

TESTIMONY ON THE U.S.-JORDAN FREE TRADE AGREEMENT

Ambassador Charlene Barshefsky
Public Policy Scholar
Woodrow Wilson International Center for Scholars

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Mr. Chairman, Senator Baucus, thank you very much for inviting me to testify on the U.S.-Jordan Free Trade Agreement.

Let me begin by noting that I strongly support enactment of this agreement, as both a critical element of America's Middle East policy and on its general merits as a market-opening trade agreement, and I applaud your decision to hold an early hearing on it this spring. I will turn to its specific provisions in a moment, but let me begin by reviewing its broader implications for the Middle East region and for U.S. trade policy.

STRATEGIC GOALS OF U.S.-JORDAN FREE TRADE AGREEMENT

In opening negotiations for this agreement last year, the Clinton Administration had a number of strategic goals. In brief, we sought:

- To encourage regional economic integration in the Middle East generally,
- To support Jordan's economic reform program in particular; and
- To develop a comprehensive and innovative Free Trade Agreement which would set precedents for rigorous trade liberalization and bolster bipartisan consensus for trade policy in the United States.

Before turning to the specifics of the agreement, let me make a few comments on each of these wider goals.

I. ENCOURAGEMENT FOR REGIONAL TRADE LIBERALIZATION

In most parts of the world, American trade policy today builds on both general commitment to the multilateral trade liberalization through the WTO, and local initiatives – from the European Union to the ASEAN Free Trade Area, Mercosur, the Central American Common Market, and Africa's three regional economic associations – intended to foster regional economic integration.

The Middle East is the principal exception to this rule: its nations are more economically isolated, from one another and from the outside world, than those of any other region in the world. Not only are the region's trade barriers remain high with respect to the outside world, but there is less intra-regional trade in the Middle East than in than any other region. Throughout the past two decades, about 6% of Middle East trade has been internal, compared to about 10% for Africa, 20% for Latin America and almost 40% for the developing countries of Asia.

Over time, this isolation has come with a high economic and political cost. The Middle East's share of world trade has steadily fallen – in our case, the Middle East provided 7.3% of U.S. exports twenty years ago, and only 2.6% last year – and its exports remain concentrated in natural resource fields, particularly energy, with less potential to create jobs for growing urban populations. Thus the region has lost opportunities to develop economies of scale that could spur investment and technological progress; as a result, its growth has stagnated and poverty persisted. This in turn raises social tensions within countries, creates greater potential for political instability, and denies governments and nations the opportunity to find areas of common ground and strengthen peace.

American trade policy, with bipartisan support, has sought to encourage the nations of the region to open their economies to one another and the world. This has included encouraging the nations of the region to join the World Trade Organization, with recent successes in the accessions of Jordan and Oman, together with patient negotiations with aspiring members such as Lebanon, Saudi Arabia, Algeria and Yemen. And it has included the development of bilateral relationships and agreements throughout the region. The most ambitious such agreement is the U.S. Free Trade Agreement with Israel, under which U.S.-Israel trade has grown from under \$5 billion to \$25 billion; recent additional examples include negotiation of Trade and Investment Framework Agreements with Egypt, Jordan, Morocco and Turkey; and Bilateral Investment Treaties with Jordan and Bahrain.

II. SUPPORT FOR ECONOMIC REFORM IN JORDAN

The trade relationship with Jordan is of special importance in this regional trade policy.

First of all, of course, Jordan has been a strategic partner for decades in the search for peace in the Middle East – in its own right as one of two Arab nations to sign a peace treaty with Israel, and as a source of creative ideas and encouragement for negotiations between Israel and other countries in the region. Its long-term political stability is thus of critical interest for the United States. Essential to political stability in a troubled region is a healthy and growing economy, and a growing bilateral trade relationship will help Jordan reach these goals.

Second, under King Abdullah II, Jordan's government has begun a program of economic reform which is a model for the region. Over the past two years, Jordan has thoroughly reformed and modernized its trade and domestic economic regimes: drastically reducing barriers to trade, upgrading intellectual property laws, deregulating a number of services industries; joining the World Trade Organization; and working toward liberalized trade with its neighbors through

ending participation in the boycott of Israel and proposing Free Trade Agreements with neighboring Arab states such as Lebanon.

The United States worked very closely with the Jordanian government throughout this process – through our cooperative work on Jordan's WTO accession, in negotiating the Bilateral Investment Treaty and Trade and Investment Framework Agreement, and in technological cooperation initiatives such as Jordan's participation in the Internet for Economic Development Initiative. Of greatest significance as we consider the Free Trade Agreement, however, is the unique "Qualifying Industrial Zone" program to encourage bilateral trade and regional economic integration.

Under this program, which then-Minister Mulki and I launched together with Israel's Natan Sharansky in 1998, the United States provides duty-free treatment for products created in "Qualifying Industrial Zones" – that is, industrial parks run jointly by Israeli and Jordanian businesses. At its creation, this program included two such zones; today there are ten, across industrial sectors from luggage and apparel to information technology. After four years, the program's results are striking.

In 1996, the year the QIZ program was created, the U.S. imported about \$25 million in goods from Jordan; by last year, the figure had tripled to \$72 million. The results are particularly impressive in manufacturing industries with great potential to create jobs: Jordan's exports of apparel to the U.S. have grown from a total of approximately \$3 million in 1997 to nearly \$50 million last year, and its exports of luggage from zero in 1997 to \$9 million in 2000.

This in turn has direct benefits for Jordanians in jobs and growth, as is especially clear when we examine the oldest QIZ – the Irbid Industrial Park. At its creation, the zone employed about 1100 people, at eight factories making clothing, watches, telecommunications equipment and other goods. Predictions at the time were that employment might ultimately grow to 1700 workers -- but within a year the Irbid Zone had outgrown its original boundaries to include more than fifty factories, including some with a direct American stake; and as of last year, it had created jobs for over 6,000 men and women.

US-JORDAN FREE TRADE AGREEMENT

The Free Trade Agreement will build upon this experience, liberalizing trade across the spectrum of industrial goods, farm products and services. It is both a rigorous agreement covering all the principal sectors and issues that FTAs have traditionally addressed; and an innovative agreement addressing new issues. The major provisions include the following:

1. Goods and Services Trade

First, the Agreement includes a comprehensive set of commitments covering industrial goods, agricultural products and services industries, which opens up opportunities for both the U.S. and Jordan and sets important precedents for future FTAs and work at the WTO.

Across the spectrum of industrial goods and agricultural products, Jordan and the United States will eliminate virtually all tariff and non-tariff barriers within ten years. In addition, the agreement enables us to secure other high-priority goals in goods trade, for example in ensuring science-based sanitary and phytosanitary procedures in agricultural trade. Together with commitments Jordan has already made in its accession to the WTO (e.g. committing not to use agricultural export subsidies), the agreement thus sets important precedents for goals the U.S. has long sought on a wider scale.

Likewise, the agreement breaks new ground through commitments to liberalize a number of important services sectors. Specific examples range from distribution to courier and express delivery, audiovisual, private education, environmental services, financial services, telecommunications and other fields. Again, this set of commitments not only creates important market access opportunities in Jordan itself, but sets precedents for future U.S. Free Trade Agreements and achievements at the WTO.

2. Electronic Commerce and the Internet

Second, the Agreement breaks new policy ground as the first Free Trade Agreement ever to address issues related to electronic commerce and the Internet. In this regard, both countries agreed to avoid imposing customs duties on electronic transmissions, creating unnecessary barriers to market access for digitized products, or impeding electronic delivery of services. Jordan has also committed to ratify (as the U.S. has already done) the World Intellectual Property Organization's newly drafted treaties ensuring protection of software and sound recordings on the Internet.

3. Transparency

Third, together with conclusion of the Agreement, both countries agreed to work together to strengthen transparency at the WTO, by opening bilateral dispute settlement panels to the public.

4. Labor and Environmental Provisions

Fourth, the Agreement includes provisions on trade-related labor and environmental issues. The agreement, while restating the existing commitment of both countries to strong environmental protection and the ILO's core labor standards, neither imposes new standards nor bars change or reform of national laws as each country sees fit. It does, however, enable each partner to request consultations and if necessary impartial dispute settlement in the event that one FTA partner believes another is avoiding enforcement of existing national laws with the intent of gaining a trade or investment advantage. Finally, the FTA is accompanied by a separate technical assistance agreement that will offer practical help in very complex policy areas,

beginning with cooperative arrangements on the environment. Altogether, this set of commitments fully respects sovereignty, addresses trade-related environmental and labor issues in an appropriate manner, and bolsters the overall agreement's commitment to free trade and the rule of law.

CONCLUSION

In conclusion, Mr. Chairman, the U.S.-Jordan Free Trade Agreement will help the United States achieve a series of important goals.

It will strengthen our bilateral trade relationship with Jordan. In doing so, it will support economic reform, rising living standards and long-term economic growth in a nation of critical importance to peace in the Middle East.

At the same time, it will serve as a model and example for other nations in the region, of the means by which trade liberalization can contribute to economic development and complement the political work of the peace process in easing political tension.

And it will serve broader American goals at the WTO and in the strengthening of consensus on trade policy at home.

This is, in sum, an agreement of great importance to the United States. I welcome your decision to hold this hearing, and urge the agreement's early implementation.

Thank you very much, Mr. Chairman and Members of the Committee.