8

Lessons from the Jordan-US FTA

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Since the end of the Uruguay Round of multilateral trade negotiations, bilateral and regional free trade agreements (FTAs) have proliferated. In the 1990s, the European Union was a main proponent of such accords. With the start of the Doha Round in 2001, however, the Europeans focused on the multilateral engagements, whereas the United States embarked on a major drive for regional and bilateral FTAs. But in 2006, as the Doha Round stalled, the European Union developed a new strategy emphasizing bilateral agreements. While the European Union and the United States are among the more active proponents of trade agreements, others are similarly engaged.

Jordan has undertaken considerable bilateral and regional trade liberalization since the late 1990s. In terms of trade agreements with the West, Jordan is the most heavily involved country in the Arab region. The United States and Jordan concluded an FTA in 2000, which entered into force in December 2001, and the two parties had previously signed an agreement for the creation of qualifying industrial zones (QIZs), the first of which was designated in 1998. Relations between the European Union and Jordan are governed by an Association Agreement signed in 1997 and implemented in 2002. Jordan is also a member of the Greater Arab Free Trade Area (GAFTA) and the ancillary Agadir Agreement with Egypt, Morocco, and Tunisia, and it has concluded or is negotiating bilateral FTAs with other countries, notably Canada, Israel, and Singapore.[1] Jordan's

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1. Israel and Jordan signed an FTA in 1995; the Jordanian FTA with Singapore entered into force in 2005; and in 2008, Canada and Jordan concluded negotiations to liberalize their bilateral trade.

trade liberalization has contributed to growing exports, including those of QIZ clothing to the United States.

Jordan's Trade Performance

Thanks to major economic reforms since the early 1990s—rationalization of the fiscal system, trade liberalization, the privatization of most state-owned enterprises, and the reform of customs and other parts of the state administration—Jordan today is a highly open economy with diversified trade. Exports and imports have risen much faster than gross domestic product (GDP): The merchandise trade-to-GDP ratio reached 120 percent in 2008, up from 82 percent in 1997. Jordan's National Agenda for 2006–15 spelled out ambitious goals, including a reduction in the net trade imbalance to $1.7 billion by 2012 and to $0.9 billion by 2017.[2]

Nonetheless, the economy remains burdened by a persistent and growing trade deficit, which in 2008 was a staggering $7.2 billion, or 34 percent of GDP. This shortfall is financed by remittances, inflows of private capital, aid, and some services income, particularly from tourism. In early 2009, hard currency reserves stood at almost $9 billion and foreign debt at $5 billion (down from $7.7 billion at end-2004).[3] Expatriate remittances are estimated at $3.1 billion for 2008.[4]

The trend for the past few years has been for imports to rise faster than exports. The export-to-GDP ratio increased from 25 percent in 1997 to 35 percent in 2009, while the import ratio rose from 57 percent to 85 percent over the same period.

The structural characteristics of Jordan's exports thus warrant attention. Between 1997 and 2008, the country's total exports grew more than threefold, faster than global trade.[5] Much of this growth is in exports to the United States: The share of total Jordanian exports destined for the United States increased from less than 1 percent in 1997 to more than 25 percent in 2008. However, these exports, heavily dominated by apparel, may decrease as Jordanian preferences in terms of US market access gradually erode. Jordan will thus need to diversify its exports to the United States in order to compensate for flat or falling apparel exports.

Following a major liberalization effort in the context of its accession to

2. Jordan's National Agenda for 2006–15 is available at www.nationalagenda.jo (accessed on July 6, 2009).

3. Central Bank of Jordan Monthly Bulletin, May 2009, www.cbj.gov.jo (accessed on July 14, 2009).

4. Jordan Ministry of Finance, General Government Financial Bulletin, June 2009, www.mof.gov.jo (accessed on July 14, 2009).

5. Jordan's market share of global exports rose from about 0.03 percent to around 0.04 percent during the past decade.

the World Trade Organization (WTO) in 2000, Jordan now has relatively low tariffs, with an average most favored nation (MFN) applied rate of 11.2 percent. However, tariff dispersion is still high in some product categories. For example, in 2007 the average applied MFN tariff for cotton was 0 percent and 1.4 percent for chemicals but 69.5 percent on beverages and tobacco, and the average MFN applied rate on textiles was 5.5 percent but 23.3 percent for clothing. Tariff policy generally favors imports of primary and intermediary inputs over finished goods.

The past ten years have seen a successful shift in Jordan's trade policy. While implementing the nondiscriminatory principle of the WTO, the government continued to support its external policies with a complex series of bilateral trade agreements. Trade reforms have been implemented gradually since 1996 as government efforts addressed unilateral trade-related legislative adjustments in customs and taxes and in patent, copyright, and trademark protection. Upon accession to the WTO in April 2000, Jordan agreed to apply all its market access commitments on goods, and for services it committed to the removal of 139 measures limiting market access and 79 granting national treatment. Most of the commitments concern business services, transport, financial services, and tourism, which are strategic to supporting the diversification of Jordan's economic structure.

Bilateral accords have also been important for Jordan in recent years. Since 1995 Jordan has signed over two dozen bilateral agreements with Arab and non-Arab countries. This includes the 2000 Jordan-US FTA, which eliminates tariffs on virtually all industrial and agricultural products over 10 years and opens Jordan's services market to US companies in key sectors such as energy distribution, transport services, tourism, health, printing and publishing, and audiovisual technologies. However, several import procedures, notably those related to standards, still offer scope for enhancing efficiency and reducing processing time.

In 2008 Jordan's main source of imports was the Greater Arab Free Trade Area (GAFTA), which exported $5.7 billion of merchandise to Jordan, a 27 percent increase from 2007 (table 8.1). The European Union was the second largest source of imports ($4.7 billion, a 43 percent increase from 2007), third was China ($1.8 billion, up 38 percent from 2007), and finally the United States ($1 billion, an increase of 64 percent from 2007). The latter is especially noteworthy, having risen steadily and strongly over the past half-decade. However, during the last two years this increase was not matched by an expansion of Jordanian exports to the United States, which decreased 17 percent between 2006 and 2008 (table 8.2).

Over the past decade, the impact of QIZs and more recently of the Jordan-US FTA on Jordan's exports was considerable (table 8.3). US imports under the Jordan-US FTA increased more than 20-fold between 2002 and 2008, and Jordanian exports to the United States under the QIZs rose from $0.2 million in 1999 to over $750 million in 2008. Yet, despite this generally stellar performance, the total value of US imports from Jordan fell

Table 8.1 Jordan's main sources of imports, 2008

Market	Value (billions of dollars)	Annual change from 2007 (percent)
Greater Arab Free Trade Area	5.7	27
European Union	4.7	43
China	1.8	38
United States	1.0	64

Source: International Monetary Fund, *Direction of Trade Statistics*, June 2009, www.imfstatistics.org/dot.

Table 8.2 Jordan's bilateral trade with the United States and world, 2003–08 (billions of US dollars)

Year	United States	World
2003		
Exports	0.7	3.1
Imports	0.4	5.7
2004		
Exports	1.0	3.5
Imports	0.6	8.2
2005		
Exports	1.1	4.3
Imports	0.6	10.5
2006		
Exports	1.3	5.2
Imports	0.6	11.5
2007		
Exports	1.2	5.5
Imports	0.6	13.5
2008		
Exports	1.1	6.6
Imports	1.0	18.1

Source: International Monetary Fund, *Direction of Trade Statistics*, June 2009, www.imfstatistics.org/dot.

Table 8.3 Jordan's exports to the United States under the QIZs and FTA, 1999–2008 (millions of US dollars)

Year	Jordan-US Free Trade Agreement	Qualifying industrial zones	Total exports to the United States
1999	n.a.	0.2	0.2
2000	n.a.	30.1	30.1
2001	n.a.	180.8	180.8
2002	12.6	369.5	382.1
2003	27.9	563.9	591.8
2004	20.7	927.3	948.0
2005	246.5	945.0	1,191.5
2006	309.1	1,022.0	1,331.1
2007	312.6	922.7	1,235.4
2008	279.8	756.4	1,036.2

n.a. = not available

Source: Jordanian Ministry of Industry and Trade, compiled from tariff and trade data from the US Department of Commerce and the US International Trade Commission.

15 percent in 2008 compared with the previous year; apparel imports, which make up close to two-thirds of US imports from Jordan (almost $1 billion), also dropped 15 percent in 2008 year-on-year. Commenting on this drop, Jordanian Premier Nader Dahabi observed that "bad management and unsound business models are likely to have been behind the retreat in garment exports rather than the financial crisis"; he also cited fierce competition from Egyptian QIZs in exporting garments to the United States.[6] During the same period, total Jordanian merchandise imports from the United States rose 66 percent.

Qualifying Industrial Zones (QIZs)

QIZs are the product of a US-inspired program, established in 1996, to enhance regional economic cooperation and integration between Israel and the rest of the region. Their main function was to combat the Arab taboo against openly conducting business with Israeli firms. The QIZs thus represent a US effort to warm the cold peace between some Arab states and

6. Mahmoud al Abed, "Economic outlook good, with uncertainty—PM," *Jordan Times*, March 8, 2009.

Israel. Designated by the US Trade Representative (USTR), they receive merchandise without duty or excise taxes. A product is granted duty-free and quota-free access to the United States provided the sum of the cost or value of materials produced in the West Bank, Gaza Strip, a QIZ, or Israel, plus the direct costs of processing operations in one of these areas, is no less than 35 percent of the appraised value of such articles when imported to the United States.

In apparel manufacturing, a good is considered to originate from one of the qualifying locations only if it undergoes two "substantial transformations" in one of these locations: The original material must be substantially transformed into a new and different intermediate article and then transformed a second time during production of the final article exported to the United States. Typically, imported fabric is cut to shape in Israel and then shipped to Jordan for sewing and assembly.

More specifically, the local content requirement states that to qualify for duty-free access to the US market, a good must have 11.7 percent of Jordanian QIZ content, and 7 to 8 percent of Israeli content (7 percent for high-tech products, 8 percent for other products). The remaining 15.3 percent (16.3 percent for high-tech) necessary to reach the 35 percent value-added requirement may originate in Jordan, the United States, the West Bank, Gaza, or Israel.[7] A related rule holds that no more than 15 percent of the appraised value of the good may come from the United States and still be counted as domestic Jordanian input.

Thanks to duty-free, quota-free access to the US market, QIZs have been successful in expanding Jordan's exports and foreign exchange earnings. But they had a minor role in attracting foreign investment and creating new job opportunities for Jordanians.

Exports

With the QIZs, Jordan became a processing base for exports of garments to the United States, and the industry became Jordan's largest export sector. Indeed, the QIZ scheme has helped the garment industry develop into Jordan's second most important manufacturing sector, after food and beverages, in terms of value-added and contribution to GDP. In recent years, more than a third of Jordan's total exports have come from QIZs, rising from $30 million in 2000 to over $1 billion in 2006 (table 8.3). Then in 2007, for the first time in 10 years, QIZ output contracted, foreshadowing the world recession.

The positive impact of the QIZs on exports was largely through trade in garments, most of which were classified under the Harmonized Tariff

7. Different rules of origin in each FTA are a burden for Jordanian exporters, especially small firms. Large firms with stronger administrative capacities are thus the main beneficiaries of FTAs (this is also true for Moroccan exporters, as explained in chapters 3 and 4).

Schedule (HTS) 61 (knitted or crocheted apparel or clothing) and HTS 62 (apparel or clothing not knitted or crocheted). Jordanian exports of these items in 1998 (pre-QIZ) were about $2 million and $45 million, respectively; in 2007 the respective figures were about $840 million and $340 million. Moreover, many of these ready-made garments are low-value items that are also manufactured and exported by other developing countries. QIZ exporters have restricted themselves to the assembly of low-cost clothing without independently exporting branded merchandise.

Investment

By offering tariff-free market access for exports to the United States, the QIZs attracted substantial investment—since 1998, $182 million, the vast majority of which has come from Asian investors relocating to Jordan to avoid US quotas. In 2000 Jordanian investment was estimated at less than 10 percent of total investment (Khasawneh and Khouri 2002). Apart from this small percentage, and with the notable exception of two investors from the United Arab Emirates, no company with purely Arab capital appears to be active in QIZ production (at least none that has been declared). Some Arab capital, for example from Libya, is involved in partnership with other foreign capital but never as a standalone investment, and in these joint partnerships, the foreign partner is usually responsible for day-to-day management or technical support. Jordanian textile factories have also to a great extent relied on imported textile fabrics, the value of which jumped from $471 million in 2003 to a peak of $737 million in 2006 and then declined to $673 million in 2007.

Because most QIZ investors are not Jordanian and tend to repatriate profits, the competitiveness of the garment sector leaves much to be desired. Regional and international competition shows that Jordan's garments-sector productivity—gauged by labor costs, capital intensity, and level of research and development—tends to be low.

Yet QIZs may be credited with attracting investment from countries that otherwise would not have invested in Jordan. When quota restrictions under the now-defunct Multi-Fiber Arrangement (MFA) were hampering exports to the United States, foreign garment factories relocated and invested in Jordan (including firms from China, Taiwan, India, Pakistan, Philippines, South Korea, Sri Lanka, and Turkey). The heaviest QIZ investment was in ready-made clothing, including sweaters, trousers, and other sportswear, destined for major US retail chains. Such activity is footloose—it corresponds to the manufacture of mature goods for which there is a progressive delocalization of production from industrialized regions to less developed countries with lower costs. Where conditions change, plants can easily be relocated as production technologies are standardized with low-skilled workers. This raises the issue of employment security since most QIZ manufacturers provide assembly-type jobs.

QIZs could be used as incentive tools to restructure the declining clothing sector and perhaps other sectors as well. But QIZ firms import a large portion of their raw materials and intermediate inputs, implying weak backward linkages with domestic suppliers. Furthermore, technology transfers occur in relatively simple tasks, with limited involvement by Jordanian managers and weak links with the rest of the economy. However, competition from QIZs in Egypt has pressured Jordan's policymakers and garment sector to take a closer look at productivity weaknesses.

Better initial planning for the QIZs might have laid the groundwork for stronger backward linkages and technology transfers. At present, the Jordan Garment, Accessories, and Textile Exporters' Association (JGATE) is attempting to fill this gap. JGATE asked the government for an incentive package to minimize the impacts of the current economic crisis and downturn in US imports, so far with no resolution.

Jordan could benefit significantly from increased domestic production of yarn and fabric. But that would require a larger inflow of investment, and the trend is not going in the right direction. Instead, some garment factories in Jordan's QIZs are relocating to other countries because of high domestic production costs. Rising operating expenses have led to a 16 percent drop in garment exports to the United States, which amounted to only $0.9 billion in 2008, and to the closure and relocation of eight garment companies. In addition, some factories are implementing expansion plans in other countries (e.g., Egypt and Bangladesh) instead of Jordan.

Employment

The QIZs give Jordan a chance to salvage market share in a labor-intensive industry. Jordan has traditionally suffered from a high rate of unemployment, so job creation was a major goal of the QIZ program, which has created about 50,000 jobs. The official number of Jordanians working in the QIZs has grown steadily, from 13,300 in 2001 to a high of over 23,000 in 2004 (compared with just under 25,000 expatriate laborers that year, or nearly equal numbers in the two groups).[8] Meanwhile, the number of foreign workers (primarily from East and South Asia—Bangladesh, China, India, Nepal, and Sri Lanka) in the QIZs went from 5,700 in 2001 to 32,000 at the end of 2008.[9]

Recently, both Jordanian and foreign QIZ employment experienced a setback. At its peak in 2005, employment in the QIZs rose to over 20 percent of total manufacturing employment. This growth was accompanied by a rapid rise in the number of foreign workers in the QIZs. Jordanians

8. Author's interview with Hassan Nsour, head of the QIZ Department at the Jordanian Ministry of Trade and Industry, March 2009.

9. Ibid.

now constitute only about one-quarter of the QIZ workforce, as their number has fallen from more than 23,000 in 2004 to fewer than 11,000 by the end of 2008.[10] The Jordanian authorities cannot ban or even significantly restrict the participation of foreigners in QIZs—regulations allow a high percentage of QIZ workers to be non-Jordanian. It would in any case be difficult for all QIZ jobs to be filled by Jordanians because they might not have the required skills or accept the wages and work conditions.

Since approximately 60,000 Jordanians enter the local workforce annually, the large presence of foreign labor in the QIZs is sometimes viewed as a negative feature. But it can be argued that without the zones, fewer opportunities would exist for Jordanian citizens.

However, the global financial crisis and a drop in demand have forced QIZ companies to cut their production and labor force. Several firms applied to the Labor Ministry to modify their terms and conditions so they could reduce their workforce; if approved, the layoffs will be at the expense of foreign guest workers whose contracts are expiring, while Jordanian employees will have priority for keeping their positions. But if further cuts are necessary as the crisis lingers, Jordanians may be hit by layoffs as well.

A distinctive feature of QIZs is the high proportion of women in the workforce. Most are single, aged 18 to 30, with secondary school education and little or no other work experience. For a country like Jordan, where women's participation in the labor force has historically been low, more jobs for women are welcome. The level of unemployment among females in Jordan is currently around 25 percent, more than double the figure for males. Recently, five QIZ "satellites" opened operations in areas of particularly high female unemployment.

QIZs introduced Jordanian workers to the more rigorous culture of industrial employment, including notions of punctuality, quality control, and deadlines. But working conditions in some QIZ factories are poor in many respects. For the vast majority of workers, training is relatively short and task-specific, so it does not provide the basis for upward mobility or help workers develop skills to pursue better career prospects outside the QIZs. Furthermore, chances of a salary raise or promotion are slim. These factors contribute to high labor turnover, low productivity, and frequent absenteeism.

Labor rights issues in Jordan's garment sector have been the subject of international attention. In 2006 the US National Labor Committee published a report that threatened the success of Jordan's QIZs by providing a detailed account of violations of labor rights and of poor working conditions (National Labor Committee 2006). The report and accompanying

10. According to General Trade Union of Workers in Textile Industries President Fathallah Emrani, quoted in the *Jordan Times*, March 7, 2009, "Unionists declare QIZ workers exclusion from minimum wage hike discriminatory."

media attention caused concern among US apparel companies that source their garments in Jordan.

To address these problems, in January 2009 Jordan's Labor Ministry, the General Trade Union of Workers in Textile Industries, and JGATE signed a memorandum of understanding under which garment employers agreed to raise the minimum wages of Jordanians working in QIZ factories to the minimum wage applied in other industries in Jordan.[11]

Egyptian QIZs

QIZs in Egypt, first designated by the USTR in December 2004, pose a special threat to the program in Jordan. Egypt is better suited to reap the benefits of foreign clothing manufacturers because its textile industry provides opportunities for vertical integration for incoming producers. In addition to the fact that Egypt produces a large portion of the material for garments, it boasts a much larger workforce and lower wages than in Jordan. Moreover, companies exporting from Egypt enjoy reduced shipping costs to the United States through direct access to the Mediterranean. And finally, investors going to Egypt do not have to worry about travel, work permits, or residency fees. For all these reasons, some investors have shifted from QIZs in Jordan to those in Egypt.

Intersection of the QIZs and the Jordan-US FTA

With the dismantling in 2005 of the quotas of the MFA, a major attraction of exporting textiles from Jordanian QIZs disappeared. And the tariff advantage of the QIZ initiative is gradually being further eroded by the implementation of tariff concessions under the Jordan-US FTA.

The relative attractiveness of exporting under the QIZ initiative or the FTA is also a function of the rules of origin of each trade arrangement. Because of burdensome administrative procedures, a number of enterprises that qualify for QIZ status have shifted to exports under the FTA. Yet, under the terms of the QIZ program, the Israelis, who have expertise in accessing the US market, are directly involved in marketing products from Jordanian QIZs, whereas under the Jordan-US FTA, that sort of integrated approach is not possible.

The Jordan-US FTA may eventually make QIZs irrelevant, but not for the next few years. This is because of the long, 10-year phaseout of US du-

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11. Jordan's government in October 2008 raised the monthly minimum wage from JOD110 to JOD150. This initially excluded QIZ firms, but they later agreed to apply the new rate. "Jordan—Union, Factory Owners Awaiting Jordanian QIZ Worker Pay Raise," *Jordan Times*, February 2, 2009.

ties on Jordanian textile and apparel products under the FTA: US tariffs on these Jordanian exports were subject to a gradual reduction over 10 years, with full elimination by 2010. Zero tariffs under the FTA will eventually apply to the bulk of QIZ exports: sweaters, pullovers, and similar articles, knitted or crocheted of cotton (HTS 61102020; MFN duty of 18.2 percent); sweaters, pullovers, and similar articles, knitted or crocheted, of man-made fibers (HTS 61103030; MFN 32.9 percent); women's or girls' trousers, breeches, and shorts, knitted or crocheted, of cotton (HTS 61046220; MFN 15.6 percent); and men's or boys' cotton shorts, knitted or crocheted (HTS 61051000; MFN 20.2 percent).

A product eligible for duty-free treatment under the Jordan-US FTA must meet three conditions. First, it must "originate" in Jordan, or if it includes any third-country materials, they must be substantially transformed into a Jordanian "origin" product through a manufacturing or processing operation. Second, the product must be imported directly into the United States—this is to ensure that qualifying goods that originate in Jordan are not mixed with nonqualifying items while en route to the United States. Third, the product must satisfy a value-added content requirement.

The value content requirement stipulates that the sum of the cost or value of the materials produced in Jordan (or the United States), plus the direct costs of the processing operations in the beneficiary country (or countries), must represent at least 35 percent of the appraised value of the article upon entry into the United States. But the FTA provides for the cumulation of inputs between Jordan and the United States, whereby the cost or value of the materials used in the production of an article in one party, and which are products of the other, may count toward the 35 percent minimum.

The Jordan-US FTA rules of origin imply that the QIZ model will continue to provide benefits under the 2001 accord. This is because the FTA calls for the imposition of a relatively high 35 percent minimum on the Jordanian content of value added in order for a product to enter the United States duty-free. The QIZ model mitigates this by allowing Israeli and Palestinian inputs to contribute cumulatively to the required Jordanian value added.

Firms and Sectors Benefiting from the Jordan-US FTA

The benefits to Jordan from free trade with the United States have so far been mainly from QIZs, but there are stories of Jordanian success from the Jordan-US FTA. Larger firms in Jordan that have benefited from the FTA include Petra engineering, a manufacturer of air conditioning and other machinery, and the Hikma pharmaceuticals company. These two firms, which enjoyed export success before the Jordan-US FTA, developed aggressive strategies—a strong physical presence in the United States and extensive market research—to take advantage of new benefits available through the agreement. Such options are not typically available to small and medium enterprises (SMEs), which lack resources, but some have managed to take advantage of the FTA, and their stories are also represented below.

Petra Engineering

Petra Engineering is a Jordanian company that designs and manufactures commercial and industrial heating, ventilating, and air conditioning (HVAC) equipment. Its export market includes the Middle East, African countries, some EU countries, and the United States (Petra has expanded sales to 18 US states and Puerto Rico—the company's air conditioners, built for the heat of Arab deserts, were deemed appropriate for the US market). In addition to its established US presence, the company developed strategies to take advantage of the Jordan-US FTA. It was one of the first companies to join the Jordan Customs "Golden List," a program to facilitate Jordanian exports and imports (see below). And Petra developed US customer loyalty through extensive marketing and outreach efforts: It built an effective professional sales force that attended US trade shows to advertise the quality of Petra's products and seek US customers, and it brought Americans to Jordan to see production.[12]

Petra did not try to enter the general market for air conditioning but instead chose to focus on replacement units and custom orders, a small share of the market (worth $300 million).[13] More recently, Petra has expanded its business in the United States to include renewable energies—it installed a solar thermal hot water system in a fire station in Raleigh, North Carolina.[14] As the US government moves in a climate-friendly direction and states develop their use of renewable energies, this move by Petra could help the company gain more market share in another niche of the US market for HVAC equipment.

Hikma Pharmaceuticals

Hikma Pharmaceuticals is one of the Middle East's leading producers of generic, branded, and injectable pharmaceuticals. Its main export markets

12. Ambassador's Speech to the Jordan Exporters Association (November 25, 2008), Embassy of the United States in Jordan, http://jordan.usembassy.gov (accessed on April 14, 2009).

13. "Jordan—Petra Engineering Industries eyes entering one new market a year," *Jordan Times*, January 26, 2003.

14. "City Installs Solar Thermal Hot Water Heating System at Fire Station," US Fed News, January 16, 2009.

consist of the Middle East and North Africa, the European Union, and the United States (its US exports are concentrated in generic and injectable pharmaceuticals). Hikma entered the US generic market in the 1990s, but it was not until 2006, when the FTA was implemented, that the firm established Hikma Pharmaceuticals (USA) Ltd. for the marketing and distribution of its injectable products. Hikma does not adhere to the Golden List, but in 2007 it posted an operating profit of $30 million in the United States (although in 2008, due in part to the global downturn, the US generic business reported a loss[15]).

As patent protection expires over the next five year for an estimated $10 billion worth of biotechnology products in various countries, demand for generics will dramatically increase. Hikma is working to set up an aggressive export strategy to be the first to introduce generic products as soon as protections expire. In this, the company has been successful, particularly in penetrating the US market. President Obama stated during his campaign that he wanted to expand the use of generic drugs, and the new administration has expressed support for a bill to stop the deals that enable pharmaceutical companies to pay to delay the launch of generic drugs.[16] There could be more room for Hikma to expand its US operations with the help of preferential treatment through the FTA.

Blue Mill

Blue Mill, founded in 1977, is a food company that produces over 200 products, including a wide range of spices, vinegar, herbal tea, pulses, and bulgur. After establishing itself throughout the Middle East, Blue Mill turned to Europe in the 1990s, as representatives attended expositions in France and Germany. Through contracts with EU firms, Blue Mill met its first US clients. Before exporting to the United States, Blue Mill was careful to examine the product guidelines of the US Food and Drug Administration (FDA) and modify its labeling to comply with FDA rules.

In 2001 the company set up a subsidiary in California. Simultaneously, the Jordan-US FTA was signed, and the company realized the export opportunities it could represent. The Blue Mill CEO met with the Amman Chamber of Industry and the American Chamber of Commerce in Jordan (JABA) to learn about the FTA and how the firm could take advantage of it. Since the FTA's entry into force, Blue Mill has sent large quantities of exports to the United States, both to its subsidiary and to distributors across the country. Buoyed by this success, the company developed its

15. "Pharmaceuticals; HIKMA—2008 Preliminary Results Interview with CEO," *Health and Medicine Week*, March 30, 2009.

16. Darrell A. Hughes, "Bill To Stop Deals Delaying Generic Drugs Could Hurt Consumers," *Wall Street Journal*, March 31, 2009.

own marketing department dedicated to surveying new countries and to marketing and launching new products.

BLOOM

BLOOM Dead Sea Gift Enterprises specializes in health and beauty products made from minerals from the Dead Sea. The company exports to more than 21 countries, including the United States. BLOOM's success is in large part due to extensive networking, mainly through a website that allows for electronic orders. BLOOM also networks through its membership in several associations both in Jordan and internationally, including the Business and Professional Women Association (Jordan), the Arab International Women Forum (United Kingdom), and Trade Leaders Club (Spain). BLOOM regularly sends sales representatives to local and international conferences, trade shows, and expositions.

After BLOOM made its first contact with US clients at a trade show, it studied the US rules and regulations related to the cosmetic market. In this it benefitted from the help of the Jordan-US Business Partnership (JUSBP, a USAID-sponsored program to support trade between Jordan and the United States), which, among other things, provided a complete list of all US cosmetic standards regulations. Other US professionals specializing in cosmetic marketing and regulations provided advice on how to best adapt BLOOM's products for effective entry into the United States. When BLOOM received FDA approval in 2002 and started exporting its products to the United States, its US partners handled all US importation documentation and requirements. BLOOM's general manager observed that exporting products to the United States became even easier with the implementation of the Jordan-US FTA, especially thanks to useful information provided by JABA, the JUSBP, and the Jordan Enterprise Development Corporation (JEDCO).

Modern Flour Mills and Macaroni Factories Company

The Modern Flour Mills and Macaroni Factories Company specializes in flour, pasta, snack foods, and breakfast cereals. When the firm decided to try to enter the US market, its first move was to send sample products to a personal contact in the United States, who forwarded them to the FDA for testing. After the products received official approval, the firm director went to the United States and observed that the company could export its products to ethnic Arab markets in the United States, particularly in cities with large Arab populations such as Detroit, Chicago, and Boston. In 1994, the firm started exporting to US stores that import ethnic foods.

The signing of the Jordan-US FTA presented the firm with an opportunity to penetrate the US market beyond ethnic food stores. In 2002 company representatives traveled to the United States with JUSBP envoys to explore ideas to modify current products and develop new products for the broader US market. The group benefited from the assistance of US marketing consultants (to obtain bulk purchase orders) and a joint venture with a US food company.

Customs Reforms

Golden List Program

The TIJARA initiative aims to facilitate trade and investment through the Jordan-US FTA in order to help Jordanian companies take advantage of the agreement. It is a public-private partnership of 24 members that include USAID, JUSBP, the Jordan Customs Department, the Jordan Ministry of Industry and Trade, and the Coalition of Jordanian Chambers of Commerce.

One of the initiative's most successful programs is the Golden List Program (GLP). The GLP expedites customs procedures for low-risk firms that meet the high-security and trade standards of the US Customs Trade Partnership against Terrorism, the US Container Security Initiative, and the World Customs Organization (the standards of the latter apply to all GLP companies).

TIJARA organizes workshops for Jordanian importers, exporters, and service providers to create awareness of the benefits of trading under the FTA and of GLP accreditation and to provide a forum for discussing challenges for firms seeking entry into the program. There are 20 Jordanian companies that participate in the GLP, and the customs administration plans to increase that number by 30 percent in 2009. Greater GLP participation will enhance and facilitate trade flows between Jordan and the United States as transaction costs will decrease because of reduced time for customs clearance. Successful members have seen US customs delays drop from 20 days to just two.[17] The program also allows savings on firms' operational costs, which will enhance their global competitiveness.

Customs Integrated Tariff System

The Jordanian government's Customs and Integrated Tariff System (CITS) provides a transparent and comprehensive online reference for all customs and trade-related regulations. It is used by the private and public sectors alike. Another use of the website is to allow the government to examine the effect of adjusting tariffs. Private companies can challenge individual interpretations of tariff regulations and see the cost savings of a newly reduced tariff (BizCLIR 2006). The World Bank's *Doing Business Report 2008* estimates that thanks to Jordanian customs reforms, the numbers of days required to import goods to Jordan fell from 28 to 22 between 2006 and 2008, and on the export side from 28 to 19.

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17. "TIJARA and USAID help companies become accredited to the Jordan Customs 'Golden List'," *Zawya*, March 11, 2009.

Assistance Programs

To assist smaller firms that wish to export to the United States, the USAID-funded Business and Export Development Project for Jordanian Enterprises (TATWEER) fosters links between SMEs and the academic sector. TATWEER works with local universities and SMEs to implement the "Faculty for Factory" program, which supports industrial companies in several sectors. Faculty representatives from Jordanian universities provide technical expertise in fields such as engineering, medicine, pharmacology, and business administration. The initiative aims to improve the quality of Jordanian products for export and help participating faculty members develop their practical skills. TATWEER also supports a program among undergraduates looking for jobs with SMEs.

Conclusion

Jordan-US bilateral trade has enjoyed considerable success during the past decade, especially during the five years since implementation of the Jordan-US FTA. Figures show that exports span a variety of products beyond textiles and apparel. This growth in the diversity of Jordan's FTA exports demonstrates the important role of the FTA in helping Jordan diversify its economy. Furthermore, the Jordanian government reports that the country's expanding trade with the United States has created more than 50,000 jobs; foreign direct investment, hugely important to Jordan's economic growth, rose from approximately $600 million in 1995 to over $2 billion in 2007. Partly as a result of these increases in trade, investment, and net positive job creation, GDP grew at an average of 7 percent a year over the past five years. However, growth is estimated to drop to 6 percent for 2008. With the global economic crisis, a further decline is expected for 2009, with GDP growth estimates of between 3.5 percent and 4.5 percent.

The Jordanian government complemented the FTA and the QIZs with reforms to boost the payoff from free trade with the United States. Those measures, which applied both at and behind the border, included improvements in work and education opportunities for women, labor rights, and intellectual property protection.

One of the main benefits of the Jordan-US FTA has been in the Jordanian response to labor issues related to trade, especially by invoking the Jordan-US FTA labor clauses. When a 2006 report on labor and human rights caused concern among US apparel companies that source their garments in Jordan, the Jordanian government's swift and effective response helped to improve worker conditions and to enhance the country's reputation globally.

Another benefit of the FTA is improved intellectual property protection. Jordan's legislation includes TRIPS+ provisions, which enhance the country's intellectual property protection and ensure adherence to its international commitments. As a result, Jordanian companies, especially in the pharmaceutical industry, have entered into licensing relationships with firms from the United States and elsewhere.

The FTA has supported a greater role for women in the Jordanian economy. In addition, the success of the QIZs has helped to address gender inequality and low productivity among women through increasing employment and training. Recently, five QIZ "satellites" opened operations in areas of high female unemployment.

Along with the labor clause mentioned above, the Jordan-US agreement was the first US FTA to include environmental clauses. It raised awareness of the impact and role of trade policy on the environment, especially through activities such as a March 2009 US-sponsored environmental forum in Jordan to examine the impact of the FTA's environmental clauses on Jordan.

By streamlining its system and taking advantage of international trade agreements such as the Jordan-US FTA, Jordan may cope more effectively with the global economic crisis. Jordan is also adapting to changes in the global economy. Whereas in the 1990s globalization was centered in the European-Atlantic area, new economic centers have emerged, including Brazil, China, India, Russia, and the Middle East/Arab Gulf region. For a small and open country such as Jordan, this multipolar world economy poses new competitive challenges but also offers rewards. The Jordan-US FTA, in addition to raising exports, has helped Jordan to improve its economy and its regulations, which will allow it to compete more effectively in global markets.

However, with multilateral trade liberalization and further US bilateral liberalization, the prospects of preference erosion are real. One concern that will require the Jordanian government's attention is the impact of further trade liberalization in 2010–12 based on the Jordan-US FTA customs reduction schedules. These reductions will impose an adjustment burden on Jordan's economy, and it could be onerous in the present global trade climate. Free trade with the United States may thus be a double-edged sword that could either help Jordanian economic expansion or hurt the Jordanian economy by exacerbating an already grave trade balance.

Jordan has made substantial efforts in recent years to open up its economy to foreign trade and investment, supporting a rise in the growth rate of the country's GDP. Now the government needs to strike a careful balance between the additional benefits of new trade liberalization policies and the cost of too much diversification in foreign economic relations. As much as possible, Jordan should ensure that its new agreements are compatible with the rules of the existing ones.

Recommendations for Morocco

Morocco can draw lessons from the Jordan-US FTA in the following areas:

1. With the FTA come new processes, and the *government and private sector alike have to assume a proactive posture to maximize the benefits of implementation*. This will involve a chamber of commerce as well as manufacturers' associations and consumer groups. In Jordan, these associations and groups initially struggled to achieve progress on their own, but with state aid and support, they proved successful. In Morocco, with a private sector not significantly superior to that of Jordan, it is thus recommended that the government continue and strengthen its role as a catalyst in promoting the FTA.
2. Such support and promotion will require information campaigns and trade missions with existing chambers and other bodies as well as the *use of more innovative measures* for direct and indirect FTA implementation. The examples of Jordan's TIJARA, Golden List, and TATWEER initiatives should serve as models for Morocco.
3. *Aid for new programs should be solicited proactively* from USAID or other US organizations. The Moroccan government, in partnership with the private and civil sectors, should request assistance specifically targeted for its needs, which will, in the long run, better serve the Kingdom's interests than one-size-fits-all programs from Washington that may be difficult to apply. Morocco should also explore and seek assistance from WTO Aid for Trade programs.
4. *Renegotiation may be an option.* With a new US administration eager to show that change is in the air regarding foreign and economic policy, Morocco might consider reopening negotiations to revise its FTA with the United States. If so, it should look for revisions beneficial to both sides; otherwise, the spirit and results could be counterproductive.
5. *A Maghreb QIZ should be eagerly pursued.* The Jordan QIZ's shortcomings are a result of fecklessness on the part of Amman, not an inherent weakness in the model itself. An indigenously linked QIZ (not just a footloose collection of offshore manufacturers) could be a powerful tool for export promotion and development.
6. *Beware of preference duplication and erosion*, which affected the Jordan QIZs after Egypt obtained the same privileges. Morocco of course cannot prevent the United States from establishing QIZs in other countries that might be in competition with Rabat. However, the Moroccan state and private sectors alike can allay this threat by making the country's QIZs as strong and competitive as possible and by promoting vertical integration.

7. Finally, the FTA could *spur Moroccan economic reforms in general* if the government properly advertises its benefits to businesses and the public. In Jordan, human rights and IPR reforms spurred directly or indirectly by the FTA have significantly changed the role of the state in the economy, shifting it from that of an interfering, punitive, and generally counterproductive economic actor to that of a regulator, facilitator, and defender of rights. As the state remains a significant player in the Moroccan economy, such adaptations in its role could prove similarly beneficial.

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