rules

Any product manufactured in QIZs, after meeting certain conditions, can enter the U.S duty-free. In order for a product to qualify for duty free access, the product must be wholly the growth, product, or manufacture of QIZs. If not, it must be a new or different

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the United Stated. Time is needed to determine its structure, financing, and how it will relate to other existing institutions such as the World Bank).

[5] According to the new section 9 (c) of the US-Israel Free Trade Area Implementation Act, the U.S president may proclaim that articles of Israel may be treated as though they were articles directly shipped from Israel for the purposes of the US-Israel FTA even if they were shipped to the U.S from the West Bank, the Gaza Strip, or a qualifying industrial zone, if the articles otherwise meet the requirements of the agreement. In other words, the article will enter the U.S duty free after meeting certain conditions. Also, the U.S president can delegate to the United States Trade Representative ("USTR") the authority to specify through notice in the Federal Register areas constituting QIZs. See Proclamation No. 6955, 61 Fed. Reg. 58761 (Nov. 13, 1996). The first QIZ is Irbid Industrial Park that was designated as such by then USTR Charlene Barshefsky in 1998.

[6] See Guillermo Marrero, *What Foreigners Should Know About the Mexican Market, in NAFTA: What You Need To Know Now*, 699 PLI/COMM. 117, 134 (1994) (stating that the maquiladora program's evolution and rapid growth is part of the general trend toward "global production sharing", whereby an industrialized nation produces raw materials for assembly in developing nation with lower labor costs).

article of commerce processed in QIZ and has a value added of no less than 35% of the total value of the product.[7] The Jordanian government requested lowering the Israeli input threshold of 11.7% to 8% for the first five years of the operation of QIZs agreement between them.[8] The rationale being Israeli inputs are expensive so that they would affect the final price of the product and the desire of allowing Jordan to contribute more of value added toward the final product. In fulfilling its 8% share of value added, Israeli inputs generally fall into two categories: fabric cut in Israel or accessories such as sewing threads, zippers, plastic bags, and carton boxes.[9]

The mechanics of QIZs work in the following way: component parts are imported to the foreign owned plants in Jordan. At these plants, parts are assembled at low wages and usually the final throughput is ground-shipped back to Israel and then exported to the U.S quota-free, duty-free. For example, a woven fabric is cut into components in Israel for a shirt. Those components are assembled into a completed shirt by sewing in Jordan.

It seems that labeling a QIZs product was a thorny issue. A QIZs product does not carry the label “Made in Israel”, “Made in Jordan”, or “Made in QIZs”. Merely marking a

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[7] See Proclamation No. 6955, 61, *supra* note 4, ann. accompanying the proclamation. The 35% minimum content requirement is divided between Israel and Jordan according to the following:
(1) At least one-third (11.7%) must be added by Jordan in the QIZ, and 8% (or 7% for high-tech products) by Israel. The remainder (15.3%) may be accumulated by production in the QIZ, the West Bank, Gaza Strip, Israel, or the U.S or
(2) each Jordan and Israel must maintain a 20% minimum of total production cost. See Agreement on Irbid Qualifying Industrial Zone, art. II.c, as amended, Nov. 16, 1997 (on file with author).

[8] The supposedly temporary 5 years period, starting in 1999, of lowering Israeli 11.7% share to 8% has been extended several times. So now, this arrangement is a *de facto* permanent arrangement.

[9] Telephone Interview with Joshua Peleg, Commercial Attaché, Embassy of Israel in Mexico, former Deputy Director of Middle East Division, Ministry of Industry, Trade & labor (Dec. 29, 2004).

product to indicate that it is a product of a QIZ would not satisfy the U.S country of origin marking statute.[10] Therefore, a QIZs product carries "Made in Jordan/QIZs" label.

It is not necessary for a QIZs product to be exported to the U.S through Israel. It could be exported directly from Jordan. Indeed, there have been instances of direct shipments, whether by air or through Aqaba port, from Jordan. But, usually, QIZs products are exported through Haifa port, the largest port in Israel.[11] However, transporting QIZs products through Haifa port could face delays and disruptions.[12] In addition, transporting QIZs products into Israel through trucks could be disrupted by protests.[13]

Earlier, Israel developed an "open bridges" policy that allows movement from the Palestinian territories and Israel to Jordan via bridges along the Jordan River such as Sheik Hussein Bridge. It covers movement of people and goods. With the current security situation in Israel, it could adopt a closure policy. The heightened state of security could

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[10] See Determination of Origin of Goods Processed in a Qualifying Industrial Zone or in Israel and the West Bank or Gaza Strip, 63 Fed. Reg. 34960-02, 34961 (June 26, 1998) (in determining the country of origin of textile and apparel products processed in a designated QIZ, Customs will exclusively apply the "wholly obtained or produced" in single country rule and if not applicable it would then apply the tariff shift rule).

[11] The reason for preferring to transport QIZs products through Haifa port could be that it would make it easier to fulfill the 8% Israeli inputs requirement especially if they are zippers, plastic bags, or carton boxes which could be added in facilities at or near Haifa port. Another reason could be that Haifa port has direct access to the Mediterranean Sea while if QIZs products were to be transported through Aqaba they would have to pass through the Red Sea and the Suez Canal. This would mean additional time and transportation expenses. In terms of infrastructure and size, Haifa port is a much developed and larger port than Aqaba. Local infrastructure in Haifa port would meet market needs without hitting capacity. Thus, it makes good business sense to transport large volumes of QIZs products through Haifa port.

[12] See Pol threatens Israel Port Reform Delay, The Journal of Commerce (Nov. 22, 2004) (operations at Haifa port have been disrupted by a number of strikes over the past several months [in July, August, and October of 2004]. The core of the dispute is port reforms. Knesset research estimates that every day the country's Ashdod and Haifa ports are on strike, revenue of the private sector falls by $ 60 million. The value of merchandise held up by a strike is $ 82 million a day).

[13] See Truckers Continue Israel Port Protests, The Journal of Commerce (Dec. 24, 2003) (stating that truckers will again block the entrances to central petrol distribution points and sea ports in protest over recent diesel fuel price hikes).

lead to additional time needed for a trip that usually takes couple of hours and more stringent inspection of goods and trucks moving into Israel. This could result in increased trading costs and thus impede the development of QIZs.

QIZs goods could not be sold in the domestic Israeli or Jordanian market. They are products destined for export only. Therefore, they do not compete with out-of-QIZs domestic industries in Jordan and Israel. The reason for this treatment is clear. QIZs products enjoy preferential treatment in the form of duty-free inputs and tax benefits. If they were to be sold in the domestic market in Jordan, domestic industries that are out-of-QIZs areas but produce like products to those of QIZs would at disadvantage. If QIZs products were to be sold in the domestic market in Jordan they would have to pay tariffs and other taxes to insure level playing field. One would imagine the possibility at certain point in the future for QIZs products to be sold in the domestic market of Jordan and Israel.

III. Mexico's Maquila and Jordan's QIZs

Those officials who invented QIZs scheme were the same who created the maquiladoras in Mexico or were inspired by the maquiladoras. QIZs are similar to great extent to the maquiladoras along the U.S-Mexican borders.[14] The Bracero Program was a

[14] The similarity between QIZs and maquiladoras is striking, but the difference might be in terms of number of workers and value of exports. In 1998, there was only one QIZ (Israeli-Jordanian Irbid QIZ). By 2004 this number had grown to twelve, employing an estimated 40,000 workers. These QIZs are: the Israeli-Jordanian Gateway Projects QIZ, Al-Kerak Industrial Estate, Ad-Dulayl Industrial Park, Al-Tajamouat Industrial City, the Industry and Information Technology Park Development Co. (Jordan Cyber City Co.), Aqaba Industrial Estate, Mushatta International Complex, El Zay Ready Wear Manufacturing Company Duty Free Area, Al Qastal Industrial Zone, Zarqa Industrial Zone, Al Hallabat Industrial Park, and the Resources Company for Development and Investment Zone ("RCDI"). See United States-Israel Free Trade Area Implementation Act: Designation of Qualifying Industrial Zones, 63 Fed. Reg. 12,572 (March. 13, 1998), 64 Fed. Reg. 13,623 (March. 19, 1999), 64 Fed. Reg. 56,015 (Oct. 15, 1999), 65 Fed. Reg. 64,472

historical antecedent to the maquiladora industry.[15] The maquiladora industry was formally established in 1965 under Mexico's Border Industrialization Program.[16]

A maquila is an assembly or manufacturing facility located in Mexico where U.S, Asian, or European companies prepare goods for U.S consumers utilizing Mexico's inexpensive labor force, geographic proximity to the U.S, and temporary importation programs.[17] The maquila industry covers not only textiles and apparels sector but also

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(Oct. 27, 2000), 65 Fed. Reg. 77,688 (Dec. 12, 2000), 66 Fed. Reg. 32,660 (June. 15, 2001), and 69 Fed. Reg. 41,9902 (Jan. 28, 2004).

[15] To curb illegal Mexican immigration to the U.S and cover shortage of labor supply in the U.S, the Bracero program allowed Mexican workers to work in the U.S agricultural industry temporarily. As such, they would go back to Mexico. However, instead of going to their homes in the interior of Mexico they would stay along the U.S-Mexican border to enter the U.S in the agriculture season. The Bracero program employed almost 400,000 Mexicans. It ended in 1964. See Kitty Calavita, *U.S. Immigration Policy: Contradictions and Projections for the Future*, 2 IND. J. GLOBAL LEGAL STUD. 143, 146 (1994) (stating that Bracero Program stopped in 1964 because of President Kennedy's intolerance of human rights abuses occurring in program).

[16] Again, to avoid illegal immigration to the U.S and reduce unemployment in Mexico, the border industrialization program was created in 1965. The term maquiladora originally referred to grain mills, but today term connotes "export-oriented processing" in the Mexican border area. The interchangeable words "maquiladora" and "maquila" are the most common words used to describe the U.S-Mexican industrial program located principally along the 2,000-mile border. See Sherri M. Durand, American *Maquiladoras: Are They Exploiting Mexico's Working Poor*?, 3 KAN. J. L. & PUB. POL'Y 128 (1994) (using several terms to describe maquiladora program, including "offshore assembly industry", "in-bond industry", "border industrialization program", and "twin-plant program"). To ensure that the finished products are returned to the U.S, the maquila is required to post a bond with the Mexican government when materials, parts and components are imported into Mexico. The requirement to post a bond gave rise to the term "in bond" manufacturing.

[17] The story behind the maquila industry is that Mexico received increasing amounts of foreign portfolio investments (purchasing stocks, bonds, and securities in the financial market) in the years preceding the 1994 financial crisis, known as the tequila effect. The risk involved with this portfolio investment, both for firms and the nation itself, is that the investment is highly mobile and can leave a country in a matter of days. In 1994, large amounts of international speculative capital fled Mexico for more stable markets. In a matter of days, billions of dollars were withdrawn from Mexican financial markets. As a result, the country was thrown into one of its most severe economic crises. In addition to short-term investors, high political assassination, the Chiapas revolution of 1994, and Mexico's failure to pay its foreign debts contributed to the economic crisis. To avoid the volatility associated with over-dependence on portfolio investments, the Mexican government has set out to attract large quantities of Foreign Direct Investment ("FDI"). FDI is usually composed of investments in industrial plants and equipment. The maquiladora industry represents one of the most important sources of FDI in Mexico. It plays four fundamental roles in the Mexican economy: 1) creation of jobs; 2) generation of hard currencies to pay Mexico's dollar-based international obligations; 3) transfer of technology; and 4) redistribution of political and economic power to the border states. Article 303 of NAFTA will limit Mexico's ability to grant duty drawbacks for tariffs paid on inputs from non-North American sources, thereby subjecting Asian, European, or other non-regional inputs to higher tariffs than intermediate goods from North America. The purpose of eliminating duty drawback is to encourage sourcing from NAFTA region. Negotiators feared that if duty drawback problems were not

automotive parts and consumer electronics.[18] Originally, maquilas were prohibited from selling their products in the Mexican market and were forced to export them. In 2001 maquilas were able to sell one hundred percent of their production in Mexico.[19]

IV. Workforce in QIZs

Although, there are no data in Jordan that provide a more detailed factory-level breakdown of employment by sex, young women usually work in QIZs.[20] The common perception that women are passive and unlikely to bring court cases or unionize may explain why QIZs considers women to be desirable employees. The QIZs agreement between Israel and Jordan makes no reference to labor and environmental laws or regulations.[21] Although the problem of child labor does not exist in QIZs, compared with the problem that maquiladoras created ten years ago, they may have implications on other labor, environmental, and even social norms.[22]

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eliminated, Mexico would become an export platform to the U.S and Canada. In January 1998, approximately half of the 900,000 people working in maquiladora were women and most female maquiladora workers had not completed primary school. For more on maquiladora see David W. Eaton, *Transformation of the Maquiladora Industry: The Driving Force Behind the Creation of a NAFTA Regional Economy*, 14 ARIZ. J. INT'L & COMP. L. 747, 748, 750, 754 (1997).

[18] The maquiladora sector in 1997 accounted for about 50% of exported manufactured goods. Most maquiladora exports came from exportation of electronics and appliances, which represent 25.8% of all exports. Transportation equipment and accessories represent 22.2%, while 13% comes from clothing and textiles. *Id*. at 752.

[19] *Id*. at 756.

[20] Women from rural areas usually work in QIZs with the hope of earning money for their families. They are transported to the factories by bus, minibus, or van at the factories' expenses. They arrive at work at 7 in the morning. Each one clocks in and is assigned to her own place to start producing its pre-determined daily production quota. The overwhelming majority of the workers in garment factories are women, offering a good opportunity of empowering them, while the overwhelming majority of managers are men. While women are hired to be the bulk of the workforce in these factories, office and management positions are almost exclusively staffed by foreign or local staff. Some Jordanians are, in some instances, co-owners or partners, but they usually are "quiet, but influential partners". The author declines to name some Jordanian partners for fear of exposing them to anti-Israel sentiment.

[21] See Agreement on Irbid Qualifying Industrial Zone, *supra* note 6.

[22] There had been instances of occupational safety and health concerns, overtime work, and remuneration in QIZs factories. Since QIZs are the main export platform of Jordan, there might be environmental

Jobs at QIZs are not high-paying manufacturing jobs. The average wage for a worker in QIZs is $105 a month. Some would argue that this wage would help put food on the table for those QIZs workers that otherwise may not happen at all. However, one has to wonder if garment factories have adjusted their wages so as to reflect inflation or in proportion to increase productivity. If there is no wage raise, real wages could be sagging. Wages ought to be living wages not minimum wages. Factory owners have to share some of their windfall profits caused by surging exports. This would help avoid high turnover and workers' low expectation of what they believe as unrewarding jobs. There is need for a planned residential community, school for employees, and communal dining room.

V. QIZs are Garment Factories

The main export items of QIZs are textiles and apparels. Determining what products to manufacture in QIZs could be governed by three factors: manual labor, tariffs, and quotas. If a would-be exported product is labor-intensive and subject to quotas and higher tariffs in the importing country then manufacturing such product in QIZs is more feasible economically. This would apply to textile and apparels since they would be subject to quotas and higher tariffs if they were to be produced outside QIZs. Manufacturing other products in QIZs that were already subject to no/lower tariffs and no quotas even before the creation of QIZs may not make business sense.

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implications for their manufacturing processes. It appears that no studies are being conducted on this matter. Additionally, QIZs could create tension between local culture and plant's working atmosphere. The current author cross-checked the information that he was able to obtain and included here only that evidence that was verifiable by alternative means such as personal and telephone interviews with workers and management. The author discarded unsubstantiated information based on rumors such as the claim that some of the foreign workers employed in QIZs are ex-cons.

Value of the Leading 6 U.S imports from Jordan in 2003 under QIZs

HS Description	Value (dollars)
611020 Sweaters, Pullovers Etc, Knit Etc, Cotton	133,463,126
620462 Women's Or Girls' Trousers Etc Not knit, Cotton	115,187,864
611030 Sweaters, Pullovers Etc, Knit Etc, Manmade Fibers	48,451,781
610510 Men's Or Boys' Shirts of Cotton, Knitted or Crochet	40,103,367
610462 W/G Trousers Overalls Breeches Shorts Cotton, Knit	40,054,845
610610 Women's Or Girls' Blouses and Shirts Cotton, Knit	26,901,764

Source: Statistics are delivered from Trade Data Services, The U.S Census Bureau to the author 2004 (on file with the author).

Foreign factory owners, mostly nationals from other Asian countries, are not in Jordan solely for its cheap labor, which is after all is available throughout the Middle East such as Egypt and Syria. They are in Jordan not to penetrate the Jordanian market, but to export to the U.S. For garment factory owners from Pakistan, China, and India, where fill in quotas (works on a first-come, first-served basis) effectively cap garment exports to the U.S, the "Made in Jordan/QIZs" tags offer the opportunity to increase exports to that market.[23] Moreover, the average applied tariff on clothing products in the U.S is 16.1 percent, compared with 6.2 percent on other manufactured products. Therefore, QIZs would allow garment factories to export their products without facing high tariffs barriers.

[23] In the U.S, when an individual country's quota on a specific category of apparel is filled, they are referred to as embargoed categories.

These QIZs can be described as "processing or assembly" plants. Assembly alone does not contribute to the industrialization of a country. Therefore, sub-QIZs plants may be established. These sub-QIZs plants do not import inputs but rather are hired by the QIZs plants to perform some intermediate assembly or manufacturing process.

VI. Expansion of QIZs to Neighboring Countries

Other countries in the region have tried to participate in the QIZs scheme with varying degrees of success. The West Bank and the Gaza Strip is beneficiary of the QIZs scheme.[24] However, the development of QIZs and the share of Palestinian products in QIZs production have been stymied by the security situation in Israel. For instance, the outbreak of the Palestinian uprising in 2000 forced Israelis to scrap plans for a joint Israeli-Palestinian industrial zone in the southern Gaza Strip. Political stability is pre-condition for economic cooperation. Moreover, if Palestinian inputs were to be incorporated in QIZs product, some of the work done by workers in Jordan's QIZs would be replaced by Palestinians especially considering the subordinate economic and geographic relationship between the West Bank and Gaza Strip and Israel.

Turkey pleaded the U.S for duty-free access to its product. In 2002, some members of the U.S Congress had introduced legislation (S.2663), known as the Turkish-Israeli Economic Enhancement Act, that would allow Turkey to participate in the QIZs by broadening the definition of qualifying industrial zones under the US-Israel Free Trade Area Implementation Act to include some of Israel and Turkey territories including Kurdish areas of Turkey. However, Turkey's efforts, complicated by various foreign

[24] See Determination of Origin of Goods Processed in a Qualifying Industrial Zone or in Israel and the West Bank or Gaza Strip, *supra* note 9.

policy issues, fell short.[25] Turkey's QIZs would have been a departure from Jordan's QIZs since Turkey does not share borders with Israel. Moreover, they would have excluded the very items that Turkey may have comparative advantage in such as textiles, apparels, and steel.

An agreement on Egypt's QIZs was signed in the week of Dec. 13 of 2004, just weeks before the international quota system that has controlled textiles and apparels access to the U.S. market for more than 40 years is coming to an end.[26] The agreement on Egypt QIZs follows the model of Jordan's QIZs. The big question to ask is how Jordan's QIZs would be affected, positively or negatively, by establishing QIZs in Egypt. To answer such a question one has to lay down some of the similarities and differences between Jordan's QIZs and Egypt's QIZs.

Jordan's QIZs date back to the second half 1990s. For Israel and Egypt, QIZs will be the first formal economic engagement since the 1978 Camp David accords. Egypt's QIZs are late comeback for an economic relationship that has been virtually idle for 26 years. Jordan's QIZs numbered 12 as of 2004. On the other hand, the trade agreement

[25] See Neil King Jr. & High Pope, Turkey Awaits Benefits of Aiding War on Terror, WALL ST. J., Nov. 22, 2002, at A11 (expressing frustration of Turkish officials for the inability of the U.S to swap air-base access with access of tennis shoes and underwear. The U.S Senate failed to pass legislation in 2002 granting Ankara limited duty-free access to the U.S. market despite lobbying efforts all year long by Turkey and by Vice President Dick Cheney and Secretary of State Colin Powell. According to legislation, Turkey would be able to export products manufactured in specially designated industrial zones duty free to the U.S market. The President could bar any products deemed import-sensitive such as textiles and apparels, footwear, and steel).

[26] See Neil King Jr. & Greg Hitt, Three-Way Trade Pact with U.S. Marks Egypt-Israel Breakthrough, WALL ST. J., Dec. 10, 2004, at A13 (Egyptian officials have lobbied the Bush administration for months to win approval of a trade arrangement with the U.S., mainly to offset potential job losses as the Egyptian government implements changes that could prove costly in the short term. For American textile manufacturers, the initiative further dramatizes the broader forces pressuring the industry).

between the U.S, Israel, and Egypt calls for the establishment of three QIZs in Egypt.[27] Jordan's QIZs outnumber Egypt's QIZs although the latter could increase over time. As of 2004, there are some 88 factories operating in Jordan's QIZs. According to annex A of the Protocol between Israel and Egypt on QIZs, there are 5 factories, all located in the Greater Cairo zone, and 8 industrial cities.[28] Therefore, one can say that for Jordan and Israel their economic relationship, through QIZs, is older and much developed.

The legal requirements for both Jordan's QIZs agreement and Egypt's QIZs agreement are almost the same. The Egyptian trade deal will allow Egypt to export goods to the U.S duty-free if they have at least 35% of their value added in Egypt and of that amount, 11.7% must be Israeli content.[29] Although incorporating 11.7% Israeli input, compared with 8% Israeli content under Jordan's QIZs, would affect the final price of a product manufactured in Egypt's QIZs if Israeli inputs are highly priced, it could help QIZs manufacturers meet the 35% threshold easily.

It seems that there were shortcomings that appeared over the years in Jordan's QIZs that Israeli and Egyptian negotiators tried to avoid in the Egyptian QIZs. Egypt's QIZs set up a mechanism for submitting accounting results "quarterly".[30] Perhaps, the "daily" work, especially on the Israeli side, of approving receipts, documents, and counting for every product and container in order to determine that products of Jordan's

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[27] The U.S designated the Greater Cairo zone, Alexandria zone, and Suez Canal zone as QIZs. See United States-Israel Free Trade Area Implementation Act: Designation of Qualifying Industrial Zones, 69 Fed. Reg. 78094-02 (Dec. 29, 2004).

[28] See Protocol between the Government of the State of Israel and the Government of the Arab Republic of Egypt on Qualifying Industrial Zones, ann. A (on file with author).

[29] *Id*. art. II.d.

[30] Article II.f of the Protocol states that the QIZ Joint Committee shall promptly provide quarterly the U.S Customs Authority and the Egyptian Customs Authority with a list of companies entitled to duty free treatment for the next quarter only. *Id*. art. II.f.

QIZs meet the agreement requirements has caused bottlenecks. Therefore, a mechanism of quarterly reporting by QIZs firms could facilitate the process.

There could be concern on the part of Jordan that Egypt's QIZs would cause trade and investment diversion to Egypt. In other words, present or future factories in Jordan's QIZs would move their facilities to Egypt to service the U.S market. This concern is supported by the fact that in the late 1990s some Israeli textiles plants in Galilee region had relocated to Jordan.[31] Although Egypt is a leading textiles and apparels manufacturing country and its apparel industries are more developed than those of Jordan, one should be cautious in estimating that there would be major exodus of investment from Jordan to Egypt.

In trade arrangements, geographic proximity matters. Jordan's QIZs are on the Jordanian-Israeli borders while Egypt's three QIZs are not.[32] Additionally, factory owners in Jordan's QIZs had invested in industry and infrastructure, hired entry-level workers and trained them to become efficient well-disciplined workers. It would be unlikely for those owners to waste their investment. Eight years of developing Jordan's QIZs may seem like a long period that offers factory owners rich experience that may not be available in Egypt QIZs. How QIZs would fare is also depended on the business environment in Jordan and Egypt. Usually, the business environment in Jordan is more

[31] See ISRAEL DRORI, THE SEAM LINE: ARAB WORKERS AND JEWISH MANAGERS IN THE ISRAELI TEXTILE INDUSTRY 18, 204-218 (2000) (taking advantage of the relative normalization with neighboring Arab countries, textiles plants began to drift to Egypt and Jordan following the cheap labor trail. The salary differentiation between Arab Israeli workers and Egyptian or Jordanian workers is 10 to 1. Overall, about 25 textiles plants from the Galilee have moved to Egypt and Jordan. Some in the Israeli textiles industry adopted new strategy, called hi-tex, focusing on innovation in designs, fabrics, and products as supposed to mass assembly lines that moved abroad).

[32] QIZs are located along the Israeli-Jordanian borders because of lower transportation costs of hauling the goods to Israel through border bridges.

hospitable compared with what some Israeli officials claim as hostile business environment in Egypt. Egypt's QIZs may benefit those American, Israeli, and Egyptian companies that already doing business there such as Delta Galil Industries Ltd., an Israeli textiles and apparel firm, but not new ones.

VII. Conclusion

The U.S, Israel, and Jordan wanted to achieve real peace dividends so that enemies of peace will be undercut. However, Jordan's QIZs are limited in scope. They cover certain enclave areas that are designated as QIZs only. They do not extend to other geographical areas. Moreover, QIZs are concentrated in producing textiles and apparels. QIZs program is basically a textiles and apparels agreement. They do not cover services and farm trade. QIZs program is a forced indirect trade relationship between Israel and Jordan. The parties are shy of establishing a comprehensive trade relationship. Rather, they resort to the U.S to establish their trade relationship. In this way, accidentally, nationals of other Asian countries, who constitute a major proportion of owners of QIZs plants in Jordan, captured QIZs program. They are likely to repatriate large sum of their unremitted earnings of QIZs plants instead of using the money for domestic development and capital investment.

Top QIZs apparel exports to the U.S. include some basic higher-volume apparel articles such as men's shirts, women's trousers, sweaters, ladies' outfits and blouses, and sportswear. There are few high value-added apparel articles such as men's wool suits and jackets. The textiles and apparel industry a traditional labor-intensive industry (manufacturing processes are sewing and tailoring) with limited capital and technology

(technology is a sewing machine). The question that begs an answer is whether limiting manufacturing to textiles and apparels would help Jordan's industrialization in the long run.

Two recent developments would complicate matter for QIZs program. First, China is likely to capture a major segment of the U.S garment market especially after the expiration of the international quota regime on Jan. 1, 2005 that controlled developing countries access to industrialized countries markets (the U.S, E.U, and Canada). Since Jordan does not have an indigenous textiles and apparel industry before the establishment of QIZs, it would face significant hurdles in competing with efficient garment producers from China, India, and Pakistan. Second, due to the entangled relationship between neighboring countries the region, the forming of more QIZs could envy, encourage, or pit one Middle Eastern country against the other to join to form new QIZs motivated by economic pressure. If the U.S establishes QIZs with other Arab countries, Jordan may lose it advantage as the gateway to the U.S market. Furthermore, any such efforts would likely to be opposed by the U.S textiles industry, which usually lobbies against trade preference programs for developing countries.