The peace that came with a tariff line

Jordan's Qualifying Industrial Zones, 1994-2025

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ABSTRACT

In 1996 the United States offered Jordan an unusual bargain: export to America duty-free, provided every product contained a small piece of Israel. Jordan, two years into a cold peace and no garment industry, said yes. The Qualifying Industrial Zones turned that bargain into the fastest export build-out in the kingdom's history - from 26 million dollars of sales to the United States in 1996 to over a billion within a decade, nearly all apparel, sewn largely by migrant workers from South Asia. A labor-abuse scandal nearly killed the industry in 2006; a pioneering monitoring program rebuilt its license to operate. In April 2025 Washington imposed a 20 percent tariff on Jordan despite their free trade agreement, settled at 15 percent - a reminder that preferences are granted, not owned. This case study examines what Jordan bought, what it paid, and what Sri Lanka's apparel economy should take from it.

WHY THIS CASE FOR SRI LANKA

Sri Lanka's apparel and textile sector earned 5.05 billion US dollars in 2024, about 39 percent of the island's merchandise exports, and supports roughly 350,000 direct jobs; the United States is its largest single-country market. In August 2025 Colombo finished negotiating its exposure down from a threatened 44 percent US tariff to 20 percent. Jordan is the closest thing the world has run to a controlled experiment in buying export growth with trade preferences: a country with no apparel industry accepted a politically conditioned preference, built a billion-dollar sector on it, nearly lost it to a labor scandal, and then discovered in 2025 that even a signed free trade agreement does not guarantee the preference survives. There is also a direct human link: after Bangladeshis and Indians, Sri Lankans are among the migrant workers sewing inside Jordan's zones.

THE STARTING POINT: A PEACE TREATY AND NO INDUSTRY

On 26 October 1994 Jordan and Israel signed the Wadi Araba peace treaty, brokered with heavy American involvement. Washington owed Jordan a peace dividend, and Jordan needed one: it was a small economy - GDP around 7 billion dollars in 1996 - with few raw materials, manufacturing stuck at 11 to 13 percent of GDP through the 1990s, and almost no export industry beyond potash and phosphates. The garment sector was negligible: Jordan exported about 1.3 million dollars of textiles and clothing to the United States in 1997.

The mechanism came from two businessmen: Omar Salah, who proposed the concept in 1994, and Dov Lautman, the Israeli founder of Delta Galil, who opened a joint venture in northern Jordan in 1996. Their lobbying produced an unusual American law. In 1996 Congress passed the West Bank and Gaza Strip Free Trade Benefits Act, which amended not the general US trade code but the 1985 US-Israel Free Trade Agreement itself, and on 21 November 1996 Presidential Proclamation 6955 authorized duty-free treatment for qualifying goods. The condition was the point: to enter America duty-free, a product made in a designated Jordanian zone had to contain Israeli input. The Congressional Research Service is explicit about the motive: the program was political - to broaden support for the peace process and erode the Arab economic boycott of Israel - as much as economic. Jordan would not be buying market access with reforms or tariffs. It would be

buying with normalization.

THE DECISIONS: ZONES, SPLITS AND A FREE TRADE AGREEMENT

Three decisions converted the law into an industry. First, acceptance of the condition. In November 1997, at the Doha Middle East and North Africa economic conference, Jordan, Israel and the United States concluded what Better Work's history calls a secret and fraught negotiation - fraught because significant Jordanian opinion opposed any normalization with Israel. The parties split the content rule: of the 35 percent minimum value added required for duty-free entry, 11.7 percent would be Jordanian, 8 percent Israeli, and American content could supply up to about 15.3 percent. On 6 March 1998 the US Trade Representative designated the first zone, the Al-Hassan Industrial Estate in Irbid; thirteen zones were eventually approved along the border.

Second, escalation. Rather than stay inside the preference, Jordan negotiated the preference away. On 24 October 2000, President Clinton and King Abdullah II witnessed the signing of a full US-Jordan Free Trade Agreement - only the fourth American FTA, the first with an Arab state, and the first to put labor and environment obligations in the body of the text. It entered into force on 17 December 2001, replacing the Israeli-content requirement with a straightforward 35 percent Jordanian content rule phased over ten years. Third, replication: Egypt obtained its own QIZs in 2004, evidence that Washington now treated the design as a transferable instrument of regional policy. Jordan's decision sequence is the case's spine: take the conditioned deal, build on it, then convert it into an unconditional one.

THE DECISION CHAIN: DATES

26 October 1994	Israel-Jordan peace treaty signed at Wadi Araba, brokered by the United States
1996	US Congress passes the QIZ law (P.L. 104-234), amending the 1985 US-Israel FTA
21 November 1996	Presidential Proclamation 6955 authorizes duty-free treatment for qualifying zones
November 1997	Jordan-Israel-US QIZ agreement concluded at the Doha MENA conference; content split set at 11.7 percent Jordanian, 8 percent Israeli, up to 15.3 percent American within the required 35
6 March 1998	USTR designates the first zone: Al-Hassan Industrial Estate, Irbid
24 October 2000	US-Jordan Free Trade Agreement signed - the first US FTA with an Arab state
17 December 2001	FTA enters into force; 35 percent Jordanian content rule, ten-year phase-in
2004	Egypt admitted to the QIZ program
May 2006	National Labor Committee report alleges forced-labor conditions; exports drop sharply
2006	QIZ exports peak at 1.022 billion dollars for the year; decline begins as the FTA phases in
March 2007	Independent verification commissioned by Jordan and USAID confirms many allegations
February 2008	Better Work Jordan launched - the first Better Work country program, later mandatory for US-bound factories
2012	Apparel exports reach a record 1.2 billion dollars, about 17 percent of total exports
2 April 2025	United States announces a 20 percent "reciprocal" tariff on Jordan despite the FTA
31 July 2025	Executive order sets Jordan's adjusted rate at 15 percent, effective 7 August 2025

MEASURED OUTCOMES I: THE BUILD-OUT

The numbers, all dated, are extraordinary for an economy of Jordan's size. US imports from Jordan rose from 26 million dollars in 1996 to nearly 1.5 billion in 2006; Jordan climbed from America's 138th-largest supplier to its 70th. QIZ exports specifically went from zero in 1996 to a 1.022 billion dollar peak in 2006, and between 2001 and 2004 they supplied over 80 percent of Jordan's 1.09 billion dollars in exports to the United States. The Congressional Research Service credits the program with an amount equivalent to 30 percent of Jordan's total GDP growth for four consecutive years. The composition was even narrower than the total: 99.9 percent of QIZ exports were apparel, and about 86 percent of all Jordanian exports to the United States in that era were apparel - concentrated in high-tariff categories such as cotton knitwear that faced US duties of 28 to 32 percent, exactly where duty-free status was worth the most.

The investors were not who the treaty imagined. About 62 percent of investment in the zones was Asian - 22 percent Indian, 40 percent other Asian, largely manufacturers seeking duty-free access to America - against 17 percent Jordanian and 3 percent American. When the Multifibre Arrangement's quotas expired in 2005, prediction was that the enclave would die; instead the industry survived and apparel exports reached a record 1.2 billion dollars in 2012, about 17 percent of Jordan's total exports. Growth resumed into the 2020s: garment exports to the United States reached 1.74 billion dollars in January-November 2024, up 13.5 percent year on year, with the US taking 79.6 percent of Jordan's garment exports. Estimates of total US-bound exports for 2024 range from 2.88 billion dollars for the first eleven months, per Jordan's Department of Statistics, to about 3.4 billion dollars for the full year, per a Tamkeen policy paper - the case cites the ranges rather than a single point because the series differ.

MEASURED OUTCOMES II: WHO SEWED IT

The jobs were not who the treaty imagined either. Jordanian workers, despite high unemployment, largely refused the zone jobs - Better Work's history records that the work was perceived as poor work. The sector filled with migrants. By 2013, the ILO reported that over two-thirds of the 40,000 workers producing for export were migrants, the majority from India, Sri Lanka and Bangladesh, and over 60 percent women. By 2023 the garment-export workforce had grown to about 73,800, of whom 75 percent were migrants - over half Bangladeshi, followed by Indians, Sri Lankans, Nepalis and Myanmarese - and 74 percent women. The export miracle was, in labor terms, substantially a South Asian workforce on Jordanian soil.

The arrangement nearly collapsed over how those workers were treated. In May 2006 the National Labor Committee, a New York advocacy group, reported forced-labor conditions in the zones: confiscated passports, unpaid wages, long hours, and allegations of beatings and sexual abuse. Exports dropped sharply. An independent verification commissioned by Jordan's Ministry of Labour and USAID confirmed many of the allegations in March 2007, and in February 2008 Jordan, the ILO and the IFC launched Better Work Jordan - the first country program of the Better Work system, later made mandatory for factories exporting to the United States and covering roughly 95 percent of the sector's workers. The remediation was real and documented: a unified migrant contract, reduced recruitment fees, and removal of Jordanian garments from the US Trafficking Victims Protection Reauthorization Act list. The lesson the industry drew was durable: labor compliance is not decoration on the trade preference; it is part of the product being sold.

THE 2025 STRESS TEST

The case's final chapter is recent. On 2 April 2025 the United States announced "reciprocal" tariffs on nearly every trading partner. Jordan - holder of a 25-year-old free trade agreement - was assessed 20 percent, computed mechanically from the bilateral trade deficit. A Jordan Times analysis notes the deficit itself was inflated by an anomalous surge in Jordanian jewelry exports, 815 million dollars in 2023, which the formula read as an imbalance requiring correction; that attribution comes from an opinion source and should be read as such. After negotiation, the executive order of 31 July 2025 set Jordan's rate at 15 percent, effective 7 August 2025.

The comparison writes itself. Sri Lanka, with no FTA at all, was assessed 44 percent in April 2025, negotiated through 30 percent, and landed at 20 percent on the same August date - five points behind a treaty ally. The FTA remains legally in force; what it failed to provide was protection, because the new tariffs were imposed by unilateral executive action over the top of it. The durable asset in both countries was not the document but the underlying competitiveness of the industry and the negotiating capacity of the state.

TRANSFER LIMITS: WHAT JORDAN'S ZONES DO NOT PROVE

First, the preference was geopolitical rent. The QIZ existed because Washington wanted to pay for a peace treaty; countries without a peace to sell should not expect equivalent terms, and Jordan itself could not recreate the terms today. Second, the economics depended on the wall the preference bypassed: 28 to 32 percent US apparel tariffs made duty-free worth a fortune; in a low-tariff world the same rule would have attracted little. Third, the product mix was inherited from the Multifibre Arrangement era and cannot be read as optimal. Fourth, scale matters: a billion dollars transformed a 7-billion-dollar economy; the same number is rounding for a mid-sized exporter. Fifth, the employment objective as stated - jobs for Jordanians - substantially failed: three-quarters of the 2023 workforce was foreign, which changes the welfare arithmetic entirely. Finally, the record here rests on institutional sources - the Congressional Research Service, USAID, the ILO and Better Work, which also administers the program it reports on - plus flagged opinion journalism for the 2025 tariff analysis, and export series that disagree with each other at the margin; every figure used is therefore dated and attributed.

CONDITIONAL LESSONS FOR SRI LANKA

These are design observations, not prescriptions.

1. Access is rented, not owned. Jordan held a ratified free trade agreement and still paid 15 percent from August 2025; Sri Lanka's 20 percent has no treaty beneath it at all. The only preference that cannot be revoked by a foreign signature is cost, quality and delivery - which argues for treating every preference margin as temporary income and investing it accordingly.

2. Every concession arrives with conditions attached, so price them in advance. Jordan's price was 8 percent Israeli content and the domestic politics of normalization; GSP+'s price is twenty-seven governance conventions; the 2025 US negotiations brought Sri Lankan concessions on roughly 2,000 industrial tariff lines plus purchase commitments reported at 500 million dollars of crude oil and 300 million of LPG. The question is never whether a preference has a price, only whether the price was counted before signing.

3. The labor license is part of the product. Jordan's industry nearly died in 2006 and now sells compliance - mandatory Better Work coverage, a unified migrant contract - as a reason for buyers to stay. Sri Lanka's "ethical apparel" positioning is the same asset, and it is maintained through verifiable enforcement, not declared in

marketing.

4. Check who captures the preference. Jordan's zones created tens of thousands of jobs, three-quarters of them not for Jordanians. Sri Lanka's apparel sector employs around 350,000 of its own citizens directly - a far better capture ratio, and one that should be a deliberate criterion when future concessions or zones are designed, not discovered afterwards.

5. Concentration is the quiet risk. Jordan sells 79.6 percent of its garments to one market; Sri Lanka sells 39 percent of its merchandise exports as apparel, with the US its largest single market. The 2025 tariff arc - 44 threatened, 20 final - showed in one season what that exposure is worth. Diversification of products and markets is the unglamorous hedge against a risk that preferences cannot retire.

Jordan's record does not say that preferences are worthless; a billion-dollar industry was built from 26 million dollars in a decade. It says that a preference is a loan against conditions - political, labor and strategic - that come due on someone else's calendar.

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