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Qualifying Industrial Zones (QIZs) in Jordan and Egypt: Background and Issues for Congress

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August 23, 2013

Congressional Research Service
7-....
www.crs.gov
R43202

Summary

Congress passed the Qualifying Industrial Zone (QIZ) program in 1996, as an amendment to the U.S.-Israel Free Trade Agreement (USIFTA) implementing legislation. This narrowly focused program provides duty-free access to the U.S. market for goods produced with certain levels of Israeli and Jordanian; Israeli and Egyptian; or Palestinian content. The purpose of the program was political (to further the Middle-East peace process) and economic (to support economic growth in the Middle East/North Africa (MENA) region). After the terrorist events of September 11, 2001, the Bush Administration, and six years later, the Obama Administration, undertook broader initiatives to expand regional efforts to promote peace, democratic transitions, and economic development in the larger Middle East region through trade and investment. Thus, the QIZ program may now be viewed against a backdrop of these more comprehensive programs.

The QIZ program carries some provisions beyond those in most other U.S. trade preference programs. On one hand, it requires cooperative production. On the other, it includes more relaxed content requirements and more generous tariff benefits on certain goods than most trade preference programs, and permits U.S. input to reach the USIFTA 35% content requirement. Jordan joined the QIZ program in 1997, and Egypt joined seven years later in 2004. Three years after Jordan opened its QIZ program, it entered into a free trade agreement (FTA) with the United States. The FTA eliminated tariffs between Jordan and the United States without requiring cooperative production, leading to a decrease in the importance of the QIZ program in U.S.-Jordan trade.

Initially, the QIZ program was a driver of economic growth for Jordan. In 13 QIZs along the border with Israel, factories primarily funded by Asian investment and predominately populated by guest workers from Asian countries co-produced apparel products with partner operations in Israel. For four years, the program contributed an amount equivalent to 30% of Jordan's total GDP growth. Today, the United States is Jordan's second-most important trading partner (after Saudi Arabia). While Jordan's QIZ program has been largely superseded by the U.S.-Jordan FTA, its QIZs remain the source of many of its exports to the United States, as well as to other countries.

For Egypt, the QIZ program was not as transformational as it was for Jordan and contributed, at best, an amount equivalent to 2% of its GDP growth for two years. The country already produced and exported apparel and textiles from Egypt's own cotton woven into fabric in Egyptian factories. The United States was and remains Egypt's top trading partner. President Obama recently expanded the QIZ program for Egypt, naming more zones and including all present and future producers in those zones as eligible for QIZ tariff benefits.

If Congress were to explore additional trade options for stimulating MENA intra-regional and world trade, it might move to reexamine the purposes and effects of the QIZ program. Options for the 113th Congress include possible consideration of the QIZ program in the context of larger policy options relating to U.S.-MENA relations and MENA trade and development.

This report does not address the current turmoil in Egypt. For a discussion of this issue, see CRS Report RL33003, *Egypt: Background and U.S. Relations*, by (name redacted).

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Introduction

The United States has a number of trade preference programs which offer unilateral/non-reciprocal duty-free treatment for certain products from designated countries meeting specific eligibility requirements. The motivation for these programs can be political and/or economic. The QIZ program, attached to the U.S.-Israel Free Trade Agreement (USIFTA), is one such program. It was designed to strengthen the Middle East peace process while stimulating the economies of Jordan and Egypt.[1] The current ongoing wave of upheaval in the Middle East and North Africa that started in late 2011 raises the potential for simultaneous political and economic transitions. The QIZ program is one tool available to Congress for assisting on both counts.

This report briefly examines the evolution and economic effects of the QIZ program for Jordan and Egypt during the past 15 years and identifies some related issues for Congress. It does not address the current turmoil in Egypt. For a discussion of this issue, see CRS Report RL33003, *Egypt: Background and U.S. Relations*, by (name redacted). [2]

Overview

The Qualifying Industrial Zone (QIZ) program was created by the 1996 West Bank and Gaza Strip Free Trade Benefits Act, which amended the 1985 U.S.-Israel Free Trade Agreement (USIFTA).[3] Under this law, certain goods may enter the United States duty-free if they are (a) wholly produced in the West Bank and/or the Gaza Strip; or (b) co-produced by Israel and Jordan or Israel and Egypt in export processing zones called QIZs and meet specific content requirements. Congress had two main motives for this legislation:

- To help broaden political support for the Middle East peace process and end the Arab economic boycott of Israel. Jordan (in 1979) and Egypt (in 1994) were the only two Arab countries in the Middle East-North Africa (MENA) region[4] that had signed peace treaties with Israel. (See Map, **Figure 1**.)

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[1] Most other U.S. trade preference programs are authorized under the Trade Act of 1974, P.L. 93-618, as amended. These include the Generalized System of Preferences (GSP), P.L. 104-188, 19 U.S.C. §2461-2467; the Andean Trade Preference Act (ATPA), P.L. 102-182, 19 U.S.C., §3201-3206; the Caribbean Basin Economic Recovery Act (CBERA), P.L. 98-67, 19 U.S.C. 2701 et seq.; the African Growth and Opportunity Act (AGOA), P.L. 106-200, 19 U.S.C. 3721(c); and the Haitian Hemispheric Opportunity Through Partnership Encouragement Act (HOPE), P.L. 109-432, 19 U.S.C., 2703a(d).

[2] See also CRS Report RL33476, *Israel: Background and U.S. Relations*, by (name redacted); CRS Report RL33546, *Jordan: Background and U.S. Relations*, by (name redacted); CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by (name redacted); and CRS Report RL33961, *Arab League Boycott of Israel*, by (name redacted). For more extensive analysis on U.S. trade and investment issues in the Middle East, see: CRS Report R42153, *U.S. Trade and Investment in the Middle East and North Africa: Overview and Issues for Congress*, coordinated by (name redacted)
.

[3] P.L. 104-234 amended the U.S.-Israel Free Trade Agreement Implementation Act, P.L. 99-47, June 11, 1985, U.S.C. 2112 note.

[4] Middle East/North Africa entities, as defined by the World Bank, are: Algeria, Bahrain, Djibouti, Egypt, Gaza Strip/West Bank, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, and Yemen. See CRS Report R42153, *U.S. Trade and Investment in the Middle East and North Africa: Overview and Issues for Congress*, coordinated by (name redacted).

- To produce tangible economic benefits for Jordan, Egypt, the West Bank, and the Gaza Strip by "stimulating their economies and increasing employment."[5]

The QIZ program had a third, more concrete economic objective. As the reported brainchild of regional businesses in the Middle East, it was proposed as a way for joint production (between Israel and other countries) to be as lucrative as—or more lucrative than—that carried out by individual parties.[6]

Leading up to congressional passage of the QIZ program, the primary focus was to provide benefits to selected countries to help promote the Arab-Israeli peace process. The events of September 11, 2001, expanded the U.S. focus on the Middle East, both geographically and politically. This led to broader and more comprehensive U.S.-Middle East trade initiatives to assist the region.

The first initiative, in 2003, under the Bush Administration, called for a Middle East Free Trade Areas (MEFTA), within 10 years, by 2013, and resulted in the negotiation of U.S. free trade agreements with Morocco, Bahrain, and Oman. The second initiative was the Middle-East/North Africa Trade and Investment Partnership Initiative (MENA-TIP), announced by President Barack Obama in 2011. It focused on helping countries in their efforts to undertake reforms that could lead to trade liberalization and transitions to democracy.[7] In his speech announcing the initiative, President Obama noted that, excluding oil, the MENA region of over 400 million people exports roughly the same value of goods as Switzerland.[8] For an oil-dominated region, building up non-oil export capacity takes time.

Most MENA countries are outside the QIZ program and do not have free trade agreements with the United States. For many of these countries, the Generalized System of Preferences (GSP) program is their only trade preference option.[9] However, for MENA countries, the GSP program is more limited than the QIZ program in the following ways:

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[5] U.S. Congress, Senate Finance Committee, *Extension of Free Trade Benefits to the West Bank and Gaza Strip*, S.Rept. 104-270, p. 3.

[6] *Dollars and Diplomacy*: The Impact of U.S. Economic Initiatives on Arab-Israeli Negotiations, by Patrick Clawson and (name redacted) Gedal, The Washington Institute for Near East Policy, 1999, p. 100. For more details on the origin of the QIZ concept, see *Business as Usual?: Economic Reform in Jordan*, by Katherine Blue Carroll, 2003, p. 68-72.

[7] See The White House, "Remarks by the President on the Middle East and North Africa", May 19, 2011. See also, Office of the U.S. Trade Representative (USTR), "Remarks by Ambassador Miriam Sapiro on Trade and Investment with the Middle East and North Africa," September 15, 2011; and "U.S. Department of State, Secretary Clinton and Secretary Geithner joint Letter to G8", May 25, 2011.

[8] U.S. Department of State, "Remarks by the President on the Middle East and North Africa," May 19, 2011.

[9] Only 10 out of 22 MENA entities are eligible for GSP status. These are Algeria, Djibouti, Egypt, Gaza Strip, West Bank, Iraq, Jordan, Lebanon, Tunisia, and Yemen. The major MENA users of this program are Lebanon, Tunisia, the West Bank, and Egypt. For more information on GSP, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by (name redacted).

- The GSP program generally excludes from duty-free eligibility most of the high-tariff products exported tariff-free under the QIZ program;
- GSP does not authorize eligible MENA countries to co-produce with other countries in order to meet the 35% QIZ content requirement; and
- U.S. content is not permitted to count for any of the 35% content requirement under GSP, whereas it can contribute 15% under the QIZ program.

In March, 2013, the USTR announced a QIZ expansion for Egypt, to include new zones in Beni Suef and Minya, upstream on the Nile River, and to declare all present and future producers in the zones eligible for QIZ tariff benefits. This raises the number of QIZs to six in Egypt. Some of the 13 QIZs in Jordan are not currently involved in QIZ export, but still produce for export to the United States (see **Figure 1** notes).

Key Provisions of the QIZ Program

The QIZ program extends U.S. tariff-free benefits to the West Bank and Gaza Strip,[10] and to certain goods co-produced by Israel and Jordan, or Israel and Egypt in export processing zones that meet country of origin and local content requirements. (See **Text Box 1** for the definition of QIZs.)

Production requirements mandate that the product must be grown, produced, or manufactured in, or a "new and different" article imported directly from, the West Bank, Gaza Strip, or a QIZ. Country input share requirements stem from the USIFTA, which requires that the sum of the cost or value of the materials or the total costs of production must be not less than 35% of the appraised value of the product at the time it enters the United States. Of this 35%, U.S. components may contribute up to approximately 15%, and inputs from Israel and Jordan, or Israel and Egypt, must total roughly 20% (see **Text Box** 2).

Under the QIZ law, once Jordan and/or Egypt decided to take advantage of the program, the parties met to determine (a) where QIZs would be located; and (b) how the approximate 20% minimum input requirement would be split up between Jordanian and Israeli or Egyptian and Israeli producers. For goods produced by Jordan and Israel, these shares were Jordan 11.7%, Israel 8% (7% for high tech products); and for goods produced by Egypt and Israel, they were 10.5% each. (See **Text Box 2**.) The slight variations from the 10% each in the country sub-shares were adopted with the approval of the USTR.

[10] The West Bank and Gaza Strip ceased to be included under USIFTA when, in 1993, it was granted self-government under the "Israel-PLO Declaration of Principles on Interim Self-Government Arrangements," also known as the Oslo Accords. Then, in 1995, in an exchange of letters between the United States, the government of Israel, and the Palestinian Authority, the U.S. Trade Representative (USTR) agreed to seek statutory authority to eliminate existing duties on articles of the West Bank and Gaza Strip. The Palestinian Authority agreed to accord U.S. products duty free access to the West Bank and Gaza Strip to prevent illegal transshipment of goods not qualifying for duty-free access, and to support all efforts to end the Arab economic boycott of Israel. See U.S. House of Representatives, House Ways and Means Committee, *Extension of Free Trade Benefits to the West Bank and Gaza Strip*, House Report, 104-495, p. 2. See also, *The Palestinians: Background and U.S. Relations*, CRS Report RL 34074, by (name redacted).

What is a QIZ?*

QIZs, a specific type of free trade zone, are typically fenced-in industrial parks housing manufacturing operations. They simplify cooperative production between countries because they (a) are enclaves of infrastructure in developing countries where infrastructure may be sparse; and (b) are declared to be outside the customs territory of a country. This means that for goods entering and leaving, customs procedures are streamlined and tariffs do not apply until an item formally enters a country as an import for consumption.

QIZs are part of a 3,500 worldwide free trade zone network in 135 countries employing at least 66 million workers. As such, they are an important element in the global supply chain.

QIZs differ from other types of free trade zones, which typically (a) are stand-alone entities within a single country; (b) produce for export to or domestic consumption in any country; and (c) operate solely under the authority of, and conditions determined by, the host government.

QIZS, on the other hand (a) have operations in two countries (Israel and either Jordan and Egypt); (b) initially produced goods solely for export to the United States; and (c) operate under both the authority of the host countries and the oversight authority of the United States, which determines conditions in, and authorizes tariff relief for QIZ exports.

*For more information on free trade zones generally, see CRS Report R42686, *U.S. Foreign-Trade Zones: Background and Issues for Congress*, by (name redacted) and (name redacted), p. 1-5.

Product Eligibility Requirements for Exports Under the QIZ Act

PRODUCTION LOCATION REQUIREMENTS:
Products must be:
~wholly the growth, product or manufacture of, or
~ a new or different article grown, processed or manufactured in, and
~ imported directly from, the West Bank, Gaza Strip, or a QIZ;

The QIZ must:
~encompass parts of Israel and Jordan or Israel and Egypt;
~have been designated by both local authorities and the U.S. President, as an enclave where merchandise may enter without payment of duties or excise taxes.

COUNTRY INPUT SHARE REQUIREMENTS:
Country input shares must total 35% of the appraised value of the product at the time it enters the United States.

For products co-produced by Israel and Jordan and/or exported through the West Bank/Gaza Strip:
~For Jordan: 11.7% of value of materials
~For Israel: 8% (7% for high tech products)
~Remaining 15.3% may come from any combination of input from a Jordanian QIZ, Israel, the United States, and the West Bank and Gaza Strip.

For products co-produced by Israel and Egypt:
~For Egypt: 10.5% of the value of materials
~for Israel: 10.5% of the cost of materials;
or:
~For Egypt: 20% of total costs of production
~For Israel: 20% of total costs of production

~Remaining 15% may come from an Egyptian QIZ, Israel, or the United States.

Source: U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA).

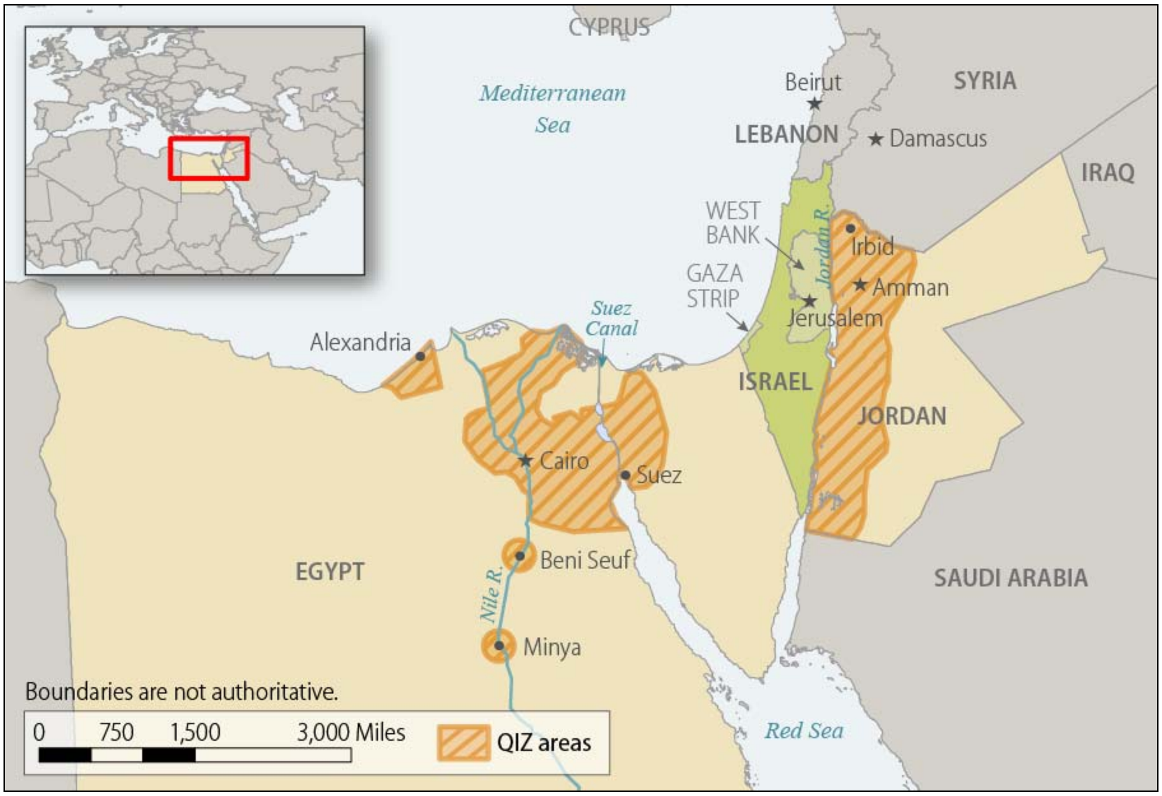
The Jordan Experience[11]

After Congress passed the QIZ amendment to USIFTA in 1996, Jordan, which had previously engaged in little international trade, embraced the program, opening its first QIZ in 1997. The program grew rapidly, giving a huge boost to Jordan's economy, until the U.S.-Jordan free trade agreement was well into effect.

[11] For background on Jordan, see CRS Report RL33546, *Jordan: Background and U.S. Relations*, by (name redacted).

When Jordan joined the QIZ program, Jordan and Israel agreed to, and the United States approved, 13 zone locations in Jordan with coordinated plants in Israel along their joint border (see **Map, Figure 1**). The U.S. Trade Representative (USTR) officially designated the Jordan zones as QIZs.

Figure 1. Map of Israel, Jordan, and Egypt Showing Areas of QIZ Clustering



Source: Prepared by CRS. Data are from the Jordan Investment Board and QIZ Egypt (the Egyptian Ministry of Trade and Industry).

Notes: For Jordan, the U.S. Department of Commerce, Office of Textiles and Apparel lists 13 zones in effect by 2001. Some of these are no longer producing for QIZ export, but may still be producing for Jordanian export to the United States. Egypt has six QIZ areas clustered around Cairo, Alexandria, the Suez Canal, and the Central Delta in Lower Egypt, plus Beni Suef and Minya, in Upper Egypt.

Investment, Production, and Trade

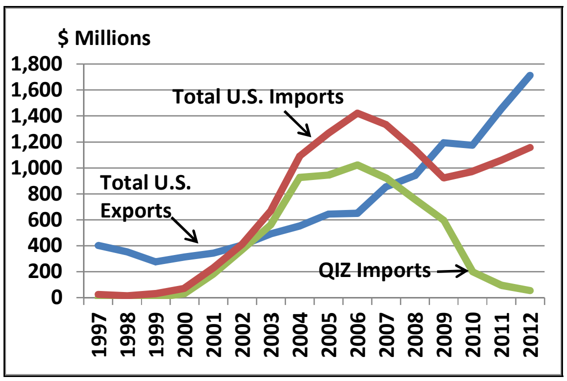
Soon after the zones were established, investment flooded into Jordan from abroad. It came particularly from Asian investors looking to gain a competitive edge for their apparel exports to the United States. They saw the QIZ program as a way to compete more effectively against other low-cost foreign producers by benefitting from duty-free access to the U.S. market.[12] Roughly 62% of foreign investment in Jordan's QIZs came from India (22%) and other Asian countries

[12] Basic apparel items including men's and women's suits, skirts/pants, and jackets carry tariffs of roughly 28%, and tee shirts and tank tops carry tariffs of 32%.

(40%). Other investment came from Jordan (17%) and the United States (3%). These four countries accounted for 82% of total investment in Jordan's QIZs.[13]

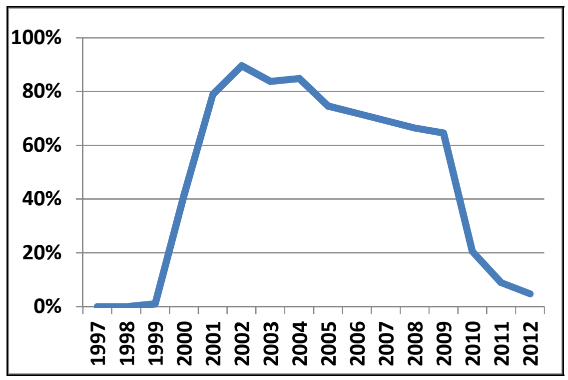
Between 1996 and 2006, Jordan's QIZ exports and total exports to the United States grew exponentially. Jordan's position as a source of imports for the United States rose from 138th to 70th. Over that span of time, U.S. QIZ imports from Jordan rose from $0 to $1 billion, and total imports from Jordan rose from $26 million to nearly $1.5 billion (**Figure 2**). During the years 2001-2004, Jordan's QIZ exports (totaling $927 million), accounted for more than 80% of its total exports to the United States (totaling $1,093 million, see **Figure 3**). (See **Appendix B** for data for all tables.) These exports, nearly all textile and apparel products (**Figure 4**), gave a huge boost to Jordan's GDP (discussed later). At the same time, the United States exported to Jordan a wide variety of products, led by motor vehicles, machinery, and more recently mineral fuels (**Figure 5**).

Figure 2. Overview of U.S. Trade with Jordan, 1996-2012



Source: USITC Dataweb.

Figure 3. Jordan's QIZ Exports as a % of All Exports to the U.S., 1996-2012



Source: USITC Dataweb.

Despite the initial QIZ success, some economists predicted that Jordan's QIZ growth was not sustainable because it lacked a number of necessary components. Jordan did not (1) diversify its exports beyond apparel, jewelry, and a few other products; (2) transition from labor-intensive exports to higher and more complex value-added products; (3) absorb new technology; (4) create domestic linkages to production supplies; or (5) upgrade the skills of its workers. In addition, production was placing increasing demand on Jordan's scarce resources, such as energy and water, and on its limited social support services. Finally, because of large foreign ownership and the large number of foreign workers, profits produced from exports were mostly not transferred back to Jordan.[14]

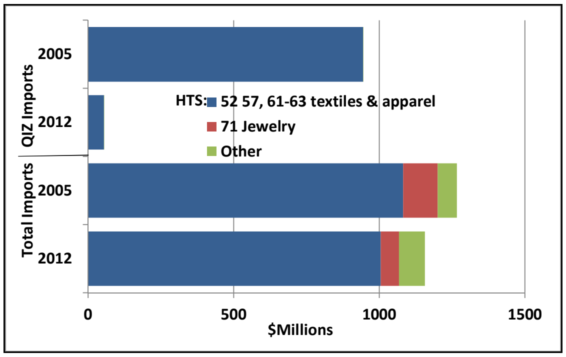
In 2001, soon after the QIZ program began to show exponential growth, the United States and Jordan negotiated a free trade agreement that went into effect that same year. This meant that Jordan no longer had to co-produce with Israel in order to achieve tariff elimination on its exports to the United States. However, Jordan would now have to meet the FTA's 35% content

[13] U.S. Agency for International Development (USAID), *Apparel Exports to the United States: A Comparison of Morocco, Jordan, and Egypt*, October, 2008, p. 16.

[14] Marwan A. Kardoosh, Jordan Center for Public Policy Research and Dialogue, "Qualifying Industrial Zones and Sustainable Development in Jordan," February 2005, p. 59**;** and *Jordan's Competitiveness Book: Confronting the Competitiveness Challenge*, 2003, p. 91-93.

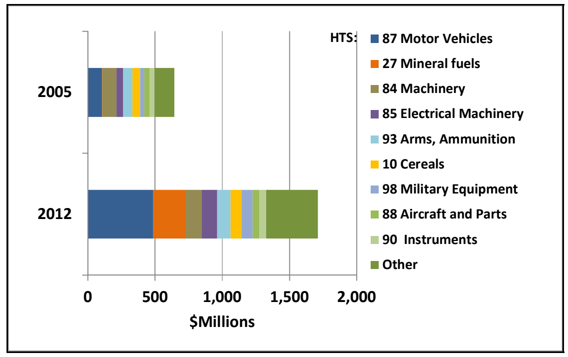
requirement instead of the QIZ's 11.7% requirement. In addition, full implementation of the FTA would take 10 years. As a result, Jordan's QIZ exports continued to climb until 2006 ($1,022 million), after which they declined rapidly. However, to this day, certain goods continue to enter the United States under the QIZ program. U.S. exports to Jordan have continued to increase consistently, reaching $1,712 million in 2012 (**Figure 2**). They have also remained diversified, including cereals, motor vehicles, machinery, arms and ammunition, aircraft and parts, and military equipment (**Figure 5**).

Figure 4. Composition of U.S. Imports from Jordan, 2005 and 2012



Source: USITC Dataweb.
Notes: HTS: Harmonized Tariff Schedule of the United States product identifiers.

Figure 5. Composition of U.S. Exports to Jordan, 2005 and 2012



Source: USITC Dataweb.

During the time when Jordan's participation in the QIZ program was phasing out and its total exports to the United States were leveling off, its exports to the rest of the world continued to grow, reaching $8 billion in 2011 (**Figure 6**). Jordan accomplished this by expanding its use of the zones already in place to produce for export to other countries, and by focusing on making better trade use of its natural resources.[15] Jordan's world trading partners are led by Iraq, followed by the United States, Saudi Arabia, India, and the United Arab Emirates. Jordan's exports to the world are more diversified than are those to the United States. Its top world exports are fertilizer (15% of its total exports, mined from potash); apparel (which goes almost exclusively to the United States); mined cement components; and pharmaceuticals.[16]

The result of Jordan's expanded trade with the world was that between 2002 and 2011, Jordan's annual exports to the world averaged 31% of its GDP; while its exports to the United States averaged 6%,[17] and its QIZ exports to the United States, which tapered off after 2006, averaged 3% (**Figure 6**).

Figure 7 highlights the contribution of QIZ and total exports to GDP growth. It compares the changes in annual QIZ exports and total exports, respectively, to the growth in annual GDP for various years. Accordingly, it shows that:

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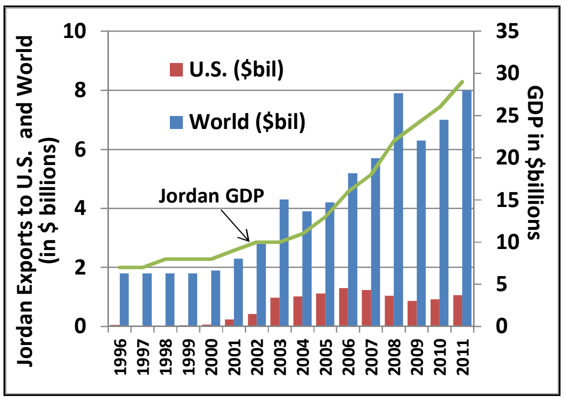
[15] Marcopolis, "Jordan Free Zones," available at http://www.marcopolis.net/jordan-free-zones.htm. Additional information is available at Jordan Investment Board.

[16] Global Trade Atlas, exports reported by Jordan.

[17] This number is based on CRS calculations for each year.

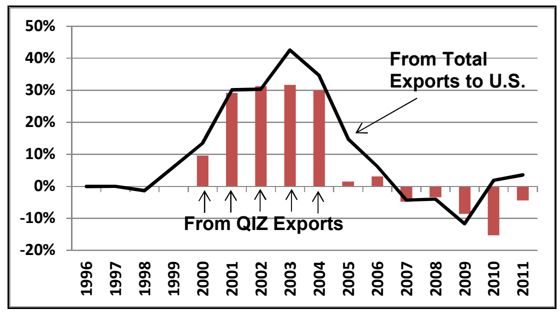
- Early on, the QIZ program became an engine of growth for both exports and GDP. During each of the QIZ "heyday" years of 2001-2004 (**Figure 7,** red bars), QIZ exports to the United States contributed an amount equivalent to roughly 30% of Jordan's GDP growth.[18]
- Total Jordanian exports to the United States contributed an amount equivalent to 43% of Jordanian GDP growth at their peak in 2003 (**Figure 7**, black line).[19]

Figure 6. Jordan's Exports to the U.S. and World, and GDP, 1996-2011



Source: USITC Dataweb and World Bank data.

Figure 7. Change in Annual QIZ and Total Exports Relative to Change in Annual GDP, 1996-2011



Source: CRS calculations from USITC Dataweb and World Bank data.

Note: Data show changes in annual QIZ exports and total exports, respectively, relative to changes in annual GDP.

Employment and Labor Issues

Accompanying the flow of Asian investment to Jordan's QIZs was an influx of Asian workers, including from China, India, Bangladesh, and other countries. The influx of foreign workers allegedly resulted from several causes. Among these were a dearth of adequately trained domestic skilled laborers, and reluctance of Jordanian workers to enter into employment in this sector because of difficult working conditions and low wages.[20] In addition, women generally in Jordan have not been in the labor force in large numbers. Jordan's tribal culture normally tends to be suspicious of women living away from home, inside QIZs.[21]

The QIZs had difficult working conditions, low wages, and some labor problems.[22] The labor problems were surprising to a number of observers, since, when the 2001 U.S.-Jordan FTA was

[18] In 2003, for example, the growth in QIZ exports accounted for 32% of all GDP growth ($194 million, out of $614 million, without regard to imports or other factors).

[19] Jordanian total exports to the United States grew $261 million, while total GDP grew $614 million.

[20] Marwan A. Kardoosh, Jordan Center for Public Policy Research and Dialogue, "Qualifying Industrial Zones and Sustainable Development in Jordan", February, 2005, p. 59**;** and *Jordan's Competitiveness Book: Confronting the Competitiveness Challenge*, 2003, p. 91-93.

[21] See CRS Report RL33546, *Jordan: Background and U.S. Relations*, by (name redacted).

[22] Economic Research Forum, "A QUIZ on the Net Benefits of Trade Creation and Trade Diversion in the QIZs of (continued...)

under consideration by Congress, many argued that labor conditions in Jordan would not be an issue because Jordan had strong labor protections. It had ratified the eight major human and labor rights conventions in the International Labor Organization (ILO), and based its national labor law on ILO standards. To calm remaining congressional concerns, however, just before Congress considered U.S.-Jordan FTA implementing legislation, the U.S. and Jordanian governments exchanged letters agreeing to resolve any potential disputes without resorting to trade sanctions.[23]

The labor issues came to light in a 2006 report published by a non-governmental organization, the National Labor Committee.[24] One observer noted that the conditions in a number of QIZ factories allegedly fell below Jordan's own labor laws and the ILO standards to which they had signed on.[25] The government, reportedly, had made some exceptions for conditions in QIZs in order to attract investment, likely contributing to sub-standard labor conditions in QIZs.[26] As had been laid out by the two governments before Congress approved the U.S.-Jordan FTA, however, these labor issues were subsequently addressed through conversations between U.S. and Jordanian officials, rather than the agreement's dispute resolution procedures.[27]

Since the labor problems were first uncovered, a team of representatives from the Jordanian government has worked with the ILO, the USTR, the State Department, and U.S. and Jordanian apparel companies to improve the monitoring of working conditions in the factories. In addition, among other efforts, the Jordanian government developed an Action Plan for labor based on ILO guidelines. Combined efforts ultimately led to a number of changes.[28] More recently, initiatives have been shepherded by the 2006 U.S.-Jordan FTA Labor Subcommittee, created by the U.S.-Jordan FTA's Joint Committee.[29] These initiatives include the joint U.S.-Jordanian funding of an

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(...continued)

Jordan and Egypt," by Jeffrey Nugent and Abla Abdel-Latif, Working Paper No. 514, 2010, p. 28-30.

[23] Specifically, the letters said that the governments "would not expect or intend to apply the Agreement's dispute settlement enforcement procedures ... in a manner that results in blocking trade." Source: "Jordan Free Trade Agreement Approved by Finance and Ways and Means," *Inside U.S. Trade*, July 27, 2001.

[24] The National Labor Committee (currently called the Institute for Global Labor and Human Rights), observed and reported conditions including (1) guest workers being prohibited by law from organizing; (2) many workers being in a "constant state of lockdown" inside the gated zones, unable to leave because their passports had been confiscated; (3) mandatory 16 to 20 hour shifts; (4) mandatory seven-day work weeks, at times; (5) various types of abuse of workers; (6) sporadic payment and/or underpayment of wages; (7) squalid living conditions; and (8) various types of physical abuse described as "tortures and beatings." See National Labor Committee, *U.S.-Jordan Free Trade Agreement Descends into Human Trafficking and Involuntary Servitude*, 2006, 161 p.

[25] USAID,"Jordan: Joint Labor Assessment and Training Project Jordan, Working Conditions in Jordan's Garment Sector," p. 45. (The publication year, not listed, may be 2007, based on references to a 2006 survey, p. 9.)

[26] For example, it reportedly exempted QIZ factories from having to pay the increase in the minimum wages allotted to all other workers in the country. Economic Research Forum, Jeffrey Nugent and Abla Abdel-Latif, "A QUIZ on the Net Benefits of Trade Creation and Trade Diversion in the QIZs of Jordan and Egypt", Working Paper No. 514, 2010, p. 29, and USAID Jordan, op. cit.

[27] "Jordanian Ministry of Labor Report on Status of Migrant Workers in the Qualified Industrial Zones," May, 2006, pages 3 and 8.

[28] These included (1) a Jordanian Code of Practice for businesses; (2) the regulation of agencies recruiting migrant workers in QIZs; (3) increases in the number of labor inspectors; (4) the extension of Jordanian health inspections to QIZ housing areas and cafeterias; and (5) improved reporting on physical and sexual abuses against workers and QIZs. See "Jordanian Ministry of Labor Report on Status of Migrant Workers in the Qualified Industrial Zones," May, 2006,

[29] USTR, "U.S. Trade Representative Ron Kirk Announces Agreements Between the United States and Jordan to Boost Investment and Economic Growth, Enhance Labor Cooperation," January, 2013. See also, USTR, "Jordan Free Trade Agreement," 2009. The Joint Labor Committee was created under article 15 of the U.S.-Jordan Free Trade Agreement, P.L. 107-43, which went into effect December 17, 2001.

ILO/World Bank "Better Work" program which began in 2009.[30] In addition, in January 2013, the USTR announced a new initiative aimed at promoting labor rights and improving working conditions in Jordan. It was called the "Implementation Plan Related to Working and Living Conditions of Workers." It reaffirms Jordan's commitment to protect internationally recognized worker rights and to effectively enforce its labor laws.[31]

The overall impact of the QIZ program for Jordan is complex. Initially, it gave a significant boost to the Jordanian economy. While the QIZ program employed many foreign workers, and relatively few Jordanians, it brought some new employment opportunities to women, who made up most of the 20% Jordanian workers in the QIZs.[32] The QIZ program also reportedly spawned some local services in the banking, insurance, construction, and transportation sectors supporting the QIZ export program.[33] While the QIZ program decreased in importance after the implementation of Jordan's FTA with the United States, the continuing expansion of its zone system and its increase in trade with other countries suggests that an important outcome of the QIZ program for Jordan was trade capacity building.

The Egypt Experience[34]

Egypt's QIZ program started out slowly, and has grown considerably. Egypt already had a strong textile and apparel export program to the United States and a relatively large economy when the QIZ program began. Although it observed Jordan's rapid economic growth after it began its QIZ program, Egypt did not enter the QIZ program until 2004, seven years after the offer was formally extended by Congress. A key impetus for Egypt's participation was that the World Trade Organization (WTO) Agreement on Textiles and Clothing (ATC), which went into effect January 1, 1995, was due to expire on January 1, 2005.[35] Once the ATC protection was gone, quota limits would be lifted, and apparel exports destined for the United States from countries such as China could crowd out those from Egypt and other countries. After Egypt entered the QIZ program, some of its apparel exports quickly shifted from non-QIZ tariff, to QIZ tariff-free status. In addition, new investment led to the creation of additional exports. In March 2013, nearly a decade after Egypt entered the QIZ program, the USTR announced an expansion of the QIZ program (a) to include two new QIZ areas (in Beni Suef and Minya, in Upper Egypt, in addition to existing areas in and around Cairo, Alexandria, the Suez Canal, and the Central Delta in Lower Egypt); and (b) to include all production facilities, present and future, located in the six QIZs. (See map, **Figure 1.**)[36]

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[30] The Better Work Jordan program is a partnership of the ILO and the World Bank's International Finance Corporation, factory owners, and labor groups, created to ensure safe and decent workplace conditions.

[31] USTR, "U.S. Trade Representative Ron Kirk Announces Agreements Between the United States and Jordan to Boost Investment and Economic Growth, Enhance Labor Cooperation," January 28, 2013.

[32] Ebrahim Khrais et al, Zarqa University, "Constraints Facing Garment Industrial Sector Operating Within the Qualified Industrial Zones in Jordan," *Zarqa Journal for Research and Studies Humanities*, Vol. 10, No. 2, 2010, p. 82-85.

[33] Ibid.

[34] For general background on Egypt, see CRS Report RL33003, *Egypt: Background and U.S. Relations*, by (name reda cted).

[35] The ATC replaced the Multifibre Arrangement (MFA), which was in effect from 1974-1994. Under the MFA textile and apparel quotas were negotiated bilaterally. The ATC provided for a ten-year phase-out of quotas.

[36] Most recently, the USTR announced a decision to make all production facilities, present and future, located in the six (continued...)

Investment, Production, and Trade

Whereas Jordan's QIZ export growth was financed in large part by foreign investment, Egypt's textile sector is predominantly Egyptian-owned, with some investment from Turkey and India.[37] Egypt's QIZ program may have benefited, and Jordan's may have suffered, when some investors shifted their focus from Jordan to Egypt. The World Bank Group found in 2008 that 22% of buyers and investors were leaving Jordan for a number of reasons, including heightened media attention to corporate social responsibility (CSR) issues; concerns that Jordan was becoming less economically competitive than its neighbors; and concerns about labor shortages, increased minimum wages, and a proliferation of audits.[38]

When foreign investors producing apparel left Jordan's QIZs after the expiration of the ATC, according to the U.S. Agency for International Development (USAID), Egypt topped the list of locations investors were considering (along with Cambodia, Vietnam, Tunisia, and India).[39] Egypt had the ability to attract new investment in its apparel sector because it was already a strong industrial country, and had longer experience in producing textiles and apparel. Moreover, in contrast to Jordan, it already had developed many aspects of vertical integration, including growing quality cotton, boosted by its resources of low-cost water and energy. It also had more firms, managers, and skilled, lower-wage workers to produce the exports.[40]

Between 2005 and 2012, Egypt's rank among U.S. trading partners has improved slightly overall (54th in 2005 and 53rd in 2012). However, the unrest in Egypt and uncertain financial and political events have resulted in a dampening of demand by Egypt for U.S. exports. Overall, between 2005 and 2012, U.S. total imports from Egypt grew from $2 billion to $3 billion, while QIZ imports quadrupled from $255 million to about $1 billion. Over the same time, U.S. exports to Egypt increased from $3 billion in 2005 to nearly $7 billion in 2010, before dropping off to $5.5 billion in 2012 (**Figure 8**). By 2012, U.S. QIZ imports represented approximately half of total imports from Egypt (**Figure 9**). (See **Appendix B** for data.)

For Egypt, as for Jordan, its most important QIZ export to the United States is apparel, while, among total Egyptian exports, mineral fuels, chemicals, and fertilizers are also prominent (**Figure 10**). Among Egypt's exports to the world (**Figure 12**), totaling $32 billion in 2012, apparel is its eighth-most important export, after oil, jewelry (mostly gold), plastics, fertilizers, machinery (mostly wire cables), nuts and fruits, vegetables, and iron and steel. U.S. exports to Egypt (**Figure 11**) are highly diversified, led by cereals, mineral fuels, machinery, aircraft, iron and steel, and motor vehicles.

(...continued)

QIZs in Egypt, potentially eligible to export goods duty-free to the United States. The QIZ areas include zones in Greater Cairo, Alexandria, Suez Canal, Central Delta, Beni Suef, and Al Minya areas. Source: Office of the USTR, "U.S. Trade Representative Ron Kirk Announces New Opportunities for Egypt – Israel Qualifying Industrial Zone Program," March 3, 2013.

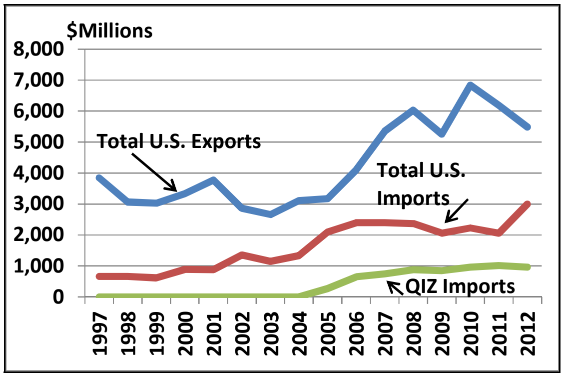
[37] USAID, "Apparel Exports to the United States: A Comparison of Morocco, Jordan, and Egypt," October, 2008, p. 16.

[38] The Multi-Donor Investment Climate Advisory Service of the World Bank Group (FIAS), "Competitiveness and Corporate Social Responsibility in the Jordan Apparel Industry," January 2008.

[39] USAID, "A Rapid Diagnostic of the Garment Sector, Final Report," July 15, 2007, p. 15.

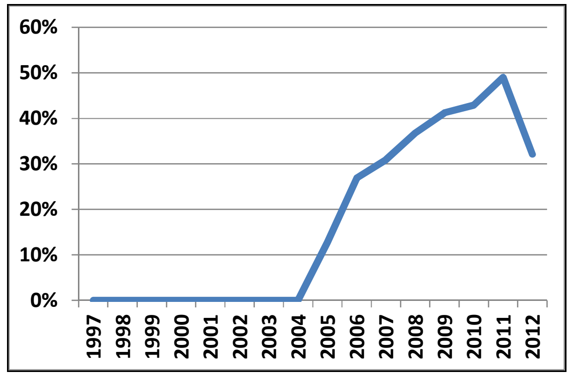
[40] *Economic Research Forum*, Working Paper No. 514, op. cit., p. 30.

Figure 8. Overview of U.S. Trade with Egypt, 1996-2012



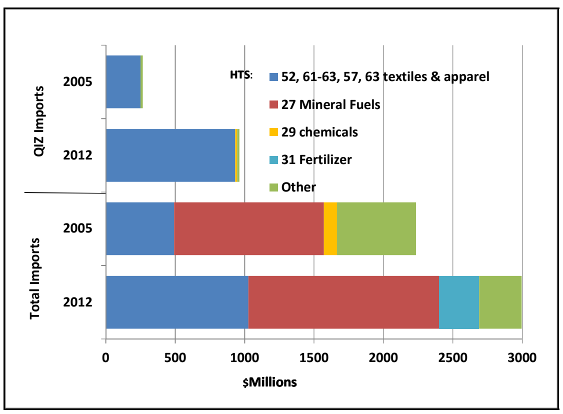
Source: For figures 8 and 9: USITC Dataweb.

Figure 9. QIZ Exports as a % of All Egyptian Exports to the U.S., 1996-2012



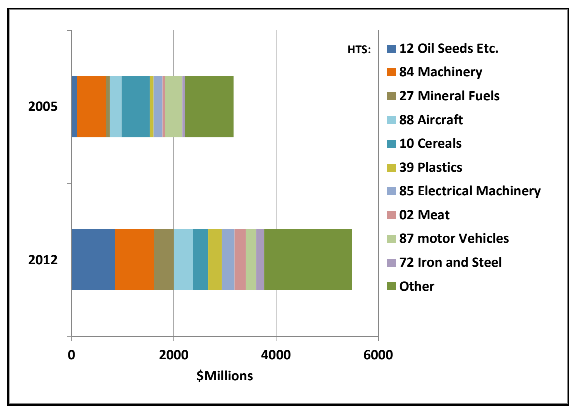
Source: For figures 8 and 9: USITC Dataweb.

Figure 10. Composition of U.S. Imports from Egypt, 2005 and 2012



Source: for figures 10-11: USITC Dataweb.

Figure 11. Composition of U.S. Exports to Egypt, 2005 and 2012



Source: for figures 10-11: USITC Dataweb.

The result of Egypt's expanded trade with the world is that between 2005 and 2011, Egypt's annual exports to the world averaged 13% of its GDP; while its exports to the United States averaged 1%; and its QIZ exports averaged 0.5%[41] (**Figure 12**).

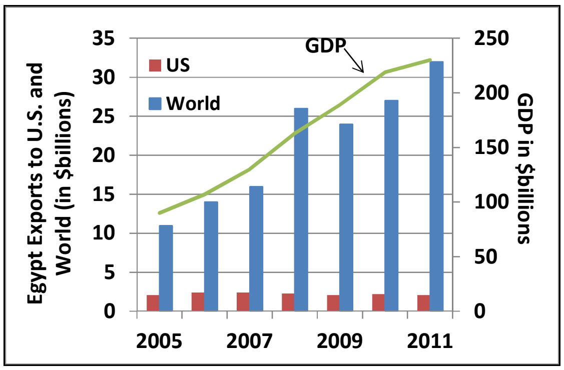
Figure 13 is used here as a proxy for the contribution of QIZ and total exports to GDP growth. It compares the changes in annual QIZ exports and total exports, respectively, to the growth in annual GDP for various years. Accordingly, it estimates that the overall economic impact of the QIZ program for Egypt is that:

- During 2005 and 2006, the first two years of Egypt's QIZ program, its QIZ exports to the United States accounted for an amount equivalent to 2% of its GDP growth (**Figure 13,** red bars). (This compares with 30% for four years for Jordan.)

[41] This number is based on CRS calculations for each year.

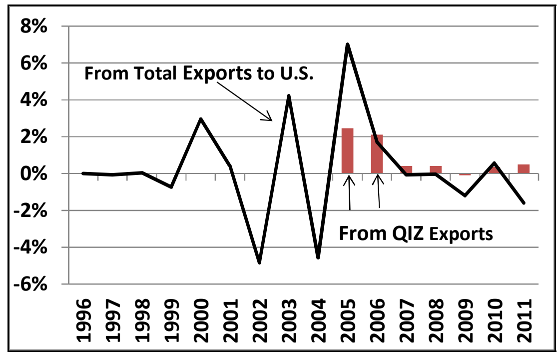
- During that same first year (2005), Egypt's total exports to the United States accounted for an amount equivalent to 7% of its GDP growth (compared with 43% for Jordan at its peak) (**Figure 13,** black line).

Figure 12. Egypt's Exports to the U.S. and the World, and GDP, 2005-2011



Source: Global Trade Atlas for Egypt's exports to the world, World Bank for GDP, and USITC Dataweb for Egypt's exports to the United States.

Figure 13. Change in Annual QIZ and Total Exports Relative to Change in Annual GDP, 1996-2011



Source: CRS calculations from USITC Dataweb and World Bank data.

Note: Data show changes in annual QIZ exports and total exports respectively, relative to changes in annual GDP. In some cases, QIZ export contribution to GDP growth represents a shifting of specific companies from non-QIZ to QIZ status.

Employment and Labor Issues

Egypt has not had the high visibility labor problems associated with QIZs that Jordan has. Among other reasons, Egypt does not have many foreign guest workers, since its workers are typically skilled and accustomed to producing throughout the many stages of the vertically integrated industries. For example, in the apparel sector, the Egyptian workforce grows cotton, weaves the fabric, and makes the finished items. While, according to the ILO, nearly 80% of the workers in Jordan's garment export factories are foreign guest workers,[42] Egypt's Labor Law requires, for the most part, that foreign workers account for no more than 10% of the total workforce of a firm. In 2011, the Ministry of Manpower and Migration enacted regulations to restrict access for foreigners to Egyptian worker visas. Only jobs for which it is not possible for Egyptians to acquire the requisite skills will remain open to foreign workers.[43]

The overall impact of the QIZ program on Egypt's economy has been relatively small so far. Egypt's QIZ exports to the United States represent less than 3.5% of Egypt's total exports, and less than 1% of Egypt's GDP. As a result, the QIZ's impact on Egypt's employment has also been small.

[42] Ibid.

[43] U.S. Department of State, *2012 Investment Climate Statement, Bureau of Economic and Business Affairs*, June 2012 report.

Issues for Congress[44]

Current congressional interest in and possible oversight of the QIZ program could address a number of issues, including:

- Is the QIZ program an effective tool for economic development, and should it be given a broader role under the MENA-TIP initiative? Should the QIZ program be expanded or contracted? Should, for example, the conditions for country eligibility, scope of coverage, or other criteria under the QIZ program be changed?
- Should there be a co-production arrangement between U.S. FTA partner and non-partner countries? That is, should there be a new program that permits and encourages non-FTA countries to co-produce with FTA countries in order to meet a minimum content requirement?
- Should a regional MENA trade preference program be established similar to what the United States has established for other regions, such as the Caribbean or sub-Saharan Africa? Or, is GSP an effective program for the region?

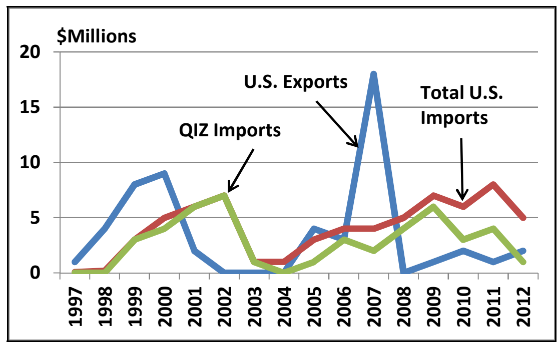
[44] For additional options for Congress relating to the MENA region, see CRS Report R42153, *U.S. Trade and Investment in the Middle East and North Africa: Overview and Issues for Congress*, coordinated by (name redacted) .

Appendix A. The West Bank/Gaza Strip Experience[45]

The West Bank and Gaza Strip (WB/GS) have a very small export program under the QIZ amendment, and a history of imports from the United States characterized by wide inconsistency in products. This inconsistency in trading is primarily due to political conditions in these two territories which interfere with the ability of trade to flow freely. West Bank and Gaza Strip exports to the United States must contain 11.7% materials originating in the territory (like requirements for Jordan, **Text Box 2,** under the QIZ program).

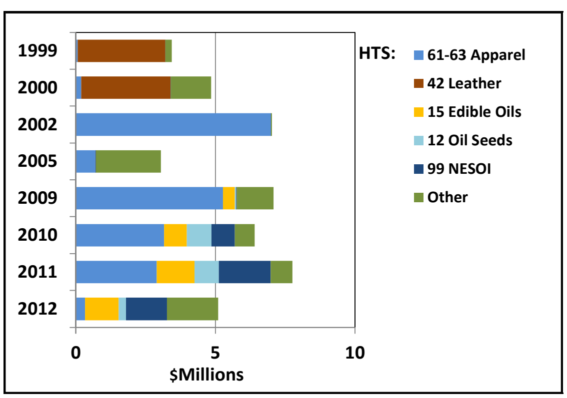
West Bank/Gaza Strip exports to the United States reached a peak of $8 million in 2008 and U.S. exports to the territories reached a peak of $18 million in 2007 (**Figure A-1**). West Bank/Gaza Strip exports under the QIZ program started out primarily as textiles and apparel, and have evolved into a more diversified mix of products (**Figure A-2**). The composition of U.S. exports to the West Bank and Gaza Strip has varied considerably from year to year, depending on what products are needed in the territory. In 1999 they were led by tobacco and jewelry; in 2001, motor vehicles; in 2007, grains; in 2010, electrical machinery; and in 2011, both mechanical and electrical machinery (**Figure A-3**).

Figure A-1. Overview of U.S. Trade with West Bank/Gaza Strip, 1996-2012



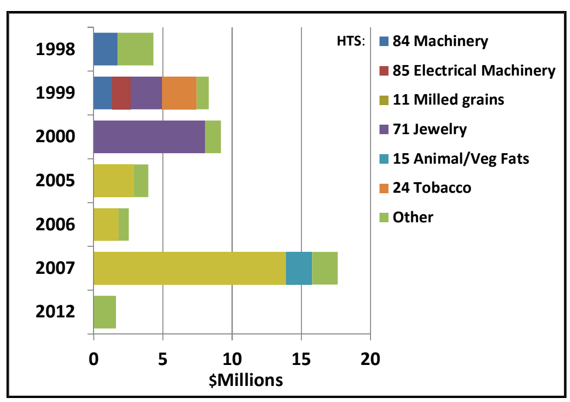
Source: USITC Dataweb.

Figure A-2. Composition of U.S. Imports from the West Bank/Gaza Strip, Various Years



Source: USITC Dataweb.

Figure A-3. Composition of U.S. Exports to the West Bank/Gaza Strip, Various Years



Source: USITC Dataweb.
Note: NESOI: "not elsewhere specified or included" refers to military equipment returned to the United States for repair.

[45] For general background on the West Bank and Gaza Strip, see CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by (name redacted).

Appendix B. Data for Figures 2-13, and A-1-A-3

Table B-1. Data for Figures 2, 3, 8, 9, and A-1

	Overview of U.S. Trade with Jordan, Egypt, and the West Bank and Gaza Strip										
	Jordan				Egypt				West Bank / Gaza Strip		
	(1) U.S. Total Exports ($mil.)	(2) U.S. Total (General) Imports ($mil.)	(3) U.S. QIZ Imports ($mil.)	(4) U.S. QIZ Imports as % of Total Imports (%)	(5) U.S. Total Exports ($mil.)	(6) U.S. Total (General) Imports ($mil.)	(7) U.S. QIZ Imports ($mil.)	(8) U.S. QIZ Imports as % of Total Imports (%)	(9) U.S. Total Exports ($mil.)	(10) U.S. Total Imports ($mil.)	(11) U.S, QIZ Imports (%)
1997	402	26	0	0	3,840	658	0	0	1	.068	0
1998	353	16	0	0	3,060	660	0	0	4	.186	0
1999	276	31	.159	1	3,025	617	0	0	8	3	3
2000	313	73	30	41	3,329	888	0	0	9	5	4
2001	343	229	181	83	3,778	879	0	0	2	6	6
2002	404	412	369	90	2,866	1,352	0	0	0	7	7
2003	492	673	564	84	2,660	1,144	0	0	0	1	1
2004	552	1,093	927	85	3,105	1,330	0	0	0	1	0
2005	643	1,267	945	75	3,169	2,091	266	13	4	3	1
2006	650	1,422	1022	72	4,104	2,393	644	27	3	4	3
2007	857	1,334	923	69	5,347	2,380	740	31	18	4	2
2008	940	1,139	756	66	6,031	2,371	872	37	0	5	4
2009	1,193	924	597	65	5,258	2,058	848	41	1	7	6
2010	1,175	974	200	21	6,837	2,228	956	43	2	6	3
2011	1,454	1,061	95	9	6,183	2,059	1,009	52	1	8	4
2012	1,712	1,156	55	5	5,485	2,996	963	32	2	5	1

Source: USITC Dataweb.

Notes: Data are for **Figure 2**: Columns 1, 2, and 3; **Figure 3**: Column 4; **Figure 8**, Columns 5, 6, and 7; **Figure 9**: Column 8; **Figure A-1**, Columns 9, 10, and 11.

Table B-2. Data for Figures 4 and 10

HTS Code	Composition of U.S. Imports from Jordan and Egypt, 2005 and 2011 ($mil.)							
	Jordan				Egypt			
	Total Imports		QIZ Imports		Total Imports		QIZ Imports	
	2005	2012	2005	2012	2005	2012	2005	2012
57, 61-63 Textiles and Apparel	1,082	1,005	944	54	492	1,026	251	933
71 Jewelry	119	63	–	–	–	356	–	–
27 Minerals	–	–	–	–	1,078	1,375	–	
29 Chemicals	–	1	–	–	96	121	–	14
31 Fertilizers	–	–	–	–	–	289	–	
Other	66	87	1	1	568	306	15	16
TOTAL:	1,267	1,156	945	55	2,091	2,996	266	963

Source: USITC Dataweb.

Notes: HTS: Harmonized Tariff Schedule.

Table B-3. Data for Figures 5 and 11

HTS Code	Composition of U.S. Exports to Jordan and Egypt, 2005 and 2012 ($mil.)			
	Jordan		Egypt	
	2005	2012	2005	2012
10 Cereals	58	84	553	290
27 mineral Fuels	–	243	76	387
87 Motor Vehicles	107	486	344	217
84 Machinery	106	118	570	761
93 Arms and Ammunition	69	100	–	–
88 Aircraft	42	52	231	380
98 Military	30	79	–	–
76 Aluminum	14	–	–	–
72 Iron and Steel	–	–	57	159
12 Oil Seeds	–	–	99	852
85 Electrical Machinery	–	115	172	248
90 Instruments	35	49	–	–
39 Plastics	–	–	77	268
02 Meat	–	–	45	217
Other	218	386	945	1,716
TOTAL	644	1,712	3,169	5,485

Source: USITC Dataweb.

Notes: HTS: Harmonized Tariff Schedule.

Table B-4. Data for Figures 6 and 12

	Jordan			Egypt		
	Exports to the World ($bil.)	Exports to the United States ($bil.)	GDP ($bil.)	Exports to the World ($bil.)	Exports to the United States ($bil.)	GDP ($bil.)
1996	1.8		7	NA		NA
1997	1.8	.03	7	NA	.66	NA
1998	1.8	.02	8	NA	.66	NA
1999	1.8	.03	8	NA	.62	NA
2000	1.9	.07	8	NA	.89	NA
2001	2.3	.23	9	NA	.88	NA
2002	2.8	.41	10	NA	1.35	NA
2003	4.3	.67	10	NA	1.14	NA
2004	3.9	1.09	11	NA	1.33	NA
2005	4.3	1.27	13	11	2.10	90
2006	5.2	1.42	16	14	2.39	107
2007	5.7	1.33	18	16	2.38	130
2008	7.9	1.14	22	26	2.37	163
2009	6.3	.92	24	24	2.06	189
2010	7.0	.97	26	27	2.23	219
2011	8.0	1.06	29	32	2.06	230
2012	7.9	1.16	NA	NA	3.00	NA

Source: Global Trade Atlas for exports to the world, World Bank for GDP, and Dataweb for exports to the United States.

Notes: NA: Not available.

Table B-5. Data for Figures 7 and 13

	Jordan		Egypt	
	% Contribution of Total Export Growth to GDP Growth (black line)	% Contribution of QIZ Export Growth to GDP Growth (red bars)	% Contribution of Total Export Growth to GDP Growth (black line)	% Contribution of QIZ Export Growth to GDP Growth (red bars)
1998	-1%	–	-1.76%	–
1999	6%	–	-0.07%	–
2000	13%	10%	2.43%	–
2001	30%	29%	3.30%	–
2002	30%	31%	-5.00%	–
2003	43%	32%	4.33%	–
2004	35%	30%	4.93%	–
2005	15%	2%	6.9%	–
2006	5%	3%	1.84%	2.1%
2007	-4%	-5%	-0.11%	0.4%
2008	-4%	-3%	-0.11%	0.4%
2009	-9%	-7%	-1.02%	-0.1%
2010	2%	-16%	0.42%	0.4%

Source: CRS Calculations from USITC Dataweb and World Bank data.

Notes: % contributions are calculated as year-over-year changes in total exports or QIZ exports, respectively, divided by respective changes in GDP.

Table B-6. Data for Figure A-2

	Composition of U.S. Imports form the WB/GS (in $mil.)							
HTS	**1999**	**2000**	**2002**	**2005**	**2009**	**2010**	**2011**	**2012**
61-63 Text/Apparel	.072	.195	6.988	.698	5.27	3.164	2.898	.324
42 Leather	3.131	3.192	0	0	0	0	0	0
15 Edible Oils	0	0	0	0	0.43	.813	1.354	1.205
12 Oil Seeds	0	0	0	0	0.042	0.881	0.869	0.262
99 NESOI	.003	.009	0.005	.023	0.016	.836	1.859	1.475
Other	.226	1.442	0.036	2.327	1.315	.714	.772	1.83
TOTAL	3.432	4.838	7.029	3.048	7.073	6.408	7.752	5.096

Source: USITC Dataweb.

Notes: NESOI: "Not either specified or included"—military equipment returned to the United States for repair. HTS: Harmonized Tariff Schedule.

Table B-7. Data for Figure A-3

	Composition of U.S. Exports to the West Bank/Gaza Strip (in $mil.)						
	2012	**2007**	**2006**	**2005**	**2000**	**1999**	**1998**
84 Machinery	0	0	0	0	0	1.329	1.714
85 Electrical Machinery	0	0	0	0	0	1.347	0
11 Milled grains	0	13.899	1.787	2.876	0	0	0
71 Jewelry	0	0	0	0	8.07	2.288	0
15 Animal/Veg Fats	0	1.885	0	0	0	0	0
24 Tobacco	0	0	0	0	0	2.485	0
Subtotal		15.784	1.787	2.876	8.07	7.449	1.714
Total	1.627	17.644	2.539	3.952	9.199	8.325	4.326
Other	1.627	1.86	0.752	1.076	1.129	0.876	2.612

Source: USITC Dataweb.

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Acknowledgments

Special thanks to the following for assistance in preparing this report: (name redacted), (name redacted), (name redacted), (name redacted), (name redacted), (name redacted), (name redacted), and Sandra L. Edwards.