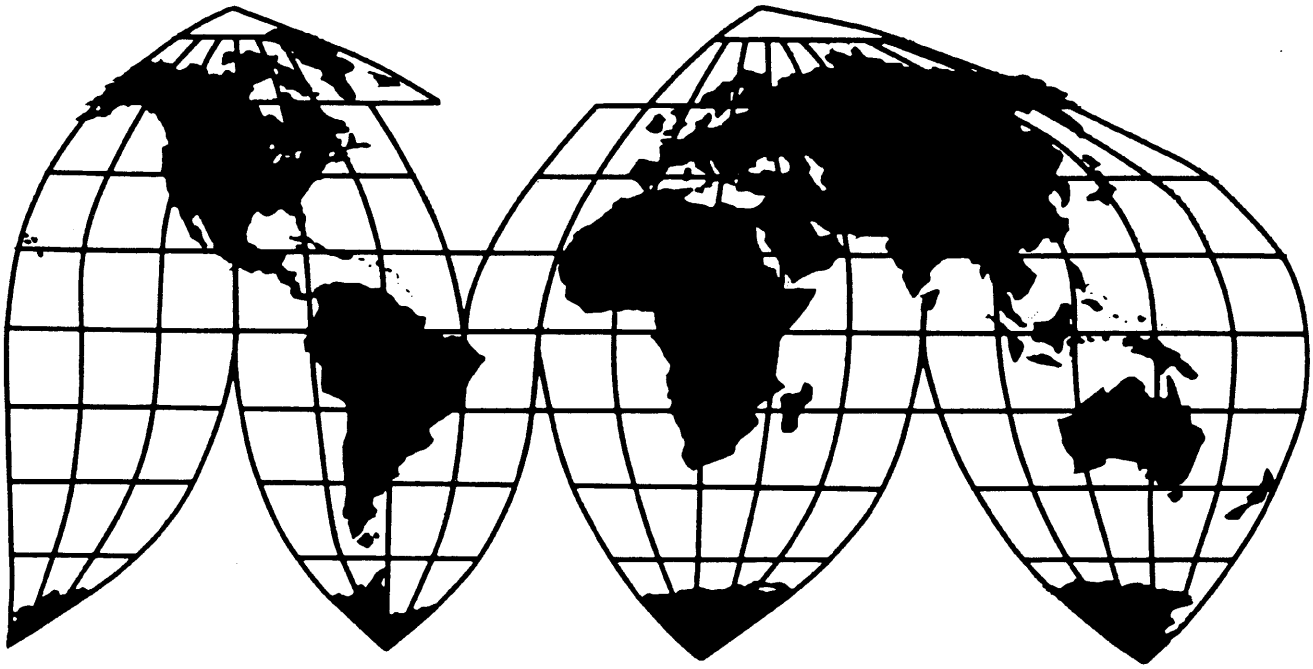
Economic Impact on the United States of a U.S.-Jordan Free Trade Agreement

Investigation No. 332-418

Publication 3340 **September 2000**

U.S. International Trade Commission



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PREFACE

On June 19, 2000, the United States International Trade Commission (the Commission) instituted Investigation No. 332-418, *Economic Impact on the United States of a U.S.-Jordan Free Trade Agreement*. The investigation, conducted under section 332(g) of the Tariff Act of 1930, was in response to a request from the United States Trade Representative (USTR), (see appendix A).

The purpose of this investigation is to assess the economic impact on the United States of a free trade agreement (FTA) between the United States and the Hashemite Kingdom of Jordan (Jordan). In particular, the USTR requested an overview of the Jordanian economy; data on Jordan's trade patterns with the United States and its other major trade partners; a description of the tariff and investment relationship between the United States and Jordan; and an analysis of any sector for which there are significant economic impacts from a U.S.-Jordan FTA.

The Commission solicited public written comment for this investigation by publishing a notice in the *Federal Register* of June 20, 2000 (see appendix B), to be received by the Commission no later than July 7, 2000.

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EXECUTIVE SUMMARY

Background and Approach

On June 14, 2000, the United States Trade Representative (USTR) requested that the U.S. International Trade Commission (the Commission) examine the economic impact on the United States of a free trade agreement (FTA) with the Hashemite Kingdom of Jordan (Jordan). The USTR requested that the Commission's report provide the following: an overview of the Jordanian economy; data on Jordan's trade patterns with the United States and its other major trade partners; a description of the tariff and investment relationship between the United States and Jordan; and an analysis of any sector for which there are significant economic impacts from a U.S.-Jordan FTA.

The Commission conducted qualitative industry sector analyses of both U.S. exports to Jordan and U.S. imports from Jordan. The methodology used to identify industry sectors for review involved an examination of U.S. and Jordan bilateral trade flows, review of trade flows between Jordan and the rest of the world, and input from the Commission's industry analysts. Based on these criteria, the Commission selected the following 16 sectors for qualitative analysis: animal and vegetable fats and oils; cereals (wheat, rice, and corn); citrus fruit and juices; crude petroleum; electronics; fertilizers; iron and steel mill products; jewelry; live animals; machinery and transportation equipment; nuts; pharmaceuticals; phosphates; potash; textiles and apparel; and vegetables. Services were not included in the sector analysis because the volume of U.S.-Jordan trade in services is too small to be reflected in published data.

Because of the relatively small value of U.S. imports from Jordan in proportion to total U.S. imports, partial equilibrium analysis was not used to quantify the impact of a U.S.-Jordan FTA on U.S. import sectors. However, given the larger value of U.S. exports to Jordan, it was possible to quantify the impact of an FTA on some categories of U.S. exports to Jordan. Three categories of U.S. exports to Jordan were defined and selected for partial equilibrium analysis based on a review of the value of U.S. exports to Jordan, current Jordanian tariff levels, and data availability. The categories selected were as follows: cereals (other than wheat), electric machinery, and machinery and transport equipment. The analysis assumed an FTA scenario of Jordanian tariff elimination.

Summary of Findings

Overview of Jordan's economy, trade flows, and investment relationship

- In 1999, U.S. imports from Jordan totaled $31 million as compared to total U.S. imports of $1 trillion. Similarly, in 1999, United States exports to Jordan were valued at $270 million as compared to total U.S. exports of $642 billion. Major U.S. exports to Jordan in 1999 were cereals (primarily wheat, rice, and corn) and machinery. Major U.S. imports from Jordan in 1999 were jewelry, carpets, apparel, and antiques.

- Jordan's two major import sectors in 1999 were machinery and transport equipment and food and live animals. Iraq and the United States were the top suppliers of Jordan's imports in 1999. Jordan's major export categories were chemicals (medicaments, fertilizer) and crude materials (phosphates, potash). India, Saudi Arabia, Iraq, and the United Arab Emirates were Jordan's top export markets in 1999.

- The Jordanian tariff regime included six rates (0, 5, 10, 20, 30, and 40 percent *ad valorem*), with special higher tariff rates for tobacco and alcoholic beverages. Upon its accession to the World Trade Organization (WTO) on April 11, 2000, Jordan lowered its tariff rates by 5 percentage points for rates of 30 percent or more, immediately bound tariff rates at zero for many tariff lines, and will stage-in further tariff reductions. Jordan expanded its system of free zones to include qualifying industrial zones. These zones allow for duty-free access to the United States for goods qualifying under 1996 amendments to the U.S.-Israel Free Trade Agreement. In 1997, Jordan signed a Bilateral Investment Treaty with the United States, however, U.S. direct investment in Jordan has been negligible relative to U.S. investment in the Middle East. A U.S.-Jordan Trade and Investment Framework Agreement was signed in 1999.

Impact of a U.S.-Jordan FTA on the United States

- An FTA with Jordan is not expected to have a measurable impact on U.S. imports from Jordan for 15 of the 16 sectors reviewed by qualitative analysis. For one sector, textiles and apparel,[1] a likely rise in U.S. imports of apparel from Jordan is expected to have only a negligible effect on total U.S. imports, U.S. production, and U.S. employment. Some of the expected increase in U.S. apparel imports from Jordan would be apparel products that are currently assembled in Jordan from fabric cut to shape in Israel and exported from Israel to the United States free of duty as a product of Israel under 1996 amendments to the U.S.-Israel FTA.

- Analysis indicates that an FTA with Jordan is not expected to have a measurable impact on total U.S. exports for the sectors selected for qualitative review, given the insignificant share of U.S. exports to Jordan relative to total U.S. exports.

- Partial equilibrium analysis of three U.S. export categories to Jordan suggests that had an FTA been in effect in 1998, exports of cereals (other than wheat) could have increased by approximately 14 percent, electric machinery exports could have doubled (104 percent increase), and machinery and transport equipment could have grown by approximately 39 percent, or by a total of $73 million. However, even with these increases, U.S. exports to Jordan would continue to be an insignificant share of total U.S. exports. These results reflect elimination of current Jordanian tariffs on U.S. exports for the three categories reviewed in the quantitative analysis.

- Any sectoral increases in U.S. exports to Jordan or U.S. imports from Jordan from tariff elimination would be insignificant relative to the total volume of U.S. exports. For example, the United States had total merchandise imports of $1 trillion in 1999, compared with $31 million merchandise imports from Jordan. The United States had total merchandise exports of $642 billion in 1999, compared with $270 million merchandise exports to Jordan. Thus, there are no measurable impacts on total U.S. exports, total U.S. imports, U.S. production, or U.S. employment from a U.S.-Jordan FTA.

[1] Most of the increase in U.S. imports of textiles and apparel from Jordan is expected to be of apparel, which represented 74 percent of the value of U.S. sector imports from Jordan in 1999.

CHAPTER 1
Introduction

Purpose of the Report

The purpose of this report is to provide background information on the Jordanian economy and an analysis of the economic impact on the United States of a free trade agreement (FTA) between the Hashemite Kingdom of Jordan (Jordan) and the United States. The U.S. International Trade Commission (the Commission) initiated work on this investigation on June 19, 2000 under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) following receipt of a letter on June 14, 2000 from the United States Trade Representative (USTR).[1]

In its letter, the USTR requested the Commission to examine the economic impact on the United States of an FTA with Jordan. The USTR initially requested that the Commission's report be classified as confidential. The USTR subsequently declassified the report. The USTR specifically requested the Commission to provide the following:

- an overview of the Jordanian economy;
- data on Jordan's trade patterns with the United States and its other major trade partners;
- a description of the tariff and investment relationship between the United States and Jordan; and
- an analysis of any sector for which there are significant economic impacts from a U.S.-Jordan FTA.

Scope of the Report

The report provides background information on the Jordanian economy, including production capabilities and trends in major agricultural and industrial sectors. The report also provides a five-year (1995 to 1999) overview of trade flows between the United States and Jordan and a description of Jordan's 1999 trade flows with major trade partners. In addition, the report includes current data on U.S. tariffs by 8-digit Harmonized Tariff Schedule of the United States (HTS) headings for sectors in which U.S. imports from Jordan were significant, Jordanian tariff levels for significant U.S. exports to Jordan, and U.S. direct investment trends (1995 to 1999) in Jordan and the Middle East. The focus of the report is on the impact of a U.S.-Jordan FTA on total U.S. exports, total U.S. imports, U.S. production, and U.S. employment. This analysis concentrates on the impact of tariff removal and does not explicitly account for the elimination or reduction of nontariff barriers, changes in other trade policies, or changes in aid policies between the United States and Jordan. Moreover, the report does not consider the effects of an FTA on total Jordanian imports, total Jordanian exports, Jordanian production, or third-country effects.

Approach of the Report

Data used in the report were obtained primarily from the U.S. Department of Commerce, the U.S. International Trade Commission, Customs Department of the Jordanian Ministry of Finance, Central Bank of Jordan, United Nations Food and Agriculture Organization, United Nations Industrial Development Organization, and the International Monetary Fund. U.S. industry sectors were selected for review based on an examination of U.S. and Jordanian bilateral trade flows (chapter 3); trade data flows between Jordan and the rest of the world (chapter 3); and input from the Commission's industry analysts and economists. After consideration, the Commission selected the following 16 sectors for review: animal and vegetable fats and oils; cereals (wheat, rice, and corn); citrus fruit and juices; crude petroleum; electronics; fertilizers; iron and steel mill products; jewelry; live animals; machinery and transportation equipment; nuts; pharmaceuticals; phosphates; potash; textiles and apparel; and vegetables. Qualitative analysis was conducted on each of the 16 sectors reviewed in the study to identify any significant impacts on U.S. exports, U.S. imports, U.S. production, and U.S. employment from a U.S.-Jordan FTA. Partial equilibrium analysis was used to measure any impact on three U.S. export categories: cereals (other than wheat), electric machinery, and machinery and transport equipment. These three U.S. export catego-

[1] A copy of the request letter appears in appendix A of this report.

ries were chosen for partial equilibrium analysis primarily based on the level of current U.S. exports to Jordan and the level of Jordanian tariffs. In addition, data constraints stemming from differences in classification of trade and production data also contributed to category selection.[2] Because of the insignificant value of U.S. imports from Jordan relative to total U.S. imports, partial equilibrium analysis was not used to measure the impact of tariff elimination on U.S. import sectors.

Organization of the Report

Chapter 2 provides an overview of the Jordanian economy, including data on five-year trends (1995 to 1999) for agricultural and industrial production in major sectors. The chapter describes Jordan's regional and international trade relationships. It also provides an overview of Jordan's accession to the World Trade Organization, Jordanian cooperation with regional trade partners, and a description of the Euro-Mediterranean association agreements. Chapter 3 provides five-year trends (1995 to 1999) of Jordan's trade flows with the United States. The composition of U.S.-Jordan trade is examined for 1999, and Jordan's trade patterns with major trading partners are examined for the same year. Chapter 4 provides an overview of the tariff relationship between Jordan and the United States. The current tariff levels for significant U.S. export and U.S. import sectors with Jordan are examined. Jordan's investment climate is discussed, with a detailed description of Jordan's free zones and qualified industrial zones, and five-year trends (1995 to 1999) concerning U.S. foreign direct investment in the region. Chapter 5 provides sector analysis of any significant effects of a U.S.-Jordan FTA on total U.S. exports, total U.S. imports, U.S. production, and U.S. employment.

[2] These data and model issues are discussed more fully in appendices D and E.

CHAPTER 2
Overview of the Jordanian Economy

The Jordanian Economy

Jordan[1] is a constitutional monarchy and covers approximately 89,213 square kilometers.[2] It is located west of Iraq, north of Saudi Arabia, south of Syria, and east of Israel.[3] As a small, developing country, Jordan has many of the economic problems associated with developing economies, including high debt, a small export base, and a small manufacturing sector. Moreover, the country faces a host of regional problems such as refugees and regional instability that have adversely affected its economy. Jordan had an estimated per capita income (GNP) of $1,520 in 1998, and experienced a negative per capita average annual growth rate of -2.7 in 1977 and -1.8 in 1998.[4] By comparison, the average annual growth rate for per capita income was 0.3 percent between 1988 and 1998, and 3.4 percent between 1977 to 1987. Jordan's debt-to-income ratio was more than 120 percent in 1998. Jordan has a domestic labor force of approximately 1.15 million, compared to the United States labor force of 137.7 million in 1998. Jordan has few natural resources and experiences recurring drought which hampers the development of its agricultural sector. Services were the largest contributor to gross domestic product (GDP) in 1998, accounting for approximately 71 percent of the total (figure 2-1). Industry contributed 25.7 percent of GDP. Agriculture contributed only 3 percent, primarily due to the country's arid climate. Regarding trade flows, Jordan has historically experienced merchandise trade deficits[5] with its trade partners. Although the government has been dependent on import tariffs to generate revenues, government policies since the late 1980s have reflected movement towards trade liberalization. Jordan has established several free zones and successfully negotiated for entry into the World Trade Organization (WTO), effective April 11, 2000.

The Jordanian economy has suffered several external shocks throughout its 80-year history from regional conflicts, instability, and an influx of refugees. Half the current population of Jordan are of Palestinian descent, with one-third officially registered as refugees, out of an estimated total population in 1999 of only 4.6 million.[6] The 1990-91 Iraqi invasion of Kuwait and subsequent economic sanctions on Iraq have had indirect effects on the Jordanian economy by interrupting trade flows with Iraq, which was historically Jordan's major trade partner. There was another inflow of refugees after the 1990-91 invasion and a repatriation of Jordanians working in some other Arab states, resulting in a loss of valuable foreign currency remittances.[7]

The Jordanian government has relied on remittances from Jordanians working abroad and foreign aid to sustain the economy. Jordan had regularly received foreign aid since its birth as a state in 1921, including major contributions from the United Kingdom, Arab

[1] The area historically known as Transjordan was first established in 1921 under British mandate. In 1946, Transjordan became a kingdom with a constitution. Following the 1948 Arab-Israeli War, the Transjordan Kingdom became the Hashemite Kingdom of Jordan, and annexed the West Bank territory that was obtained by the Arab League during the 1948 Arab-Israeli war. Jordan subsequently lost the West Bank region, which is currently occupied by Israel and subject to the Israeli-Palestinian Interim Agreement. A Treaty Line was established in 1994 between the West Bank region and Jordan.

[2] Central Intelligence Agency, *The World Factbook*, 1999 found at Internet address *http://www.odci.gov*, retrieved on June 22, 2000.

[3] United Nations Economic and Social Commission for Western Asia, found at Internet address *http://www.escwa.org.lb/escwa/region/countries/jordan*, retrieved May 5, 2000.

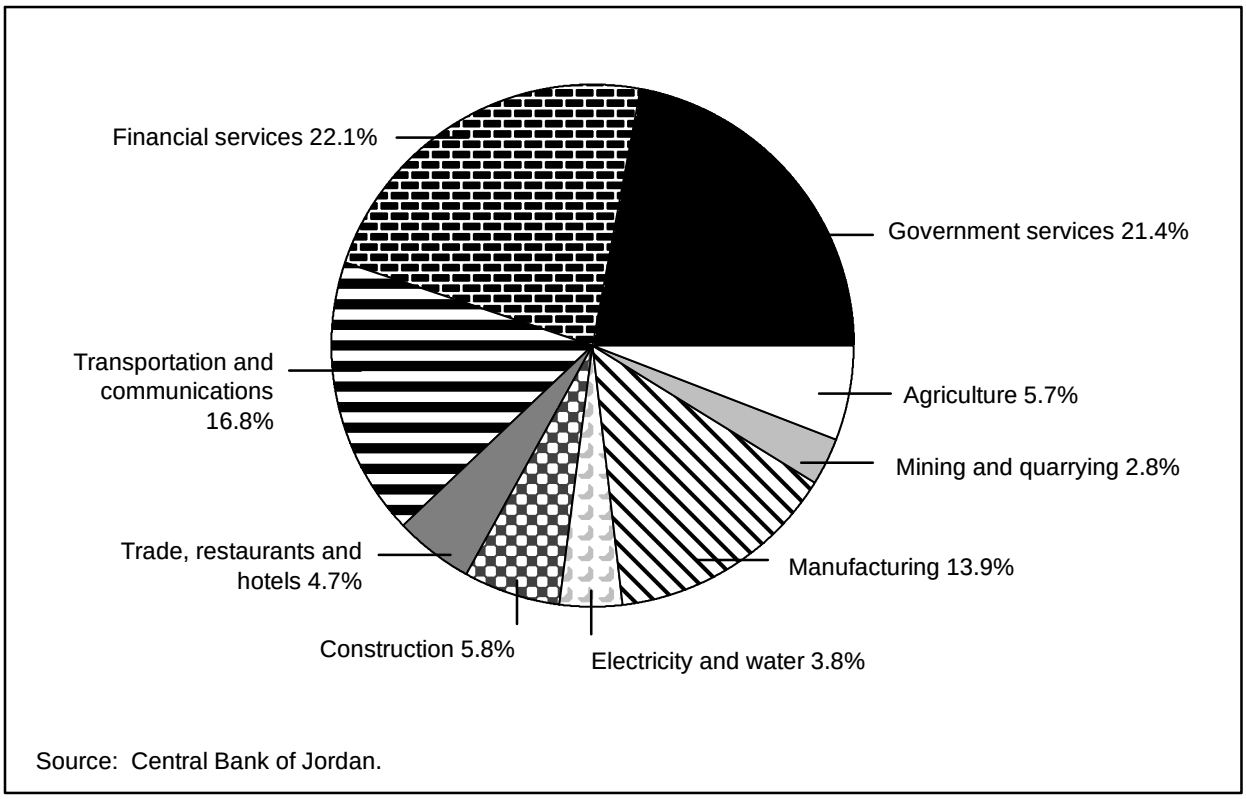
[4] World Bank, "Jordan at a glance," found at Internet address *www.worldbank.org*, retrieved July 3, 2000.

[5] Riad Al Khouri, "Trade policies in Lebanon, Jordan and Saudi Arabia," *Trade Policy Developments in the Middle East and North Africa*, (Washington, D.C.: The World Bank, 2000).

[6] The Jordanian fertility rate was nearly 6 percent over the 1990-95 period, dropping to 4.6 by 1999. However, 43 percent of the population is below the age of 15 years.

[7] For many years Jordan's economy has suffered an outflow of educated and skilled Jordanians into the more lucrative world job market. However, the expatriate Jordanian workers have provided valuable foreign exchange for the domestic economy in the form of remittances to family members.

Figure 2-1
Jordan's real gross domestic product by sector, 1998



Source: Central Bank of Jordan.

states, and the United States. Foreign aid has been primarily the result of political, rather than economic considerations, in light of Jordan's strategic location. For example, financial aid from Arab states was promised to Jordan as support for Jordan's role in the Arab-Israeli wars. Jordan's political position during the Iraqi invasion of Kuwait alienated the country from some of its benefactors, reducing financial inflows from Arab states immediately following the Persian Gulf conflict.

In recent years, the United States has become a major financial benefactor to Jordan. Jordan received a U.S. aid package of $375 million in 1999, ($95 million was military assistance). Jordan is scheduled to receive $475 million from the United States in 2000. The 1999-2000 aid is part of the Wye agreement package, a special program negotiated by the U.S. President after the December 1998 interim deal between Israel and the Palestinians.[8]

International food aid has alleviated some of the economic stress on the Jordanian economy generated by regional conflicts, refugees, and drought. Jordan has been a regular recipient of food aid under the United Nations World Food Programme, as well as from individual country donors. Between 1970 and 1996, Jordan received food aid from 19 countries, as well as the European Community.[9] Food aid included a wide range of products, such as bulgur, wheat and wheat flour, rice, pulses (the edible seeds of leguminons plants), cereals, vegetable oils, sugar, dry fruit, skim milk, other dairy products, meat and meat products, fish products, blended foods, and other foods.[10] In 1999, Jordan received 109,000 tons of food aid, of which 8,000 tons was donated under the World Food Programme, and the remainder was received from individual donors.[11]

[8] *Jordan Times*, Home News section, found at Internet address *http://www.accessme.com/jordantimes*, retrieved May 26, 2000.

[9] The donor countries were Austria, Australia, Canada, Denmark, European Community, Finland, France, Germany, India, Ireland, Italy, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, Saudi Arabia, United Kingdom, and the United States.

[10] United Nations World Food Programme, found at Internet address *http://www.wfp.org/reports/wfpstats*, retrieved on June 6, 2000.

[11] United Nations World Food Programme, found at Internet address *http://www.wfp.org/reports/wfpstats*, retrieved on June 6, 2000.

Although the arid climate of Jordan limits the volume of agricultural production, Jordan successfully produces a wide range of agricultural products (table 2-1). Major field crops produced in Jordan include wheat, barley, corn, and clover. Jordan also produces some onions, garlic, tobacco, and lentils. Commercial vegetable production includes tomatoes, eggplants, cucumbers, cauliflowers, cabbages, melons, zucchini, and potatoes. Tree and other crop production includes olives, grapes, citrus fruit, bananas, apples, figs, almonds, and peaches.

Industrial production includes major investments in phosphates, potash, and fertilizers (table 2-2) for export. Other industries include limited amounts of petroleum products for domestic consumption, cement, iron, medicaments, detergents, textiles, alcoholic beverages, batteries, cigarettes, and paper.

Regional and International Economic Cooperation

Entry into the World Trade Organization

Jordan entered the WTO on April 11, 2000 as the 136th member. Jordan began multilateral negotiations in January 1994 to enter the precursor to the WTO, the General Agreement on Tariffs and Trade (GATT).[12] The working party to facilitate Jordan's accession was formed in 1995 and the WTO General Council approved Jordan's package of commitments on December 17, 1999. As part of its accession package, Jordan immediately reduced tariff levels by 5 percentage points for products with tariff lines that previously had duty rates of 30 percent *ad valorem* or greater.[13] Jordan immediately bound tariff rates at zero for many tariff lines, and additional tariff cuts will be phased in.

Jordan will be moving to comply with the WTO Agreements on Trade-related Aspects of Intellectual Property Rights (TRIPS), Customs Valuation, Import Licensing Procedures, Technical Barriers to Trade, and Sanitary and Phytosanitary Measures. In the area of TRIPS, the National Library, part of the Jordanian Ministry of Culture, took steps in February 2000 to enforce the Copyright Law and the Jordanian Parliament amended intellectual property rights laws in 1999.[14] As a result of an out-of-cycle Special 301 review, the USTR removed Jordan from the Watch List for its progress on protection of intellectual property rights.[15]

In addition to the WTO multilateral agreements, Jordan accepted the accords on government procurement and trade in civil aircraft, which include some but not all of the WTO member countries. As part of the accession package, Jordan is implementing patent protection for pharmaceutical products. Jordan has historically been a producer of generic pharmaceutical products, exporting medicaments primarily to other Arab countries. These products represent 9.8 percent of Jordan's 1999 export value. Jordan agreed to the Chemical Harmonization Program, which allows chemicals from member states to enter free of duty or with low tariffs. As part of the accession package, Jordan has agreed to eliminate quantitative barriers to trade and remove domestic taxes that favor domestic producers over importers.

Euro-Mediterranean association agreements

The EU has made a concerted effort, under its Mediterranean strategy, to establish trade association agreements with Mediterranean countries.[16] These Euro-Mediterranean agreements (EMA) require tariff-free trade in qualifying manufactured products with 10-year transition periods.[17] Nontariff barriers are to be removed immediately upon implementation, and

[12] Nine countries of the Middle East and North Africa region are members of the WTO. Four countries of the region have formally applied for membership and maintain observer status (Algeria, Lebanon, Oman, and Saudi Arabia). Yemen has observer status but has not applied to join. Syria, Libya, and Iraq are the only Middle East and North Africa countries that are neither members of the WTO nor have observer status.

[13] Mohammad Hussein, "Government says no sales tax hike will follow customs duties cut," *Jordan Times*, Economy Section, found at Internet address *http://www.accessme.com/jordantimes*, retrieved on February 2, 2000.

[14] Suha Ma'ayeh, "Government cracks down on pirated cassette dealers," *Jordan Times*, Economy Section, found at Internet address *http://www.accessme.com/jordantimes*, retrieved on March 13, 2000.

[15] Office of the U.S. Trade Representative, "USTR announces result of Special 301 out-of-cycle review of Jordan," USTR press release 99-98, December 10, 1999.

[16] These are free trade agreements, rather than movement towards full membership of these countries in the European Union.

[17] Qualifying manufactured goods must meet the rules of origin requirements in the EMAs to enter the EU under the preferential tariff rates of the agreements.

Table 2-1
Jordanian production trends for major agricultural products, 1995-99

Product	1995	1996	1997	1998	1999
			1,000 tons		
Field crops:					
Wheat	58.5	42.7	41.8	36.0	9.3
Barley	31.7	29.2	29.4	27.4	4.9
Clover	27.4	48.1	27.3	27.4	32.4
Corn	8.6	9.8	11.0	12.3	12.5
Vegetables:					
Tomatoes	439.7	291.3	324	299.9	293.3
Melons	117.8	106.4	124	106.8	142.1
Potatoes	117.8	95.2	94.7	88.1	96.3
Cauliflower/cabbages	55.4	42.0	41.0	62.6	83.1
Tree crops:					
Citrus	105.5	133.1	168.9	161.3	85.6
Olives	63.2	88.6	57.1	137.5	38.3
Bananas	29.3	29.1	18.2	24.5	36.4
Apples	41.9	32.9	31.0	38.5	31.0
Grapes	24.3	21.9	18.3	17.9	18.2
Livestock:					
Red meat	14.5	16.0	15.5	22.1	21.0
Poultry	107.0	100.0	98.0	93.1	110.0
Milk	147.0	165.1	170.0	170.8	170.8
Eggs[1]	715	726	954	948	937

[1] Millions.

Source: Central Bank of Jordan, *Monthly Statistical Bulletin*, vol. 36, no. 4, table no. 54, April 2000.

Table 2-2
Jordanian production trends for major industrial sectors, 1995-99

Product	1995	1996	1997	1998	1999
			1,000 tons		
Electricity[1]	5,519.5	5,951.7	6,180.2	6,570.0	6,900.2
Petroleum products	3,100.8	3,154.2	3,257.3	3,236.9	3,266.0
Cement	3,414.8	3,512.2	3,250.5	2,650.3	2,687.0
Clinker	3,151.9	2,983.0	3,054.5	2,441.7	2,445.1
Acids	1,337.5	1,262.3	1,369.1	1,712.2	1,688.6
Fertilizers	729.3	670.7	711.2	849.6	813.5
Potash	1,780.0	1,765.3	1,415.7	1,526.9	1,800.2
Phosphates	4,983.6	5,355.1	5,895.6	5,924.6	6,013.6

[1] Million kilowat hours.

Source: Central Bank of Jordan, *Monthly Statistical Bulletin*, vol. 36, no. 4, table no. 55, April 2000.

preferential access is to be given for agricultural products, on a reciprocal basis. The EMAs are intended to promote capital movement into the Mediterranean economies and harmonization of trade-related regulations and standards. The EMAs call for reductions of restrictions affecting textiles and agriculture, as well as a review of the EU Common Agricultural Policy limiting these goods export potential for the Mediterranean countries. The Jordan EMA includes quotas on EU imports of agricultural products, based on Jordan's domestic production. Some agricultural sectors are scheduled to be renegotiated in 3 years from initial negotiation. On Jordan's side, vehicle imports are excluded from tariff reductions for several years due to the significant importance of vehicle duties in terms of overall government revenues. As of June 2000, Jordan's EMA was endorsed by 9 of the 15 EU members' parliaments.

The EMAs have been referred to as having a hub-and-spoke effect on the Middle East and North Africa (MENA) region because they indirectly link MENA markets through the EU, rather than forming a true multilateral free trade zone in the region. An International Monetary Fund study has shown that the potential impact of the Jordan EMA may be trade diverting, while the welfare impact on Jordanian GDP will be small.[18] Due to the 10-year transition periods, any potential benefits to Mediterranean countries from the EMAs will accrue over a long time period, and will depend on supplemental reforms in the individual countries, such as liberalization of investment regulations.

The EU has a long range goal for cooperation with the MENA region, in the form of a Euro-Mediterranean free trade area, to be implemented by 2010. This enlarged agreement will include free trade between MENA countries, rather than the hub-and-spoke system of the bilateral EMAs.

Regional economic integration

Regional agreements between MENA countries have historically formed around mutual security interests and political considerations. Although countries of the MENA region have trade and economic ties, these have not been the driving forces behind regional cooperation and lag behind other parts of the world in regional economic integration.[19] The Arab League has pushed for a multilateral Arab free-trade zone, the Greater Arab Free Trade Zone (AFTA).[20] Fourteen countries have acceded to the AFTA, which was established in 1997 and implemented in 1998. Duties are to be eliminated between AFTA members over 10 years, by 2007. Given a history of high levels of protectionism in the MENA markets, a regional free trade zone may provide incentives for regional producers to improve production practices, while providing them additional time to adjust to worldwide competition.[21]

The MENA region had a total estimated population in 1998 of 286 million,[22] of which Jordan comprises approximately 1.6 percent. However, Jordan contributed only 1.3 percent of MENA's $583.4 billion combined GDP in 1998. The MENA region's total exports of goods and services represented 25 percent of 1998 MENA GDP, while total imports accounted for 28 percent. Intra-MENA trade statistics have been dominated by the high export value of petroleum products, which originate primarily from the Gulf Cooperation Council (GCC) states[23] and are sold predominantly outside the region. Intra-MENA trade is regionally concentrated, for example, two-thirds of Maghreb[24] country trade goes to other Maghreb countries, while three-quarters of GCC states trade goes to other GCC states. Jordan and its immediate Arab neighbors enjoy a broader intra-MENA export market, with nearly two-thirds of exports from Egypt, Jordan, Lebanon, and Syria going to the other MENA countries. In 1995, Jordan hosted a MENA Economic Summit, to encourage expansion of regional trade and support the proposition of establishing a MENA Development Bank.[25]

While regional merchandise trade has been relatively low, intra-MENA labor movements, on the other hand, have been relatively unrestricted. Due to the similarities in language and religious beliefs in the MENA

[18] H. Ghesquiere, "Impact of European Union Association Agreements on Mediterranean Countries," IMF Working Paper No. WP/98/116, 1998.

[19] P. Allum, "Inter-Arab trade: Constraints and prospects," Sectoral meeting on trade and development between the League of Arab States and the United Nations, Cairo, Egypt, 1998.

[20] *The Economist Intelligence Unit's* country report-Jordan, 1st Quarter, 1998, EIU Country Report (London: United Kingdom).

[21] P. Allum, and K. Nashashibi, "Global macroeconomic consequences of the Euro for the Arab economies," Arab Monetary Fund Seminar, Abu Dhabi, United Arab Emirates, May 1999.

[22] World Bank, "Middle East and North Africa," found at Internet address *http://www.worldbank.org*, retrieved July 3, 2000.

[23] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

[24] Algeria, Libya, Mauritania, Morocco, and Tunisia.

[25] Japan International Cooperation Agency, "Study for Japan's development assistance to the Hashemite Kingdom of Jordan," found at Internet address *http:www.jica.go.jp*, retrieved May 10, 2000.

countries, workers have moved relatively easily across national boundaries. For example, surplus educated Jordanian workers have relied on outside markets for employment, including jobs in the labor-importing GCC states. On the other hand, Jordan received a significant amount of Palestinian labor, and the agricultural sector has become dependent on Egyptian labor. Egyptian labor accounted for 90 percent of the approximately 154,000 foreign workers in Jordan in 1999, with the majority of the remainder coming from other Arab countries, Sri Lanka, Pakistan, and India. A total of 31 percent of Jordan's foreign workers were in agriculture and 16 percent in construction.[26] Relatively free movement of labor within the MENA region is not necessarily a benefit to the Jordanian economy. The country had an official unemployment rate of 15 percent in 1998, although other sources put the actual figure closer to 25-30 percent.[27]

[26] M. Hussien, "Registered foreign labourers number 154,000 in 1999," Jordan Times, found at Internet address *http://www.accessme.com/jordantimes*, retrieved on April 26, 2000.

[27] Central Intelligence Agency, The World Factbook, found at Internet address *http://www.odci.gov.* retrieved June 22, 2000.

CHAPTER 3
Jordan's Patterns of Trade

Jordan has a mere 26 kilometers of coastline; however, it has one international seaport at the city of Al Aqaba, located on the Red Sea.[1] The Al Aqaba seaport allows vessel access to the Mediterranean Sea through the Suez Canal and to the Arabian Sea through the Gulf of Aden. Jordan has 14 airports with paved runways, including the Queen Alia International Airport (designated a free zone) located in the capital city of Amman. Jordan has 8,000 kilometers of paved roads, linking it by truck to markets in all four of its neighboring countries.

The 1990-91 Iraqi invasion of Kuwait and economic sanctions on Iraq disrupted trade flows in the region, especially for Jordan because of its proximity to and historical trade relations with Iraq, Kuwait, and Saudi Arabia.[2] Financial constraints on Kuwait and Saudi Arabia generated additional disruptions to normal regional trade flows. Changes in government policies of the Arab states towards Jordan in response to Jordan's position in the Iraq-Kuwait conflict further disrupted traditional regional trade and investment flows for Jordan.

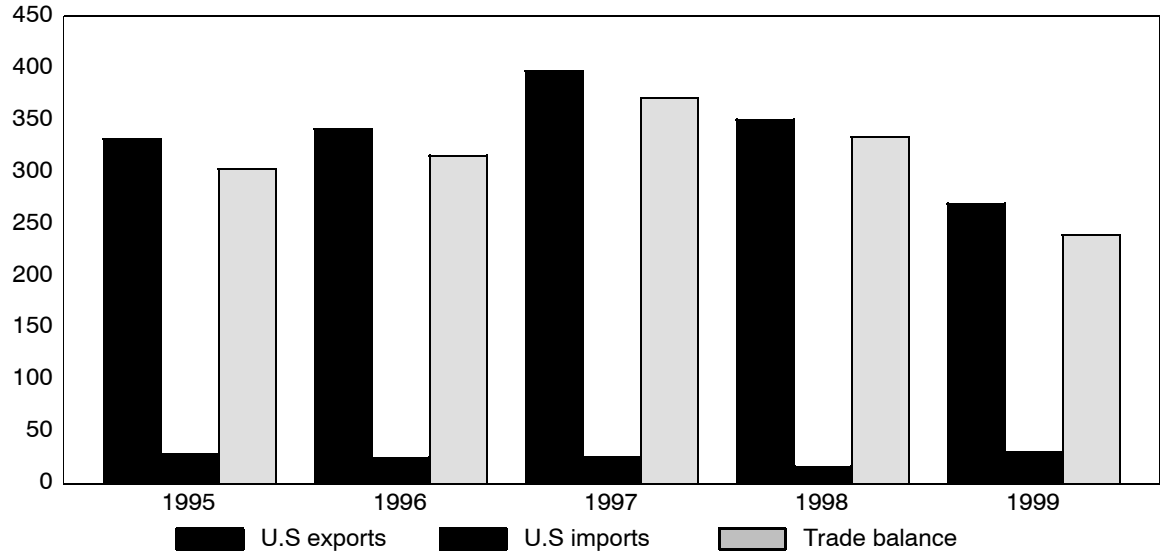
[1] Helen Chapin Metz, editor, *Jordan: A country study*, fourth edition, (Federal Research Division, Library of Congress, Washington, D.C.), 1991.

[2] Riad Al-Khouri, "Trade policies in Jordan, Lebanon, and Saudi Arabia," *Trade Policy Developments in the Middle East and North Africa*, Mediterranean Development Forum, (The World Bank: Washington, D.C.). Jamel, Zarrouk. "Para-tariff measures in Arab countries," *Trade Policy Developments in the Middle East and North Africa*, Mediterranean Development Forum (The World Bank: Washington, D.C.), 2000.

Jordan's Trade Flows with the United States

The United States maintained a trade surplus with Jordan from 1995 through 1999 (figure 3-1). The volume of trade between the United States and Jordan

Figure 3-1
U.S.-Jordan trade flows, 1995-1999



Source: Compiled from official statistics of the U.S. Department of Commerce.

ranged from $301 million to $423 million during this period. U.S. exports to Jordan were $270 million in 1999, compared with total U.S. exports of $642 billion in 1999. U.S. imports from Jordan were only $31 million in 1999, compared to total U.S. imports of $1 trillion.

Cereals were the biggest component of U.S. exports to Jordan, $52.1 million in 1999, with wheat comprising the largest component of cereal exports to Jordan, at $26.8 million (table 3-1). Rice and corn accounted for $14.3 and $10.9 million, respectively in 1999. The volume of Jordanian imports of cereals from all countries remained relatively flat during 1996-98 at about 27,000 metric tons annually as Jordan shifted from U.S. to third-country suppliers. In addition, the decline in the U.S. export price of wheat (export unit value) from about $200 per metric ton in 1996 to $132 per metric ton in 1998 further cut the value of U.S. wheat exports to Jordan as illustrated by the drop in cereal export totals in table 3-1.

The second largest U.S. export category to Jordan was machinery. The United States sold $36.5 million worth of machinery products to Jordan in 1999, of which $6.4 million was machinery parts and $4 million was data processing equipment. Aircraft parts contributed $25.6 million to total U.S. exports to Jordan. Vegetable fats and oils accounted for $10.6 million and soybean oil contributed $5.7 million to U.S. exports to Jordan in 1999. A total of $15.2 million of exports fell under special classification provisions, which included $5.4 million in military apparel and equipment. Optical equipment accounted for $14.3 million and electric machinery accounted for $12.7 million. Tobacco products accounted for $11.2 million of U.S. exports to Jordan in 1999.

In 1999, $18.5 million of U.S. imports from Jordan, approximately 60 percent of total U.S. imports from the country, were entered under HTS chapter 98 (special classification provisions). These consisted primarily of re-imports of U.S. exports (U.S. exports returned) not changed in value, including such items as repairs to commercial airliners purchased from the United States (table 3-1). Jewelry was the second highest import category, with a value of $4.5 million in 1999. Apparel accounted for approximately $2.2 million of U.S. imports from Jordan in 1999, while antiques contributed $814,000 and carpets contributed $738,000.

Jordan's Trade Flows With Other Major Trade Partners

Table 3-2 lists Jordan's major import commodities by SITC category in 1999. The top value import by SITC category for Jordan in 1999 was machinery and transport equipment (27.3 percent), corresponding to SITC category 7. Transportation equipment and spare parts made up 13.8 percent and electrical and nonelectrical machinery comprised 13.4 percent of this category. The second largest import category in 1999 was food and live animals (18.3 percent), corresponding to SITC category 0. The significant imports in this category were fruits, vegetables and nuts, wheat and flour of wheat, rice, and dairy products and eggs. Jordanian imports of manufactured goods classified by material (SITC 6) accounted for 14.6 percent of its total imports in 1999. Iron and steel, and textiles were the two largest components of this category. Crude oil accounted for 8.8 percent of Jordan's imports in 1999. Although Jordan has a domestic oil industry producing for domestic consumption only, this industry is miniscule relative to domestic needs. Jordan primarily depends on imports of crude oil, which account for over 8 percent of Jordan's total imports.

Ranked in terms of value, chemicals (SITC category 5) represented Jordan's top export sector (30.1 percent of total exports) in 1999, with the highest shares comprising medicaments (9.8 percent), fertilizers (7.7 percent), and detergents and soaps (3.2 percent). Crude materials, inedible, except fuels, (SITC category 2), accounted for 27.7 percent of Jordan's total exports in 1999 (phosphates 13.0 percent, potash 12.4 percent). Food and live animals contributed 12.4 percent of export earnings in 1999 (vegetables 6.5 percent, live animals 2.4 percent, fruits and nuts 1.2 percent).

The major export markets for Jordanian goods and services in 1999 were India, Saudi Arabia, Iraq, and the United Arab Emirates, in order of export value. Approximately 41 percent of Jordanian exports in 1999 went to Arab countries (figure 3-2), with Saudi Arabia absorbing the biggest share of Jordanian exports (9.7 percent). Iraq received a 7.4 percent share and the United Arab Emirates received 6.1 percent of Jordan's 1999 exports. Lebanon accounted for 2.2 percent and Kuwait accounted for 2 percent. Other major Arab export markets in 1999 included Qatar (1.5 percent), Egypt (1.5 percent), Syria (1.3 percent), and Bahrain (1 percent).

Table 3-1
Top ten U.S. domestic exports to and U.S. imports from Jordan by HTS chapters, ranked by 1999 value, 1995-99

HTS chapter	Description	1995	1996	1997	1998	1999
		1,000 dollars				
	U.S. exports:					
	Total	331,993	341,680	397,655	351,134	269,994
10	Cereals	135,468	122,366	118,695	57,522	52,082
84	Machinery	29,183	31,322	39,186	30,441	36,471
88	Aircraft parts	21,262	27,402	48,400	59,887	27,737
15	Edible oils	9,242	19,327	8,784	17,535	22,811
98	Special classification provisions	14,379	17,795	31,481	17,609	15,198
90	Optical equipment	7,789	7,224	12,815	17,405	14,315
85	Electric machinery	17,249	17,049	18,921	21,051	12,672
24	Tobacco	1,761	4,737	6,775	13,710	11,208
47	Wood pulp	5,532	10,637	4,399	8,817	7,302
87	Vehicles	18,057	18,384	38,068	15,089	7,247
	All other categories	36,635	32,383	30,730	31,978	20,758
	U.S. Imports:					
	Total	28,693	25,105	25,634	16,390	30,995
98	Special classification provisions	4,954	6,362	13,636	3,211	18,539
71	Jewelry	2,726	2,717	2,342	2,657	4,492
62	Apparel, not knitted or crocheted	9,155	5,883	2,025	2,402	1,816
97	Antiques	11	10	186	225	814
57	Carpets	294	775	667	902	738
99	Special import reporting provisions	113	113	189	129	404
61	Apparel, knitted or crocheted	5,727	4,590	893	945	392
76	Aluminum	380	1,042	1,005	559	385
84	Machinery	502	393	1,264	870	372
37	Photographic goods	0	0	0	0	341
	All other categories	3,960	2,231	1,741	2,274	727

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 3-2
Jordan's trade flows with the world by SITC category, 1999

SITC	Description	Exports	Imports
		1,000 dollars	
	Total	1,434,452	3,728,045
0	Food and live animals	179,266	681,312
	Live animals	34,264	34,257
	Meat	(1)	42,143
	Dairy products and eggs	9,980	57,733
	Wheat and flour of wheat	(1)	58,546
	Rice	(1)	47,595
	Sugar	(1)	42,813
	Fruits, vegetables, and nuts	110,275	82,379
	Fodder	11,034	(1)
	Coffee, tea, and cocoa	(1)	27,162
1	Beverages and tobacco	4,250	38,054
	Crude tobacco	(1)	3,804
	Cigarettes	2,659	27,688
2	Crude materials, inedible, except fuels	397,903	119,083
	Phosphates	186,889	(1)
	Potash	177,648	(1)
	Wood, lumber, and cork	(1)	20,028
	Textile fibers and their waste	(1)	22,263
	Oil seeds, oil nuts, and kernels	(1)	16,513
3	Mineral fuels, lubricants, and related materials	96	466,298
	Crude oil	(1)	326,571
4	Animal and vegetable oils and fats	63,510	63,080
	Olive oil	2,867	(1)
5	Chemicals	432,341	473,893
	Paints	10,489	(1)
	Medicaments	141,068	(1)
	Medical and pharmaceutical products, oils, perfumes	(1)	143,703
	Polishing and cleaning, preparations	(1)	30,384
	Detergents and soap	46,571	(1)
	Fertilizers	110,207	18,038
	Plastic materials	(1)	73,885

Table continues on next page.

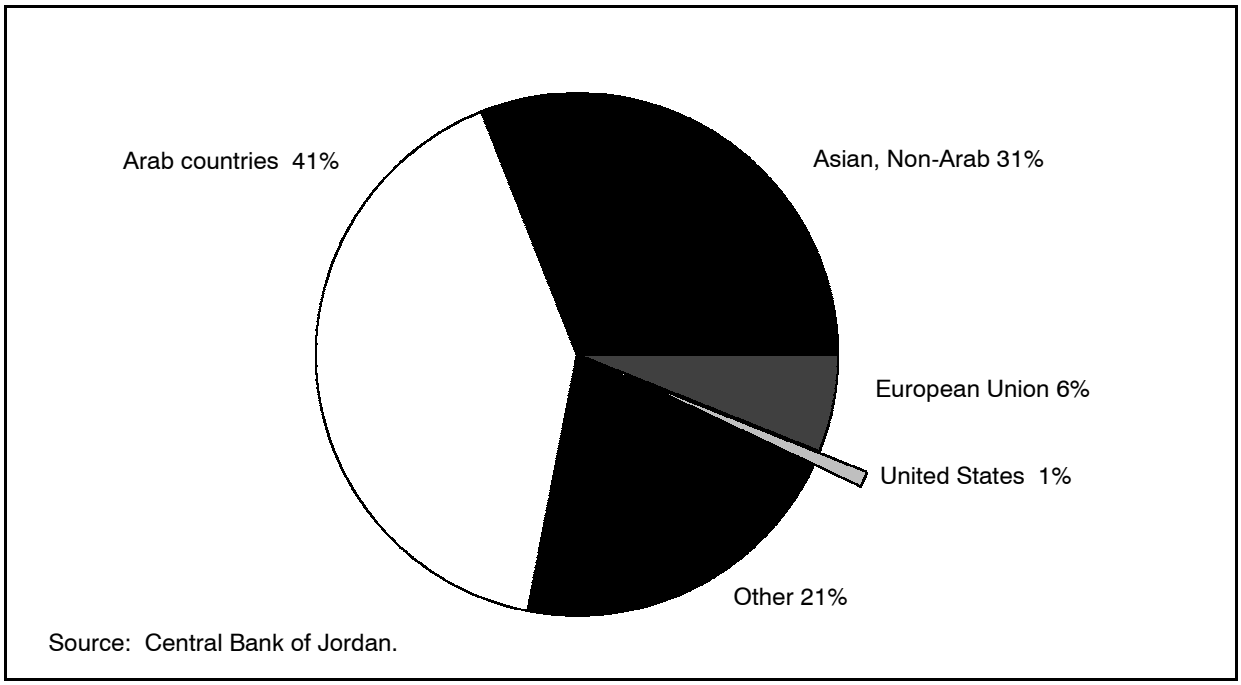
Table 3-2-Continued
Jordan's trade flows with the world by SITC category, 1999

SITC	Description	Exports	Imports
		1,000 dollars	
6	Manufactured goods, by material	151,512	551,330
	Articles of wood	213	([1])
	Rubber products	([1])	38,057
	Paper and cardboard	44,769	74,637
	Textile yarn, fabrics, and related products	35,232	113,004
	Cement	23,362	4
	Iron and steel	([1])	138,307
7	Machinery and transport equipment	96,865	1,016,955
	Electrical and nonelectrical machinery	([1])	500,928
	Transport equipment and spare parts	([1])	516,027
8	Miscellaneous manufactured articles	108,542	254,429
	Furniture	([1])	24,686
	Clothing and footwear	49,062	74,712
	Plastic products	14,022	([1])
	Professional and scientific machines and instruments	([1])	6,346
9	Commodities not classified elsewhere	166	63,612

[1] Value not significant or zero.

Source: Central Bank of Jordan, found at Internet address *http://www.cbj.gov.jo*, retrieved May 16, 2000.

Figure 3-2
Jordan's exports to the world by major trade partners, 1999



Source: Central Bank of Jordan.

The non-Arab Asian market received 31 percent of Jordan's exports, with 13.9 percent of Jordanian export value going to India, Jordan's biggest single export market in 1999. As a market, India has surpassed both Iraq and Saudi Arabia, Jordan's top export destinations prior to the 1990-91 Persian Gulf conflict. Israel accounted for 3.7 percent of export earnings in 1999, rising from zero before 1997. China accounted for 2.5 percent and Malaysia accounted for 2 percent in 1999. Other minor export markets in the non-Arab Asian region included Indonesia (1.8 percent), Pakistan (1.2 percent), Turkey (1.0 percent), and Japan (1.0 percent).

The European Union absorbed approximately 6 percent of Jordanian exports in 1999, with the Netherlands and Italy the principal European export destinations. The United States absorbed slightly less than 1 percent of Jordanian exports in 1999.

Jordan's major import suppliers in 1999 were the European Union, non-Arab Asian countries, and Arab countries (figure 3-3). Iraq was the largest country supplier to Jordan at 11.8 percent, up slightly from 10.9 percent in 1987. The United States was the number two supplier in 1999 at approximately 9.8 percent of Jordan's imports. Germany was the largest EU supplier and third largest country supplier accounting for 9.7 percent of total Jordanian imports in 1999, and has been gaining market share over the last 10 years.

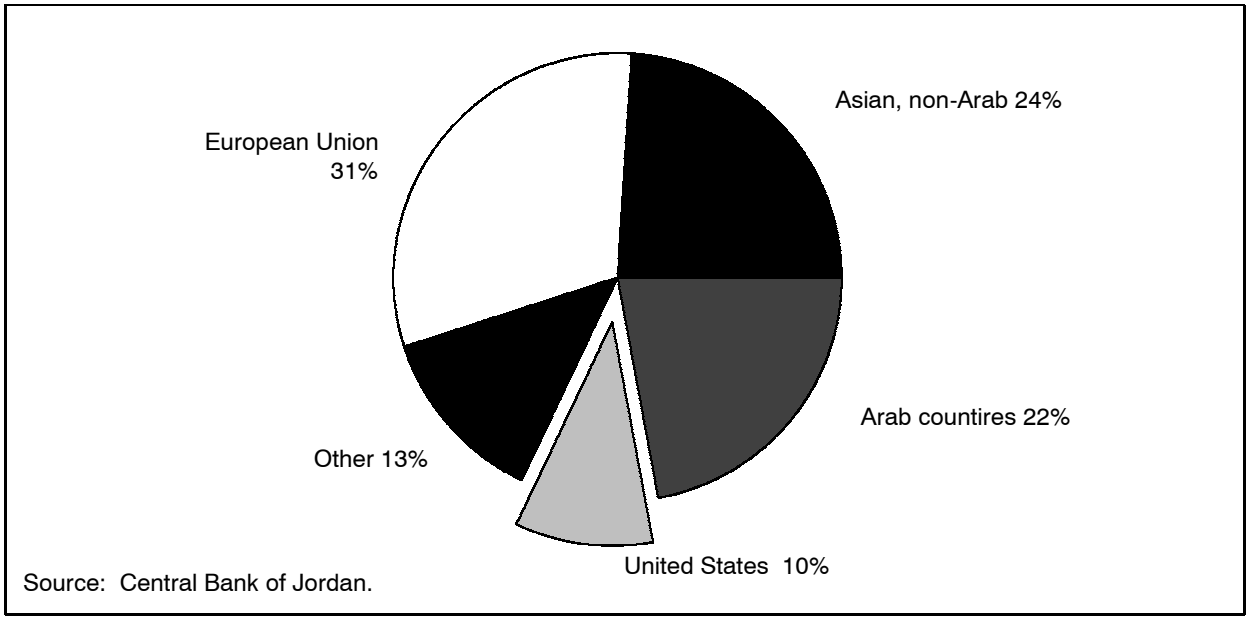
Arab countries as a whole contributed approximately 22 percent of Jordan's imports in 1999. Saudi Arabia lost half of its share of the Jordanian market during this period, falling from 8.4 percent in 1987 to 4.1 percent in 1999.[3] In 1999, other Arab suppliers included Syria (1.4 percent), Egypt (1.1 percent), Lebanon (1 percent), and the United Arab Emirates (1 percent).

The EU accounted for approximately 31 percent of Jordan's imports in 1999. The largest EU suppliers of Jordan's total 1999 imports were the United Kingdom at 4.7 percent, Italy at 4.1 percent, and France at 3.9 percent. Other EU suppliers included the Netherlands (2 percent), Spain (1.2 percent), Sweden (1.2 percent), and Belgium (1 percent).

The non-Arab Asian region supplied approximately 24 percent of Jordan's 1999 imports. Japan was the largest supplier (6.4 percent) from Asian non-Arab countries, followed by South Korea, China, and Turkey. Japan has maintained its market share over the last decade. Turkey's share of the Jordanian import market has declined slightly, from 3.8 percent in 1987 to 2.1 percent in 1999. South Korea had shares of 4.3 percent and China of 3.2 percent in 1999. Other non-Arab Asian import suppliers in 1999 included India (1.6 percent), Malaysia (1.3 percent), Taiwan (1.2 percent), and Indonesia (1.1 percent).

[3] This drop in value of Jordanian imports from Saudi Arabia may reflect the lower value of crude oil imports, due to changes in the pricing of oil purchased by Jordan from Saudi Arabia.

Figure 3-3
Jordan's imports from the world by major trade partners, 1999



Source: Central Bank of Jordan.

CHAPTER 4
Tariff and Investment Relationship

Tariff Relationship Between the United States and Jordan

The Jordanian tariff schedule generally applied six duty rates of 0, 5, 10, 20, 30, and 40 percent *ad valorem* prior to WTO accession. Higher duty rates of 70 percent to 100 percent *ad valorem* apply to manufactured tobacco and tobacco substitutes and rates of 180 percent *ad valorem* apply to alcoholic beverages.[1] Jordan reduced all tariff rates of 30 percent *ad valorem* and higher by 5 percentage points immediately upon accession to the WTO on April 11, 2000. In addition, many tariff lines were bound at zero. Further tariff reductions will be given in stages. Imports are generally charged a general sales tax of 10 percent of import value (CIF plus any duty).[2] The general sales tax is applied equally to imports and domestically produced goods.[3]

Jordanian applied tariffs on the significant U.S. export sectors to Jordan range from zero to 100 percent *ad valorem* (table 4-1). Some Jordanian tariff lines contain more than one rate, with the applied rate being dependent on the end-use of the imported product. The top U.S. export to Jordan (wheat) enters the country free of duty. Other important U.S. food export categories to Jordan include other cereals, primarily corn and rice, as discussed in chapter 3. Cereals other than wheat, along with edible vegetable oils, have tariff rates of 5 percent ad valorem, with the exception of some products such as refined soybean oil and refined corn oil, which face rates of 30 percent ad valorem. Almond exports to Jordan also face a rate of 30 percent ad valorem. Civil aircraft and parts, the second highest value U.S. export to Jordan, face a tariff rate of 10 percent ad valorem. Parts and electrical equipment face rates of up to 30 percent ad valorem. Products that have the highest Jordanian tariff rates are those with cultural or social considerations, specifically alcohol and tobacco. Cigarettes containing tobacco have a tariff rate of 100 percent ad valorem.

Significant U.S. imports from Jordan in 1999 are limited to a few HTS chapters (71, 97, 62, and 57), primarily covering jewelry, antiques, apparel, and carpets, with some special categories (HTS chapters 98 and 99) as explained in chapter 3 (table 4-2). The highest U.S. import value products from Jordan enter as U.S. goods returned (under chapter 98, special classifications provision). The second and third highest valued U.S. merchandise imports from Jordan in 1999 fell under the classification of jewelry products (HTS chapter 71). Calculated U.S. tariff rates on the top U.S. imports of jewelry products from Jordan in 1999 were only 0.2 and 0.6 percent ad valorem[4] because most jewelry products from Jordan enter the United States free of duty under the GSP program. The top-value U.S. apparel imports from Jordan had calculated U.S. tariff rates of 17.2 and 18.3 percent ad valorem in 1999.[5] U.S. imports of Jordanian carpets had a calculated U.S. tariff rate of 4 percent ad valorem in 1999.

Jordan's Free Zones and Qualifying Industrial Zones

Free zones in Jordan are established as "specific geographical sites or areas where special laws and regulations are applied differently than those applied in

[1] R. Al Khouri, "Trade policies in Jordan, Lebanon, and Saudi Arabia," *Trade Policy Developments in the Middle East and North Africa*, Mediterranean Development Forum, World Bank, Washington, D.C.

[2] Some products are exempted, taxed at 20 percent ad valorem, at 39 percent to 141 percent ad valorem, or taxed according to qualitative measures such as type, weight, volume or unit as specified in the annexes to the Law of General Sales Tax. This information is found at Internet address *http://www.customs.gov.jo*, retrieved May 5, 2000.

[3] Customs Department, Jordanian Ministry of Finance, found at Internet address *http://www.customs.gov.jo*, retrieved May 5, 2000.

[4] The calculated U.S. tariff rate is an arithmetic average determined from the actual duties paid in 1999 on U.S. imports from Jordan for goods entering under the specified 8-digit HTS category; i.e., calculated duties divided by imports at customs value.

[5] Some apparel imports from Jordan enter the United States under a special U.S. tariff program. See the section on Textiles and Apparel in chapter 5.

Table 4-1
U.S. exports to Jordan in categories with trade over $1 million, ranked by value and the applied Jordanian tariff, 1999

Schedule B	Description of U.S. export category	Export value	Applied tariff rate[1]
		1,000 dollars	
1001.90.20.55	Wheat and meslin, except seed, nesoi	26,803	0
8803.30.00.10	Other parts of airplanes or helicopters for use in civil aircraft (excludes propellers, rotors, undercarriages, and parts thereof)	23,568	10
1005.90.20.30	Yellow dent corn (maize), U.S. No. 2, except seed	10,526	5
2403.10.00.60	Smoking tobacco, whether or not containing tobacco substitutes, in any proportion, nesoi	9,308	70
1006.30.90.20	Rice, semi-milled or wholly milled, nesoi, medium grain	9,045	5
1515.29.00.40	Corn (maize) oil, and its fractions, fully refined, (washed, bleached or deodorized) not chemically modified	5,452	[2] 5, 30
9880.00.40.00	Low value estimate, excluding Canada	5,314	[3]
9803.20.00.00	Military equipment not identified by kind	5,272	[3]
4703.21.00.40	Chemical woodpulp, sulfate or soda, other than dissolving grade, coniferous, bleached (air dry weight)	5,196	5
1515.21.00.00	Corn (maize) oil and its fractions, crude, not chemically modified	5,121	5
1507.10.00.00	Soybean oil and its fractions, crude, whether or not degummed	4,505	5
1006.30.90.10	Rice, semi-milled or wholly milled, nesoi, long grain	4,212	5
1512.11.00.20	Sunflower-seed oil and fractions thereof, crude, not chemically modified	3,501	5
1502.00.00.40	Tallow, inedible	2,983	5
8412.10.00.10	Missile and rocket reaction engines	2,819	0
8536.20.00.20	Automatic circuit breakers, molded case, for a voltage not exceeding 1,000 V	2,312	30
9809.00.50.00	Shipments valued $20,000 and under, not identified by kind	2,214	[3]
9301.00.90.10	Self propelled guns, howitzers, and mortars having bore diameter of more than 30-MM, including system with a total of more than 30-MM each (military)	2,003	30
8802.12.00.60	Used or rebuilt helicopters, military, of an unladen weight exceeding 2,000 kg	1,938	0
7303.00.00.90	Tubes, pipes, and hollow profiles of cast iron, nesoi	1,918	30
2402.20.00.00	Cigarettes containing tobacco	1,869	100
0802.12.00.00	Almonds, fresh or dried, shelled	1,841	30
8431.49.10.10	Parts of overhead traveling cranes on fixed support, transporter, cranes, gantry canes, bridge cranes and portal or pedestal jib cranes	1,822	20
9021.19.40.00	Bone plates, screws, and nails and other internal fixation devices or appliance	1,766	0
8431.39.00.50	Parts of oil and gas field machinery	1,733	30
9306.30.40.20	Cartridges containing a projectile for rifle or pistols, nesoi	1,712	5
6309.00.00.00	Worn clothing and other worn articles	1,626	[2] 20, 30
8421.21.00.00	Water filtering or purifying machinery and apparatus	1,593	[2] 0, 30

Table continues on next page.

Table 4-1-Continued
U.S. exports to Jordan in categories with trade over $1 million, ranked by value and the applied Jordanian tariff rates, 1999

Schedule B	Description of U.S. export category	Export value	Applied tariff rate[1]
		1,000 dollars	
8803.30.00.50	Other parts of airplanes or helicopters for use in military aircraft (excludes propellers, rotors, undercarriages, and parts thereof)	1,549	10
1901.10.00.00	Preparations for infant use, put up for retail sale	1,409	[2] 5, 30
8903.92.00.25	Motorboats inboard/outdrive powered, exceeding 6.5 in length	1,405	10
8418.10.00.40	Refrigerator-freezers combined, fitted with separate external door, compression type, volume of 382 liters and over	1,383	[2] 0, 30
8703.23.00.90	Vehicles, nesoi, used, with spark-ignition internal combustion reciprocating piston engine of a cylinder capacity exceeding 1500, not not exceeding 3000cc	1,374	[2] 0, 5, 30
9301.00.90.50	Missile and rocket launchers flamethrowers, grenade launchers, and torpedo tubes, and similar projectors (military)	1,361	30
9014.20.80.40	Instruments and appliances for use in civil aircraft	1,357	30
2915.32.00.00	Vinyl acetate	1,256	5
1507.90.40.50	Soybean oil and its fractions, fully refined (washed, bleached or deodorized) but not chemically modified	1,233	[2] 5, 30
9032.90.00.00	Parts and accessories of automatic regulating instruments or controlling instruments and apparatus	1,062	[2] 5, 30
1006.30.10.20	Rice, semi-milled or wholly-milled, parboiled long grain	1,014	5

[1] Applied tariff rates from the Jordanian tariff schedule are likely percent ad valorem rates for goods in the listed U.S. export categories. Rates effective upon accession, April 11, 2000.

[2] Some 10-digit Jordanian import categories in the Jordanian tariff schedule have more than one applied tariff rate, depending on the end-use of the imported product.

[3] Special tariff classification.

the remaining part of the State."[6] Industries located in the free zones are exempt from income and social service taxes for 12 years, beginning with the year of assessment that follows the year of production or investment activity. Workers in these industries also are exempt from paying income and social service taxes. In addition, the Free Zones Corporation provides infrastructure connections, such as water, electricity, communications, sewage, and roads. The Jordan Industrial Estates Corporation was established in 1980 to guide the industrial development process while safeguarding the environment and preventing over investment in congested urban areas.[7] The role of the investment corporation and the free zones was to streamline the startup process to encourage investment and industrial development in the country. In addition, these industrial zones have provided employment opportunities and resulted in some rural-to-urban migration within Jordan. For example, a United Nations Commission has said "Amman-Zarqa urban corridor represents the largest urban agglomeration in Jordan and the highest concentration of most industrial activities, social and educational facilities."[8]

Jordan's free zones are located at Aqaba, Zarka, Irbid, and the Amman municipal area. Aqaba was the first free zone, established in Jordan in 1973.[9] Aqaba, located on the Red Sea, is the only seaport in Jordan receiving international goods. A $1 million study initiated by the Government of Jordan on the feasibility of

[6] Free Zones Corporation, "Free Zones in Jordan," brochure provided by the Commercial Representative's Office, Embassy of the Hashemite Kingdom of Jordan, Washington, D.C.

[7] Jordan Industrial Estates Corporation, "Why industrial estates?", found at Internet address *http://www.jiec.com*, retrieved May 16, 2000.

[8] *United Nations*, Economic and Social Commission for Western Asia,"Survey of economical and social developments, 1997-98," found at Internet address *http://www.escwa.org.lb*, retrieved May 10, 2000.

[9] Free Zones Corporation, "Free Zones in Jordan," provided by the Commercial Representative's Office, Embassy of the Hashemite Kingdom of Jordan, Washington, D.C.

Table 4-2
U.S. imports from Jordan in categories with trade over $400,000 ranked by value, and calculated U.S. tariff rates for those categories, 1999

HTS No.	Description of U.S. import category	Import value	Calculated tariff rate[1]
		1,000 dollars	*Percent*
9801.00.10	U.S. goods returned	18,521	0 or free
7113.19.50	Jewelry, articles or parts of, of precious metals, or metals clad with precious metals, except silver	2,978	0.2
7113.11.50	Jewelry, articles or parts of, silver	843	0.6
9706.00.00	Antiques of an age exceeding 100 yrs	658	0 or free
7113.19.29	Gold necklaces	583	0.6
6203.42.40	Men's and boy's shorts, trousers, overalls, breeches (no swimwear), not knitted or crocheted	493	17.2
6203.11.20	Men's and boy's suits, of wool	467	18.2
9999.95.00	Informal entries	404	(2)
5702.42.20	Carpets, antique floor coverings, woven	[3]400	4.0

[1] Calculated tariff rate is an arithmetic average of actual duties paid on U.S. imports from Jordan for goods entering under the specified 8-digit HTS category; i.e., U.S.-calculated duties divided by U.S. imports at customs value in 1999. Percent ad valorem.
[2] Subject to the rate applicable for the product as provided for in HTS chapters 01-97.
[3] Actual value is $399,578.

Source: Compiled from official statistics of the U.S. Department of Commerce.

an Al Aqaba special economic zone (SEZ) was completed in 1999. A special task force was formed February 23, 2000[10] and King Abdullah approved a master plan for an integrated Aqaba SEZ, with a custom-free area and fixed, low-tax rates, to be implemented by January 1, 2001.[11] The Zarqa free zone was established in 1983 to facilitate international transport of products by roads linking Jordan to neighboring countries. Zarqa consists of an industrial investment sector containing these industries: clothes, fire extinguishers, agricultural equipment, marble, vegetable and mineral oils, printing, publication, furniture, pre-fabricated houses, electric oil pumps assembling, plastic bags, automotive spare parts, tape recording, building equipment, and computer controlled panels. Zarqa also consists of a commercial investment sector,[12] 500,000 square meters of exhibition space. Al-Hassan free zone, located in Irbid, was completed in 1991 with 427,000 square meters housing 59 firms, and is currently under expansion. Sahab free zone (part of the greater Amman municipality boundaries) contains 2.5 million square meters for industrial investors and was opened in 1997. Sahab free zone contains 361 medium and small industries in food, pharmaceuticals, engineering, plastic and rubber, chemicals, cotton and weaving, furniture kitchen and doors, printing and packaging, leather products, and construction. It has 744.6 million Jordanian dinar of invested capital from Arab, non-Arab, and joint-venture investors.[13] Construction of the Queen Alia International Airport (Amman) free zone began in 1998. It services international air transport and has 20,000 square meters.

Jordan and Israel, in conjunction with the United States, created the Gateway Projects Industrial Zone on November 23, 1998.[14] Goods enter the joint Israeli-Jordanian zone without payment of duties or excise taxes. The Irbid Qualifying Industrial Zone (QIZ),

[10] Saleh Homsi, "Plan in the works to turn Aqaba into a special economic zone," *Jordan Times* found at Internet address *http://www.accessme.com/jordantimes*, retrieved April 10, 2000.

[11] S.G. Hattar, "King endorses master plan to turn Aqaba into $Special Economic Zone,' " *Jordan Times* Home News Section, found at Internet address *http://www.accessme.com/jordantime*, retrieved April 21, 2000.

[12] An area of 1,800,000 square meters consisting of 488 sectors with 25 Free Zones Corporation warehouses and 370 private sector warehouses.

[13] Jordan Industrial Estates Development Plan, "Existing and future industrial estates," found at Internet address *http://www.jiec.com*, retrieved May 16, 2000.

[14] *Federal Register*, vol. 64, no. 53, March 19, 1999.

designated a free zone in 1991, was expanded and allocated duty-free status by the Governments of Jordan and Israel under the same agreement. The U.S. Congress in October 1996[15] authorized the President to eliminate U.S. duties on products produced in the West Bank, Gaza Strip, and QIZs in Israel, Egypt, and Jordan.[16] Under the Jordanian-Israeli QIZ accord, Jordanian and Israeli manufacturers must contribute at least one-third of the minimum 35 percent content required to obtain duty-free treatment in the United States.[17] Qualifying products from the Israeli-Jordanian Irbid QIZ and the Israeli-Jordanian Gateway Projects Industrial Zone became eligible for duty-free treatment on March 19, 1999, under the amendments to the U.S.-Israel Free Trade Area Implementation Act (IFTA).[18]

[15] Pub.L. 104-234 of Oct. 2, 1996, amending the U.S.-Israel FTA Act.

[16] USTR press release no. 99-86, October 13, 1999; press release no. 98-22, March 6, 1998; and press release no. 99-23, March 15, 1999.

[17] *Jordan Times*, "Jordan and Israel agree on measures to implement provisions of the QIZ accord," May 6, 1998, found at Internet address *http://www.jordanembassyus.org*, retrieved May 16, 2000.

[18] *Federal Register*, vol. 64, no. 53, March 19, 1999; vol. 64, no. 199, October 15, 1999.

Investment Relationship Between the United States and Jordan[19]

U.S. investment in the Middle East region amounted to $11 billion in 1999, compared with $1.1 trillion total U.S. direct investment abroad (table 4-3). Both total and Middle East U.S. direct investment steadily increased between 1995 and 1999, with U.S. investment in the Middle East growing from $7.2 billion in 1995 to $11.1 billion in 1999. The share of U.S. investment in Jordan has been insignificant relative to total U.S. direct investment abroad. Jordan's neighbors, Israel and Saudi Arabia, received significantly larger shares of U.S. investment, although their shares were also insignificant compared with total U.S. direct investment abroad.

Total foreign direct investment (FDI) from the world to Jordan was approximately $1.2 billion in

[19] Taher H. Kanaan, "The business environment in Jordan," *Partners for Development*, Mediterranean Development Forum, (The World Bank: Washington, D.C.), 1999.

Table 4-3
U.S. direct investment abroad, in Jordan, and selected Middle Eastern countries, 1995-99

Country	1995	1996	1997	1998	1999
	Million dollars				
Stocks:					
All countries	699,015	795,195	871,316	1,014,012	1,132,622
Middle East	7,198	8,294	8,836	10,632	11,137
Jordan	15	(1)	(1)	(1)	30
Israel	1,831	2,045	2,071	2,922	3,199
Saudi Arabia	2,741	3,476	3,821	4,276	4,231
Outflows:[2]					
All countries	92,074	84,426	95,769	134,083	138,510
Middle East	879	467	619	2,150	1,417
Jordan	2	(1)	(1)	(1)	(1)
Israel	340	264	25	1,248	1,050
Saudi Arabia	640	(206)	332	335	(65)

[1] Suppressed to avoid disclosure of data of individual companies.
[2] Numbers in parentheses indicate inflows.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, found at Internet address *http//www.bea.doc.gov*, retrieved July 6, 2000.

1998.[20] In contrast, Saudi Arabia received $26.3 billion in total FDI and Israel received $9.2 billion in 1998. Jordan had capital inflows of $223 million in 1998, down from $361 million in 1997.[21] However, recent privatization, joint-venture agreements in the mining sector, investments in tourism, and economic reforms should improve FDI investment in Jordan. The Jordanian EURO Association Agreement also will encourage more FDI, given Jordan's improved access to the large EU market. Jordan implemented a whole range of legislation to encourage foreign direct investment during preparation for its entry into the WTO.[22]

The United States and Jordan signed a Bilateral Investment Treaty (BIT) in July 1997.[23] The BIT was intended to improve the climate for U.S. investment opportunities in Jordan. Under the BIT, U.S. investors are guaranteed national or most favored nation treatment. In addition, U.S. companies do not have to comply with performance requirements or foreign currency transfer limitations.[24] The United States and Jordan signed a Trade and Investment Framework Agreement (TIFA) on March 15, 1999, the first U.S. TIFA in the Middle East.[25] The U.S.-Jordan TIFA established a Trade and Investment Council, comprised of officials from both governments, which held its first meeting June 2000. In recent years, Jordan has made substantial progress towards improving its laws pertaining to the protection of intellectual property rights. These changes were made in order to comply with the TRIPS Agreement of the WTO, prior to Jordan's accession in April 2000. As a result, the USTR, during a Special 301 out-of-cycle review, removed Jordan from its Watch List.[26]

[20] United Nations Conference on Trade and Development, "World Investment Report," (United Nations: New York and Geneva), 1999.

[21] Azzam, H.T., "Foreign direct investment inflow to Arab countries on the decline", Jordan Times, found at Internet address *http://www.accessme.com/jordantimes*, retrieved December 9, 1999.

[22] For example, the following new legislation was implemented: Securities Law, Secured Finance Law, Companies Law, Customs Law, Competition Law, and Intellectual Property Rights Law.

[23] USTR Press Release, No. 97-28, April 4, 1999.

[24] Jordan Commercial Center, "Doing business in Jordan", Bulletin produced by the Embassy of the Hashemite Kingdom of Jordan, Washington, DC.

[25] USTR press release, no. 99-22, March 15, 1999.

[26] USTR press release, no. 99-98, December 10, 1999.

CHAPTER 5
Sectoral Impacts of a U.S.-Jordan Free Trade Agreement

Sector Analysis

The USTR asked the Commission to analyze industry sectors where there could be significant economic impacts from a U.S.-Jordan FTA. The criteria applied to identify sectors for review were an examination of U.S. and Jordan bilateral trade flows, Jordan trade flow data with the rest of the world, and input from the Commission's industry analysts.[1] Based on the above criteria, the Commission selected 16 sectors for review: animal and vegetable fats and oils; cereals (wheat, rice, and corn); citrus fruit and juices; crude petroleum; electronics; fertilizers; iron and steel mill products; jewelry; live animals; machinery and transportation equipment; nuts; pharmaceuticals; phosphates;[2] potash; textiles and apparel; and vegetables.

Commission analysis indicates that an FTA with Jordan is not expected to have a measurable impact on U.S. imports from Jordan for 15 of the 16 sectors reviewed.[3] For one sector, textiles and apparel, any increase in U.S. imports of apparel from Jordan is expected to have a negligible effect on total U.S. imports and U.S. production of apparel.[4] An FTA with Jordan is projected to have a minimal impact on total U.S. exports. Quantitative analysis of three U.S. export categories illustrated significant percentage increases in 1998 under a U.S.-Jordan FTA.[5] However, relative to the total volume of U.S. exports of $642 billion in 1999, these increases were insignificant. Discussion of partial equilibrium analysis of the three U.S. export categories to Jordan is located at the end of this chapter. Individual discussions of the 16 industry sectors reviewed are next.

Animal and Vegetable Fats and Oils

Potential impact on U.S. imports and U.S. producers

Jordan is a large net importer of animal and vegetable fats and oils (fats and oils), exporting only negligible amounts to adjacent countries. Jordan produces small amounts of olive and sesame oils that total less than 10 percent of its domestic consumption of fats and oils and imports crude or refined vegetable oil for further processing into food products.[6]

The average duty on U.S. imports of fats and oils from all countries was less than 1 percent ad valorem equivalent (AVE) in 1999 on $1.3 billion in U.S. imports, although on dutiable imports, the AVE duty was 6 percent. Most U.S. imports of fats and oils are free of duty. Because Jordan does not currently export fats and oils, there is very little likelihood that Jordan would export these commodities to the United States. Subsequently, no impact on U.S. imports, U.S. production, or U.S. employment is expected from a U.S.-Jordan FTA.

[1] Services were not included in the sector analysis because the volume of U.S.-Jordan trade in services is too small to be reflected in published data. Services transactions with the entire Middle East region (mainly involving Israel and Saudi Arabia) represented only 0.8 percent and 1.4 percent of U.S. cross-border imports and exports, respectively, in 1998.

[2] Phosphates and potash are raw minerals from which fertilizers are derived.

[3] A written statement provided on behalf of the Rubber and Plastic Footwear Manufacturers Association stated that although there is no current competitive threat by Jordan to the U.S. rubber footwear industry, any further reduction in U.S. duties on these products would cause a decline in U.S. production of these products (see appendix C).

[4] Some Jordanian textiles and apparel currently enter the United States as products of Israel under provisions of the U.S.-Israel Free Trade Agreement. It is likely that under an FTA with Jordan, some of the apparel imported from Israel under its trade agreement with the United States would be imported directly from Jordan, thus offsetting a portion of the anticipated increase in apparel imports under an FTA with Jordan.

[5] U.S. exports of cereal other than wheat would rise by an estimated 14 percent; machinery and transportation equipment by 39 percent; and electric machinery by 104 percent under a U.S.-Jordan FTA.

[6] See U.S. Department of Agriculture, Foreign Agriculture Service, *Jordan: Oilseeds and Products Report*, American Embassy, Ankara, Report No. J02002, May 29, 1992.

Potential impact on U.S. exports

An FTA will likely lead to a negligible increase in total U.S. fats and oils exports to Jordan. In the past, most U.S. fats and oils exports to Jordan received U.S. Government export assistance under GSM 102/103 (U.S. credit guarantee programs) and Public Law 480 (food aid).[7] Jordan purchased only about 1 percent of the $1.9 billion of U.S. exports in 1999. The major barrier to increased U.S. fats and oils sales in Jordan is competition from goods of Malaysia (palm oil) and Argentina and Brazil (soybean oil).

Cereals (Wheat, Rice, and Corn)[8]

Potential impact on U.S. imports and U.S. producers

Jordan is a major net importer of cereals, exporting only negligible amounts to adjacent countries. The average duty on U.S. imports of cereals from all countries was less than 1 percent ad valorem in 1999. An FTA with Jordan is unlikely to generate an increase in U.S. imports of cereals from Jordan and, subsequently, no impact on U.S. production and U.S. employment is expected.

Potential impact on U.S. exports

An FTA will likely lead to a negligible increase in total U.S. cereals exports. Most U.S. exports must receive U.S. Government export assistance under GSM 102/103 (the U.S. credit guarantee program) or Public Law 480 (U.S. food aid) to be competitive in Jordan.[9]

In 1998, U.S. wheat supplied about 70 percent of Jordanian wheat imports, while U.S. corn supplied 73 percent and U.S. rice supplied about 72 percent, as indicated in chapter 3.[10] Jordan accounted only for about 3 percent of the $10.3 billion of U.S. cereals exports in 1999; and the major barrier to increased U.S. cereals sales in Jordan is third-country competition from products of Argentina, Turkey, Australia, Thailand, and the EU.[11]

Citrus Fruit and Juices

Potential impact on U.S. imports and U.S. producers

Jordan produces oranges, tangerines, lemons, limes, and grapefruits. The leading domestic citrus crop is lemons and limes, with production of 42,000 metric tons in 1999 out of total citrus production of 112,000 metric tons in 1999.[12] However, Jordan's total production of citrus fruit is equivalent to less than 1 percent of U.S. production of citrus fruit, which was 13.7 million metric tons in 1999.[13] Jordan exported a total of $4.8 million in lemons and limes and $7.7 million in oranges and tangerines in 1998 to several countries, but was a net importer of citrus juice with no significant exports.[14] There were no U.S. imports from Jordan of fresh citrus or fruit juices in 1999, nor were there any U.S. exports of citrus fruit or fruit juices to Jordan.[15] The average duty on U.S. imports of citrus fruit from all countries was 10.96 percent AVE in 1999.[16] Given the relatively small quantity of production and the long distance from the United States, it seems unlikely that a FTA would have more than a negligible effect on total U.S. imports, U.S. production, and U.S. employment in this sector.

Potential impact on U.S. exports

As previously discussed, given the small size of the Jordanian market for citrus fruit and juices and the distance between the United States and Jordan, a

[7] In FY 1999, Jordan received, but did not use, up to $60 million in credit guarantees for U.S. vegetable oil and oilseed product exports for 36 month repayment. See U.S. Department of Agriculture, Foreign Agricultural Service, *Oilseeds: World Markets and Trade*, December 1998, p. 45; and U.S. Department of Agriculture, Foreign Agricultural Service staff interview, July 6, 2000.

[8] Cereals for purposes of this report include wheat, rice, and corn; these three cereals accounted for 94 percent of total U.S. cereals exports of $10 billion in 1999, according to data of the U.S. Department of Commerce.

[9] In FY 1998, P.L. 480 exports to Jordan amounted to 146,700 metric tons of wheat, valued at $18 million. See: U.S. Dept. of State, U.S. AID, *Public Law 480 Title I and Title II Programs–Fiscal Year 1998*, found at Internet address *www.info.usaid.gov/hum_response/farpt1998/annexes/appendix3.htm*, retrieved Feb. 1, 2000.

[10] See United States Department of Agriculture Service, *Grain and Feed Annual Report 1998*, American Embassy, Cairo, Report No. J08001, Oct. 14, 1998.

[11] *Ibid.*

[12] United Nations, Food and Agricultural Organization, found at Internet address *http://fao.org*, retrieved June 29, 2000.

[13] U.S. Department of Agriculture, National Agricultural Statistics Service, *Citrus Fruits, 1999 Summary,* September, 1999, FR Nt 3-1.

[14] United Nations, Food and Agricultural Organization, found at Internet address *http://fao.org*, retrieved June 29, 2000.

[15] Based on official trade statistics of the U.S. Department of Commerce.

[16] Based on U.S. Customs value of $1.05 billion and calculated duties of $114.5 million.

U.S.-Jordan FTA will likely have no more than a negligible effect on total U.S. exports of citrus fruit and juices.

Crude Petroleum[17]

Potential impact on U. S. imports and U.S. producers

The United States does not import crude petroleum from Jordan. Currently, Jordan has only four wells producing a total of less than 40 barrels per day, all of which are consumed domestically. The duty on U.S. imports of crude petroleum testing 29º API[18] or higher (all of Jordan's crude reserves are in this range) is 10.5 cents per barrel. An FTA between the United States and Jordan will likely have no impact on U.S. imports, U.S. production, and U.S. employment in this sector.

Potential impact on U.S. exports

Crude petroleum accounts for a significant share of total Jordanian imports. U.S. exports of crude petroleum to all markets have been prohibited since 1973, except as approved by the U.S. Government. In May 1996, the President determined that allowing exports of Alaska North Slope crude was in the national interest, thus ending the 23-year ban on such crude exports. The United States does not export crude petroleum to Jordan because of the prohibitive cost and difficulty of transportation from the Alaska North Slope to Jordan and availability of abundant supplies in the region. A U.S.-Jordan FTA is not likely to result in the introduction of U.S. exports to Jordan.

Electronics

Potential impact on U.S. imports and U.S. producers

U.S. imports of electronics products totaled $228 billion in 1999, and exports of electronics products were $162 billion in that year. In 1999, 76 percent of total U.S. imports of electronics products were free of duty. Imports from Jordan were $359,000, considerably less than 1 percent of total U.S. imports of electronics products. Computers, peripherals, and parts were the largest product group imported from Jordan, accounting for $201,000 (56 percent) of electronics imports from Jordan in 1999. Imports from Jordan have not been at a level where they pose a challenge to any segment of the U.S. electronics sector, and this does not appear likely to change under a U.S.-Jordan FTA. Thus, no measurable impact is expected on U.S. imports, U.S. production, or U.S. employment in this sector.

Potential impact on U.S. exports

U.S. exports of electronics to Jordan were $32 million in 1999, considerably less than 1 percent of total U.S. exports of electronics. The largest U.S. export categories to Jordan in 1999 were medical goods ($6 million); measuring, testing, and controlling instruments ($6 million); and computers, peripherals, and parts ($5 million); these products accounted for over half of total U.S. exports of electronics to Jordan. Because of the very small size of the Jordanian market for U.S. electronics exports, any change in the level of exports to Jordan because of a U.S.-Jordan FTA would have a negligible impact on total U.S. exports.

Fertilizers

Potential impact on U.S. imports and U.S. producers

All imports of fertilizer products and raw materials into the United States from Jordan are free of duty. The United States is the world's largest producer of fertilizers and phosphate fertilizer raw materials, including phosphate rock and sulfur. A U.S.-Jordan FTA would have little or no impact on the level of Jordanian exports of fertilizer to the United States or on U.S. producers and U.S. employment. According to industry sources, the United States may consider importing Jordanian phosphate rock in the future as U.S. natural resources begin to gradually deplete. Jordan is a major world producer of phosphate rock, which is used in the production of phosphoric acid, an intermediate chemical used in fertilizer production. Jordan's principal finished fertilizer products, which include diammonium phosphate, multinutrient fertilizers, and muriate of potash are not currently exported to the United States.

[17] This sector was included in the sector analysis under the selection criterion of the high share of crude oil imports in Jordan's total import bundle.

[18] The specific gravity of crude petroleum is measured in degrees API (American Petroleum Institute). Most crudes range from 27º to 35º API.

Potential impact on U.S. exports

An FTA is not expected to significantly change U.S. exports of fertilizers to Jordan. The United States does not currently export any significant amounts of fertilizers to Jordan. Jordan's fertilizer consumption is insignificant, owing to its arid environment. Jordanian producers already are very competitive in their domestic market, and transportation costs can be a major factor affecting the price competitiveness of imports. Jordan and the United States are major net exporters of phosphate fertilizers, while Jordan also is self-sufficient in potash and a major exporter.

Iron and Steel Mill Products

Potential impact on U.S. imports and U.S. producers

Jordan's steel industry is relatively small at 10 producers and makes a somewhat limited range of steel mill products. Imports of steel mill products from Jordan are negligible. No individual product lines have consistent imports. For the past 5 years, the United States imported the highest value of Jordanian steel mill products in 1998 with just under $121,000 of seamless pipe. All U.S. imports from Jordan that year were in the form of seamless pipe and represented approximately 0.1 percent of U.S. shipments of seamless pipe in 1998. U.S. tariffs on steel mill products are low and declining. As part of the Uruguay Round Agreement, the United States committed to a 10-year phaseout of tariffs on steel mill products, concluding in 2004. A U.S.-Jordan FTA is unlikely to result in more than a negligible rise in steel imports from Jordan and, subsequently, no measurable impact on U.S. production or U.S. employment is expected.

Potential impact on U.S. exports

The U.S. steel industry is not export oriented and only ships about 5 percent of its production (by quantity) to foreign markets. Although U.S. steel trade with Jordan presents an unusual case, in that export flow is considerably larger than import flow, these exports represent less than 0.1 percent of total U.S. steel exports. In recent years, U.S. steel exports to Jordan have been concentrated in carbon steel wire, pipe, and tube. While year-to-year fluctuations have been experienced, U.S. exports to Jordan seem to be increasing over the long term.

The Jordanian steel industry has recently raised concerns about the deleterious effect of low-priced imports of bars and rods from Russia and Ukraine. In response, the Jordanian Government has imposed a combined annual limit of 15,000 metric tons on such imports from these countries. The removal of tariffs on Jordanian imports of U.S. steel is not likely to have much of an impact, as U.S. steel products tend to trade at higher prices than those from Russia and the Ukraine.

Jewelry

Potential impact on U.S. imports and U.S. producers

The jewelry industry in Jordan is mainly composed of precious jewelry manufacturers. Jordan is not a significant producer or exporter of jewelry, although jewelry was Jordan's second largest overall export to the United States in 1999. Jordan represented the 41st largest source of U.S. imports of precious jewelry and comprised only a fraction of 1 percent of total U.S. imports.[19] In 1999, a total of 94 percent of the $4.4 million in U.S. jewelry imports from Jordan entered free of duty under the GSP program. Examples of jewelry that are currently imported from Jordan include precious metal and silver articles of jewelry, gold necklaces, and neck chains.

The average duty on U.S. imports of jewelry is 6.3 percent ad valorem. While a U.S.-Jordan FTA could result in a negligible rise in imports of jewelry from Jordan, the effect on overall imports likely will be minimal and, subsequently, no measurable impact on U.S. production or U.S. employment is expected.

Potential impact on U.S. exports

Even though U.S. exports might become more competitive with an FTA, an FTA will likely have no measurable impact on total U.S. exports of jewelry. There have been no U.S. exports of precious jewelry to Jordan since 1996, and only $4,000 of U.S. costume jewelry exports in 1999. The relatively small size of the Jordanian market for high-quality U.S. jewelry is

[19] According to official statistics compiled by Jordan's Department of Statistics, 41 percent of Jordan's exports of jewelry and related articles (HS chapter 71) were to the United States in 1998. Jordan Department of Statistics, Amman, *External Trade Statistics of Jordan*, found at *http://www.dox.gov.jo/owa-user/owa/v_ et_ show_ table*, retrieved June 22, 2000.

unlikely to result in increased exports because of an FTA.

Live Animals

Potential impact on U.S. imports and U.S. producers

Sheep are the major livestock animal produced in Jordan, although Jordan also produces cattle, goats, and poultry. The sheep population in Jordan was estimated at 2 million animals in 1999,[20] compared to an estimated sheep population in the United States of about 7.2 million animals.[21] U.S. imports of certain live animals, including sheep and lambs, are generally limited to countries that have been declared free from rinderpest and foot-and-mouth diseases[22] by the U.S. Secretary of Agriculture.[23] As of May 2, 2000, Jordan was not on the list of USDA-recognized countries/areas free from the diseases.[24] Similar requirements apply to U.S. imports of poultry - including chickens, geese, ducks, and pigeons - which are limited to countries or areas free of Exotic Newcastle Disease. Jordan is not on the list of countries free of this disease.[25] The average duty on U.S. imports of live animals from all countries was less than 1 percent ad valorem in 1999. For all of these health reasons, an FTA will likely have a negligible effect on U.S. imports of live animals and, subsequently, no measurable impact on U.S. production or U.S. employment is expected.

Potential impact on U.S. exports

An FTA will likely lead to a negligible increase in total U.S. exports of live animals. Although U.S. exports of live animals to Jordan are negligible, food and live animals accounted for 18 percent of total Jordanian imports in 1999. Live animals accounted for an important share of Jordanian imports of food and live animals. Jordan's largest supplier of live sheep is Australia. Such exports to Jordan totaled about 1.1 million sheep in 1999.[26] Other major exporters of live sheep to the Middle East include Somalia, Sudan, and some Eastern European countries, mainly Romania.[27] U.S. exports of live animals to Jordan are negligible. Such exports totaled about 20,000 animals in 1999, and consisted mostly of live chickens, for breeding purposes.

Machinery and Transportation Equipment

Potential impact on U.S. imports and U.S. producers

Jordan has, at best, a limited capacity to manufacture machinery and transportation goods. For example, it produces no motor vehicles and its small automotive parts industry is limited to very low-value-added products. The value of U.S. imports of machinery and transportation equipment from Jordan is negligible compared to the value of total U.S. imports.

The average duty on U.S. imports of machinery and transportation equipment is 2.3 percent ad valorem. While a U.S.-Jordan FTA could result in a negligible in imports of certain machinery and transportation products from Jordan, the effect on total U.S. imports likely will be minimal and, subsequently, no measurable impact on U.S. production or U.S. employment is expected.

Potential impact on U.S. exports

Some export opportunities are possible for certain machinery and transportation products, especially in those sectors in which increased trade will increase investment in manufacturing industries and in infrastructure development. According to industry sources, these product areas include construction, mining, and paving equipment; irrigation systems; aircraft and aircraft parts; household appliances; metalworking machine tools; certain motor vehicles; tanks and other armored fighting vehicles; and various machinery parts. However, because U.S. exports to Jordan account for a negligible share of total U.S. exports, any increases in U.S.

[20] United Nations Food and Agricultural Organization, found at Internet address *http://apps.fao.org*, retrieved June 20, 2000.

[21] National Agricultural Statistical Services, *Sheep and Goats*, Jan. 28, 2000.

[22] Rinderpest and foot-and-mouth diseases are highly contagious, infectious diseases that can afflict cloven-footed animals, such as cattle, sheep, swine, and deer. Because the diseases are easily transmitted and are debilitating, they are an ever-present threat to the U.S. livestock industry. The diseases do not present a direct threat to human health.

[23] Sec. 306 of the Tariff Act of 1930 (19 U.S.C. 1306).

[24] U.S. Department of Agriculture, Animal and Plant Health Inspection Service, National Center for Import-Export Products, *List of USDA-Recognized Animal Health Status of Countries/Areas Regarding Specific Livestock or Poultry Diseases*, May 2, 2000, found at *http://www.aphis.usda.gov/NCIE/country.html*, retrieved June 20, 2000.

[25] *Ibid*.

[26] USDA, FAS, GAIN Report #AS0007, p. 12.

[27] Meat and Livestock Australia, *Live Sheep Exports*, found at *http://www.mla.com.au/mis/industry/livesheepexports.cfm*, retrieved June 20, 2000.

exports to Jordan as a result of an FTA will not have a measurable impact on total U.S. exports of these products.

Nuts

Potential impact on U.S. imports and U.S. producers

Jordan is a minor producer and exporter of edible nuts.[28] The major edible nuts produced in Jordan are almonds, followed by relatively small quantities of pistachios and walnuts. In recent years, Jordan's exports of edible nuts were minor, averaging less than 50 metric tons annually. Pistachios and almonds account for the majority of Jordanian exports. The average duty on U.S. imports of nuts from all countries was less than 1 percent in 1999. An FTA will likely have a negligible effect on U.S. imports of edible nuts and, subsequently, no measurable impact on U.S. production or U.S. employment is expected.

Potential impact on U.S. exports

A U.S.-Jordan FTA will likely have a negligible effect on total U.S. exports of edible nuts. Annual per capita consumption of edible nuts in Jordan is about 1 kilogram. Although the United States is a major producer and a major exporter of edible nuts, Jordan historically has been a very minor market for U.S. exports.

Pharmaceuticals

Potential impact on U.S. imports and U.S. producers

In 1999, Jordan exported $327,000 of pharmaceutical products - mostly antibiotic preparations - to the United States. These sales represented a minuscule portion of the $80.2 billion in total U.S. pharmaceutical imports.[29] Jordan has little, if any, capacity to manufacture pharmaceuticals that would compete significantly in the U.S. market. The global pharmaceutical industry is composed of large multinational companies - most of which are headquartered in Japan, the EU, and the United States - that can take advantage of production economies of scale and can strategically locate their production facilities to minimize costs. In addition, the regulatory burden of the U.S. Federal Drug Administration would add a significant cost to a Jordanian pharmaceutical company exporting to the United States, thereby reducing its competitiveness with the major pharmaceutical companies selling in the U.S. market. Therefore, an FTA is expected to have no measurable impact on total U.S. imports, U.S. production, and U.S. employment in this sector.

Potential impact on U.S. exports

An FTA will likely lead to a negligible increase in total U.S. exports of pharmaceuticals. Jordan represents a small portion of total U.S. exports of pharmaceutical products. In addition, because of the multinational nature of the industry, an increase in U.S.-related exports might not originate from the United States, and only a small share of the sales would return to the United States. In 1999, the United States exported $3.2 million in pharmaceutical products to Jordan, representing less than one-tenth of 1 percent of the $81.2 billion in total U.S. pharmaceutical exports.

Phosphates

Potential impact on U.S. imports and U.S. producers

U.S. imports of phosphate fertilizer and mineral products are free of duty. The United States is the world's largest producer and consumer of phosphate rock and phosphate fertilizers and a net exporter of phosphate fertilizers; thus, an FTA should have no measurable impact on U.S. imports, U.S. production, and U.S. employment in this sector. According to industry sources, in the future, however, the United States could potentially become an importer of Jordanian phosphate rock as domestic natural resources deplete. Additionally, Jordan's ambitious expansion plans could result in intense competition for U.S. producers of phosphate fertilizer in certain export markets.

Jordan is currently the world's sixth largest producer of phosphate rock, mining about 6 million metric tons per year (tpy) behind the United States, China, Morocco, Russia, and Tunisia. Jordan currently mines phosphate rock at El-Abiad, El-Hassa, and the new multi-million dollar, high-grade Eshidiya mine project,

[28] United Nations, Food and Agricultural Organization, found at Internet address *http://fao.org*, retrieved June 27, 2000.

[29] U.S. HTS data classified by the USITC, Office of Industries' pharmaceutical trade digest.

which is scheduled to produce up to 7.5 million tpy by the early 2000s. Current domestic capacity is approaching 8 million to 10 million tpy, while consumption for the production of phosphoric acid, diammonium phosphate, and multi nutrient fertilizers is about 2.1 million tpy. Jordan Phosphate Mines Co. is the world's third largest phosphate rock exporter behind Morocco and Russia. The Jordanian Government also has established four separate phosphate fertilizer joint ventures at Aqaba and Eshidiya with Japan, India, Pakistan, and, the largest with the Norwegian firm, Norsk Hydro, all of which are expected to increase phosphate rock production.

Potential impact on U.S. exports

An FTA should have little effect on future U.S. phosphate trade with Jordan. The United States exports only minor amounts of miscellaneous multinutrient fertilizers to Jordan. Jordan dominates its domestic market, is self-sufficient in phosphate rock and phosphate fertilizers, and is a major exporter. As noted, however, U.S. exports of phosphates to third-country markets may face increased competition if Jordan expands production and exports in this sector.

Potash

Potential impact on U.S. imports and U.S. producers

The implementation of an FTA should not affect U.S. imports, U.S. production, or U.S. employment in this sector. Imports of potash into the United States are free of duty and there are currently no U.S. imports of potash from Jordan. Approximately 75 percent to 80 percent of U.S. potash consumption is imported, mainly from Canada in the form of muriate of potash. The remainder is supplied by Russia and Germany. Arab Potash Company in Jordan has the capacity to produce 1.8 million metric tpy of potash, and 100,000 tpy of industrial and pharmaceutical-grade potash mainly from solar evaporation and crystallization of Dead Sea brine. Approximately 2 percent of Jordan's production is consumed domestically, while the remainder is exported, principally to Asia and Western Europe.

Potential impact on U.S. exports

An FTA would have no measurable impact on U.S. trade with Jordan in potash because other factors, such as high transportation costs and competitive potash pricing in the domestic market, have a greater effect than tariffs. The United States exports only small amounts of potash because domestic demand greatly exceeds production.

Textiles and Apparel

Potential impact on U.S. imports and U.S. producers

An FTA will likely lead to an increase in U.S. imports of textiles and apparel from Jordan, but will likely have a negligible effect on total U.S. imports, U.S. employment, and U.S. production of these goods.[30] [31] Most of the increase in U.S. sector imports is expected to be apparel, which represented 74 percent of the value of U.S. sector imports from Jordan in 1999.[32] Official statistics show that sector imports from Jordan are very small, having fallen from a high of $20 million in 1994 to just $3 million in 1999, representing a small portion of the $63.7 billion in total U.S. sector imports. It is believed that a small but growing amount of U.S. imports from Israel consist of garments that are assembled in Jordan from fabric cut to shape in Israel and exported from Israel to the United States free of duty as products of Israel[33] under the U.S.-Israel FTA.[34] Following the 1994 signing of a peace

[30] The Commission received comments from the United States Association of Importers of Textiles and Apparel and from Liz Claiborne, Inc., representing the Industry Sector Advisory Committee for wholesaling and retailing (ISAC 17). Both parties state that they support the negotiation of an FTA with Jordan and they recommend the rules of origin of such an agreement encompass the same as those in the U.S.-Israel FTA.

[31] A representative from the American Textile Manufacturers Institute (ATMI) expressed concern that third country fabrics could enter through Jordan, depending on the rules of origin in a U.S.-Jordan FTA. Representative of ATMI, telephone interview with USITC staff, June 27, 2000.

[32] An FTA with Jordan is not expected to have a measurable effect on U.S. imports of textiles, which includes yarns, fabrics, carpets and rugs, and made-up textiles (HTS chapter 63).

[33] Israel is the only country still subject to the pre-July 1996 rules of origin, which were in effect at the time of the FTA inception in 1985. Under the FTA origin rules for Israel, U.S. imports of apparel from Israel need only be cut into garment parts there for the article to be a product of Israel. For all other countries, the rules of origin for apparel under section 334 of the Uruguay Round Agreements Act (effective July 1996) generally confer origin on the country where the assembly occurs, rather than the country where the cutting occurs.

[34] U.S. imports of apparel (HTS chapters 61 and 62) from Israel under U.S.-Israel Free Trade Agreement totaled $398 million, in 1999, or less than 1 percent of U.S. apparel imports from all sources. Data are not available to estimate

agreement between Israel and Jordan, the U.S. Embassy in Amman reported that factories in Jordan, in cooperation with Israeli firms, began to assemble garments from Israeli-cut fabric and then truck the finished goods back to Israel for export to the United States under a "Made in Israel" label.[35] In addition, under a separate U.S. trade initiative, U.S. imports jointly made in qualified industrial zones (QIZs) in Jordan and Israel enter free of duty. Such QIZ shipments totaled $159,000 in 1999.[36]

The trade-weighted average U.S. tariff on textiles and apparel imports from Jordan is 12.7 percent ad valorem, for textiles and apparel based on 1999 trade, and 15.6 percent for apparel alone, representing 75 percent of such imports. Assuming that an FTA with Jordan will contain the same (section 334) rules of origin for this sector that the United States applies to nonpreferential imports of textiles and apparel from all countries except Israel, the expected import increase from Jordan likely will include the apparel currently eligible to enter free of duty as a product of Israel under the U.S.-Israel FTA and under the QIZ program. In addition, an FTA containing the nonpreferential rules could make apparel that is assembled in Jordan from third country (e.g., Asian) fabric eligible for duty-free entry.

Jordan's major export market for sector goods is the EU, which accounted for about 40 percent of its sector exports in 1999; the United States accounted for about 9 percent.[37] The Jordanian textile and apparel sector is a major source of economic activity for the country, employing 12 percent of its manufacturing workforce.[38]

Potential impact on U.S. exports

An FTA with Jordan will likely lead to a negligible increase in U.S. exports of textile and apparel to Jordan. U.S. sector exports to Jordan in 1999 totaled $5.5 million, or less than 1 percent of total U.S. sector exports. Most of these exports to Jordan in 1999 consisted of used clothing and rags (40 percent) and artificial filament tow and cotton and manmade fiber fabrics (35 percent).

[34]-*Continued*
what share of U.S. apparel imports under the U.S.-Israel FTA are apparel products assembled in Jordan.

[35] U.S. Department of State telegram No. 001859, "Jordanian Firms Seek QIZ Status," prepared by U.S. Embassy, Amman, March 3, 1998.

[36] Pub. L. 104-234 of Oct. 2, 1996, amending the U.S. Israel FTA Act. U.S. legislation enacted in 1996 provided for the establishment of QIZs in Israel and Jordan and Israel and Egypt from which goods can enter the United States free of duty. The purpose of the legislation was, in part, to promote economic cooperation among Israel, Jordan, Egypt, and the Palestinian Authority.

[37] Export data for Jordan are from Central Bank of Jordan, *CBJ Monthly Statistical Bulletin*, found at Internet address *http://www.cbj.gov.jo/docs/*, retrieved June 22, 2000.

[38] Amman Chamber of Industry, found at *http://www.aci.org.jo/*, retrieved June 20, 2000. The Amman Chamber of Industry is a nonprofit organization representing 97 percent of Jordanian manufacturing firms.

Vegetables

Potential impact on U.S. imports and U.S. producers

Jordan is a major producer of vegetables, both for domestic consumption and for export.[39] In recent years, fresh fruit and vegetable production has accounted for about 60 percent of the value for annual Jordanian agricultural production.[40] Tomatoes are the major vegetable produced in Jordan, followed by substantial production volume of potatoes, cucumbers, and olives. A number of other vegetables also are produced in significant quantities.[41] Most vegetable production in Jordan is on irrigated land and the success of such production is directly related to the availability of water[42] from rain and deep wells.[43] All of the vegetables currently grown in Jordan also are produced in the United States, in most cases quite economically and in more than sufficient quantities to meet U.S. demand. Although Jordanian exports of fresh vegetables have risen since the early 1990s, these exports generally have been limited to such countries as United Arab Emirates, Bahrain, Lebanon, Qatar, Kuwait, and other Arab countries.[44] Transportation costs from Jordan to the United States, together with the perishable nature of many fresh vegetables, would seriously limit Jordanian exports to the United States, except perhaps if shipped by air. Thus, an FTA will likely have no more than a negligible effect on U.S. imports of vegetables and, subsequently, little impact on U.S. production of the goods and U.S. employment of these producers.

[39] United Nations, Food and Agricultural Organization, found at Internet address *http://apps.fao.org*, retrieved June 26, 2000.

[40] U.S. Department of Agriculture, Foreign Agricultural Service, "Agricultural Situation Annual Report," report no. JO7001, Sept. 1997, p. 14.

[41] United Nations, Food and Agricultural Organization data.

[42] U.S. Department of Agriculture, Foreign Agricultural Service, "Drought in Jordan," ATO Activities Report, report no. JO9001, Apr. 8, 1999, pp. 1-2.

[43] According to a government source, Jordan is currently experiencing its worst drought since the 1960s.

[44] "Agricultural Situation Annual Report," AGR report no. JO7001, Sept. 1997, p. 1.

Potential impact on U.S. exports

A U.S.-Jordan FTA will likely have a negligible effect on total U.S. exports of vegetables. Although the United States is a major global producer and significant exporter of vegetables, U.S. exports to Jordan historically have been very small. Although Jordan is described as heavily dependent upon food imports, vegetable imports have been minimal and were often those items entered during the off season for Jordanian production.[45] With an overall population of only 4.5 million and a growth rate of 3.5 percent annually, Jordanian demand for vegetables is somewhat limited.[46] Jordanian vegetable production includes a wide variety of items produced using modern technologies of drip irrigation systems and plastic greenhouses. As a result, Jordan has attained self sufficiency in the production of most common vegetables. Prices of domestically produced agricultural products have risen 6 percent annually in recent years.[47] Fertilizer is available in adequate supplies, and its usage has increased dramatically on irrigated lands. Although agricultural production was down in 1998-99, compared with production in 1997-98, production was still higher than usual. Finally, the EU also is a major global producer and exporter of vegetables and will likely remain a major supplier to, and competitor of, Jordan due to their relative proximity to the Middle East.

Partial Equilibrium Analysis

For U.S. exports to Jordan, three sectors were conducive to partial equilibrium analysis based on the volume of U.S. exports to Jordan, level of Jordanian tariffs in the relevant U.S. export sectors,[48] and data availability. The three U.S. export categories defined and analyzed were: cereals other than wheat (HTS headings 1002 - 1008); electric machinery (HTS chapter 85); and machinery and transportation equipment (HTS chapters 37, 84, and 86 - 91). Wheat was not included in the cereal category because Jordanian tariffs on wheat are currently zero. Partial equilibrium analysis[49] was used to quantify the effects of elimination of Jordanian tariffs on U.S. exports in the three U.S. export categories.

Each sectoral tariff rate is the arithmetic average of ad valorem rates for 10-digit Jordanian tariff lines under (4-digit) headings in which U.S. exports to Jordan were positive. The analysis used 1998 annual data as the base year. A particularly severe drought in 1999 precluded using that year, as the model results would have been distorted by the effect of the drought on Jordanian production. The relatively small volume of U.S. imports from Jordan precluded quantitative analysis of the impact on U.S. import sectors of a U.S.-Jordan FTA.

Results

The partial equilibrium model results suggest that for the three specific product categories elimination of Jordan's tariffs would have resulted in seemingly large increases in U.S. exports to Jordan for each of these categories. However, given the low base values of U.S. exports to Jordan relative to total U.S. exports, this growth would likely have had an insignificant effect on total U.S. exports, U.S. production, or U.S. employment.

The partial equilibrium analysis suggests that had Jordan's applied tariffs (5 percent ad valorem) to U.S. exports of cereal (other than wheat) been eliminated in 1998, U.S. exports of these cereal products would likely have increased by around $2.9 million (14 percent). This value is insignificant compared with total U.S. exports of $6,495 million in 1998 of this category.

Tariff elimination would likely have had a more significant effect on U.S. exports to Jordan of electric machinery, owing in part to the relatively high level of the average applied Jordanian tariff rate to U.S. goods exported to Jordan under this category (25.5 percent ad valorem). The model results indicate that U.S. exports of electric machinery would have approximately doubled (104 percent increase) from the 1998 base level of $21.1 million to just over $43 million. Although exports in this HTS chapter would have doubled, the increase is insignificant relative to total U.S.

[45] Ibid.

[46] "Agricultural Situation Annual Report," AGR report no. JO7001, Sept. 1997, p. 1.

[47] "Agricultural Situation Annual Report," AGR report no. JO7001, Sept. 1997, p. 5.

[48] The data concordance (shown in appendix E) of U.S. exports, Jordanian total imports and exports, Jordanian production, and Jordanian tariffs required special aggregation or disaggregtion of sectors used in the qualitative analysis. For example, U.S. export data obtained from the U.S. Department of Commerce are aggregated by U.S. Harmonized Tariff Schedule. Jordanian imports and exports obtained from the Jordanian data sources were aggregated by SITC code and converted from Jordanian dinars using the Jordanian dinar-U.S. dollar exchange rate. Jordanian agricultural production data were obtained from the United Nations Food and Agricultural Organization and Jordanian manufacturing data were obtained from United Nations Industrial Development Organization. Jordanian tariffs were obtained from the Customs Department of the Jordanian Ministry of Finance tariff classification. In light of the data concordance requirements and data limitations, it was possible to construct three aggregated U.S. export sectors for partial equilibrium modeling of the impact of tariff elimination on U.S. exports to Jordan.

[49] A variant of the COMPAS 1.4 model was used for this analysis. For details on the model, see appendix D.

exports of electric machinery, which was $94,231 million in 1998.

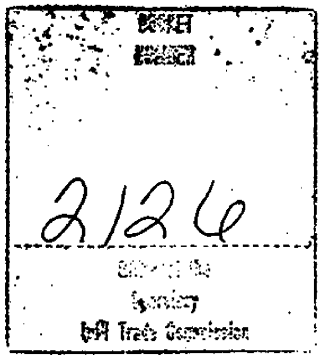
Model results suggest that had Jordan's applied tariffs on U.S. exports machinery and transportation equipment been removed in 1998, U.S. exports to Jordan of products under this category would likely have increased by $48.2 million, or 39 percent above the 1998 base level of $123.4 million. Total U.S. exports of machinery and transport equipment were $272,663 million in 1998. An increase of $48 million would not have had a measurable effect on total U.S. exports, U.S. production, or U.S. employment.

APPENDIX A
REQUEST LETTER

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

To: Dockets
cc: The Commission
OER

JUN 14 2000



The Honorable Lynn M. Bragg
Chairman
U.S. International Trade Commission
500 E Street, SW
Washington, D.C. 20436

Dear Madam Chairman:

As you know, the United States has recently announced efforts to negotiate a free trade agreement (FTA) between the United States and the Hashemite Kingdom of Jordan. To inform its considerations, the Administration has a need for objective information and advice on the potential economic impact of a U.S.- Jordan FTA.

In order to better understand the implications of such an agreement, under authority delegated by the President and pursuant to section 332(g) of the Tariff Act of 1930, I request that the U.S. International Trade Commission (the Commission) conduct an investigation and provide advice as to the economic impact on the United States of a U.S.-Jordan FTA. The advice should be provided in a report that includes an overview of the Jordanian economy; data on Jordan's patterns of trade with the United States and its other major trade partners; a description of the tariff and investment relationship between the United States and Jordan; and an analysis of any sector where there are significant economic impacts from a U.S.-Jordan FTA.

The Commission is requested to provide its final report by no later than July 31, 2000.

In accordance with USTR policy implementing Executive Order 12958 entitled "Classified National Security Information," I direct you to mark or identify as "confidential," for a period of 10 years, such portions of the Commission's report and its working papers which deal with the economic effects from this agreement on the United States. Consistent with the Executive Order, this information is being classified on the basis that it concerns economic matters relating to the national security. USTR also considers the Commission's report to be an inter-agency memorandum that will contain pre-decisional advice and be subject to the deliberative process privilege. I also request that you submit an outline of this report as soon as possible to enable

USTR officials to provide you further guidance on the extent and duration to which portic the report require classification. Based on this outline, a USTR official with original classification authority will provide you written instructions.

The Commission's assistance in this matter is greatly appreciated.

Sincerely,

Charlene Barshefsky

APPENDIX B
Federal Register Notice

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC

Economic Impact on the United States of a U.S.-Jordan Free Trade Agreement

Investigation 332-418

AGENCY: United States International Trade Commission

ACTION: Institution of investigation and Notice of opportunity to submit comments

EFFECTIVE DATE: June 19, 2000

SUMMARY: Following receipt of a request on June 14, 2000, from the United States Trade Representative (USTR), pursuant to authority under section 332(g) of the Tariff Act of 1930, the Commission instituted investigation No. 332-418, *Economic Impact on the United States of a U.S.-Jordan Free Trade Agreement.*

FOR FURTHER INFORMATION CONTACT: Victoria Chomo (202-205-3125), Office of Economics, or William Gearhart of the Office of the General Counsel (202-205-3091) for information on the legal aspects of this investigation. Hearing impaired individuals are advised that information on this matter can be obtained by contacting the TDD terminal on (202) 205-1810.

BACKGROUND: The USTR requested that the Commission's report include the following:

- an overview of the Jordanian economy;
- data on Jordan's patterns of trade with the United States and its other major trade partners;
- a description of the tariff and investment relationship between the United States and Jordan; and
- an analysis of any sector where there are significant economic impacts from a U.S.-Jordan FTA.

The Commission plans to submit its report, *Economic Impact on the United States of a U.S.-Jordan Free Trade Agreement*, July 31, 2000. USTR indicated that the report will be classified as confidential.

WRITTEN SUBMISSIONS: The Commission does not plan to hold a public hearing in connection with this investigation. However, interested persons are invited to submit written statements concerning matters to be addressed in the report. Commercial or financial information that a person desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. The Commission's Rules do not authorize filing of submissions with the Secretary by facsimile or electronic means. All written submissions must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 C.F.R 201.8). All submissions requesting confidential treatment must conform with the requirements of Section 201.6 of the Commission's Rules (19 CFR 201.6). All written statements, except for confidential business information will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration, written statements relating to the Commission's report should be submitted at the earliest possible date and should be received not later than July 7, 2000. All

submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW, Washington D.C. 20436.

Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000. General information concerning the Commission may also be obtained by accessing its Internet server (http://www.usitc.gov).

By order of the Commission.

Donna R. Koehnke

Donna R. Koehnke
Secretary

Issued: June 20, 2000

APPENDIX C
SUMMARY OF WRITTEN SUBMISSIONS

Summary of Written Submissions

A statement was submitted on behalf of the Rubber and Plastic Footwear Manufacturers Association, the trade association representing U.S. producers of fabric-upper footwear with rubber or plastic soles, protective footwear and slippers, as well as suppliers to those manufacturers. The Association recommends that products in Chapter 64 of the Harmonized Tariff Schedule be excluded from a U.S.-Jordan FTA. It states that any further erosion in the duty structure of this industry would cause a further decline in U.S. production. The Association indicates that while there is no current competitive threat by Jordan to the domestic rubber footwear industry, elimination of duties on the products of this industry[1] would prove to be an enormous incentive for the creation of an export-oriented rubber footwear industry in Jordan.

The United States Association of Importers of Textiles and Apparel (USA-ITA), which represents more than 200 importers, manufacturers, distributors, retailers, and related service providers, stated that it supports the negotiation of a FTA with Jordan. It recommended the terms of such an agreement, including the rules of origin, to closely parallel those in the U.S.-Israel FTA. USA-ITA suggested that Jordan's textile and apparel industry has the capacity to grow beyond its current level.

Liz Claiborne, Inc. submitted comments on behalf of the Industry Sector Advisory Committee for Wholesaling and Retailing (ISAC 17) in support of a free trade agreement between the United States and Jordan. ISAC 17 stated that they believe a free trade agreement with Jordan would have minimal impact on the U.S. textile and apparel industry because Jordan is such a small supplier to the U.S. market in terms of both quantity and value. The ISAC recommended that a free trade agreement encompass the same rules of origin that exist under the U.S.-Israel Free Trade Agreement.

[1] The Association states that duties on products of this industry average about 40 percent.

APPENDIX D
Background Information on Partial-Equilibrium Analysis

This appendix provides background information on the partial equilibrium methodology applied in the analysis of a U.S.-Jordan FTA.

The Model

The model is the log-linear version of the COMPAS 1.4, which was developed by Joseph F. Francois and H. Keith Hall.[1] By allowing for comparisons between the pre-and post-liberalization economic and trade situation in the partner country, the model estimates shifts in favor of U.S. suppliers in the partner country's home markets.[2] The model is designed to quantify increased demand for U.S. exports under various scenarios of trade liberalization. It is run separately for each market considered critical for the overall assessment.

Additional Considerations

Formal, model-based analysis, such as the one described in this appendix, has important advantages relative to drawing conclusions from simple statistical comparisons and extrapolations. The equation system of the model, combined with an empirically sound parametrization, reflects the fundamentals of economic theory and applied trade analysis. For example, models such as the one applied in the current analysis, screen out historical fluctuations in production levels and exchange rates, allowing for a clearer identification of the consequences of trade liberalization.

The partial-equilibrium analysis performed also has some limitations. Most importantly, it did not take into account possible trade liberalization agreement(s) between Jordan and countries other than the United States. Such agreement(s) could alter the magnitude of projected increases in U.S. exports. Moreover, no explicit account was taken of Jordan's nontariff barriers.

In the current application, each Jordanian sector analyzed has three sources of supply: Jordanian domestic production, imports from the United States, and imports from other sources. Products supplied from the three sources are regarded as imperfect substitutes.[3]

In its current application, the model estimates the effects of a U.S.-Jordan FTA on U.S. exports by recalculating the equilibrium prices and quantities with Jordanian import duties applied to U.S. imports set to zero. (Import duties applied to products from the rest of the world remain intact). The magnitude of the effect depends critically on the level of preliberalization protection, the own-price demand elasticity, the cross-price demand elasticity, and the price elasticity of supply. The demand elasticities, in turn, depend on the market shares of the three sources of supply, the aggregate demand elasticity for all goods in a given sector, and (for the cross-price elasticities) the elasticity of substitution among goods from the different sources. In general, for a given set of elasticities, larger tariff reductions imply larger trade flows and relative market shares. The staff performed sensitivity analysis for each sector analyzed, but reported only the midpoint estimates.

Data and Parameters

The model uses production, trade and tariff data. Production data for manufacturing (3-digit ISIC version) came from *UNIDO Industrial Statistics Database* (published by the U.N. Industrial Development Organization.) Data from the *World Economic Development Indicators* (published by The World Bank) were used to update manufacturing data to 1998 levels. The data on trade

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[1] See Joseph F. Francois and H. Keith Hall, "Partial Equilibrium Modeling," in *Applied Methods for Trade Policy Analysis*, Cambridge University Press, 1997, Joseph F. Francois and Kenneth A. Reinert eds. For documentation, see "COMPAS: Commercial Policy Analysis System, Version 1.4, May 1993," (Washington: USITC Office of Economics, Applied Economics Division, processed).

[2] Markets correspond to product sectors or selected product groups.

[3] The assumption of imperfect substitution in horizontally linked markets is frequently applied in international trade analysis. See P.S. Armington, "A Theory of Demand for Products Distinguished by Place of Production," *IMF Staff Papers*, March, 1969, and USITC, *Potential Impact on the U.S. Economy and Industries of the GATT Uruguay Round Agreements*, USITC publication 2790, June 1994.

came from the *U.S. International Trade Commission Data web*, the *FAO Statistical Database* (published by the U.N. Food and Agricultural Organization), and the *Central Bank of Jordan*. The *International Financial Statistics* (published by the International Monetary Fund) were used to convert values from the Jordanian currency (dinar) into U.S. dollars. Tariff data for the analysis came from the *Jordan Customs Department, Ministry of Finance*. The model requires market behavior parameters (elasticities of demand, elasticities of supply, and elasticities of substitution). Parameters for the current application were obtained from the literature and from staff research.[4]

[4] The major sources of elasticities used in this study are USITC, *Potential Impact on the U.S. Economy and Industries of the GATT Uruguay Round Agreements*, USITC publication 2790; June 1994, the Global Trade Analysis Project (http://www.agecon.purdue.edu/gtap); and Gary C. Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment* (Washington, D.C.: Institute for International Economics, 1993).

APPENDIX E
Sector Concordance for Partial Equilibrium Analysis

Sector Concordance For Partial Equilibrium Analysis

For each of the three sectors in the analysis, this concordance defines the Harmonized Tariff System (HTS) categories for tariff and trade data, the Standard International Trade Classification (SITC) for the Jordanian trade data, the United Nations' Food and Agricultural Organization (FAO) for agricultural production, and the International Standard Industry Classification (ISIC) for manufacturing output data.

Table E-1
Data concordance for the partial equilibrium model

Category	HTS	SITC	ISIC/FAO	Notes
Cereals (other than wheat) . . .	1002-1008	041	FAO	Corn, rice, sorghum, barley; excluding wheat and meslin
Electric machinery	85	76, 77	383	
Machinery and transport equipment	37, 84, 86-91	71-75, 78, 79, 87, 88	382, 384, 385	Computers, instruments, and transport equipment

Source: USITC staff.