

4-16-2016

Manufacturing Peace: The Diplomatic Impact and Implications of Qualifying Industrial Zones in the Middle East

Patrick DePriest

Follow this and additional works at: <https://digitalcommons.du.edu/dlrforum>

Recommended Citation

Patrick DePriest, Manufacturing Peace: The Diplomatic Impact and Implications of Qualifying Industrial Zones in the Middle East, 93 Denv. L. Rev. F. (2016), available at <https://www.denverlawreview.org/dlr-online-article/2016/4/16/manufacturing-peace-the-diplomatic-impact-and-implications-o.html>

This Article is brought to you for free and open access by Digital Commons @ DU. It has been accepted for inclusion in Denver Law Review Forum by an authorized editor of Digital Commons @ DU. For more information, please contact jennifer.cox@du.edu, dig-commons@du.edu.

MANUFACTURING PEACE: THE DIPLOMATIC IMPACT AND IMPLICATIONS OF QUALIFYING INDUSTRIAL ZONES IN THE MIDDLE EAST

INTRODUCTION

Armed conflict and political unrest in the Middle East has been a persistent concern of leading world nations for the last several decades. The international response to such conflict has varied. At times, as with the Gulf War, armed conflict has been met with armed response. However, nations should generally attempt to lean towards more diplomatic measures, particularly when a nation is involved as a quasi-mediator between warring States. As the world trade market has become increasingly globalized, the likelihood of international trade interests becoming intertwined with regional conflict has similarly increased. Nations looking to continue or establish investment in foreign nations may have to maneuver or attempt to cooperate with politically unstable countries to help build their trade capacity.

The United States has had a long standing diplomatic and trade relationship with Israel and was the first to recognize Israel as a State in 1948.¹ The two countries have had a free trade agreement since 1985 and the United States remains Israel's largest trade partner.² Accordingly, the United States has a vested interest in the diplomatic relations Israel has with countries in its region. This paper concerns United States involvement in Israel's relationship with two Israeli neighbors, Jordan and Egypt. In particular, this paper will look at the establishment of Qualifying Industrial Zones (QIZs) in Jordan and Egypt and attempt to assess the impact these zones have had on the promotion of bilateral and regional peace.

QIZs are a type of multilateral trade agreement that creates free trade zones in Jordan and Egypt where these countries manufacture products for tariff-free export to the United States.³ Israel and these two countries established QIZs with economic incentives in mind, but also with the express motive of solidifying peaceful relations between Israel and the two nations.⁴ This paper will first discuss how international

1. U.S. DEPARTMENT OF STATE, U.S. RELATIONS WITH ISRAEL, (2014), <http://www.state.gov/r/pa/ei/bgn/3581.html> (last visited Nov. 20, 2015).

2. *Id.*

3. Mary Jane Bolle, *Qualifying Industrial Zones (QIZs) in Jordan and Egypt: Background Issues for Congress*, CONGRESSIONAL RESEARCH SERVICE, 4 (2013).

4. Matthias Busse and Steffen Groning, *Assessing the Impact of Trade Liberation: The Case of Jordan*, J. OF ECON. INTEGRATION 466, 469 (2012).

commerce can be used to promote peace. It will then provide an overview of QIZs and the possible motives for the development of the zones. Next, the paper will analyze whether this unique peace-building strategy has had a positive impact on sustainable economic development and regional peace in Jordan, Egypt, and Israel. Finally, the paper will discuss whether QIZs have promise as tools for achieving political and economic stabilization in regions suffering from diplomatic or violent conflict.

Choosing Commerce over Force for Conflict Control

The United States has been both praised and chastised for its involvement in international peacekeeping. In the last few decades, United States activity in the Middle East has been a point of particular contention.⁵ Notably, some critics of this activity have argued that United States presence in the Middle East has acted as a catalyst for conflict, fueling the movements and violent impacts of extremist or terrorist groups.⁶ Nonetheless, economic deficiencies have been cited as “[t]he main source of political destabilization in the Middle East.”⁷ It is pertinent, then, to consider how the United States should approach new commerce agendas in the region without sparking further disapproval or spite.

There are strong arguments supporting the notion that building trade relations can produce significant peace dividends. This is largely based on the concept that, when a country’s potential for trade expands, its potential to provide better livelihoods to its nationals also expands.⁸ Trade agreements may involve an influx of goods that were not previously available in a country.⁹ Unfortunately, when foreign markets invade domestic ones by means of trade, this may also stunt the domestic economy’s ability to grow through local competition.¹⁰ Trade agreements may also tackle unemployment issues by providing a source of jobs to facilitate the process of international commerce.¹¹ As links have been drawn between unemployment problems and political destabilization, the creation of jobs is an essential aspect of trade expansion that seeks to benefit peace.¹²

5. Mohamed R. Hassani, *International Law Fights Terrorism in the Muslim World: A Middle Eastern Perspective*, 36 DENV. J. INT’L L. & POL’Y 221, 226 (2007–08).

6. *Id.*

7. Roni N. Halabi, *Stability in the Middle East Through Economic Development: An Analysis of the Peace Process, Increased Agricultural Trade, Joint Ventures, and Free Trade Agreements*, 2 DRAKE J. OF AGRIC. L. 275, 282 (1997).

8. Chang-fa Lo, *Plurilateral FTAs to Enhance Human Rights Protection in Asia*, 8 ASIAN J. WTO & INT’L HEALTH L. & POL’Y 605, 609 (2013).

9. *Id.*

10. Taleb Awad and Ahmed Farouk Ghoneim, *Impact of Qualifying Industrial Zones on Egypt and Jordan: A Critical Analysis*, UNCTAD, 26 (2008), available at http://vi.unctad.org/resources-mainmenu-64/digital-library?task=d1_doc&doc_name=329_qiz_egyp.

11. Lo, *supra* note 8, at 609.

12. Halabi, *supra* note 7, at 283.

Trade agreements may also play an important role in the promotion of sustainable development. Sustainable development, as it has been traditionally defined, is “development which meets the needs of the present without compromising the ability of future generations to meet their own needs.”¹³ Notably, alongside social equity and environmental protection, economic development is one of the three pillars of sustainable development.¹⁴ The economic development pillar reflects the key benefits of improved trade relations, discussed above, including job creation and advancing State capacity to provide a variety of goods and services to its nationals. However, this must be observed with the caveat that increased economic development may lead to the increased and often damaging exploitation of natural resources, necessitating a search for balance among the sustainable development pillars.¹⁵ As countries build citizen wealth through international commerce, the demand for stricter environmental and social standards should similarly grow.¹⁶ Unfortunately, commercial growth may also increase a country’s output of waste and pollution resulting in environmental degradation that often most severely impacts poor communities in those countries.¹⁷ Increased trade brings with it the fear of a “race to the bottom” where developers of trade seek to set up camp in countries with the weakest environmental regulations.¹⁸ Therefore, to ensure that trade programs benefit sustainable development, countries must consciously curb trade liberalization and development to disallow the economic development pillar from outplaying its neighboring pillars.¹⁹

Developed countries engaged in establishing free trade agreements or zones with other countries should be wary of the potential negative impacts of these agreements. While providing significant trade opportunities for developing nations, free trade agreements may also increase the risk of the human rights violations.²⁰ The cheap labor often associated with the development of free trade zones may tempt host nations or corporations to disregard the basic needs of the workers supporting newly formed trade partnerships.²¹ The recent human rights violations cropping

13. John Drexhage and Deborah Murphy, *Sustainable Development: From Brundtland to Rio 2012*, International Institute for Sustainable Development, 2 (Sept. 2010), available at http://www.un.org/wcm/webdav/site/climatechange/shared/gsp/docs/GSP1-6_Background%20on%20Sustainable%20Dev.pdf.

14. *Id.*

15. *Id.*

16. Patrick Reynaud, *Sustainable Development and Regional Trade Agreements: Toward Better Practices in Impact Assessments*, 8 McGill Int’l J. Sust. Dev. L & Pol’y 205, 211 (2012).

17. *Id.*

18. *Id.* at 211-12.

19. Drexhage, *supra* note 13, at 6.

20. Anal A. Kandeel, *The US-Market-Oriented Qualifying Industrial Zones: Economic Realities and Scope of Benefits*, ARAB STUDIES QUARTERLY 25, 29 (2008).

21. *Id.*

up in the Cambodian apparel industry exemplify this.²² Women manufacturing apparel for export have been subjected to sexual harassment, forced overtime work without pay, and wrongful termination when asserting their workplace health concerns.²³ Because workers in these types of industries are often taken advantage of for the sake of profits, both nations engaging in a trade agreement should work to ensure that human rights are bolstered by the trade partnership rather than violated.

The Role of Regionalism Promoting Peace in the Middle East

The United States has initiated various trade programs in the Middle East, occurring primarily after the September 11 attacks.²⁴ The incorporation of a new trade regime in the Middle East is a testament to the idea that regional economic development is a preferable diplomatic alternative to the use of force to fight conflict and terrorism.²⁵ One example of such a program is the Middle East Free Trade Area Initiative (MEFTA).²⁶ Proposed by President Bush in 2003, MEFTA was a program designed to encourage the development of Free Trade Areas (FTAs) and other bilateral trade agreements between the United States and Arab nations.²⁷ Unlike the QIZ program, the Bush administration specifically designed MEFTA to target terrorism and enhance national security through trade.²⁸ Thus far, MEFTA has led to the establishment of FTAs between the United States and three Arab nations: Bahrain, Oman, and Morocco.²⁹ The United States had previously established FTAs with Israel and Jordan.³⁰ The FTAs established under MEFTA do not represent a significant economic boost for the United States, the represented countries being relatively small players in international trade.³¹ It is debatable whether these partnerships still benefit the intentions of MEFTA, despite their relative economic insignificance. The program has yet to aid in the establishment of FTAs with bigger market players like Egypt, Turkey, and Saudi Arabia.³² However, significantly, MEFTA represented the United States' first attempt to expand economically themed diplomacy in the Middle East beyond its activities that were previously limited to conflicts concerning Israel, Palestine, Iraq, and Iran.³³

22. Human Rights Watch, *Work Faster or Get Out: Labor Rights Abuses in Cambodia's Garment Industry* (March 18, 2015), <https://www.hrw.org/report/2015/03/11/work-faster-or-get-out/labor-rights-abuses-cambodias-garment-industry>.

23. *Id.*

24. Hassanien, *supra* note 5, at 221.

25. *Id.* at 221–22.

26. Ahmed Farouk Ghoneim, *To What Extent Should Egypt go Deep in its Free Trade Area with the United States. If Any!!*, 9 J. WORLD INVESTMENT & TRADE 163, 169 (2008).

27. *Id.*

28. Hassanien, *supra* note 5, at 239.

29. Ghoneim, *supra* note 26, at 169.

30. Busse, *supra* note 4, at 470.

31. Hassanien, *supra* note 5, at 245.

32. *Id.*

33. Hassanien, *supra* note 5, at 242.

Countries in the Middle East have established further regional trade agreements like the Agadir Agreement and the Greater Arab Free Trade Agreement (GAFTA) with the general goal of reducing trade barriers in the region.³⁴ As an example, the Agadir Agreement creates a free trade area between Jordan, Egypt, Tunisia, and Morocco, reducing tariffs for goods traded between the involved nations and implementing a program to promote duty-free export to the European Union.³⁵ It is unclear what diplomatic or peace-building effect these agreements may have had thus far in the region. With regional conflict still a visible issue in the Middle East, the United States has continued to seek a way to be a part of the peace-creation solution, including through its recent implementation of the QIZ program in Jordan and Egypt.

A Modern Solution – Qualifying Industrial Zones

Following the 1979 Peace Treaty between Jordan and Israel, the two countries began to explore ways to build economic cooperation in the region.³⁶ Initial proposed ideas included an FTA between the countries and the convening of regional economic summits.³⁷ The countries also tried to initiate a Middle East Development Bank but the plans for the bank were never solidified.³⁸ In 1997, Jordan opened its first QIZ.³⁹

QIZs, a relatively new player to the game of international trade and regional development, are a distinct type of free trade zone. The United States implemented a structurally similar program when it helped develop the maquiladora program in the Mexico beginning in the 1960s.⁴⁰ The QIZ concept originated in a 1996 amendment to the United States–Israel free trade agreement.⁴¹ Whereas stand-alone entities within a country make up many free trade zones, QIZs take a more cooperative approach with activities relevant to the QIZ program occurring in two countries.⁴² In the case of Jordan, this meant that Jordan was initially required to incorporate an 8% input of Israeli materials in any goods manufactured in

34. Mohammad F.A. Nsour, Abdullah Dmour, and Lana Nimri, *Trends in Free Trade: Legal and Policy Perspectives on Jordan's Regional Trade Arrangements*, 24 *IND. INT'L & COMP. L. REV.* 313, 333–38 (2014).

35. Busse, *supra* note 4, at 469.

36. Haithum A. Haloush and Bashar H. Malkawi, *The Implications of Trade Agreements Between the U.S. and Arab Countries with Particular Reference to Jordan: A Critique of the Current Legal Framework*, 20 *SRI LANKA J. INT'L L.* 175, 177 (2008).

37. *Id.*

38. *Id.*

39. Bolle, *supra* note 3, at 4.

40. The maquiladora program established zones in Mexico for manufacture of products to be exported to the United States but was developed under different motives than those stated for QIZs. Maquiladoras had the general goal of creating jobs in Mexico while also reducing illegal immigration of Mexican nationals into the U.S. Bashar Malkawi, *Securing Peace through Trade Dividends: Qualifying Industrial Zones between the U.S, Israel, Jordan, and Egypt*, 13 *INT. TRADE L. J.* 3 (2005).

41. Awad, *supra* note 10, at 17.

42. Bolle, *supra* note 3, at 4.

QIZs.⁴³ Comparatively, the content input from Jordan must be at least 11.7%.⁴⁴ Additionally, for practical reasons, Israel exports the majority of products originating in Jordanian QIZs from the Haifa port in Israel.

The QIZ program is unique in that it specifically requires the involvement of two nations, in this initial case Israel and Jordan, in the manufacture and exportation process.⁴⁵ The basic concept was that Israel would provide textiles that would then be processed into apparel and related goods in factories located within Jordanian borders.⁴⁶ The resulting products would then be destined for export to the United States where they would enjoy duty-free trade benefits.⁴⁷ Accordingly, both host countries overseeing the activities in the QIZs share in the regulation of the QIZs, with the United States setting conditions and authorizing tariff relief for the exports.⁴⁸ This contrasts from the unilateral control over traditional free trade zones by their host countries.⁴⁹ Finally, QIZs restrict the flow of exports exiting the zones. Within traditional free trade zones, the resulting products may be consumed locally or exported to any other country.⁵⁰ QIZ exports cannot be sold domestically and, initially, could only be exported to the United States.⁵¹ Prohibiting domestic sale of QIZ products helps protect the domestic market from unfair competition.⁵² While the initial focus of the QIZ initiative was limited to Jordan, it eventually made its way into another nation.

QIZs Explore a New Frontier: Expanding to Egypt

Although the United States had been encouraging Egypt to get involved in the QIZ program for the better part of a decade, Egypt resisted until 2004, almost nine years after QIZs started popping up in Jordan.⁵³ One likely reason for this was that the World Trade Organization's (WTO) Agreement on Textiles and Clothing was due to expire in 2005.⁵⁴ This decade-long agreement replaced the Multi-Fiber Agreement (MFA) that had been in place since 1974.⁵⁵ The MFA placed certain restraints and growth quotas on the international textile and clothing industry.⁵⁶ The Agreement on Textiles and Clothing, among other measures, limited the amount of certain textile products that countries could import as a

43. Nsour, *supra* note 34, at 342.

44. Awad a 4.

45. *Id.* at 179–80.

46. *Id.*

47. Nsour, *supra* note 34, at 342.

48. Bolle, *supra* note 3, at 4.

49. *Id.*

50. *Id.*

51. Haloush, *supra* note 36, at 180.

52. *Id.*

53. *Id.* at 10.

54. Ghoneim, *supra* note 26, at 170.

55. WTO, *Textiles Monitoring Body (TMB): The Agreement on Textiles and Clothing*, https://www.wto.org/english/tratop_e/texti_e/texintro_e.htm (last visited Nov. 5, 2015).

56. *Id.*

form of protecting the still growing industry.⁵⁷ This Agreement was also written to begin a phase out of the restrictions created under the MFA.⁵⁸ Therefore, once these restrictions were lifted in 2005, Egypt was able to take advantage of the newly liberated textile and clothing market and saw benefit in incorporating QIZs into its apparel industry array. While the expiration of the WTO Agreement was beneficial to textile-proficient countries like Egypt, its expiration arguably left Jordan vulnerable as the previous advantages it enjoyed using QIZs to trade freely with the United States dissipated with the relinquishment of the international clothing industry.⁵⁹

Egypt's entry into the QIZ program was necessarily distinct from that of Jordan. The first important distinction is that Egypt was already a competitive player in the textile and apparel industry.⁶⁰ This means that the not only was Egypt already equipped with knowledge and experience in the clothing market but it also already had a supply of skilled laborers.⁶¹ This allowed for a smoother transition into the QIZ program without having to import the majority of the QIZ labor supply. Egypt's economic position as a previous market participant benefitted it in other ways. Unlike in Jordan, Egyptians own many of the companies incorporated into Egyptian QIZs.⁶² Additionally, Egypt is able to rely less on foreign textile producers as many of the textiles used in Egyptian QIZs are produced locally.⁶³ The combination of these domestic advantages implicit in its involvement in the QIZ program allows Egypt to internalize more of the economic benefits than has historically been the case in Jordan.

Because of Egypt's relative preexisting proficiency in the apparel industry, one may question whether different motivations than those set forth for the Jordanian counterpart influenced the rationale for the United States to bring the QIZ program to Egypt. Egypt's QIZ program requires a similar amount of Israeli input (approximately 10.5%) as required for Jordanian QIZs.⁶⁴ However, as noted, Egypt is more capable than Jordan of providing a significant portion of its remaining material needs.⁶⁵ As the entry of Egypt into the QIZ program coincided with the expiration of the WTO Textiles and Clothing Agreement, the economic motivation for Egypt is relatively clear. The QIZ program allowed Egypt to shift its exports to the United States from non-QIZ tariff exports to QIZ tariff-

57. WTO, *Textiles: back in the mainstream*, https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm5_e.htm (last visited Nov. 5, 2015).

58. WTO, *supra* note 56.

59. Kandeel, *supra* note 20, at 33.

60. Bolle, *supra* note 3, at 11.

61. *Id.*

62. *Id.*

63. *Id.*

64. Ghoneim, *supra* note 26, at 170.

65. Bolle, *supra* note 3, at 11.

free exports.⁶⁶ The migration of multiple investors in Jordanian QIZs to QIZ locations in Egypt supports this notion of such economic motivation.⁶⁷

Less clear is whether the stated goal of the QIZ program to bolster peace in the Middle East was also intended to apply to Egypt. In 1979, Israeli Prime Minister Menachem Begin and Egyptian President Muhammad Anwar el-Sadat participated in the Camp David Accords, leading to a peace treaty that brokered a long-needed peace between the two nations.⁶⁸ Among other causes, land disputes had fueled conflict between the two nations since 1948.⁶⁹ The Camp David Accords helped remedy this because it resulted in Israel withdrawing from the Sinai Peninsula as well as including provisions concerning the encouragement of Palestinian self-government.⁷⁰

While relative peace has persisted between the nations since 1979, political tensions have not dissipated. Following the signing of the peace treaty, some Egyptian groups staged violent protests against Sadat, and in 1981 the Egyptian President was assassinated.⁷¹ More recently, when mass protests called for the ouster of President Mubarak, Israeli officials remained supportive of the dictatorship.⁷² The social movements in Egypt over the last few decades have reflected that at least a portion of the Egyptian populace strongly opposes the political and economic relationship between Egypt and Israel. That being said, economically speaking, the two countries have made great strides by working in unison.

Benefitting from its sturdy footing in the apparel industry, Egypt took to the QIZ program with ease.⁷³ By 2008, even though Egypt had fewer QIZs than Jordan and those QIZs were established almost ten years after Jordan's, the number of companies represented in Egyptian QIZs outnumbered those in Jordan QIZs.⁷⁴ Egypt quickly diversified the project makeup of its QIZs to be able to export electrical equipment and machinery as well as textiles and apparel.⁷⁵ As will be discussed, the lack of product diversification in Jordan has likely been a cause of Jordan's inability to sustain its growth in QIZ exports to the United States.⁷⁶ Addi-

66. *Id.* at 10.

67. Haloush, *supra* note 36, at 185.

68. Jimmy Carter, *Camp David Accords: Egyptian-Israeli history*, ENCYCLOPEDIA BRITANNICA, <http://www.britannica.com/event/Camp-David-Accords> (last visited Nov. 16, 2015).

69. *Id.*

70. *Id.*

71. BBC, *The assassination of Egypt's President Sadat* (Oct. 7, 2015), <http://www.bbc.com/news/world-radio-and-tv-34424880>.

72. Jean Shaoul, *Israel staggered by Egypt protests, social tensions at home*, INTERNATIONAL COMMITTEE OF THE FOURTH INTERNATIONAL, <https://www.wsws.org/en/articles/2011/02/isra-f11.html> (last visited Nov. 15, 2015).

73. Bolle, *supra* note 3, at 10.

74. Haloush, *supra* note 36, at 184.

75. *Id.*

76. Bolle, *supra* note 3, at 6.

tionally, the QIZ program has annually represented approximately one third of all of Egypt's exports to the United States.⁷⁷

Measuring Success: Have QIZs Contributed to Peace in the Middle East?

Looking to the argument that improving the economic prosperity of workers positively impacts human rights protections, it cannot be said that the prosperity of individual Jordanians has been significantly improved. A key reason that corporations, whether Israeli or otherwise, chose to operate in Jordan is the low wage trends permeating the Jordanian labor market.⁷⁸ In 1997, when the first QIZ was established in Jordan, the minimum hourly wage in Israel was approximately seven times greater than that of Jordan.⁷⁹ Notably, Israeli apparel companies had already begun to move their factories to Jordan prior to the establishment of the first QIZ.⁸⁰ The pattern of consistently low wages has led to the externalization of the majority of the economic benefits that QIZs supply.

But low wages are not the only factor hampering the Jordanian manufacturing industries. The country must compete with well-established apparel-producing nations like China, India, and Jordan's fellow QIZ-participant, Egypt.⁸¹ Cheap labor is not powerful enough to out-compete countries that benefit from similar comprehensive trade agreements and have the advantage of having been in the business for decades. Further, Jordan has little practical ability to alter its competitiveness.⁸² Lacking key material resources like a reliable source of water, Jordan cannot produce its own fibers and textiles to be incorporated into the apparel industry.⁸³ The country must, therefore, rely on foreign inputs just to make the QIZ program function. Finally, while Jordanian labor laws do seek to favor employment of Jordanian workers, where the supply of willing Jordanian workers is low, QIZ companies must import labor.⁸⁴ As of 2009, Jordanians represented less than a third of the QIZ workforce, with East Asian nations largely supplying the remainder.⁸⁵ As unemployment in Jordan remains a problem, one would hope that Jordanians represent a larger percentage of QIZ workers.⁸⁶ That not being the

77. David Makovsky, *Reviewing Egypt's Gains from Its Peace Treaty with Israel*, THE WASHINGTON INSTITUTE, (2011), <http://www.washingtoninstitute.org/policy-analysis/view/reviewing-egypts-gains-from-its-peace-treaty-with-israel> (last visited Nov. 15, 2015).

78. Kandeel, *supra* note 20, at 30.

79. *Id.*

80. Haloush, *supra* note 36, at 185.

81. Awad, *supra* note 10, at 17.

82. Kandeel, *supra* note 20, at 32.

83. *Id.*

84. Awad, *supra* note 10, at 21.

85. *Id.*

86. Kandeel, *supra* note 20, at 32.

case raises questions about the effectiveness of the program to provide a significant economic boost to poor Jordanians.

The question then becomes, if building the economic potential of poor Arab populations is a central objective in boosting the human rights protections and general welfare of those people, have QIZs actually contributed to this objective in Jordan? If Jordanian families are unable to at least marginally change their economic status, there should be a reasonable concern that the peace dividends formed by improving livelihoods of Arab nationals have not been captured. This is particularly relevant if one adopts the opinion that pervasive poverty has heavily contributed to the rises of terrorism and other forms of intrastate and interstate conflict in the Middle East.

In contrast, however, Jordan, as a nation, has seen significant economic benefits due to the QIZ program.⁸⁷ Jordanian QIZs led to exponential growth in Jordanian exports between 1996 and 2006.⁸⁸ During this same time period, Jordan increased its total exports from \$26 million to \$1.5 billion and in the early 2000s Jordanian exports to the U.S. accounted for more than 80% of its total exports.⁸⁹ Another notable benefit of the QIZ program is the requirement to add 11.7% domestic value to all QIZ exports.⁹⁰ This requirement ensures some level of input into the Jordanian market, even where most of the materials to be used in the QIZs must be imported.⁹¹ The initial impact of the QIZ program on Jordan's export economy was, without a doubt, enormous.

Around 2006, Jordanian exports to the United States began to significantly decelerate.⁹² Plausible causes for this decrease in exports could include the impact of newly established QIZs in Egypt that served as competition for both Jordan's business and its QIZ investors.⁹³ This new competition between Jordan and Egypt has the potential to result in unwanted tension between the countries that is contrary to the peace-building objectives of the QIZ program.⁹⁴ But Congress appears to blame, instead, Jordan's failures at improving its economic capacity during the first ten years of the QIZ program for this drop-off in exports.⁹⁵ A 2013 report from the Congressional Research Service argues that Jordan would have been able to sustain its QIZ-related economic growth had it diversified its exports beyond apparel, jewelry, and a few other products; transitioned from labor-intensive exports to higher and more complex

87. Bolle, *supra* note 3, at 6.

88. *Id.*

89. *Id.*

90. Awad, *supra* note 10, at 23.

91. *Id.*

92. Busse, *supra* note 4, at 471.

93. Bolle, *supra* note 3, at 11.

94. Awad, *supra* note 10, at 17.

95. Bolle, *supra* note 3, at 6.

value-added products; absorbed new technology; created domestic linkages to production supplies; or upgraded the skill of its workers.⁹⁶ Unclear in the report is whether Jordan had the resources to make any of these changes, which would presumably be both temporally and financially demanding.

Despite the drop-off in exports to the United States, Jordan's new economic relationship with the United States led to much more substantial gains. The two countries established an FTA in 2000 that went into effect in 2001.⁹⁷ Because the FTA sought to eliminate tariffs on all goods except tobacco, the \$900 million in exports that Jordan completed with the United States in 2009 was 15 times as much as the revenue gained from exports in 2000 prior to the signing of the FTA.⁹⁸ Importantly, this FTA had specific tariff protections for the textile sector, indicating the United States' desire to protect the QIZ program.⁹⁹ However, this may also be read to be a protection for Israeli textile manufacturers that Jordan may not continue to buy from were it not for the Israeli-content requirements for QIZs.¹⁰⁰ QIZ investors have voiced their preference for the FTA benefits because the FTA allows for more diversification of imports and exports and removes the costs associated with the required and often expensive Israel content input.¹⁰¹ Additionally, as Jordan's QIZ benefits were slowing, it continued to export more and more to the rest of the world, accomplishing \$8 billion in exports in 2011.¹⁰²

Where Jordan's exports to the U.S. remained narrow in product type, it greatly diversified its exports to other countries.¹⁰³ Importantly, Jordan and Israel expanded their trade relationship in 2004 when they signed a new trade agreement, removing many of the remaining trade barriers between the nations and greatly increasing the percentage of products that could be exported duty-free from Jordan to Israel.¹⁰⁴ Israeli and Jordanian trade officials concurred that the agreement could act as a model for the region and would encourage peaceful relations between Israel and other Arab countries.¹⁰⁵ As of 2013, Jordan's leading trade partners included Saudi Arabia, the United Arab Emirates, and Iraq.¹⁰⁶ The significant growth of trade relations with other Arab countries is an

96. *Id.*

97. Busse, *supra* note 4, at 470.

98. *Id.*

99. Joseph Patrick Gaffney, *Jordan's Qualified Industrial Zones: A Qualified Success?*, 45 (2005), available at http://lauder.wharton.upenn.edu/wp-content/uploads/2015/06/Gaffney_Thesis.pdf.

100. *Id.*

101. Awad, *supra* note 10, at 31.

102. Bolle, *supra* note 3, at 7.

103. *Id.*

104. AL JAZEERA, *Jordan, Israel upgrade trade accord* (Dec. 24, 2004), <http://www.aljazeera.com/archive/2004/12/200849142638891193.html>.

105. *Id.*

106. Bolle, *supra* note 3, at 7.

encouraging sign that the QIZ program helped encourage Jordan to establish and maintain regional trade relationships. Jordan has also been able to steadily increase its annual imports of a variety of goods including vehicles, cereals, and mechanical appliances.¹⁰⁷ Further, Jordan has expanded its involvement in bilateral economic-cooperation agreements and, in 2005, became the first country in the region to sign an FTA with Singapore, a known world trade power.¹⁰⁸

The QIZ program contributed almost exclusively to its United States export program for the first ten years after the initiation of the program.¹⁰⁹ During this period Jordan liberalized trade with many other regional and distant nations, including the important establishment of an FTA with the United States. The QIZ program has been shown to have contributed significantly to the expansion of Jordan's national export regime.¹¹⁰ It is arguable, therefore, that the QIZ program acted as a catalyst to Jordan's economic growth and helped the country establish itself as a significant trade power in the Middle East. If we agree with Halabi that building relationships with Israel and other Arab nations in the name of economic prosperity is key to encouraging peaceful relations, then the QIZ program can be seen as having contributed to Jordanian peace.

While Egypt's QIZs benefit from the country's experience and competitive advantage in the apparel industry, there is some evidence indicating that Jordan has firmer political standing than Egypt. Importantly, Jordan got a head start by implementing the QIZ program nearly a decade before Egypt.¹¹¹ Even with Egypt's relative expertise in the garment-industry and the choice of some QIZ investors to move to Egypt from Jordan, Jordan was able to reap political benefits from initiating the multilateral relationship with Israel and the United States in 1996.¹¹² Since the conception of the Jordanian QIZ program, Jordan has established FTAs with the United States, Singapore, and other Middle Eastern countries.¹¹³ Therefore, even if Jordan's QIZ program were to continue to lose steam over the next several years, it would have protective FTAs to fall back on.¹¹⁴ In contrast, Egypt has failed to secure an FTA with the United States, leaving it vulnerable to the uncertain success of its QIZ growth and other export opportunities.¹¹⁵ Alternatively, it can be argued that an FTA between the United States and Egypt may be economically unnecessary given the current state of trade between the coun-

107. Busse, *supra* note 4, at 471.

108. *Id.*

109. Bolle, *supra* note 3, at 6.

110. Awad, *supra* note 10, at 22.

111. Awad, *supra* note 10, at 34.

112. *Id.*

113. Busse, *supra* note 4, at 471.

114. Awad, *supra* note 10, at 34.

115. *Id.*

tries.¹¹⁶ Combining the benefits of QIZs for the garment industry with the trade protections in place for other Egyptian products like oil, which enjoys duty-free import into the United States, and food products and furniture, which enter the United States duty-free under the Generalized System of Preferences (GSP), an FTA may not add significant economic benefit.¹¹⁷ Still, the political benefits of signing an FTA with the United States could ultimately outweigh these economic arguments, particularly when considering the uncertain state of Egypt's diplomatic relationship with Israel.¹¹⁸

A further complication for Egypt is the procedural obstacles to establishing QIZs in the country. Egypt is notorious for having a long, complicated, and expensive approval process for construction permits, which is unattractive to foreign investors.¹¹⁹ Interviewed QIZ investors have indicated that Jordan QIZs may be a preferable long-term investment because Jordan is currently more secure and politically stable and maintains a more flexible and laid back business environment.¹²⁰ This is particularly significant when comparing Jordan to Egypt, where political tensions remain high, leaving the wisdom of establishing new QIZs in Egypt uncertain.

Political Implications of Economic Development in the Middle East

Some commentators on conflict in the Middle East have argued that building economic interdependence in the Middle East is the best way to improve normalization of regional relationships and enhance political stability.¹²¹ A natural result of this stability would be economic diversity, growth, and market confidence that would, in turn, promote peace.¹²² The daily performance of the QIZ program requires contact between professionals in both Israel and the QIZ host country, which could slowly garner and normalize the political relationship between the two countries.¹²³ These necessary interactions force market transparency between the nations, helping them to build trust and forgive past political mischief.¹²⁴

Israel has been notorious for impacting and upsetting neighboring Arab nations through its historical aggressive nature when it comes to involvement in regional disputes.¹²⁵ Accordingly, finding a way to get

116. Ghoneim, *supra* note 26, at 172.

117. *Id.* at 171–72.

118. *Id.* at 172.

119. Thomas Moullier, *Reforming Building Permits: Why Is It Important and Why Can IFC Really Do?*, IFC, 8 (2009), available at <https://www.wbginvestmentclimate.org/advisory-services/regulatory-simplification/business-regulation/upload/Reforming-Building-Permits.pdf>.

120. Awad, *supra* note 10, at 34.

121. Halabi, *supra* note 7, at 275–76.

122. *Id.* at 276.

123. Malkawi, *supra* note 40, at 3.

124. *Id.*

125. Halabi, *supra* note 7, at 275.

Israel economically engaged with neighboring Arab countries could be a significant step towards the normalization of political interactions between Israel and countries feeling threatened by it.¹²⁶ The 2004 trade agreement between Israel and Jordan, while lauded by Jordanian and Israeli officials, was vigorously protested in Jordan.¹²⁷ As has been a concern among some Egyptians, Islamic politicians and other activists in Jordan have often voiced opposition to dealings with Israel.¹²⁸ The question, then, is whether the trade relationships between Israel and neighboring countries are influential enough to promote regional peace rather than spark further conflict. The United States has played a central, while somewhat controversial, role in peace creation in the Middle East during the last several decades. As the United States has already engaged with Israel and many Arab nations, one can reasonably argue that when the United States maintains good economic relationships with these countries, it has more leverage to push for peaceful interactions between them.¹²⁹

Still, other experts opine that political stability must be established before economic stability can be achieved.¹³⁰ For example, Israel's recent history with Palestine is relevant for the Israeli-Jordanian economic relationship.¹³¹ In 2000, Israel had to abandon plans for a joint Israeli-Palestinian industrial zone in the Gaza Strip because of a Palestinian uprising in the area.¹³² There are further concerns that the Israeli-Palestinian conflict will cause significant obstacles and delays for transporters of QIZ products.¹³³ The heightened state of security in Israel may require slower travel through conflict areas and more stringent inspections of QIZ goods, both of which would raise the cost of trade.¹³⁴ Thus, it may be that the peace benefits of the Israeli-Jordanian partnership may not extend to improve the political climate surrounding Israel's disputes with Palestine.

CONCLUSION

The QIZ program is unique for its limited geographical application, requirements for regional input in the manufacturing process, and overall objective of providing peace dividends for countries that have a persistent history of political instability. The program has now been running for nearly twenty years, which reveals the varied benefits and detriments

126. *Id.* at 287–88.

127. AL JAZEERA, *Jordan, Israel upgrade trade accord* (Dec. 24, 2004), <http://www.aljazeera.com/archive/2004/12/200849142638891193.html>.

128. *Id.*

129. Daniel Lubetski, *Incentives for Peace and Profits: Federal Legislation to Encourage U.S. Enterprises to Invest in Arab-Israeli Joint Ventures*, 15 MICH. J. INT'L L. 405, 411 (1994).

130. Haloush, *supra* note 36, at 183.

131. *Id.*

132. *Id.*

133. Malkawi, *supra* note 40 at 5.

134. *Id.* at 6.

that QIZs have had on Jordan, Egypt, and Israel. Because Egypt only joined the QIZ game about a decade ago, its role in the evolution of this tool for regional trade is likely still unfolding. The economic impacts of QIZs have been generally positive, but the ability of these free trade zones to dampen political tensions both with Israel and throughout the region is unclear. There is evidence that increased commercial interactions between Israel and QIZ host nations helps to normalize the political relationships between these countries. However, particularly in the case of Egypt, internal political strife continues to hamper the establishment of regional peace. Nonetheless, if Jordan's involvement in the QIZ program resulted in improved cooperation with Israel and Jordan's establishment of notable FTAs, there may still be hope that QIZs can broaden the peace-building possibilities of other countries in the Middle East and elsewhere.

†Patrick DePriest

[†] University of Denver Sturm College of Law J.D. candidate, May 2016. I would like to thank Kristi Disney of Sustainable Development Strategies Group for the guidance and encouragement she provided to me during the drafting of this article.