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Israeli-Jordanian Trade: In-Depth Analysis

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MIDDLE EAST

Contents

JORDANIAN AND ISRAELI PERSPECTIVES

Trade between Israel and Jordan has declined in recent years after positive growth, but this in-depth study finds new areas that could see trade grow once more. This is one of three papers detailing Israel's trading relationships, alongside others looking at relations with Egypt *(https://institute.global/insight/middle-east/israeli-egyptian-trade-depth-analysis)* and the Palestinian Authority *(https://institute.global/insight/middle-east/israeli-palestinian-trade-depth-analysis)*.

The 1994 peace treaty with Israel is one of the pillars of Jordan's geostrategic and political stability. Geostrategic stability, in turn, is the base on which Jordan's economic strategy has been built since the early 1990s. This strategy has been reflected in a consistent policy of economic reforms, which transformed the structure of the Jordanian economy in the 1990s and the 2000s. The old structure, characterised by weak production sectors and a dominant public sector, was replaced by a new one in which the private sector has become the leading force. Since the early 2000s, Jordan has become one of the most advanced Arab economies in terms of economic liberalisation and integration into the global economy.[1]

That structural economic change has been a powerful growth engine for the Jordanian economy. During the 2000s the Jordanian economy grew at an average real rate of 6 per cent a year. Jordanian exports of goods increased fourfold, from $2 billion in 2000 to $8 billion in 2008. Jordan's gross domestic product (GDP) per capita more than doubled, and unemployment declined from 15 to 12 per cent, despite an annual 5 per cent growth in the Jordanian workforce.[2]

In addition to the critical role of the peace treaty with Israel in consolidating Jordan's geostrategic, political and economic stability, there were several important direct economic consequences. An immediate fruit of peace was financial. After the peace treaty was signed, the United States (US) initiated a series of foreign-debt relief and restructuring arrangements, to a total value of more than $3 billion. These arrangements were central to restoring Jordan's financial credibility after a severe economic crisis in 1989–1990 and the Gulf War in 1990–1991. These measures were a necessary condition for advancing Jordan's economic recovery after that crisis.

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1 These processes were analysed in detail in International Monetary Fund, "Jordan: Country Report", various issues; Fahed Al-Fanek, Jordan Economic Monitor, monthly newsletter, various issues 2000–2004; and Jordan Times, various issues, http://www.jordantimes.com/writer/fahed-fanek; World Bank, Jordan Economic Monitor, various issues, http://www.worldbank.org/en/country/jordan/publication/jordan-economic-monitor-home, Yitzhak Gal, "Israeli – Jordanian Economic Relations 1994 – 2004", presented to the international conference "Israel – Jordan Relations: The First Decade of Formal Peace, 1994 – 2004", Haifa University, 5–8 December 2004.

2 IMF, "Jordan: Country Report", 2012 and 2016; Central Bank of Jordan, "Monthly Statistical bulletin", Main Economic Indicators; Jordan Department of Statistics, "Social Surveys": Employment, http://www.dos.gov.jo/dos_home_e/main/linked-html/Emp&Un.htm

In addition, Jordan has begun receiving large American economic assistance on a steady annual basis, along with substantial military assistance.[3] The importance of US aid, as an anchor of economic stability for Jordan, came to the forefront again with the worsening of Jordan's economic situation at the end of the 2000s, the turbulences of the Arab Spring in the early 2010s, and the wars in Syria and Iraq in more recent years. American economic aid has grown significantly, to a magnitude of a $1 billion a year in the first half of the 2010s, and $1.5 billion in 2015–2017. In February 2018, the US signed a new five-year memorandum of understanding with Jordan in which the US committed to a new aid package for 2018–2022 at an annual amount of $1.3 billion per year.[4] That was in addition to a significant increase in aid from the Arabian Gulf countries and international organisations, in particular the International Monetary Fund.

Another fruit of peace—with even greater importance in the long run—was the start of a process that led to a series of international trade agreements and placed Jordan on a path of accelerated, export-driven economic growth. This process began with the trilateral Jordanian-Israeli-American Qualifying Industrial Zones (QIZ) agreement negotiated and signed in 1996–1997. The 1994 peace treaty and the success of the QIZ agreement paved the way to a Jordanian-American free-trade agreement. (Jordan was the fourth country with which the US signed a free-trade deal, after Canada, Mexico and Israel.)

The process continued with Jordan's acceptance as a member of the World Trade Organisation (with the support of the US), an association agreement with the European Union (EU) and a series of free-trade agreements with all of the country's major trading partners. These agreements, together with economic reforms, enabled Jordan to make best use of the Greater Arab Free-Trade Area (GAFTA) and additional opportunities in the Gulf markets, and

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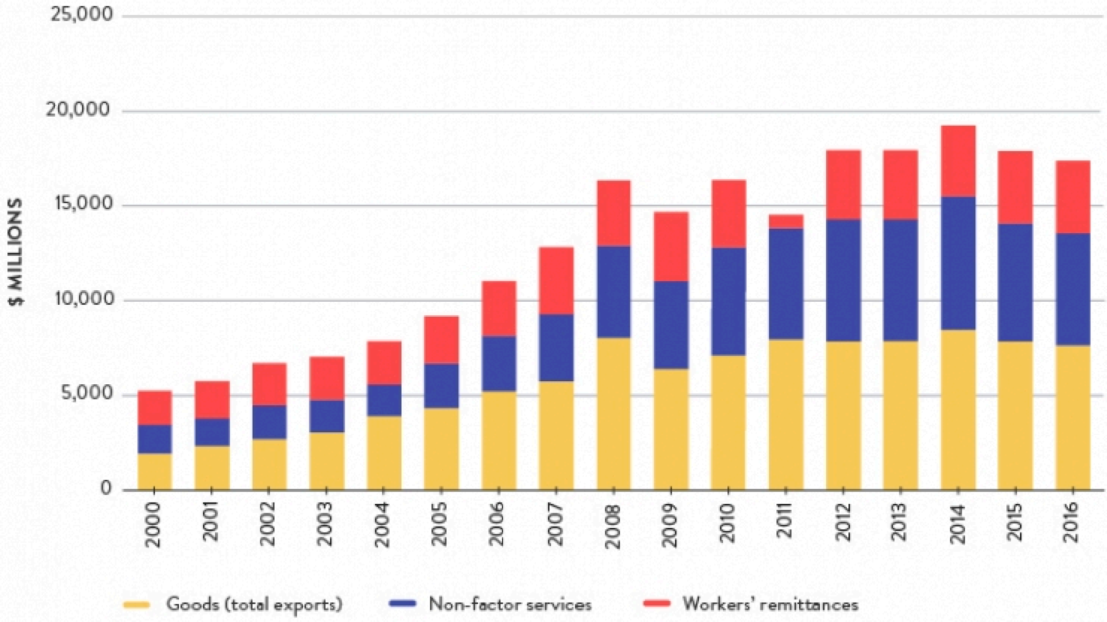
3 IMF, "Jordan: Country Report", various issues; Jordan Times, various issues, for example "US assistance to Jordan hits record high: Package reaches $1.275 billion in 2016", Jordan Times, 1 September 2016.

4 Jeremy M. Sharp, "Jordan: Background and U.S. Relations", Congressional Research Service, 14 November 2017; data for US financial years 2009–2014 and 2015–2017, respectively; US Department of State, https://www.state.gov/r/pa/prs/ps/2018/02/278318.htm

to greatly increase exports of Jordanian goods and services to Arabian Gulf countries (see figure 1).

Figure 1: Jordanian Exports of Goods and Services, 2000–2016



Source: Central Bank of Jordan

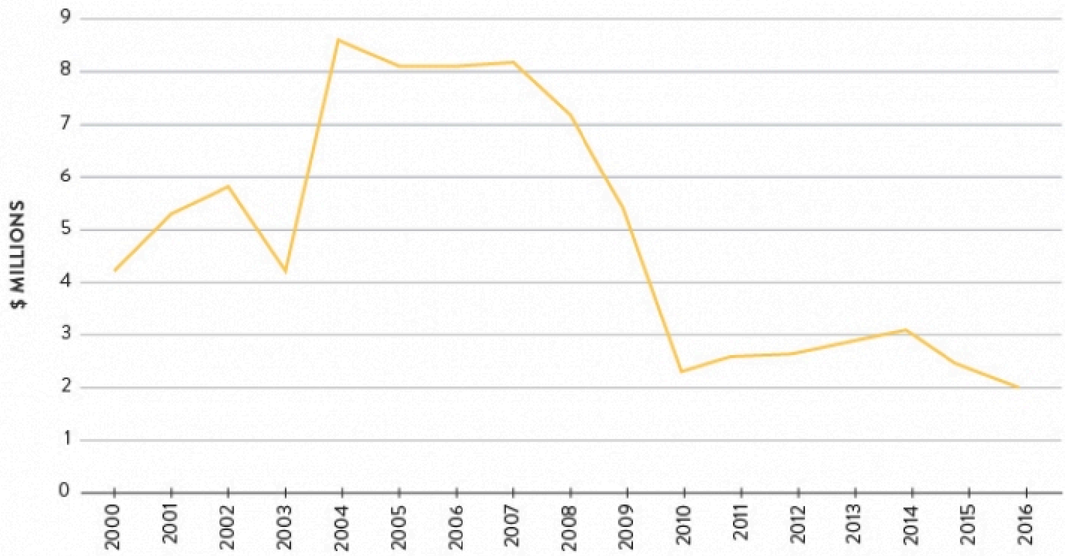
Note: Original data were in Jordanian dinars, converted at a rate of 1 dinar = $1.4105

From the Israeli perspective, the importance of bilateral economic relations with Jordan is relatively small. However, Jordan is very important for Israel as a bridge to the large markets of the Arabian Gulf countries and other large Arab markets. According to recent research, the opening of Arab markets for Israeli exports would generate a powerful new growth engine for the Israeli economy. Several quantitative analyses have shown that such a move would enable much faster per capita growth of Israeli GDP, which could make Israel one of the 15 richest countries in the world in ten years and increase the rate of job creation by nearly 75 per cent over that period. According to these analyses, the Arab world would become the second most important market for Israeli exports, second only to the EU.[5]

5 Eldad Brick and others, "The effects of Regional Settlement on the Israeli Economy" (updated work presented at the Israel Business Conference, December 2016); Karim Nashashibi, Yitzhak Gal and Bader Rock, "Palestinian-Israeli Economic Relations: Trade and Economic Regime", Office of the Quartet

Fast, export-driven growth of the Jordanian economy halted at the end of the 2000s. Jordan's real GDP growth rate dropped to an annual rate of 2–3 per cent (see figure 2), unemployment jumped as high as 18.5 per cent by early 2018, and export increases almost halted.[6]

Figure 2: Real Growth in Jordanian GDP, 2000–2016



Source: Central Bank of Jordan

Nevertheless, the rapid economic growth and other positive developments of the 2000s greatly strengthened the Jordanian economy. That enhanced economic strength, combined with increased external assistance, played a crucial role in enabling Jordan to weather the economic and social storms of the Arab Spring and the regional upheaval of the 2010s.

Representative, June 2015, http://www.quartetoffice.org/files/image/report.pdf; Rand Corporation, "The Costs of the Israeli – Palestinian Conflict", 2015; Yossi Zeira et al., "The Economic Costs of the Conflict to Israel: The Burden and Potential Risks", in Economics and Politics in the Israeli Palestinian Conflict, ed. Arie Arnon and Saeb Bamya (The AIX Group, 2015); Office of the Quartet, "Initiative for the Palestinian Economy", March 2014; Portland Trust, "Beyond Aid: A Palestinian Private Sector Initiative for Investment, Growth and Employment", November 2013; Peres Center for Peace and Paltrade, "The Untapped Potential", December 2006.

6 IMF; Jordanian Department of Statistics and Central Bank of Jordan.

Seen in a long-term perspective, however, the weakening of the economic growth engines of the 2000s has augmented the risks associated with Jordan's water shortages, unemployment, other economic and social challenges, and their effects on the country's geostrategic and internal political stability. All these aspects add to the challenges of the Syrian and other refugees who have entered Jordan during the past decade and a half. These refugee flows, in addition to a high natural population growth, have more than doubled Jordan's overall population—including citizens, foreign residents and refugees—in less than 20 years, from slightly less than 5 million in 2000 to 10.1 million at the end of 2017.[7]

To deal with these risks, Jordan must develop new growth engines. The analysis in this paper indicates that economic cooperation with Israel, and economic dividends that can be expected from third parties, can generate powerful new growth engines for Jordan—maybe even more powerful than those of the 2000s.

MAJOR MILESTONES

Shortly after signing their peace treaty, Israel and Jordan signed a trade agreement in 1995. That accord set reduced custom tariffs for thousands of products. However, it was still considerably inferior to free-trade agreements that Israel has with most of its important trading partners. The agreement was upgraded in 2004 to include a gradual reduction of customs tariffs until duties were abolished on a large part of the items traded between the two countries.[8]

Nevertheless, bilateral Israeli-Jordanian trade remained limited and of minor importance to both countries. Israeli exports to Jordan in recent years were worth $50–100 million per year, according to Israeli trade statistics, accounting for 0.1–0.2 per cent of total Israeli exports of goods. Jordan's net exports to Israel (not including re-exports of goods imported from the Gulf countries) are estimated at around $100 million per year, or 1–1.5 per cent of total Jordanian exports to the world.

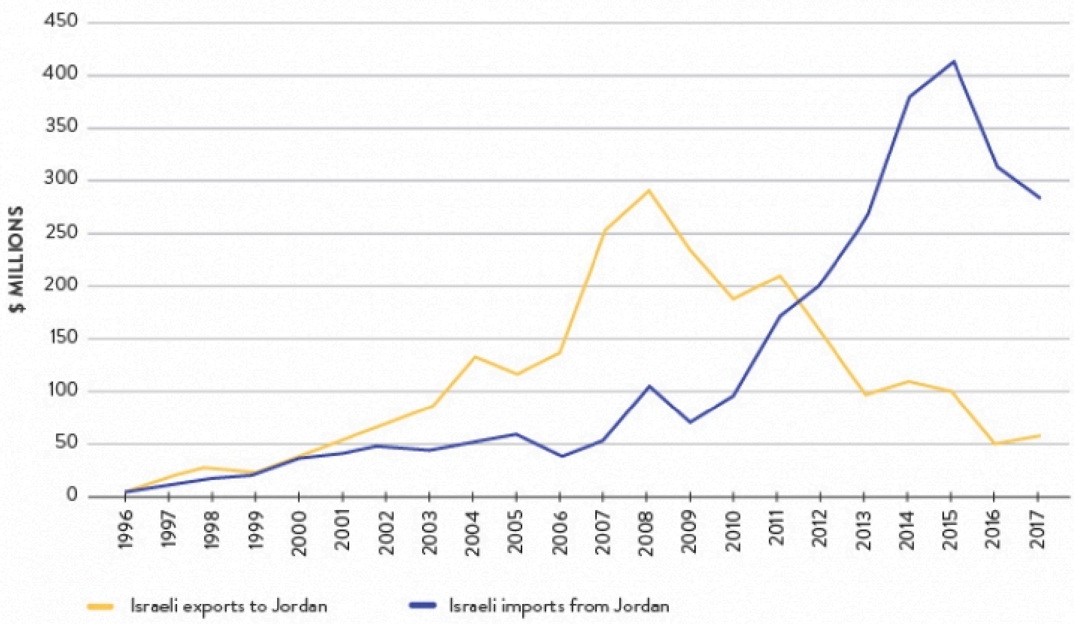
7 Jordanian Department of Statistics.

8 Israeli Ministry of Economy, Trade Agreements with Jordan.

Much more important was the trilateral Qualifying Industrial Zones (QIZ) trade agreement, which was signed in 1998 by Israel, Jordan and the US with the aim of allowing Jordan to benefit from Israel's free-trade arrangements with the US. The QIZ agreement generated large-scale cooperation between Jordan and Israel for exports of garments produced in Jordan to the US market. Israeli-Jordanian trade increased tenfold over the decade that followed the signing of the QIZ agreement; and inputs and intermediate products in the field of textiles have become main Israeli export items to Jordan.

The QIZ agreement lost a large part of its attractiveness in the late 2000s, as a result of a new free-trade agreement between Jordan and the US. Israeli exports to Jordan declined sharply, from $200–250 million a year in the second half of the 2000s to $50–100 million per year in 2013–2017 (see figure 3). The QIZ agreement and its effects are discussed in more detail below.

Figure 3: Israeli-Jordanian Trade in Goods, 1996–2017



Source: Central Bank of Jordan

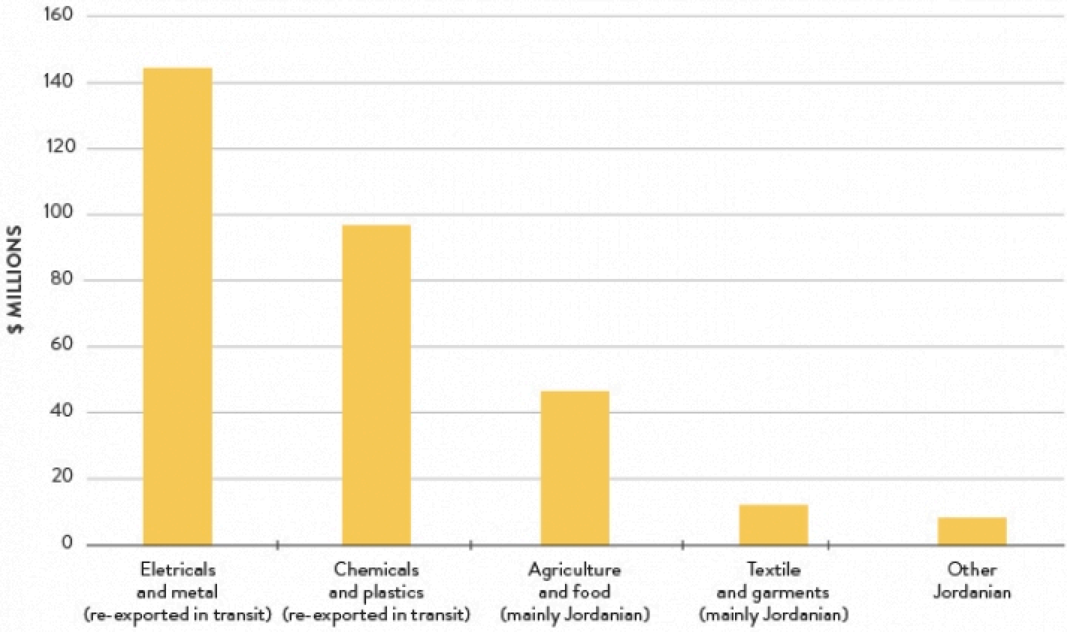
Another trilateral agreement—between Israel, Jordan and the EU—came into force in 2006. This agreement provides significant trade benefits to products containing joint Israeli-Jordanian production inputs when they enter EU markets. Despite the great potential of this agreement, it has not had significant effect on Israeli-Jordanian cooperation for exports to the EU.[9]

A new trend has been developing since the early 2010s: an increase in imports from the Gulf countries through Jordan, especially products of the chemical and petrochemical industries and consumer goods imported from the large free-trade zones of the United Arab Emirates. These transit-trade transactions are recorded in Israeli trade statistics as imports from Jordan. Hence, total Israeli imports from and through Jordan jumped from around $50 million a year in most of the 2000s to around $300–400 million a year in 2013–2017.

Figures 4 and 5 present a breakdown of Israeli imports from Jordan and Jordanian exports to Israel in 2016, as per detailed analysis of Israeli and Jordanian trade data by groups of products. Most Israeli imports from Jordan were products that originated in the Gulf countries and were re-exported from Jordan to Israel.

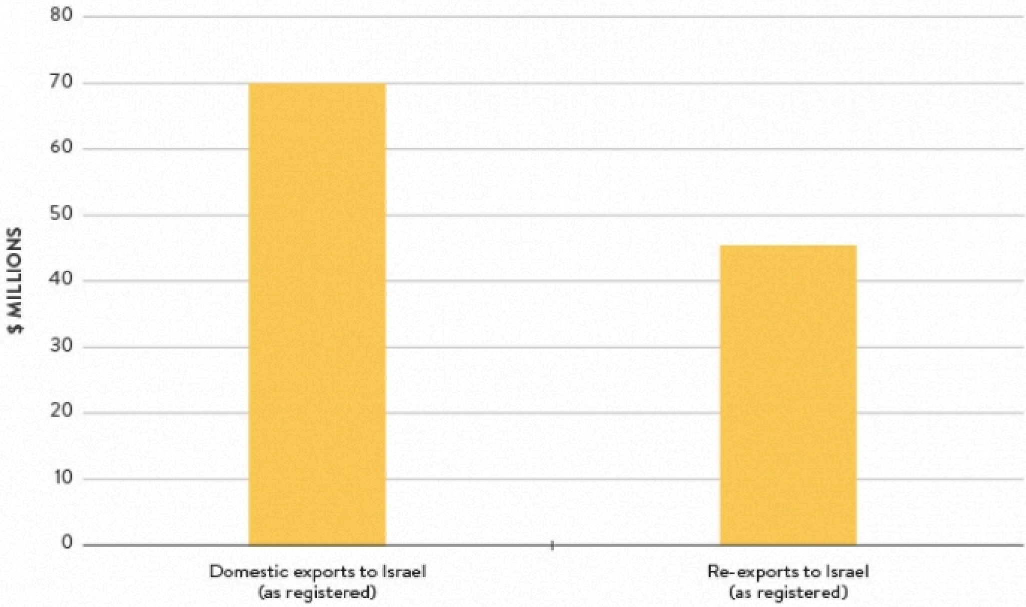
9 Israeli Ministry of Economy, Trade Agreements with Jordan, http://www.economy.gov.il/InternationalAffairs/TradePolicyAndAgreements/BilateralAgreementsDivision/Jordan/FreeTrade/accumulation.pdf.

Figure 4: Israeli Imports of Goods From Jordan by Category, 2016



Source: Israel Central Bureau of Statistics

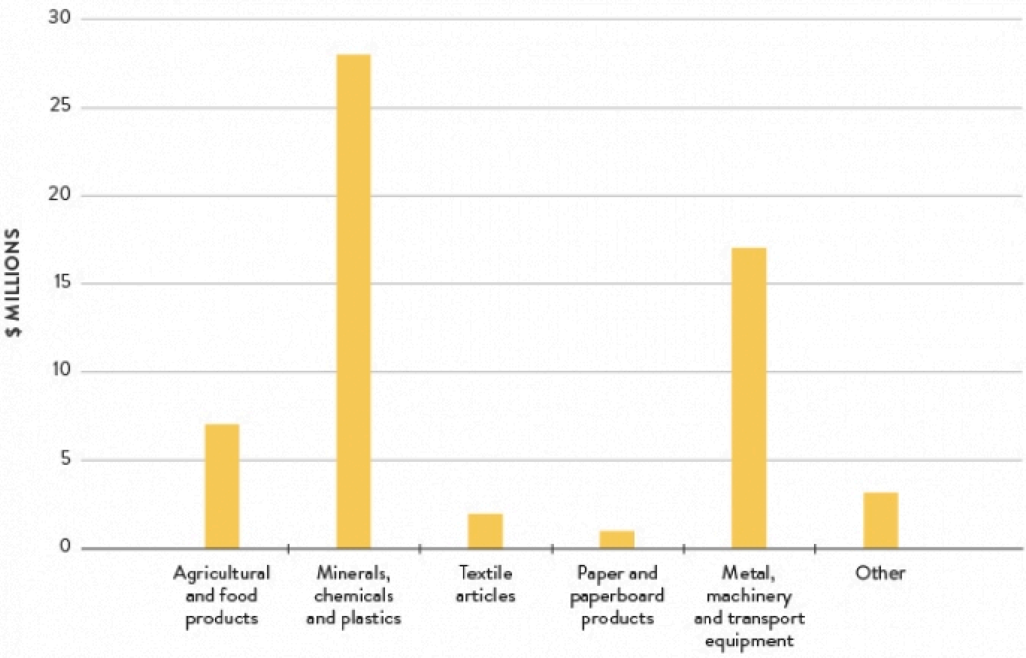
Figure 5: Jordanian Exports of Goods to Israel by Category, 2016



Source: Jordanian Department of Statistics

Figure 6 presents a breakdown of Israeli exports of goods to Jordan in 2016, as per detailed analysis of Israeli trade data by groups of products. It shows that products related to QIZ industries (such as textile articles and paperboard) have become insignificant. The most important categories are mineral products, chemicals and plastics. With the start of Israeli natural-gas supplies to Jordan, the share of mineral products is expected to become larger in the coming years.

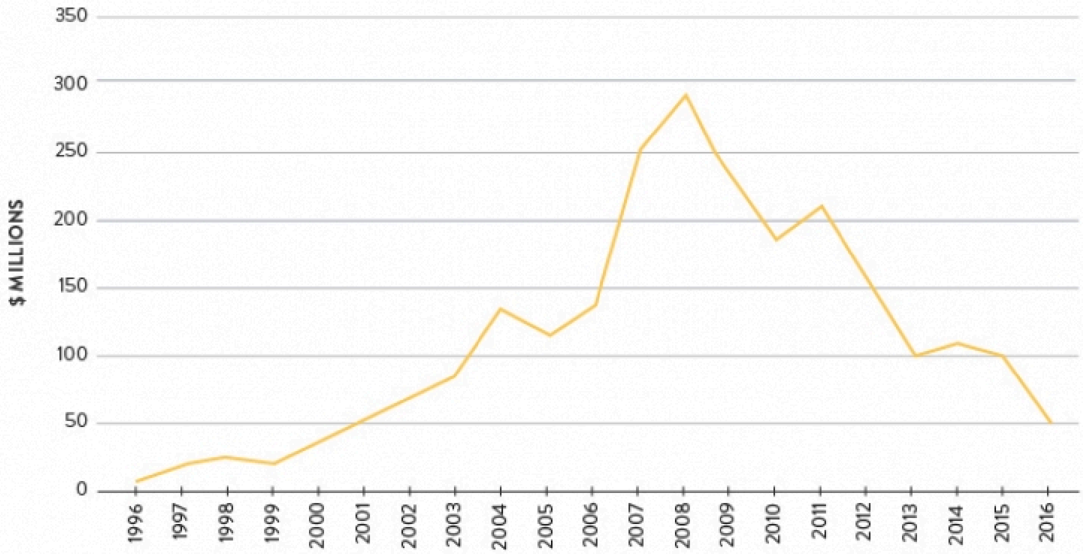
Figure 6: Israeli Exports of Goods to Jordan by Categories, 2016



Source: Israel Central Bureau of Statistics

In all, bilateral Israeli-Jordanian trade is of minor importance for Israel. Exports of goods to Jordan have accounted for only 0.1–0.2 per cent of total exports of goods in recent years (see figure 7). Exports of services are of low importance too.

Figure 7: Israeli Exports of Goods to Jordan, 1996–2016



Source: Central Bank of Jordan

JORDAN'S TRADE WITH ISRAEL IN CONTEXT

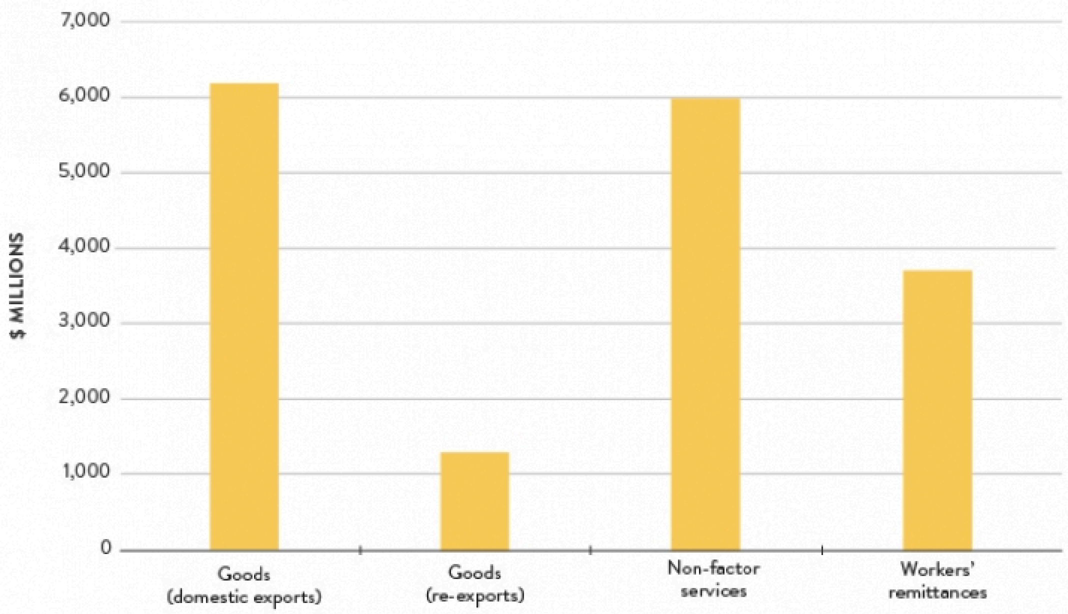
TRADE IN GOODS

For Jordan, exports of goods and services to Israel are secondary to other export markets. Registered exports of goods to Israel in recent years have accounted for about 1.5 per cent of total exports of goods, including re-exports (see figure 8). That share would have increased to 4–5 per cent if transit trade to Israel had been fully registered. The secondary importance of Israel is demonstrated by comparing Jordan's exports to Israel (figure 8) with its total exports (figure 9).

Figure 8: Jordanian Exports of Goods to Israel, 2000–2016

Source: Jordanian Department of Statistics

Figure 9: Total Jordanian Exports, 2016

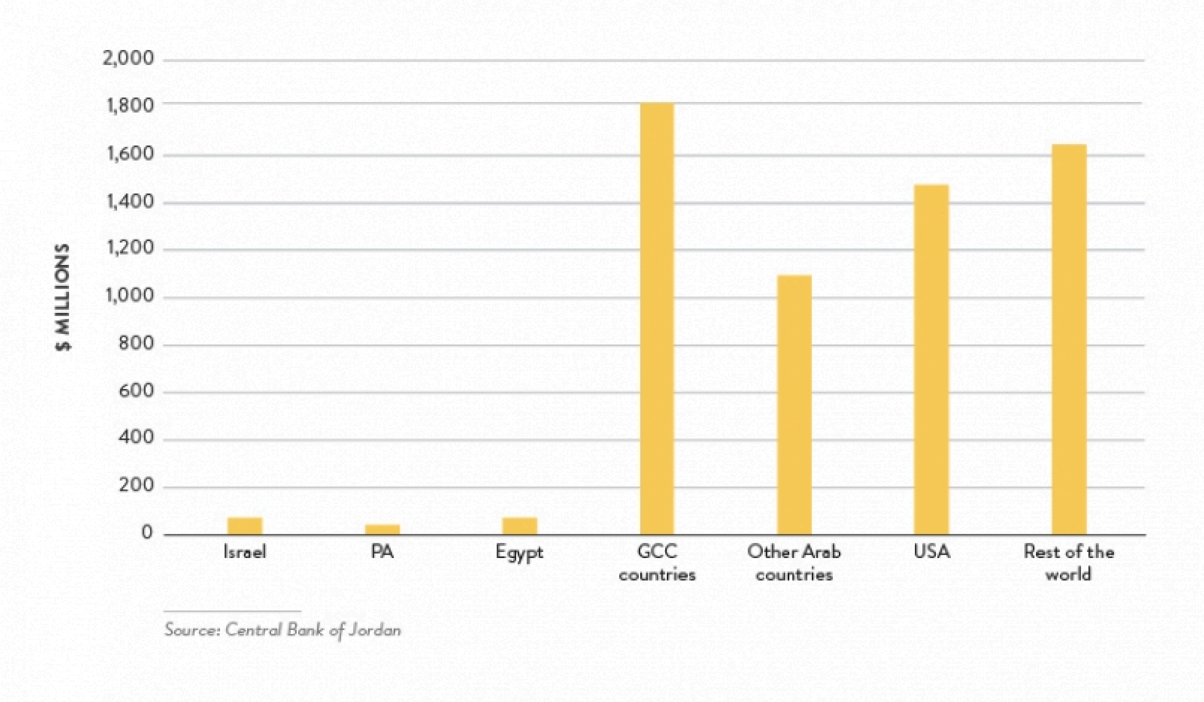


Source: Central Bank of Jordan, Jordanian Department of Statistics

Note: Original data were in Jordanian dinars, converted at a rate of 1 dinar = $1.4105

Comparing Jordan's domestic exports to Israel with its exports to regional and other markets shows that Israel's share was barely 1 per cent in 2016, roughly similar to that of Egypt or the Palestinian Authority (PA) (see figure 10). The shares of other regional partners were much larger. Jordan's domestic exports to the six Gulf Cooperation Council (GCC) countries combined were almost 30 times bigger than its exports to Israel; and exports to rest of the Arab world—led by those to Iraq—were more than 15 times larger. In all, Arab markets accounted for 49 per cent of Jordan's domestic exports of goods, the US 24 per cent and rest of the world 26 per cent.

Figure 10: Jordanian Domestic Exports by Main Partners, 2016



TRADE IN SERVICES

Jordanian exports of services to Israel are of some importance, especially tourism and the export of other services such as education to Israeli Arabs. Research conducted by the Knesset Research and Information Center in 2012 estimated the number of Israeli Arab students in Jordanian universities at 8,000, compared with a total of 28,000 Arab students in Israeli academic institutions.[10] That number has seemed to decrease in recent years, according to partial indications.

Israel's share in total Jordanian exports of services, however, is as modest as its share in exports of goods: less than 2 per cent of total Jordanian exports of non-factor services, and about 1 per cent if Jordanian workers' compensation is included. Jordan exports roughly $100 million in services to Israel, compared with total non-factor services of about $6 billion, and close to $4 billion in workers' compensation.

10 Knesset Research and Information Center, 2012, https://www.knesset.gov.il/mmm/data/pdf/m03759.pdf.

THE ISRAELI-JORDANIAN QUALIFYING INDUSTRIAL ZONE SYSTEM

CREATION AND DEVELOPMENT

In 1997, Jordan, Israel and the United States established the Qualifying Industrial Zone (QIZ) system, which consists of special free-trade zones that enable Jordan to take advantage of the free-trade agreements between Israel and the US. To qualify, goods produced in these zones must contain a small portion of Israeli input.

The QIZ system was created with the aim of promoting joint Jordanian-Israeli production of goods for export to the US, envisaging large Israeli investments in production facilities in the zones in partnership with Jordanian investors. The QIZs did indeed start with such joint investments, and the original agreement emphasised "substantial economic cooperation between Jordan and Israel" as its main purpose.[11] Later, however, the QIZ system developed in other directions, positively affecting the Jordanian and Israeli economies in other ways, mainly by promoting investments of non-Israeli parties in the QIZs and advancing Jordanian and Israeli exports. An Israeli-Egyptian-US QIZ system was initiated in 2004 on the back of the success of the Jordanian QIZs in promoting non-Israeli investments and Jordanian exports to the US.[12]

Five leading Israeli textile and garment companies played an important role in the initiation of the QIZ agreement and were the first to start production in the Jordanian QIZ system. This group of firms, led by Delta Galil Industries, was followed by a few non-textile companies, notably Motorola Israel. Most of these production plants were established as joint ventures with a Jordanian partner, the Century Investment Group (CEIG), a public company traded on the Amman stock market. The electronics joint venture with Motorola stopped operation after a few years, but

11 Article 2 of the agreement, http://www.agreements.jedco.gov.jo/qiz.html. Technically, it was a bilateral Jordanian-Israeli agreement, but it was based on a proclamation of the US president that designated the first QIZ (Madinat al-Hassan industrial estate near Irbid) as a "qualifying industrial zone".

12 See the protocol at http://www.qizegypt.gov.eg/about_textprotocol.aspx.

almost all the other plants that were established with CEIG in Madinat al-Hassan continued production.

A few other smaller Israeli plants were established in the late 1990s and the early 2000s. However, direct Israeli investment in these plants was modest, and most of the investments came from the Jordanian partners. The Israeli companies that had established joint-venture plants with CEIG eventually sold their shares to Century; and since the mid-2000s, almost all these plants have been producing for Israeli companies as subcontractors. In all, by the mid-2000s, only a few, mostly small Israeli-owned production plants or joint ventures remained in operation in the Jordan QIZs.[13]

Nevertheless, by the early 2000s the Jordanian QIZ system was a thriving international business. It attracted garment producers from all over the world, especially East Asian countries, alongside a fast-growing group of Jordanian-owned plants; and the QIZ textile and garment export industry developed into one of the main growth engines of the Jordanian economy. As of the end of 2004, after no more than half a decade of full activity of the QIZ system, eight QIZs were active. These QIZs already housed about 90 plants.[14] More than 50 per cent of these plants were owned by various East Asian and Southeast Asian companies (from Bangladesh, China and Hong Kong, India, Pakistan, South Korea and Taiwan); 20 per cent were Jordanian (and joint ventures with investors from other Arab countries); 10 per cent Arabian Gulf countries; 10 per cent Turkish and Western countries; and fewer than 10 per cent Israeli-Jordanian joint ventures.[15]

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13 This analysis is based on previous works by the author: Gal, "Israeli – Jordanian Economic Relations 1994 – 2004"; and Yitzhak Gal, "Quarterly Economic Survey", The Israel-Jordan Chamber of Commerce and Industry, various issues. Additionally, this analysis uses the author's notes from interviews with owners and managers of Israeli and Jordanian companies and with Israeli and Jordanian officials, as well as internal data collected from the main QIZs.

14 Approximately 40 plants in Al-Tajamouat (near Amman); more than 20 plants in each of Al-Duleil (near Zarqa) and Madinat al-Hassan (near Irbid); and the rest in five other small or private QIZs.

15 Analysis and estimates of the author in Gal, "Israeli – Jordanian Economic Relations 1994 – 2004"; various issues of the Israel-Jordan Chamber of Commerce and Industry, "Quarterly Economic Survey" over 2004–2006; JIB and Export and Finance Bank reports; internal data supplied in 2004–2005 by the Irbid Chamber of Industry and the Al-Tajamouat and Al-Duleil QIZs; various issues of the Jordan Times; and interviews.

The QIZ agreement opened the US market to Jordanian garment exports under most favourable terms and generated the evolution of a large export-oriented textile and garment industry in Jordan. Total exports of textiles and garments grew from about $50 million a year in the mid-1990s to $1 billion exports a year by 2004. Exports to the US grew from $10–20 million a year in the second half of the 1990s to above $1 billion a year by 2004. This new industry accounted for about one-third of total Jordanian domestic exports in 2004 and 2005 (or one-quarter including re-exports). In 2006 and 2007, Jordan's exports to the US—mostly garments—peaked at around $1.25 billion, before decreasing to around $1 billion a year at the end of the 2000s.[16]

The remarkable success of the QIZ agreement in the first half of the 2000s was also reflected in speedy growth of Jordanian exports to Israel: from $7 million in 1996, and $28 million in 1997, to $110–140 million in the early 2000s. At this point, Israel ranked between the fifth and seventh export destination for Jordan's exports. Jordan's imports from Israel have shown a similar trend, growing from negligible figures in 1996–1997 to around $130 million a year in 2002–2003, and around $160 million a year in 2004–2005.

In-depth analysis of detailed Israeli-Jordanian trade data from 2003–2004 shows that the lion's share of bilateral Israeli-Jordanian trade at that time was related to the QIZ and to movement of inputs, intermediate foods and finished products between the large joint Israeli-Jordanian plants in the QIZs and the Israeli-based production facilities of the Israeli companies that operated in the QIZs at that time. This analysis shows that in 2003, 85 per cent of Jordanian exports to Israel including re-exports, and 93 per cent of Israeli exports to Jordan, were related to the QIZ, and to joint industrial production activity. Trade that was not related to the QIZ or joint production was negligible, amounting to no more than $16 million of Jordanian exports and $10 million of Israeli exports in 2003.[17]

In the second half of the 2000s, Israeli-Jordanian trade decreased, following the falling trend of the QIZ arrangements and

16 Jordanian Department of Statistics, external trade database.

17 Author's analysis, based on Jordanian Department of Statistics detailed trade database.

the decline of the role of Israeli companies in QIZ activity. On the ground, many of the companies operating in the QIZs moved from exporting to the US under the QIZ arrangement to exporting under the new US-Jordanian free-trade agreement. At the end of the 2000s, the number of textile and garment companies exporting under the QIZ arrangement decreased to around 50.

Nevertheless, most of the industrial zones that had been established as QIZs and had flourished in the first half of the 2000s under the QIZ agreement continued to show healthy sustained growth in the second half of the 2000s, benefiting from the free-trade status they continued to enjoy as QIZs, and diversifying to non-textile activities as well.

EVALUATION

The Jordanian QIZ agreement of 1997 started a process that led to a series of international trade agreements, opened non-Arab world markets to Jordan's export industries, and positioned Jordan as a regional leader in free-market-oriented reform and integration into the global economy. These international trade agreements, in combination with Jordan's determined and consistent policy of economic reform, created the basis and the supportive environment for high, export-led economic growth throughout most of the 2000s.

Another aspect of the importance of the QIZ agreement in Jordan's economic history was its contribution to the development and growth of Jordan's first large export-oriented industry. That encouraged Jordanian non-textile industrialists to venture into export markets as well, and paved the way to the development of export-oriented manufacturing plants in various non-textile industries.

The QIZ agreement also played an important role in the development of the widespread network of industrial estates, free-trade zones and special development zones. That network has become a vital platform for export-oriented industrial activity, the huge economic potential of regional transit trade, and investment and employment in peripheral districts in the north and south of Jordan.

An overview of key economic indicators in three major QIZs demonstrates the scale of their contribution to Jordan's national economy as of the mid-2000s (see table 11).[18] Smaller active QIZs included the Al-Hussein bin Abdullah II QIZ in Karak, Cyber City near Irbid, Al-Qastal and Al-Zay. At cumulative exports of over $1 billion in 2004, mainly to the US, the QIZs accounted for about one-third of total Jordanian exports.[19] Total invested capital in the zones amounted to around $800 million by the end of the year.

Table 11: Key Economic Indicators in Three Jordanian QIZs, 2004

Qualifying Industrial Zone	**Exports**	**Cumulative Invested Capital**	**Workers**
Madinat al-Hassan, near Ibrid	$400 million (garments)	$300 million	20,000
Al-Tajamouat, near Amman	$300 million	$350 million	17,000
Al-Duleil, near Zarqa	>$120 million	$120 million	13,000

The QIZ system also became an important generator of new jobs to Jordan's fast-growing labour force. The total number of workers in the zones was estimated at about 60,000, of whom 35,000–40,000 were estimated to be Jordanians, in addition to 20,000–30,000 additional indirect jobs in transport, logistics and catering, and with various other service providers and local suppliers of inputs. In all, the overall contribution of the QIZs to Jordanian employment was around 60,000 Jordanian jobs as of late 2004.

18 Based on analysis and estimates by the author in Gal, "Israeli – Jordanian Economic Relations 1994 – 2004" and "Quarterly Economic Survey", 2004–2006; Export and Finance Bank, Jordan, Research Department report "Qualifying Industrial Zones", June 2003; US Congress, CRS Report "Qualifying Industrial Zones in Jordan and Egypt", 5 July 2006; internal data supplied in 2004–2005 by the Irbid Chamber of Industry and the Al-Tajamouat and Al-Duleil QIZs; and various issues of the Jordan Times.

19 One-quarter if re-exports are included.

The fast growth of the Jordanian QIZ system ended in the mid-2000s, as the economic environment changed profoundly. In 2005, the international Multi-Fibre Agreement, which had enabled the US to set quotas for imports of textiles and clothing from China and other countries, ended. This change eliminated one of the major advantages of the Jordanian QIZ system, and the attractiveness of the system for East and Southeast Asian textile and garment companies was greatly eroded. As a result, the inflow of new companies into the Jordanian QIZ system all but stopped after 2006–2007, and several companies even closed their Jordanian plants. The volume of exports to the US, which had peaked at around $1.25 billion a year in 2006–2007, stabilised at around $1 billion a year.

At the same time, the maturation of the US-Jordanian free-trade agreement (FTA), which had been signed in the early 2000s, created an alternative channel for duty-free entry of textile and garment exports from Jordan into the US. The effect of that change was a gradual shift of exports from the QIZ channel, under which companies must procure a certain percentage of their inputs from Israel, to the FTA channel.

Together, these two major changes badly hurt Israeli exports of inputs to the Jordanian QIZs. Many of the few hundred Israeli companies that had been active in the Jordanian QIZs as suppliers left this market. By the end of the 2000s, only a few tens of Israeli companies were still significantly active as suppliers to the garment plants in the QIZs, in addition to fewer than 20 Israeli companies that kept production activity in the Jordanian QIZs, mostly with Jordanian subcontractors.

LESSONS AND POTENTIAL

When the QIZ agreement was signed in 1997 and the first Israeli garment companies started production in the Madinat al-Hassan zone, many in the Israeli business sector shared these firms' vision of the large economic potential of Israeli-Jordanian cooperation. It was thought that the proximity of the Jordanian QIZs to Israel would enable joint production processes, rather than splitting production between the companies' Israeli and Jordanian sites according to their respective advantages. That would have made the QIZs a viable alternative to moving production to China and other cheap-labour countries. It was envisaged that cooperation would widen and deepen to include transfer of know-how, joint development of products and access to new markets.

Israeli interest in the success of this vision was great, because moving production to China means that the Israeli national economy loses almost the entire production process, as opposed to sharing production with Jordanian QIZ plants.

Many hundreds of Israeli companies are currently manufacturing in these distant countries, at a total value of tens of billions of dollars a year in wide range of industries: electronics, pharmaceuticals, metals, plastics, textiles, and many other fields of industry and agro-industry. It is estimated that around $10–15 billion is imported to Israel, and larger volumes are directly exported from these Israeli-owned production plants—or plants that produce as subcontractors for Israeli companies—to various world markets. Many of these Israeli-owned or subcontracting production facilities are large plants, which produce at tens or hundreds of million dollars a year and employ thousands of workers.

Considering the huge magnitude of this trend of moving industrial manufacturing out of Israel, successful Israeli-Jordanian cooperation in industrial manufacturing would have added billions of dollars to Israeli GDP, in addition to saving many tens of thousands of Israeli jobs—in industry, as well as jobs with various service providers and suppliers of inputs. The benefits for Jordan could have been higher, in terms of share of GDP, exports and employment.

Unfortunately, no governmental support or facilitation of joint production processes was provided, and the incentives provided by the QIZ agreement were relevant only for the textile and garment industry (which, at that time, was already in sharp decline in Israel). Therefore, no other major Israeli companies followed the first group of textile and garments firms that started production in the QIZs.

If the QIZ agreement is reshaped and adapted to facilitate joint production activity in non-textile manufacturing industries, the Israeli business sector may be persuaded to move part of these production activities from China and other distant production sites to Jordan. The relatively large volume of trade that was generated by the few large Israeli garment plants that were producing in Jordan in the 2000s indicate the huge potential of widening such cooperation to much larger Israeli industries.

Another major aspect of the untapped potential relates to transfer of know-how for joint production in the QIZs, and marketing to third markets. Thousands of small and medium-sized Israeli companies are limited in their ability to fully develop their export potential. These firms are too small to shift production to distant countries, while Israeli labour and other costs are too high, which restricts their competitiveness in export markets. If the QIZ agreement and the required supportive arrangement facilitated knowledge transfer and production in the zones, large new export opportunities would be opened for exports from the QIZs to various global markets.

The same is true for exports to Arab markets. Jordan has made impressive progress in developing its exports to Arab markets, primarily the Arabian Gulf markets and Iraq. Nevertheless, Jordan's share in these markets is very small. Jordan's combined exports to the six GCC countries and Iraq amount to $3–4 billion, or roughly 0.5 per cent of the total imports of these markets. In-depth market analyses, conducted by the author on several key GCC submarkets and the GCC market at large, have shown that these markets offer huge opportunities for exports of advanced technology products, which are compatible with the strengths of the Israeli industry in various fields. Transfer of know-how and production of such products to the QIZs would have opened billions of dollars of new export opportunities in these markets alone.

That large potential can be tapped under a new QIZ model, which would emphasise the free-trade advantages of the arrangement and encourage diversification away from the exclusive focus on the textile and garment industry. Such a new QIZ arrangement should be designed in a way that enables joint Jordanian-Israeli production in the QIZs to benefit from Israeli export-support programmes and incentives as well as the wide networks of Jordanian and Israeli free-trade agreements. Most importantly, special attention must be paid to numerous administrative, logistical and other impediments, on both the Israeli and the Jordanian side.

OUTLOOK FOR FURTHER COOPERATION

Although Jordan has a relatively small economy, the trade potential between Israel and Jordan is large. Israeli direct export potential includes exports of finished products to Jordan's consumption markets; exports of inputs and equipment for industry, agriculture and construction; and exports of services. As an immediate neighbour with a comparative advantage in high-end technological products, Israel can expect its share of total Jordanian imports to reach 10–15 per cent, or around $2 billion a year, under normal trading conditions—maybe even more. That is 40 times the current level of Israeli exports to Jordan.

The potential for indirect exports to the large GCC markets and Iraq, through Jordan, is much higher. Even if Israel's share of these markets is conservatively estimated at just 2–3 per cent of their total imports of goods and services under normal trading conditions, that would amount to $15–25 billion, or around 20 per cent of total Israeli exports of goods and services.

In addition to the great potential of new QIZ arrangements, there are other specific fields of large potential. The field of tourism, for example, proposes large opportunities in several fields, such as the integration of Jordan into Israeli-Palestinian cooperation on religious Christian and Muslim tourism; the development of tourism in the Jordan Valley, the Dead Sea and the Red Sea by leveraging the unique tourist attractions of these areas; and Arab medical tourism.

ARAB MEDICAL TOURISM

Medical tourism has become one of the fastest-growing submarkets of the global tourism industry. The term "medical tourism" relates to people who travel from their home to another country to receive medical treatment. Such treatments range from complex surgery to routine medical procedures to cosmetic treatments and dental care. In many cases, family members who accompany the patient take advantage of the medical treatment to travel and spend a holiday in the country of destination.

The Arab medical-tourism market is estimated to be in the order of $10 billion a year. It is divided into two main segments:

- **Medical tourists from the Gulf countries**: The magnitude of this market segment is over $5 billion a year. A large number of these tourists have traditionally travelled to high-profile hospitals in the US and Europe, where treatment is much more expensive. Yet many other medical tourists from the Gulf are looking for cheaper alternative destinations, including Jordan.
- **Medical tourists from other Arab countries**: Until recent years, this segment was smaller. It included people with financial means from various non-Gulf countries, as well as officials and others whose medical care abroad was paid for by their government. In some countries, the poor level of medical service pushes those who can afford it to travel abroad, even for the simplest medical treatments. In recent years, this market segment has grown considerably, as a result of the wars in Iraq, Syria, Yemen and Libya. Wounded people cannot obtain appropriate medical treatment in these countries; and many thousands of the luckier ones are sent for treatment in medical centres outside their country. The overall magnitude of this market segment is estimated at close to $5 billion a year. This market segment is much more price sensitive, and to a large extent directed towards cheaper destinations.

Until recent years, Jordan was the leading Arab country in medical tourism, registering 200,000–250,000 arrivals of Arab medical tourists a year. Jordan absorbed more than 10 per cent of the total Arab medical-tourism market, which generated revenues in excess of $1 billion a year. In recent years, Jordan has faced strong competition, with the consequence that the number of Arab medical tourists to Jordan has not risen in recent years. Industry leaders forecast continuous significant decline in coming years and express concern over the strategic threats that the Jordanian medical-tourism industry is facing.

Israel is considered a world leader in medical services. It ranks among the top five international destinations, and the first for certain services.[20] Although medical tourism to Israel has been growing in recent years, the number of medical tourists coming to

Israel is still small relative to those going to other countries. Until 2014, the number travelling to Israel stood at around 50,000 a year; they came mainly from Russia. Medical-tourism revenues of Israeli hospitals were around 3 per cent of hospitals' total revenue, compared with 20–25 per cent of total revenues of hospitals in Jordan.

Given the high level of medical services in Israel and the country's reputation as a world leader in the field of medicine, these data indicate large untapped potential. The status of Israeli hospitals as top-quality medical-service providers means that cooperation with Jordanian hospitals and medical-tourism agencies can be of great importance for the Jordanian medical-tourism industry.

Alongside the high quality of medical services, treatment in Israeli hospitals is much less expensive than in equivalent hospitals in Europe and North America—both for medical treatment and for accommodation of patients' family members. Israeli hospitals could provide two other important advantages for Arab patients: geographical proximity and easy accessibility through Jordan; and an Arabic-speaking medical and social environment, providing the patient and his or her family with comfort and confidence.

Cooperation with Israeli hospitals would provide Jordan with strong comparative advantages in both the high-end and the medium-level segments of the medical-tourism market. Jordanian medical-tourism agents could propose best-quality medical services in Israeli hospitals, or by Israeli experts in Jordanian hospitals, at competitive prices—as well as medium-level services for routine procedures, as they have always done. Israeli hospitals, for their part, would benefit from the strong marketing system of the Jordanian tourism industry in the Arab world. That strong synergy would enable the joint Israeli-Jordanian system to significantly increase Jordan's 10 per cent traditional market share, and maybe even double it.

20 Medical Tourism Index, http://www.medicaltourismindex.com/destination/israel/.

TRANSIT TRADE

In the 2000s, Jordan showed impressive success in leveraging its trade agreements and advantageous location to quickly develop exports of goods and services to the Gulf countries and Iraq. Fast growth of exports was the most important engine for Jordan's rapid economic growth in the 2000s.

New trade arrangements between Israel to Jordan, focused on encouraging transit trade and the development of a transit trade route between the Mediterranean Sea and the Gulf through Jordan, can generate a huge volume of economic activity and exports of trade-related services. Such arrangements will also enable an estimated tripling of Jordanian exports (including re-exports) within a decade. Transit trade, in combination with transport, is expected to become a new powerful growth engine for Jordan that would set the country back on the long-term high-growth track of the 2000s.[21]

TRANSPORT

A set of railway development projects, mainly in the GCC bloc, is expected to reshape land transport across the region. Although most of these projects are designed and implemented by the Arab countries, a coordinated effort would create a new regional transport network. That network would greatly advance trade and transit trade in the region. Once connected to the Mediterranean, through Israel, it would allow the development of competitive movement of goods on a land bridge between the Gulf and the Mediterranean. It is planned that Jordan would serve as the hub of that regional railway network, positioning itself as a key player in the regional transit trade system.[22]

21 Yitzhak Gal, "Trade and Economic Aspects of A Mediterranean – Gulf Land-Bridge", unpublished work, November 2017.

22 Yitzhak Gal, "Arab Transportation Infrastructure: A Big Leap Forward", unpublished work, January 2012; Jordanian Ministry of Transportation, Jordan National Railway Project, general brochure, August 2011; BNP Paribas, Jordan National Railway Network Project, June 2010.

WATER AND ENERGY

These two fields present further large economic opportunities for Israeli-Jordanian economic cooperation (and Israeli-Arab cooperation in general), considering the magnitude of needs and planned projects.

The overall volume of energy and water projects required in Jordan alone for the coming two decades is in the magnitude of $40–50 billion. That includes specific plans in various fields of the water and electricity sectors. A large part of these investments is in the fields of advanced water and energy technologies, where Israel has clear advantages. For example, the required investments in these fields under the Jordanian plan to absorb Syrian refugees (and upgrade infrastructure in Jordan's northern governorates) amount to around $500 million a year for the coming few years. Another example is the field of solar energy, in which investments of close to $1 billion a year are expected over the coming two decades.

Trade between Israel and Jordan has declined in recent years after positive growth, but this in-depth study finds new areas that could see trade grow once more. This is one of three papers detailing Israel's trading relationships, alongside others looking at relations with Egypt and the Palestinian Authority.

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