

Chapter Eight

Qualifying Industrial Zones (QIZs), 2002

Overview

In 1996, the United States Congress launched the QIZ initiative to support the peace process in the Middle East and assist Jordan economically. Deriving from the US-Israeli FTA, this initiative consists of an agreement between Jordan and Israel that allows QIZ products to gain duty-free entry into the US with no commitment required from the Jordanian side save compliance with the country of origin criteria as provided by the QIZ agreement.

The agreement aims at creating job opportunities in the Kingdom, facilitating technology transfer, eliminating trade barriers, opening up new markets for products manufactured in Jordan, and promoting Jordan to US businesses. On account of the consideration that the US economy is the largest worldwide, the QIZ is a golden opportunity to increase Jordan's trade, and promote Jordanian products. QIZ serves as a magnet for capital and technology investment from international sources; various investors relocated their production plants to Jordan to take advantage of the tariff and quota-free favorable treatment for Jordanian products¹. As such the QIZ agreement resulted in the establishment of the first QIZ (Al-Hassan Industrial Estate) in Irbid, in 1997. In 2002, the total number of operational QIZs in Jordan amounted to seven. The following industrial zones are designated as QIZs:

- *Government Owned:*
 1. The Al-Hassan Industrial Estate in Irbid
 2. Al-Hussein Ibn Abdullah II Industrial Estate (Al-Karak)

- *Privately Owned*
 1. Cyber City in Jordan University of Science and Technology (JUST)
 2. Al-Qastal Industrial Zone in Amman
 3. El-Zai Readywear Manufacturing Company in Zarqa
 4. At-Tajamouat Industrial Estate in Amman
 5. Ad-Dulayl Industrial Park near Zarka

- *Under construction*
 1. Aqaba Industrial Estate
 2. Mushatta International Complex in Amman
 3. Gateway QIZ on the northern Jordan-Israeli border
 4. Hillwood QIZ within the Hashemite University

The following QIZ Study was carried out to evaluate the importance of QIZs in Jordan. The study is based on interviews with key persons in QIZ companies, and on data provided by the Industrial Development Directorate (IDD), the QIZ division at the MoIT.

¹ Refer to the table in annex 8.1 for a breakdown of the QIZ companies by nationality until December 2001.

Study Premise and Analysis

A. Characteristics of QIZs:

It was evident from the field visits to the QIZs that these zones mostly concentrate on the production of labor-intensive products, mainly textiles. This focus on textiles is due to the fact that the US government imposes tariffs on selected products entering its market to protect their local industries and producers.

Table 8.1: USA Average Tariff on Selected Products

Industry	NTR Tariff AVG %
Footwear	37 %
Textile	29.7 %
Tableware, Glassware	26.7 %
Trunks, Suitcases, Handbags	19.4 %

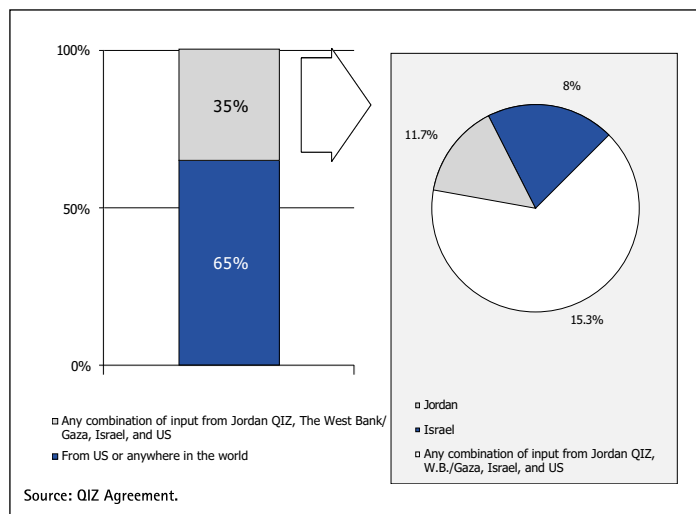
Source: US Department of Statistics.

Table (8.1) shows the average percentages of tariffs imposed on selected products entering the US market. As shown in table (8.1), several products are subject to high duties. The promotional campaign conducted by the JIB focused on the garment industry for QIZs. The Jordanian Promotion Missions during 2000 and 2001 targeted Asia mainly (Turkey, India, Pakistan, Sri Lanka, Indonesia, Thailand, China, and Taiwan). Asian garment companies are major suppliers to the US garment market, yet they are subject to US quota criteria when producing in their home countries.

B. Qualifying the Product to Enter the US:

To qualify for entry to the US market, the QIZ agreement requires at least 11.7% value added from Jordan, and 8% from Israel for the products produced in the QIZs. This is further illustrated in figure (8.1).

Figure 8.1: Qualifying the Product to Enter the USA



The 11.7% Jordanian share includes direct labor and processing costs. Direct labor cost consists of salaries for both Jordanian and non-Jordanian laborers. The processing cost includes items such as utilities, rent, transportation, etc. It is apparent from the data obtained from the IDD, the QIZ division at the MoIT that almost 50% of the direct labor cost is directed towards non-Jordanian employees. In terms of direct processing cost, there is no standard direct cost sheet; therefore, some companies

include more than 35 items whereas others include less than 15 items allowing variations in the cost evaluation. Consequently, QIZ companies achieve only 70% of Jordan's 11.7% share.

In order to cover the Israeli share (8%), QIZ companies import most accessories (buttons, zips, thread, etc.) from Israel. Nevertheless, such accessories are very expensive compared to those imported from south Asia. Jordanian and non-Jordanian manufacturers claim that some Israeli manufacturers exploit QIZ companies in terms of price. Furthermore, QIZ companies state that covering the Israeli share is one of the main impediments preventing the use of Jordanian accessories. On the other hand, they argue that Jordanian accessory manufacturers and suppliers are not competent in terms of price, quality, and delivery dates. Consequently, this hampers the QIZs integration into the Jordanian economy.

C. QIZ Labor Force:

As can be seen in table (8.2) the total number of QIZ companies is 47, employing approximately 23.5 thousand, of which 13.9 thousand Jordanian laborers have been receiving salaries in the range of JD 15.6 million per year.

Year	No. of Companies	Labor (in thousands)	
		Local	Foreign
1999	1	-	-
2000	11	-	-
2001	32	13.3	5.7
Until Dec 2002	47	13.9	9.6

Source: QIZ division, MoIT, 2002.

Table 8.2: Number of Companies and Labor in QIZs

The QIZs are spread all over the Kingdom, and contribute greatly to the social development by creating job opportunities and alleviating poverty. Table (8.3) illustrates the geographic distribution of the seven already established industrial zones, two of these zones being located in the North, four in the Middle, and one in the South.

Zone	Region	No. of Factories	Local Labor	Total	Zone Share
Al Hasan	North	17	4,549	6,885	33%
Ad Dulayl	Midle	9	1,772	4,043	17%
Al Tajamouat	Midle	14	4,512	7,150	20%
Al Qastal	Midle	2	708	959	0.7%
El Zay	Midle	1	508	508	2%
Cyber City	North	2	380	1,380	7%
Al Karak	South	2	1,469	2,578	21%
Total		47	13,898	23,503	100%

Source: QIZ division, MoIT, 2002.

Table 8.3: Distribution of QIZs According to Region

However, and according to the Jordanian labor law, the permitted percentage of foreign labor should not exceed 30% during the first year, decreasing gradually in the second and third year to 25% and 15%, respectively. However, the results of the study are contrary to the provisions of the Jordanian labor law since there is an over-reliance on foreign labor as shown in table (8.4). Moreover, some companies are in the third or fourth year of production, and the average percentage of foreign labor to total labor is as follows; Asian QIZ companies (45%), Jordanian QIZ companies (4%), and other QIZ companies (7%).

Table 8.4: Legal Percentage of Foreign Labor by Jordanian Law and Percentage of Foreign Workers in Asian Companies

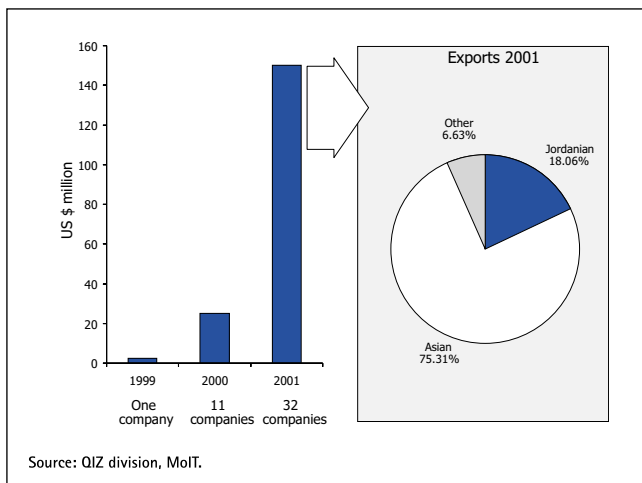
Years of Production	Second Year	Second Year	Second Year
Legal %	23%	16%	10%
% of foreign workers in Asian companies	52%	37%	38%

Source: QIZ division, MoIT, 2002.

Most QIZ companies depend on skilled foreign workers, especially in sophisticated processes like cutting and sewing. Table (8.3) clearly shows that many companies succeed in going beyond the legal percentage of allowed foreign labor through exceptional permissions from the Ministry of Labor (MoL). Some QIZ companies employ administrative employees (operators, secretaries, correspondents, etc.) whereas in the work permit applications the positions are declared as technicians or production workers. Nonetheless, QIZ companies are still generating job opportunities for Jordanians.

D. QIZ Exports: (See figure 8.2)

Figure 8.2: Exports of QIZ Companies to the USA Market (1999-2000)



The total QIZ exports amounted to US\$ 265 million during the first nine months of the year 2002. Considering the exports for the year 2001, there is a difference of US\$ 30 million in QIZ exports between the Jordanian official figure (US\$ 150 million), and the USA figure released by the Customs Department (US\$ 180 million). Some companies are exporting to the USA market as QIZ products without having Qualifying Product Requirements (QPR) approval. It is obvious that QIZ companies are taking advantage of their position to maximize their profit margins.

Such conduct could badly affect the favorable condition that Jordan has so far enjoyed. It

may subject Jordan to US quotas. Since the US market (code N) is based on trust, Jordan should monitor closely the methods used for obtaining QPR approval and take prompt action whenever the need arises.

E. Shipping QIZ Products:

Aqaba and Haifa are the immediate two ports available for shipping Jordanian QIZ products to the USA. The study examined the pros and cons of shipping from both ports and reached the conclusion that QIZ companies would be better off shipping out of Aqaba when considering cost as a measure.

Nevertheless, after examining the shipping processes, the results turned to be otherwise. Some of the pros for shipping out of Aqaba are:

- The owner has control over the shipment as long as it is on board the ship, whereas when shipping out of Haifa the owner loses control over the shipment, in particular once it reaches Sheikh Hussein Bridge.
- Ships in Aqaba are ready to accept cargo until the last moment (no shut-out time), but when QIZ companies use Haifa as a port there is a shut-out time of two days.

Other factors, like strikes in the Israeli customs department, the two day weekend, the need for products to pass through two borders, etc. make shipping out of Aqaba more auspicious. Nonetheless, QIZ companies opt for Haifa port more frequently.

Shipping a 40 Foot Container				
Comparison Measures	East Coast (NY)		West Coast (LA)	
	Aqaba	Haifa	Aqaba	Haifa
Transit time (Days)	30-33	17-22	35	45
Trucking Cost (US\$)	400-500	750	620	750
Shipping Cost (US\$)	2200	2900-3200	3000	3500

Source: Interview with local shipping agent.

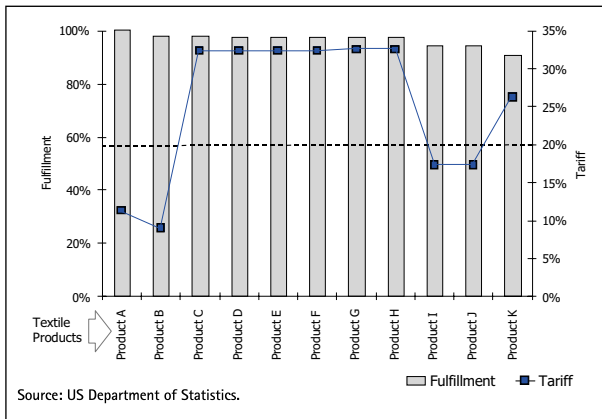
Table (8.5) compares shipping time and costs incurred by shipping from both Aqaba and Haifa ports to the USA. The table clearly indicates that shipping out of the port of Aqaba is relatively cheaper compared to shipping out of Haifa. Due to the fact that the customer, in the Letter of Credit (LC), in advance determines the shipping port, most shipments are carried out from Haifa port. In addition, some international shipping offices, i.e. Trans World, have already established offices in Israel. Another important factor for using Haifa port is the relatively short transit time; American importers are highly concerned with delivery time.

Beyond 2005

According to the Multi Fiber Agreement (MFA) of the WTO in the case of textiles and clothing, the international markets will be quota-free in 2005 for these particular products. Charts 8.3.(a), (b), (c) and (d) indicate whether or not foreign investors in Jordanian QIZs will keep their production plants beyond the year 2005; particularly, they refer to those foreign investors who have a limited quota allocated to the textiles

Table 8.5: Shipping Comparisons-Aqaba Port vs. Haifa Port

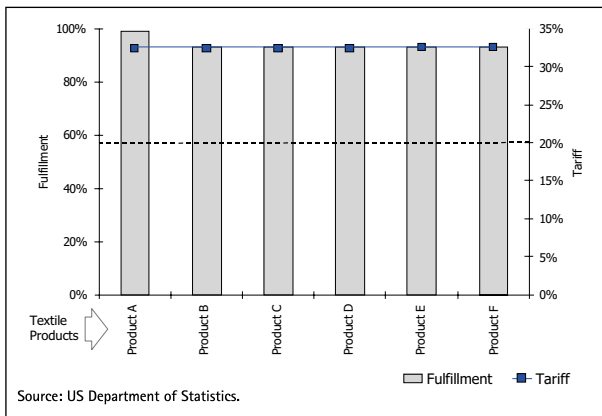
Figure 8.3.a: QIZ Beyond 2005 – Chinese Companies



and clothing products manufactured in their countries for US market entry.

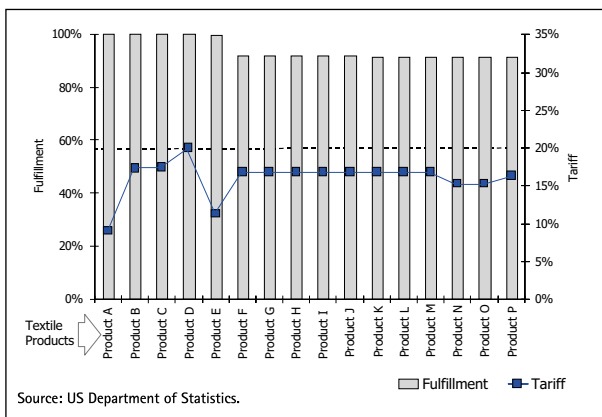
In the chart (8.3.a) the vertical bars represent the attainment of quota for specific Chinese textile products, whereby the black dotted line stands for current tariff rates imposed on the products for the US market entry. The vertical bars indicate the 100% attainment of the Chinese quota for the respective products, whereas the right axis represents the range of tariffs for the specified textile products. The red line stands for the bottom line defining the 20% ability for Chinese companies to compete with Jordanian QIZ products for the US market entry. (This estimation is based on the survey feedback from Jordanian QIZ manufacturers). Accordingly, as shown in the chart, most Chinese companies currently focus on high tariff rates products to enter the US market. Nevertheless, after the year 2005 these companies will not abide by the quota imposed on their products to enter the US market. Thus, many of the Chinese companies are expected to stop producing low tariff rates products. Conversely, they will focus on producing high tariff rates products, which are charted above the red line, since the production cost for the other category (represented beneath the 20% line of the chart) is lower in their home country.

Figure 8.3.b: QIZ Beyond 2005 – Companies Based in Hong Kong



The sample methodology used for chart (8.3.a) has been applied to charts (b), (c) and (d). In chart (8.3.b) the vertical bars indicate that Hong Kong manufacturers attain 100% of the quota imposed on the specified products. For US market entry their production is focused on high tariff rates products. In accordance with the provisions of the MFA, these companies will continue producing in Jordanian QIZs beyond the year 2005 to benefit from the competitive entry (tariff-free) into the US market.

Figure 8.3.c: QIZ Beyond 2005 – Pakistani Companies



On the contrary, as indicated in chart (8.3.c), Pakistani companies might stop producing in Jordan after the MFA takes effect; since the majority of their production lines generate low-tariff-rate products. Accordingly, the Pakistani companies will be better off producing in Pakistan, and paying the tariff imposed on the respective products than produce in Jordan. Chart (8.3.d) represents the Taiwanese production lines and clearly indicates that like Pakistani manufacturers, Taiwanese manufacturers will most likely cease operating from QIZs in Jordan as their current production lines concentrate on low tariff products.

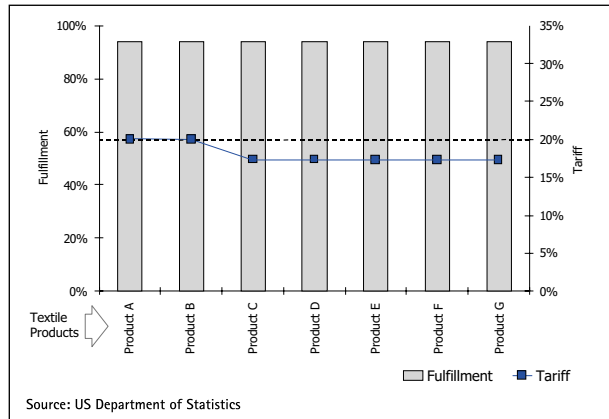


Figure 8.3.d: QIZ Beyond 2005 - Taiwanese Companies

Overall, it looks as if most foreign investors in QIZs in Jordan will not carry on after the implementation of the 2005 MFA of the WTO. These companies will no longer have the advantage of quota free entry into the US market after this date. The most likely scenario is that the majority of the textile manufacturers producing low tariff rates products within the Jordanian QIZs realize they would be better off producing in their own countries as the tariff payments would be compensated by the low labor cost.

Future Strategy

A. Attracting Innovative Designers:

Benefits similar to those of QIZ have been extended to other regions in the world like Sub Saharan countries in Africa. Such a situation could negatively affect the competitive position of Jordanian QIZs, due to the dependence on cost advantage. Therefore, Jordan should concentrate on attracting investors other than Asians; for instance Europeans and others capable of knowledge transfer, and ready to expand the value chain of industries in Jordan, as indicated in figure (8.4).

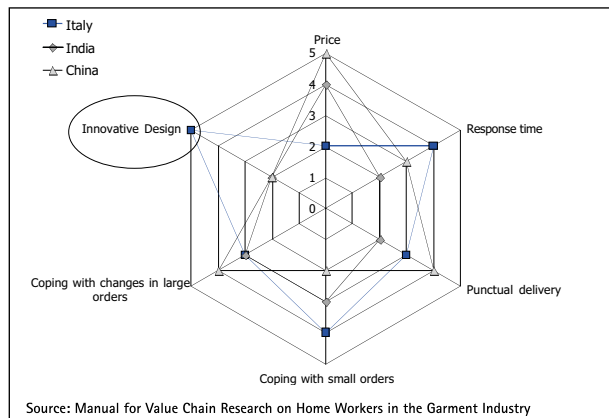


Figure 8.4: Comparison Between Indian, Italian and Chinese Investors

B. Directing Promotion Missions:

As previously mentioned, the JIB Promotion Mission for 2002 is primarily targeting textile-producing countries. To maximize the preferential treatment allotted to Jordanian products entering the US market, the focus should be on countries that produce products with a higher tariff rate. (Refer to Table 8.1 for example). In addition, account should be taken of valuable US studies pointing out the need for Jordan to amend its future strategy and focus on attracting investments in fields other than textiles (i.e. footwear, glasses, etc.).

C. Learning from Others:

It is also necessary, as part of the future strategy of Jordan, to study and learn from the Mexican *Maquiladora* practices, since both Mexico and Jordan seem to share some similar experiences. Mexico is a third world developing country with a high unemployment rate, and economic difficulties comparable to those in Jordan. The factories in the QIZ are similar to Maquiladora in terms of the presence of foreign plants, American in the Mexican case, and respectively Asian in the Jordanian case. Plants in both places use traditional assembly methods, low-level technology, and lack any productive links with the domestic industry. Additionally, both are highly dependent on decisions issued from their head offices, and from their principal customers. Finally, the focus is on intensive manual labor performed by youth with rigid work positions, performing repetitive and monotonous activities.

After realizing the bleakness of such work conditions, Mexico started amending its foreign investment policies to enhance the Maquiladora status quo and benefit the country. The Mexicans attracted a greater diversity of companies originating from various countries represented by several enterprises of Asian (Japanese & South Korean), as well as, Mexican origin. In addition they shifted gradually from unsophisticated assembly operations to manufacturing processes. They focused less on labor-intensive production, and emphasized the proliferation of workstations along automatic or semi-automatic assembly lines. Ever since Mexico followed and implemented these strategies, there has been a greater participation of skilled technicians and engineers; furthermore flexible processes and multiple area functions (the Japanese system of production) have been established. In short, these practices simultaneously benefited foreign investors and the Mexican industry.

Consequently, the Mexican Maquiladoras enjoyed a larger presence of transnational corporations that conduct research, design and development. These corporations developed important intra-company clusters and engendered intra-company commodity chains. They promoted a process of centralized vertical integration via the conformation of industrial complexes on the Mexican side of the border, which in turn encouraged links with domestic suppliers. Accordingly, the technological level increased dramatically.

The process of developing Maquiladoras to work for the benefit of Mexico was not an instant process. Mexico followed a long-term strategy to achieve this transition. It took Mexico the interval from 1965 until today to develop effective and advantageous production approaches. It is worthwhile that Jordan learns from the Mexican experience, and develops a long-term strategy to attract foreign investors that would serve the needs of the local industry as well as the Jordanian economy.

Is the QIZ an Engine of Growth for the Jordanian Economy?

In order to address the above stated question it is essential to first examine the pros and cons of the QIZ issue in Jordan. The study conducted concludes that the QIZ benefits the Jordanian economy in several ways. To begin with, QIZs employ approximately 14 thousand Jordanian workers (around JD 15.6 millions salaries per year). Furthermore, QIZs are highly dependent on local banks and insurance companies that have relations with and credit in the US market. More advantages include the usage of Jordanian utilities (Telecommunications, Electricity, Water and Land) and the dependence on local construction companies, in addition to transport companies that secure the transport of foreign employees. Moreover, the Jordanian economy benefits from

QIZ payments that are transferred in the form of government fees and dues.

On the other hand, QIZs bear some negative implications for the domestic economy. To begin with, profits produced from exports are not transferred back to Jordan. Another issue is the over reliance of QIZ companies on foreign workers (up to 85% in some companies). Furthermore, most shipping operations take place through the port of Haifa, albeit the fact that a huge part of trucking is of Israeli origin. Additionally, there is no networking or reliance on local related industries on top of the deficiency in the creation of Jordanian brand names. More importantly, knowledge transfer is very limited (training for employees is inadequate), and no product diversification exists since all QIZ companies are specialized in garment production. Production stages are no more than Cut, Make and Trim (CMT), which block high value added. The Jordanian share (11.7%) is not purely Jordanian, and includes high records of depreciation that are often overestimated. Moreover, no corporate taxes are imposed on QIZ companies. Furthermore, labor and capital productivity are relatively low due to the nature of the textile industry, which is labor intensive and does not require sophisticated technology. Finally, the markets targeted by QIZ manufacturers do not require high quality products.

Annex 8.1:**Breakdown of the QIZ Companies by Nationality until December 2001**

Nationality	Value of Investment (\$)	Percentage
Jordanian	78,402,380	48.1
British	33,840,544	20.8
Pakistani	8,062,035	5
Chinese	11,240,634	6.9
American	7,181,594	4.4
Sri Lankan	5,296,610	3.3
Dutch	3,253,521	2
Taiwanese	2,000,000	1.2
U.A.E	10,000,000	6.1
Indian	492,958	0.3
Bangladeshi	2,345,000	1.4
Israeli	750,000	0.5
Total	162,865,275	100

Source: QIZ division, MoIT.