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‘Greater Chinese’ Global Production Networks in the Middle East: The Rise of the Jordanian Garment Industry

Shamel Azmeh and Khalid Nadvi

ABSTRACT

The expansion of ‘Greater Chinese’ capital from mainland China, Hong Kong and Taiwan into other parts of the developing world is increasingly noted. It is especially prominent in sub-Saharan Africa where Greater Chinese investments, firms and workers are found across a wide range of activities, from the extractive commodity sectors, to infrastructure projects, agriculture and manufacturing. One region where Greater Chinese investment is less well studied is the Middle East. This article focuses on the case of Jordan. Jordan has rapidly emerged as an important supplier of apparel to the United States, a consequence of a distinct preferential trade agreement. The article charts the ways in which this preferential trade agreement has stimulated the shifts of Greater Chinese garment manufacturers to Jordan. Using a global production networks (GPN) framework, and drawing on primary and secondary evidence, it assesses the dynamics behind Greater Chinese investments into Jordan; it also explores the ways in which Greater Chinese garment producers operating in Jordan organize their supply chains and are linked into the global garments GPNs. Finally, it considers the relationship between such capital flows and the influx of Asian migrant workers into the Jordanian export garment sector.

INTRODUCTION

The entry of ‘Greater Chinese’ investors (from mainland China, Hong Kong and Taiwan) into other parts of the developing world has been well documented (Henderson and Nadvi, 2011; Kaplinsky and Messner, 2008; Williamson and Zeng, 2009; Yeung, 2004; Brautigam, 2009). The drivers behind this include China’s need for primary commodities; the search for new markets for Chinese manufactured goods and services; and the development

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of new manufacturing locations for Chinese producers. This latter motivation is often spurred by market access trade preferences provided by the United States (US) and the European Union (EU) to low-income developing countries to promote the growth of their manufacturing industries. Consequently, there is increasing evidence of trade-led 'Greater Chinese' manufacturing investments, and aid, into sub-Saharan Africa and Latin America (Gibbon, 2003; Jenkins et al., 2008; Kaplinsky and Morris, 2008; Brautigam, 2009). There is also much debate on the developmental efficacies of such forms of investments on local economies and local producers, and on working conditions and labour practices in overseas Chinese firms (Haglund, 2009; Lee, 2009).

One region where the spread of Greater Chinese investment has not been analysed is the Middle East. Although rapid growth in trade flows between Greater China and the Middle East and North Africa (MENA) region has occurred over the last few decades, investment flows between these regions remains limited. There are small amounts of capital flows concentrated in the energy sector and limited capital flows into export-oriented activities (World Bank, 2008). This pattern seems, however, to be slowly changing. The Chinese state is showing more interest in investing in manufacturing, services and logistics in a few Middle Eastern countries. In Egypt, for example, a Chinese state initiative has led to the establishment of a 'Chinese industrial zone'. Private Greater Chinese firms are also moving to the region: one example is Greater Chinese investments in the so-called Qualifying Industrial Zones of Jordan and Egypt. The arrival of these firms is a direct consequence of the preferential access to the US market offered through a unique trade arrangement. As a result, Greater Chinese firms have contributed significantly to the creation of an export garments industry in Jordan, with export volumes to the US growing spectacularly from US\$ 10.5 million in 1996 to US\$ 1.25 billion in 2006.

This article investigates the flows of Greater Chinese capital into the Jordanian export garment sector. This experience is not representative of the wider MENA region, but a unique case study that has emerged as a consequence of a particular set of geopolitical alignments that have created a space for such forms of Greater Chinese involvement. It is this that begs analysis. Over the last fifteen years Jordan has emerged as an important supplier of apparel to the United States. In 2006, it accounted for a bigger share of the US market than more established MENA apparel exporters such as Egypt, Morocco and Tunisia. It also outstripped countries with larger and more diversified industrial capabilities in this sector such as Turkey, South Korea and Taiwan, and leading Central American apparel exporters to the US such as Nicaragua and Costa Rica.

This dramatic rise of Jordan as a supplier of clothing to the US is a direct result of the Qualified Industrial Zone (QIZ) agreement which was signed between the United States, Israel and Jordan in 1997. The agreement grants goods produced in the 'qualified zones' of Jordan duty-free and quota-free

access to the US market as long as these products contain a certain percentage of Israeli input. The QIZ is a unique trade agreement from a political economy perspective, reflecting wider regional, global and geopolitical trends in the 1990s. It emerged directly from the US's attempts at the time to forge a peace process in the Middle East between Israel and its Arab neighbours. The underlying belief was that such an agreement could help cement the peace process resulting in economic dividends from trade between Israel and its Arab neighbours.

The QIZ is essentially an 'add-on' to the US–Israel free trade agreement (FTA). It applies only to the two Arab countries that have signed a peace treaty with Israel: Jordan and Egypt. Jordan became a signatory to the QIZ in 1997, Egypt followed in 2004. Prior to the QIZ, Jordan had no textile and apparel industry. The preferential market access offered by the QIZ could only be exploited through the creation of new manufacturing facilities in the designated QIZ zones and the building of linkages with US buyers. This took place through the entry of foreign garment manufacturers into Jordan. Most of these firms came from Asia, particularly Hong Kong, Taiwan and India. These firms integrated Jordan into their expanding and highly dynamic regional and global production networks that served their US buyers.

This article looks into the flow of companies from Greater China into the qualified zones of Jordan. It investigates the factors that led to their investment in Jordan and how this move can be understood within the context of the global production networks in which these firms are integrated. The core question is, how did the introduction of the QIZ in Jordan affect the globalization strategies of Greater Chinese capital and with what consequences? We use the analytical framework of global production networks analysis (Coe et al., 2008; Henderson et al., 2002) to assess the ways in which Greater Chinese garment manufacturers located in Jordan are linked in to wider global markets and their local and external sourcing relations. In conducting this analysis, the paper draws on secondary trade data and primary interviews conducted with government officials, international donors, local civil society organizations and a number of leading Greater Chinese owned garment manufacturers located in Jordan. The article is organized as follows. The first section outlines our theoretical framework, while the second provides a brief overview of the externalization of Chinese capital. The following sections then consider the political economy of the QIZ; review the QIZ agreement and the emergence of Jordan as a supplier of ready-made garments to the US market; and discuss the flow of Chinese firms into the qualified zones of Jordan, as well as their locational practices. Finally, the paper considers the implications for labour as a consequence of the QIZ, before offering some conclusions.

GLOBAL PRODUCTION NETWORKS AND THE INTERNATIONALIZATION OF BUSINESS

The global expansion of Asian capital has received growing attention in recent years (Henderson and Nadvi, 2011; Lall, 1983; Yeung, 1994, 2004). A number of studies have looked at this through the lenses of international business (IB) and the determinants of firm behaviour with regard to foreign direct investments (FDI) (Buckley et al., 2007; Child and Rodrigues, 2005; Deng, 2007). Others have questioned the extent to which 'conventional' FDI theories are equipped to deal with the global expansion of firms from the developing countries in general, suggesting that new theoretical frameworks are needed to capture this phenomenon (Boist and Meyer, 2008).

A key characteristic, somehow overlooked in the IB literature, is the fact that many of these firms are expanding internationally in response to the dynamics taking place within the global production networks (GPNs) in which these firms are integrated. This is evident in the case of firms from Taiwan where the upgrading of the local economy and the downward price pressure from overseas buyers forced labour-intensive, cost-sensitive producers to relocate to other lower cost locations in mainland China and elsewhere (Dunning et al., 1996). Recent studies suggest a similar process is underway in mainland China as cost-sensitive producers relocate from the higher cost coastal regions to cheaper production locations either further inland in mainland China or abroad (Wang et al., 2008; Zhu and Pickles, 2013).

This aspect seems to be absent from the majority of theoretical and empirical studies on the global expansion of firms emanating from the IB literature. Although a strand of the IB research on internationalization has argued that the global expansion of firms needs to be analysed from a 'network' perspective (Coviello, 2006; Johanson and Vahlne, 2009), the nature of these networks and the way they drive the firm-specific locational strategies remains weakly theorized. The focus is largely on how such networks provide firms with assets they can use in their internationalization strategies rather than how the structure and the power dynamics in such networks drive the global expansion of firms.

In our view the GPN framework (see Coe et al., 2004; Coe et al., 2008; Henderson et al., 2002) offers a more useful basis to unpack the global expansion of Greater Chinese firms and understand how different, multi-scalar dynamics drive this process. There are a number of reasons for this. First, the basic definition of the globalized firm in GPN theory allows us to capture key elements which are critical in today's economic environment. Most literature on internationalization of firms considers, either explicitly or implicitly, that an internationalized firm is one with operations in more than one country. The GPN framework, however, emphasizes coordination and control and the functional integration of these operations across countries. Dicken defines a 'global firm' as one: 'that has the power to co-ordinate

and control operations in a large number of countries (even if it does not own them), but whose *geographically-dispersed operations are functionally-integrated*, and not merely a diverse portfolio of activities' (Dicken, 2003: 30, italics in original). This allows us to focus on the issue of control rather than of ownership which, despite recent theoretical developments (see, for instance, Narula and Dunning, 2009), remains deeply rooted in most empirical studies on global expansion of firms.

Second, the GPN framework allows us to investigate how the geography of the network as a whole is shaped and, accordingly, how the locational strategies of different firms are determined. To understand this, it is imperative to understand the networks into which such firms are integrated and how the position of the firms within the networks influences their ability to move in and out of different locations. The notion of 'strategic coupling', used in a number of GPN studies (see Yeung, 2006), shows how economies of scale and scope are produced through complementing the local assets of a certain region or country with the assets of global production networks. This captures these two aspects of the internationalization process in a more dynamic and dialectical fashion.

Third, a key shortcoming of most of the research within the internationalization discourse is that it is highly focused on the firm-specific elements and largely stops short of linking firm-level analysis with the broader economic and political shifts at different geographical scales. Even issues such as the impact of trade preferences on the locational strategy of firms are largely absent. The multi-scalar nature of the GPN framework allows us to address this shortcoming by unpacking the firm and understanding how the embeddedness of firms in different socio-economic structures drives the way firms perceive their position in the global economy and how they behave in this economy. This focus on embeddedness and on the institutional framework of different firms within the network, and of the network as a whole, is highly important particularly in the case of firms from emerging economies. As Yeung (1994: 307) puts it: 'Transnationalisation is not a simple once-and-for-all decision based on some unrealistic rationality and perfect information. It is a social outcome based on a complex myriad of dynamic interactions between actors in the economy, society and institutions over a differentiated time-space surface'.

The GPN framework (and the cognate global value chains framework)¹ is directly concerned with the way production and trade are organized at a global scale and thus with the spatial strategy of business firms. This, essentially, represents the internationalization strategy of these firms. Little effort, however, has been expended to study the globalization of firms through the lenses of these networks and to understand how such dynamics at the level of the network, and in different nodes within the network, shape

1. For a comparative overview of the distinct features, commonalities and differences between the GPN and global value chains (GVC) frameworks, see Bair (2008); Parrilli et al. (2013).

the globalization strategies of different firms. In fact, one of the mooted points in the GVC/GPN literature is how those networks are established, what factors drive this process and drive later changes in the geography of the network. This is evident, for instance, in the case of suppliers from emerging economies, often termed the 'Rising Powers', who are still largely perceived as passive partners in the production networks of 'global lead firms'. This is despite the fact that many of these Rising Power firms have built extended and functionally-integrated production networks crossing different countries, becoming global firms in their own right. In many cases, this arises as a response to the dynamics taking place within the global production networks in which these firms are integrated.

THE EXTERNALIZATION OF 'GREATER CHINESE' CAPITAL

The global expansion of Greater Chinese firms, the drivers behind this process and its geographical spread have received particular attention in the IB literature (see Ramamurti and Singh, 2009, especially Williamson and Zeng, 2009). A large body of this research took place within the framework of the 'Chinese capitalism' school. This looked at the expansion of Chinese capital throughout East and Southeast Asia, focusing on how cross-country ethnic and social networks facilitated the expansion of Chinese capital in Asia (see Crawford, 2000; Redding, 1993; Standifird and Marshall, 2000). While this offered important insights into the externalization of Chinese capital, the culturalist focus of this discourse, portraying a stereotypical image of Chinese firms that highlights the role of 'Guanxi', 'Bamboo Networks' and 'Confucian values', limits its applicability to parts of the world where Chinese ethnic linkages are absent.

Starting in the late 1980s/early 1990s, the global expansion of Taiwan-based firms attracted growing attention. Dunning et al. (1996) highlighted the role of structural shifts in the domestic economy in pushing Taiwanese companies to shift their labour-intensive activities to countries with cheap and abundant labour. Most of the focus within this research agenda was on the movement of Taiwanese firms across the strait into mainland China and how this move could be understood within the framework of regional and global economic dynamics (see for instance Ash and Kueh, 1993; Chiu and Chung, 1993; Leng, 1998; Zhang, 2005). A number of studies looked at the determinants of location of Taiwanese investments into mainland China, exploring the impact of productivity, investment incentives, network linkages and other factors in the locational choice of the firm (Aw and Lee, 2008; Lin, 2010; Lo et al., 2010). One of the few studies which highlighted the importance of 'buyer-driven internationalization' was Chen's (2003) study on the internationalization of Taiwanese electronics firms. Based on a number of case studies, Chen argued that the foreign direct investments of these companies 'serve primarily to maintain the buyer relationship' and

that buyers 'may dictate the timing and locations of their contractors' FDI' (ibid.: 1118).

More recently a number of studies have applied the 'conventional' internationalization models to Chinese outward investments. This has led to a debate on the extent to which such models can explain the expansion of Chinese firms, or whether a 'special theory' is needed to account for the case of the globalization of Chinese firms (Alon et al., 2011; Buckley et al., 2007; Child and Rodrigues, 2005; Tang, 2011). Most of these studies highlighted the importance of issues such as access to technology, quest for strategic resources, network linkages, and state support through the 'go global' strategy as the main reasons behind the global expansion of Chinese firms. A different explanation was provided by Boist and Meyer who argued that Chinese firms go abroad as part of an 'institutional arbitrage' process in order to 'capture advantages of the same legal and economic protections outside China enjoyed by foreign firms operating within China' (Boist and Meyer, 2008: 361).

Chinese investment into other parts of the world is receiving growing academic attention. In sub-Saharan Africa, for example, state-centred approaches analyse this process as part of the geopolitical rise of China and its quest for natural resources (Mohan and Power, 2008). Less attention has been given to firm-level linkages. Some studies do, however, highlight the role of trade preferences in driving firm-level linkages through a triangular manufacturing model. A pre-eminent example of this has been production networks that ensued from the US's African Growth and Opportunity Act (AGOA) which provided preferential access for African manufactured goods to the US market. AGOA effectively integrated a number of African countries, particularly Lesotho, Madagascar and Swaziland, into the triangular manufacturing networks of Asian garment suppliers to the US. Most of the Asian firms involved in this type of relations came from Hong Kong and Taiwan (Gibbon, 2003; Kaplinsky and Wamae, 2010; Lall, 2003; Morris and Sedowski, 2006) although very little firm-level information is available on these companies. The QIZ, as we will argue, appears to have had a similar impact in Jordan.

THE POLITICAL ECONOMY OF THE QIZ

The Qualifying Industrial Zones (QIZ) Agreement has a unique political economic history in both a regional and a global sense. It is directly linked to the US–Israel free trade agreement of 1985. It extends similar duty-free access to US markets for goods manufactured within the QIZ zones that are outside Israel but have a minimum level of Israeli components. Importantly, unlike most preferential trade agreements instigated by the US, the QIZ has no expiration dates and is not subject to renewals by the US Congress.

The QIZ was envisioned during the time when the Oslo peace process between Israel and Palestine was at its height. It was felt that regional peace could soon be achieved and that regional economic cooperation could help create a 'new Middle East' in which trade, economic integration and prosperity might replace decades of conflict. This vision of the New Middle East was linked to the broader globalization rhetoric that became dominant in world politics at the time, in which the political and economic harmonization of the world, accompanied by new technological developments, was perceived as leading to the creation of a new global village (Ben-Porat, 2005). Within this vision, Israeli businessmen saw a special position for Israel as the dynamo of the region and a hub for high value added activities from which regional control and command activities could be orchestrated, covering the broader economic hinterland created by the peace process. The president of the Federation of Israeli Chambers of Commerce, Dan Gillerman, stated in 1993 that:

Israel could become just another state . . . or, it could become the strategic, logistic and marketing center of the whole region like a Middle Eastern Singapore or Hong Kong where multinational companies base their head offices. . . we are talking about an utterly different economy . . . Israel must act and fast to adjust or this once in a lifetime economic opportunity will be missed only for us to say: 'we could have'. (Gillerman, cited in Ben-Porat, 2005: 50)

While such aspirations could be seen as regionally problematic within the Arab world, especially given Israel's continuing occupation of Palestinian territories, there were, nevertheless, economic benefits and potential business linkages to be exploited, especially by some of Israel's Arab neighbours. Consequently, a number of regional trade initiatives were proposed in different regional political and economic fora. During the Amman Economic Summit in 1995, a Regional Business Council was established to facilitate joint business ventures between Israeli and Arab businessmen.² The United States, to incentivize this exchange, offered to extend the advantages of the US-Israel FTA to designated 'border areas' between Israel and its peace partners (Kardoosh and Al Khouri, 2005). In 1996, the US congress amended the US-Israel Free Trade Agreement to include products from the West Bank and Gaza and from other 'qualifying industrial zones' from neighbouring countries.

For Jordan, in particular, the QIZ was an attractive proposition for the preferential access it offered to US markets. It generated an opportunity to develop an export manufacturing sector, thus reducing Jordan's economic dependence on remittances and tourism. The fact that the agreement was offered when the number of US preferential trade agreements was limited and when Multi-Fibre Arrangement (MFA) quotas still governed trade in garments was an added incentive. Political opposition to the QIZ agreement in Jordan was muted, unlike Egypt where the QIZ was challenged on

2. For further details, see Bouillon (2004).

both political and economic grounds, allowing the Jordanian government to rapidly implement the QIZ (Nugent and Abdel-Latif, 2010).

In 1997 Israel and Jordan signed an agreement to create the Al-Hassan (Irbid) Qualifying Industrial Zone. In 1998, the United States Trade Representative (USTR) designated Al-Hassan as the first Jordanian QIZ. Other industrial areas were designated as qualifying zones in the following years. Most firms, however, are concentrated in three main zones: Al-Hassan, Al-Tajamouat Zone near the capital Amman, and Ad-Dulayl Industrial Park, 45 km northeast of Amman.

THE QIZ AND JORDAN'S EVOLUTION AS A LEADING US GARMENT SUPPLIER

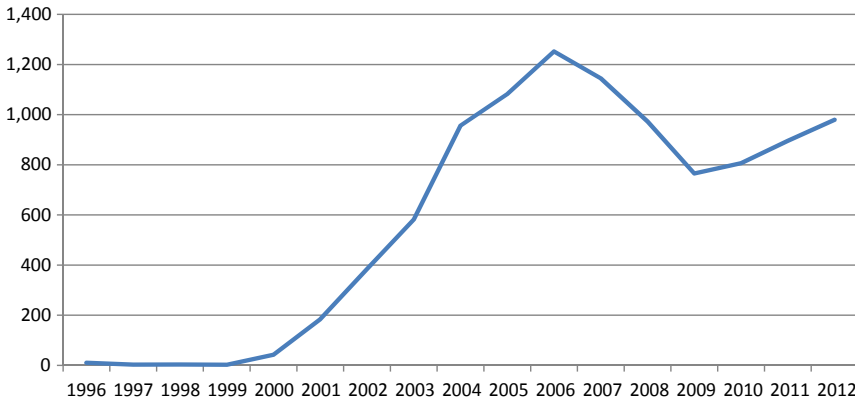
The QIZ agreement granted duty- and quota-free access into the US to products from the Jordanian QIZ areas as long as these products met the stipulated rules of origin requirements. While different combinations of rules of origin were accepted, the most commonly used method was that 35 per cent of the final value of the product had to be generated in the QIZ of which 8 per cent must be Israeli content.³

At the time, Jordan had a limited industrial base in the textile and garments sector. As stated earlier, the country was not a historically important producer of textile and garments in the region. This reflected the small domestic market and the absence of local inputs. The relatively liberal economic policies of the Jordanian government in the second half of the twentieth century also played a part. Less focus was given to import-substitution policies in Jordan, in contrast with many neighbouring Arab countries where more socialist-leaning regimes considered local industrialization and import-substitution as key economic objectives. Hence in 1993, for instance, textile and garments products accounted for 8.41 per cent of manufactured Jordanian exports in comparison to a corresponding share of 52.9 per cent in Egypt, 58.9 per cent in Syria, and 51 per cent in Tunisia (UNCTAD, 1994, cited in Bolbol, 1999). In terms of exports to the United States, Jordan accounted for less than 1 per cent of MENA ready-made garments exports to the US in 1996.

The impact of the QIZ on ready-made garment exports from Jordan to the US was dramatic, rising from US\$ 42 million in 2000 to US\$ 1.25 billion in 2006 (see Figure 1). During this period Jordan became the eighteenth biggest garment supplier to the US market, overtaking Taiwan, Korea and Turkey. In 2006, Jordan accounted for 48.5 per cent of the total garments exports from the MENA region to the US (up from less than 1 per cent a decade earlier). Throughout the second half of the 2000s, apparel exports from Jordan — a relatively high-cost, almost landlocked country with a population of around 6 million and no history in textiles and apparel — were comparable to, and

3. For a more detailed explanation, see Kharis et al. (2010).

Figure 1. Garments Exports from Jordan to the US (knitwear HS 6 and woven garments HS 62, US\$ millions)



Source: United States International Trade Commission (USITC) (<http://dataweb.usitc.gov/>)

at times higher than, total apparel exports from all AGOA countries to the US.

This spectacular increase in Jordanian garments exports to the US was largely due to the arrival of many Asian firms into Jordan following the signing of the QIZ agreement. Companies from Greater China and India were dominant in this wave of FDI. By 2008, according to data from the Jordanian Ministry of Labour, the number of garment firms with more than 100 workers registered in the Jordanian qualified industrial zones stood at seventy-one, of which forty-two were wholly or partially Asian-owned, mainly from Greater China (twenty-three firms)⁴ and India (thirteen firms).⁵

Firms from Greater China became a dominant feature of the Jordanian qualified zones. In January 2007, garment companies with more than 100 workers registered as wholly or partially Chinese- or Taiwanese-owned employed around 19,000 workers, or 35 per cent of total employment in the Jordanian qualified zones. The increase in the share of Chinese firms in the qualified zones was also accompanied by an increase in the number of foreign workers in these zones. In the first few years of the QIZ programme, Jordanian workers were predominant in the qualified zones. By the second half of the decade, the picture changed dramatically with a rapid growth

4. The distinction between Chinese and Taiwanese in Jordanian data is sometimes arbitrary. Some of the firms based in Taiwan are registered as 'Taiwanese' while other firms also based in Taiwan are registered as 'Chinese'. As such, these companies have been grouped together under the name 'Greater China'.

5. It should be noted that many Chinese companies own more than one factory in the same zone in Jordan or in different zones. These different factories are registered under different names as independent companies. The actual number of firms, thus, could be lower than what is suggested by governmental records.

in migrant workers from Sri Lanka, Bangladesh, China and India. In 2008, 36,289 migrant workers were employed in the qualified zones accounting for 74 per cent of total employment in the zones. Of the migrant workers, 52.1 per cent were women.

This wave of Asian firms and migrant workers into Jordan has received very little attention. A few NGOs, particularly the US-based Institute for Global Labour and Human Rights (formerly known as the National Labor Committee) investigated working conditions in these companies (National Labor Committee, 2006). A few academic studies documented general developments in the QIZs and their linkages with the Jordanian economy (Kardoosh and Al Khouri, 2005; Saif, 2006). Very little information, however, is available about the companies that moved into these zones, their backgrounds, the drivers for their move, and how this move can be explained in the context of the growth of these firms on the one hand, and their integration in the production networks of their key US buyers on the other hand. This is particularly interesting for two reasons. First, for most of the Greater Chinese firms, the move into Jordan was a large geographical step in their global expansion in comparison to previous expansions which were centred in East, Southeast and South Asia. This is also true from a cultural perspective given that the role of ethnic Chinese networks, highlighted in previous research on the globalization of Chinese firms, was absent in Jordan. Second, the movement of these companies into Jordan underlines their role as 'carriers' of the geographical and organizational restructuring of the GPN, moving into and exiting from different locations on the basis of trade preferences, associated costs and sourcing shifts, and mobilizing different capital, managerial, labour and trade flows in this process.

GREATER CHINESE FIRMS IN JORDAN'S QUALIFIED INDUSTRIAL ZONES

We turn now to a more detailed analysis of Greater Chinese firms in the Jordanian qualified zones. The findings are based on fieldwork conducted in Jordan in 2011. This included in-depth interviews with five of the main Greater Chinese exporters based in Jordan and e-mail communication with the general manager of a Taiwan-based group which owns a factory in Jordan. A number of interviews with key informants, including the Chairman of Jordan Garments, Accessories & Textile Exporters Association (J-Gate) and the President of the General Trade Union of Workers in Textile, Garments and Clothing Industries, were also undertaken. In addition to the six companies that participated in the study, one company declined to be interviewed. Public information about this company has, however, been used in the study. Since the ready-made garments industry in Jordan is relatively concentrated, the seven Chinese companies covered accounted for around 25 per cent of

Table 1. Major Greater Chinese Garment Manufacturing Firms Operating in Jordan's QIZ

Company	Parent Company	HQ	Started investing in Jordan	Status	No. of workers ^a
Elephant Garments	Anthony Textiles	Hong Kong	2001	Operating	1,000
Sou Enterprises	Saif Group	Taiwan	2001	Operating	800
Alpen Textiles	Bees International	Taiwan	2005	Operating	400
Lewis Garments	Fibre Textiles	Taiwan	2001	Operating	1,600
Guerrero Textiles	Toro Global	Hong Kong	n.a.	Operating	2,500
Nadim Garments	Holmes Worldwide	Taiwan	2000	Operating	3,600
Eleni Unlimited	Rokia Textiles	Hong Kong	2001	Operating	800
Purohit International	Midas Enterprises	Taiwan	2004	Closed 2008	1,100
Jessica Textile	Bilal Apparel	Hong Kong	2000	Closed 2010	900
Thompson Global	Kora Textiles	Taiwan	2002	Closed 2008	800

Note: a) The data used for this column are from January 2007.

Sources: Author interviews, the Jordanian Ministry of Labour, and company websites

total employment in the Jordanian qualified zones and for about 30 per cent of total Jordanian ready-made garments exports in 2011.⁶

In addition to these seven companies, which are still operating in Jordan, publicly available information (annual company reports, company websites and other public sources) on three other companies that had closed their operations in Jordan was collected. Data on employment are based on the records of the Jordanian Ministry of Labour.⁷ As shown in Table 1, the ten companies covered came to Jordan in the first half of the 2000s. Six of them are based in Taiwan and four in Hong Kong. During their first few years of operations in Jordan these ten companies witnessed very rapid growth, with increases in employment and in numbers of migrant workers. By January 2007, total employment in the ten companies was around 13,500 workers, with foreign workers accounting for around 75 per cent of all workers in these companies.

The main market for these companies — the only market in most cases — is the US. All these companies rely for most of their business on a relatively small number of US buyers (two to three buyers each) who source around 70–80 per cent of their production. Some of the most important buyers include well-known US retail brands like Wal-Mart, JC Penney, Kohl, Macy's, Jones and Hanes. Relations with those buyers, however, are not conducted from Jordan. All ten companies operate through a triangular manufacturing model in which buyers place orders with the headquarters of the company who then allocate orders to their different factories, both within China and in offshore locations. This is done according to a number of factors such as productive

6. Names of the companies have been changed to maintain confidentiality.

7. Other Chinese companies have closed their operations in Jordan over the last few years. While some information about these companies was collected, the available data are not sufficient to include them in the study.

capacity, production costs, logistics (lead time and shipping), and product type (Appelbaum, 2008). The final products are then shipped directly from the respective factory to the US buyer. In addition to this original equipment manufacture business model, some of the companies operating in Jordan had moved into design and branding activities. A number of companies had set up design centres in collaboration with their key buyers while a few firms had launched their own branding and retailing business focusing particularly on the Asian market. Such activities, however, were handled by the headquarters of the company or in centres established in hub cities such as Hong Kong.

All of the Greater Chinese companies in Jordan are part of relatively large and globally-dispersed business groups with multiple production locations in different countries. These are mainly in Asia, particularly mainland China, Vietnam, Cambodia and the Philippines. While a few still keep some production capacities at their headquarters location, all large-scale production takes place in factories abroad. In addition to managing relationships with buyers, other activities such as strategic management and materials sourcing are handled by the headquarters. These globally-dispersed production networks are extremely geographically mobile, moving in and out of different locations in response to buyer requirements, production costs and market access opportunities. All the companies interviewed stated that the QIZ is the only reason for being in Jordan and that if the agreement were terminated or changed, they would immediately leave Jordan. A few companies highlighted the importance of the issue of labour and the Jordanian government's willingness to allow them to bring in migrant workers as an additional advantage. This allowed them to improve productivity and flexibility and, at the same time, improve their 'global flexibility' by limiting their embeddedness in a certain location and using a 'global pool of labour' that could be moved around easily.

Buyers also played a role in encouraging these firms into Jordan. In a few cases, US buyers suggested Jordan specifically to their suppliers as a possible location of production. In other cases, the companies themselves made this decision without consulting their key buyers as the move of other suppliers into Jordan was translated by such companies as an indicator of the emergence of Jordan as a production location in the industry. The importance of Jordan in the production networks of these companies differs. In a few cases, Jordan was considered to be a central cog in their global production networks. A few firms highlighted that to increase the 'value offer' to their buyers, each of their different locations of production offered a certain advantage within one 'integrated network'. One location might offer lower prices while another offered shorter time-to-market. In their networks, Jordan was the 'duty-free location' from where items which would face high rates of tariff duties if produced elsewhere were likely to be sourced. An indicator of the importance of Jordan in the production network of each firm can be seen in Table 2.

Table 2. Employment Patterns of Greater Chinese Garment Manufacturing Firms Operating in Jordan's QIZ

Company	Locations of factories^a	Employment Worldwide	Employment in Jordan^b	% of Employment in Jordan
Anthony Textiles	Mainland China, Indonesia, Cambodia, Jordan	5,000	1,000	20%
Saif Group	Burma, Vietnam, mainland China, Jordan	2,600	800	30%
Bees International	Vietnam, Cambodia, Jordan	4,100	400	10%
Fibre Textiles	Mainland China, Vietnam, Jordan	5,000	1,600	32%
Toro Global	Mainland China, Philippines, Vietnam, Cambodia, Jordan	15,000	2,500	17%
Holmes Worldwide	Mainland China, Mexico, Sri Lanka, Vietnam, Cambodia, Jordan	14,000	3,600	25%
Rokia Textiles	Mainland China, Saipan, Jordan	n.a.	800	n.a.
Midas Enterprises	Mainland China, Indonesia, Cambodia, Jordan	15,000	1,100	7%
Bilal Apparel	Mainland China, Vietnam, Philippines, Jordan	15,000	900	6%
Kora Textiles	Mainland China, Vietnam, Cambodia, Jordan	12,000	800	7%

Note: a) The list of factory locations includes companies that were opened and closed during 2000–2010.

b) These data relate to January 2007, Jordanian Ministry of Labour.

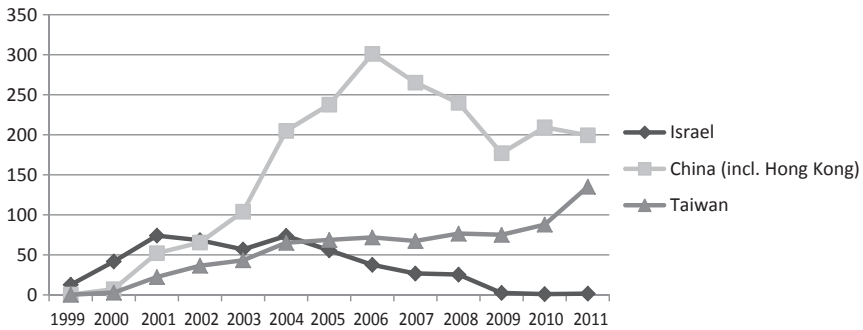
Sources: Author interviews, the Jordanian Ministry of Labour, and company websites

The rules of origin of the QIZ played an important role in this as it allowed firms to use Jordan as a final production location in their existing production networks. Unlike many other trade agreements and preferential market access schemes, the QIZ (and the US–Jordanian FTA which was signed later) does not link the duty-free access to the US with the use of materials and inputs from the US or other beneficiary country (except the 35 per cent local value and the 8 per cent Israeli input required).⁸ This means that the firms located in Jordan can import raw materials and inputs from any other country, manufacture it, and export it duty-free to the US.

This often overlooked issue of rules of origin is considered to be important by some companies for a number of reasons. First, many ready-made garment firms have operations in different stages in the textile and garments production network and prefer to integrate those activities in different locations. Second, even those firms with investments in only one stage of production could be integrated through long-term value chain arrangements with suppliers of earlier segments of production. Third, information and relationships play an important role particularly in the case of triangular manufacturing. Many of the firms that invest abroad will keep materials sourcing decisions at their global headquarters. The ability of the

8. See Ahmad (2007) for a discussion on rules of origin in different trade agreements and their impact on trade flows.

Figure 2. Imports into Jordan of Knitted or Crocheted Fabrics (HTS 60), US\$ millions



Source: UN Comtrade, reporter, Jordan (<http://comtrade.un.org/>)

headquarters to manage their global sourcing activity and the flexibility of sourcing is increased when the rules of origin do not act as an obstacle in specific production locations. Finding new suppliers who satisfy the rules of origin requires investment in information and in building new relationships. The role of buyers is important to this process. Many buyers are involved in the materials sourcing process even when production is taking place on a 'full package' basis. Buyers often provide suppliers with lists of input suppliers who meet their requirements on quality, price and working conditions. Such lists tend to be more concentrated in countries that are already established exporters of textile and garments. For a Chinese company investing in Jordan, the ability to source material from China opens up a relatively large number of suppliers from whom to source.

All the companies interviewed stated that, with the exception of the materials needed to meet the Israeli content in the final product, virtually all other inputs came from China and Taiwan. This is also reflected in the trade data in terms of Jordanian imports of fabric. Jordanian imports of HTS 60 (knitted or crocheted fabrics) increased from US\$ 5 million in 1997 to US\$ 461 million in 2006. While Israel was the main supplier of fabric at the beginning of the decade, China and Taiwan had become the main fabric source into Jordan by 2006, with Jordanian imports of HTS 60 from China at US\$ 257 million and from Taiwan at US\$ 71 million (see Figure 2).

While these companies have globalized, with geographically dispersed but functionally integrated production networks, the issue of control is more difficult to unpack. The expansion of Greater Chinese firms into Jordan was reliant on a combination of factors, namely the trade preferences enshrined in the QIZ, the pressures and demands from the small number of US buyers whom these firms supplied, and the flexibility that Jordan provided in terms of the ability to bring in migrant Asian workers. This meant that the operations of these companies in Jordan are dependent on the sourcing strategies

and performance of their US buyers. This was illustrated in the second half of the decade. In response to the declining demand in the US market during the global economic crisis, a number of key US buyers altered their sourcing strategy and consolidated their supply chains, often in collaboration with key suppliers (Gereffi and Frederick, 2010; Staritz, 2010). As Staritz (2010: 32) argues: ‘suppliers that are integrated into triangular manufacturing networks in a marginal position have been particularly hard hit by the crisis as buyers and intermediaries have transferred orders from marginal to core suppliers’.

The crisis and the changes in the sourcing strategy of buyers had an important impact on the operations of Chinese firms in Jordan. Three of the ten companies studied closed their operations during 2008–2010, while two companies interviewed in 2011 indicated that they were considering leaving Jordan, and others had scaled down their operations in the country. Total employment in the ten companies studied declined by 35 per cent from around 14,000 in 2007 to 9,000 by 2010. The firms that remained, however, experienced growth again in 2011–12 (as shown in Figure 1) leading to an increase in employment.

The degree of dependence on a small number of buyers and the fact that firms consider their operations in Jordan to be viable ‘as long as the sourcing manager of a main buyer says so’ indicates that these Greater Chinese firms view their position, and potential expansion in Jordan, purely through the lens of shifting comparative costs and the nature of their insertion into the global production networks and sourcing patterns of their US buyers. Given this situation, what is the relationship between the QIZ and labour?

THE QIZ AND ITS CONSEQUENCES: LABOUR REGULATIONS AND MIGRANT WORKERS

The importance of labour, and labour control regimes, for the shifting geographies of global production is being increasingly acknowledged.⁹ Lund-Thomsen et al. (2012), for example, illustrate how the organization of global value chains in football manufacturing is directly related to the ways in which labour is inserted into distinct forms of production organization in China, Pakistan and India.¹⁰ These arrangements shape the evolving dynamics of global production in the industry. Labour flows are also central to the Jordanian ‘success’ as an emergent global garment exporter. While the QIZ resulted in rapid and significant capital flows of Greater Chinese apparel firms into Jordan, this was directly linked to the Jordanian government’s permission to QIZ factories to employ migrant workers. As a consequence,

9. Examples include Azmeh (forthcoming); Barrientos (2008); Carswell and De Neve (2013); Lund-Thomsen et al. (2012); Neilson and Pritchard (2009); Rainnie et al. (2011).

10. On the shifting global dynamics within this sector, see Nadvi et al. (2011).

there has been an influx of Asian migrant workers from Bangladesh, India, Sri Lanka and mainland China into the QIZ zones.

Workers are brought into Jordan mainly through parent companies and recruitment agencies in Asian countries. A number of reports have highlighted how misinformation about the destination of work and debt bondages are common practices in this process (Agunias, 2011; Better Work, 2011). Following their arrival in Jordan, migrant workers are moved directly into company-controlled dormitories. Curfews are imposed and passports of workers are often held for 'safe-keeping' by the company. Shop-floor work practices in QIZ garment factories often involve long working hours, excessive overtime, and verbal and even physical abuse by supervisors to meet hourly and daily production targets. The threat of deportation is also reported to be used by firms as a disciplinary tool against migrant workers (Better Work, 2011).¹¹

The role of the Jordanian state is critical to this. In addition to the permission to bring migrant workers into QIZ factories, 'QIZ workers' were excluded from the increase in the minimum wage in Jordan in 2009 and again in 2011. While the minimum wage in Jordan is now Jordanian Dinar (JD) 190 (US\$ 268), the minimum wage in QIZ factories is JD 110 (US\$ 155).¹² Until 2010, migrant workers in the QIZ did not have the same formal rights to unionize and collectively bargain as other Jordanian workers. The attitude of the state is also important in controlling the mobility of workers particularly through the threat of deportation (TAMKEEN, 2011).

The issue of labour rights and working conditions in the QIZ cannot be understood without considering the production networks in which Greater Chinese garment manufacturers are integrated. Neu et al. (2012: 2) provide an interesting analysis of how 'the time, quality and price pressures inherent in the market for low-price apparel are passed along from the retail buyer to the buyer intermediary and then to the factory owner, and finally, to individual workers on the shop floor'. Late delivery, as the study explains, is often punished by price discounts, obliging suppliers to ship by air at their own cost, or even by the cancellation of orders which could force some suppliers

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11. Different reports by Better Work Jordan, the Jordanian Trade Union for Workers in the Textile and Garments Industry, and a number of Jordanian and US NGOs (e.g. the Amman-based NGO TAMKEEN and the US-based Institute for Global Labour and Human Rights) provide an overview of this issue. The scale of these practices is debated in Jordan between firms, the trade union, policy makers and NGOs, with many sides arguing that they were more common in the early years of the QIZ (up to 2006–07) but that a significant improvement has taken place since. Other parties involved in the industry question the degree of this improvement.
 12. The Jordanian Trade Union for the Workers in Textile and Garments campaigned to raise the minimum wage in QIZ factories to the legal minimum wage. It has reached agreement with firms to implement this for Jordanian workers. However, as the trade union acknowledges, this applies to a small percentage of workers in these factories and does not cover migrant workers. The union has reached agreements with a few individual firms to apply the minimum wage to migrant workers.

out of business. Garment producers are particularly sensitive to this pressure as they are often squeezed between the stringent delivery requirements of their buyers and their dependence on earlier stages of production for fabrics and other inputs.

The production regime needed to meet the requirements of US buyers usually demands, however, that it be built in certain socio-cultural contexts and in regions with specific labour norms and relations. This process involves time and financial investments by firms. In global production networks in which firms might enter a location only to leave in a few years, as was the case of garment firms in Jordan from 2007 to 2011, limiting the financial and time investment required to build a production and labour control regime that can 'extract' the requirements of the GPN from the local labour context gives an important advantage to producers. The ability to import migrant workers and impose a 'dormitory labour regime' in Jordan's export-oriented QIZs is a mechanism for disciplining labour and for maximizing the flexibility of workers from the perspective of the production network (see Smith and Pun, 2006; Xue, 2008). This labour regime was thus an important element in enabling Greater Chinese firms to 'ship entire factories' to Jordan, not only with their workers, machineries and managers, but also with their production and labour relations that are capable of meeting the different GPN pressures.

CONCLUSIONS

Recent shifts in the global economy, particularly the emergence of global production networks as the main organizational arrangement for globalized production and trade, have entailed significant changes in the way firms operate and the dynamics to which they are subjected. While the issue of internationalization of business firms has been studied mostly through the largely firm-centred international business perspective, the case of Greater Chinese firms in Jordan illustrates the shortcomings of this perspective. It shows how the dynamics taking place at the level of the GPN into which a firm is integrated cannot be analysed merely in terms of extra-firm factors, but needs to be analysed as an integral driver of the locational strategy of the firm. As a result of an incessant demand for lower prices by US buyers, suppliers are continuously forced to look for cheaper and cheaper production locations in order to maintain their business. Initially, this strategy focused on locations close to the home countries of these firms, particularly in mainland China and other low-income locations in Asia.

The QIZ agreement between Jordan and the United States in the mid-1990s created a new production platform which offered duty-free and quota-free access to the US market. Despite the geographical isolation of Jordan from both the production networks in Asia and the US market, and the large cultural differences between Jordan and Greater China, a number of Greater

Chinese firms moved into the QIZs thereby integrating Jordan into their triangular manufacturing networks serving the US market (an integration facilitated by the rules of origin of the QIZ). The competitive pressures of the global production networks, the requirements of global buyers, and the nature of trade preferences have not only created the need for Greater Chinese garment manufacturers to 'go global', but have also shaped the geography of their globalization strategy.

Although these companies have become global in terms of establishing globally dispersed and functionally integrated production networks, the control of these networks is more complicated than the simple ownership approach suggests. At one level, the high degree of dependence of the Chinese-owned Jordanian factories on a very small number of US buyers suggests that the buyers, and their sourcing decisions, can exert substantial leverage over the practices and locational choices of Greater Chinese firms based in Jordan. This might imply that the globalization of firms per se does not necessarily indicate a stronger position in the global economy. It could, rather, be an indicator of the relatively weaker position of garment suppliers *vis-à-vis* their buyers. This weak position is portrayed in the way these firms relocate their operations across the globe to meet the continuously-changing needs of their buyers in terms of prices and time-to-market. On the other hand, what is also clear is that these Greater Chinese firms are able to operate in very different business environments and manage very complex globalized production arrangements, moving capital, inputs, standards, workers and managers in and out of different locations. This implies a substantial element of upgrading of managerial capabilities especially in seeking out new cost-reducing market access preferences.

Looking at the Jordanian case within the broader context of the externalization of Chinese capital, the case shows similar dynamics to those observed in a number of African countries as a result of AGOA, namely, the role of trade preferences in driving such FDI, and the non-stickiness of this type of investment. The phenomenal growth in Jordanian ready-made garment exports illustrates the degree to which these trade preferences are still crucial in directing flows of trade and investments. The case also raises important questions about the developmental impact of such flows. The Jordanian case illustrates that preferential market access could lead to rapid growth in exports but the developmental impact of such growth could be limited. Linkages between the exporting QIZ firms and the rest of the Jordanian economy are very limited, largely as a result of sourcing inputs mainly from Asia but also from Israel, to meet the rules of origin. Also, employment generation has been limited with foreign workers dominant within the QIZ sector. The exclusion of migrant workers from the labour protection and labour regulatory regime in Jordan further underlines the enclave nature of the QIZ.

The case, nonetheless, raises four important issues that require further exploration. First, the issue of labour flows and their relation to the geography

and the organization of GPNs need to be studied in greater detail to develop a better understanding of the dynamics that shape labour relations in GPNs. The dominance of foreign workers (including from China) in Jordanian qualified zones make these zones an important place to study issues around migration, embeddedness and labour control regimes within the context of GPNs.

Second, the issue of rules of origin and their role in driving flows of investments across different regions is often overlooked in the GPN/GVC literature. The Jordanian case shows that to many Asian firms, the ability to source their inputs from Asia was a key attraction to locating in Jordan. This is particularly the case for firms engaged in the building of GPNs, whether through integration of different stages of production or through developing long-term relationships with other firms. Further research in different countries and sectors is needed to develop a better understanding of this issue.

Third, the shift of growth markets from the United States and Europe and the emergence of Asia, especially China, as the fastest growing market in the world have important implications on the position of Asian firms in Western-centred GPNs (Guarin and Knorringa, 2011). The success of a number of Asian firms in establishing a brand and retailing position in Asia will lead to a major shift in the position of these companies globally and in the way they engage with different locations. The emergence of Asia-centred GPNs will create new locational configurations in a number of industries and will create new dynamics in regard to geography of production, control and coordination of activities, and distribution of value at a global scale.

Finally, the QIZ agreement is unique in that it has sought to forge trade linkages within an acutely political conflict within the Middle East. Further study is needed to assess how this leads to particular engagements between the public and private actors in Jordan, Israel and the US that helped forge this agenda and negotiate the political ramifications — both regionally and globally — that have emerged from this process. Comparative analysis of the political economy of the QIZ in the other QIZ signatory country, Egypt, could help throw further light on the wider political dynamics of the process. Furthermore, at a global level, while many of the recent bilateral trade agreements that the US has negotiated have included explicit acknowledgement of minimum core labour standards, this has been excised from discussions on the QIZ. This then throws open the wider question of how politics, and political expediency, shape trade preferences and with what consequences.

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