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Transient global value chains and preferential trade agreements: rules of origin in US trade agreements with Jordan and Egypt

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Transient Global Value Chains and Preferential Trade Agreements: Rules of Origin in US Trade Agreements with Jordan and Egypt

Abstract

The impact of rules of origin (RoOs) in limiting the ability of developing countries to benefit from preferential trade agreements (PTAs) has been highlighted in the literature. One of the few US trade agreements that deviate permanently from the restrictive "yarn forward" RoOs in textile and garments is the QIZ agreement with Egypt and Jordan and the subsequent FTA with Jordan. The more flexible RoOs of these agreements have contributed to a dramatic increase in exports especially from Jordan. Examining this through the lenses of global value chains, this paper argues that these RoOs facilitated the integration of the two locations, particularly Jordan, in the highly contingent transient GVCs of Asian producers raising questions about the developmental impacts of such integration.

Introduction

The role of rules of origin (RoOs) in shaping the outcomes of preferential trade agreements (PTAs) and the ability of developing countries to exploit these agreements is an issue that has received significant research attention (Krishna and Krueger 1995; Estevadeordal and Suominen 2004; Anson et al. 2005; Augier et al. 2005). One of the key outcomes of this literature is the negative impact of restrictive RoOs in north-south trade agreements on the ability of developing countries to exploit the opportunities created by PTAs and also in limiting the potential for upgrading in these countries (Pickles and Godfrey 2013). RoOs in such agreements are often seen, and rightly so, as protectionist measures imposed by the developed countries mainly as a result of lobbying by industries within these countries. Stiglitz and Charlton (2004) argue that preferential trade schemes have limited impact on the exports of least developed countries and that stringent RoOs are a key factor in this. The role of restrictive RoOs has been particularly highlighted in the textiles and apparel industry. Frederick and Gereffi (2009) argued that RoOs should be relaxed to encourage apparel assembly in least developed countries while Bair & Dussel Peters (2005), looking at the cases of Mexico and Honduras, argued that the RoOs that largely reflect the prerogatives of US textile manufacturers are unlikely to help fostering development in those countries. The role of RoOs in limiting south-south trade has also been highlighted (Barber, et al. 2004). This has led many researchers and non-governmental organisations to argue that these rules harm development and that adopting less restrictive RoOs will increase the developmental impacts of PTAs (Augier et al. 2004; Barber et al. 2004; Hinkle and Schiff 2004; Stiglitz and Charlton 2004; Anson et al. 2005). The notion that such rules could function in a similar way to local content requirements and may encourage industrial development has been criticised particularly in the context of the fragmentation of production and trade (Erasmus et al. 2006).

Whilst the impact of restrictive RoOs in limiting exports is evident, examining the wider developmental impacts of RoOs require a broader understanding of how they shape investment flows and the behaviour of different actors involved in global production (Yeung 2001). The changes in global production particularly the emergence of global value chains (GVCs) as the key organisational channels for global trade have led to significant changes in

the way key economic actors engage with different production locations (Gereffi 1999a; Kaplinsky and Morris 2001; Henderson et al. 2002; Coe et al. 2008). A key characteristic of these chains/networks is that they are highly contingent organisationally and geographically (Coe et al. 2008). In the textile and garments industry, an important outcome of these shifts has been the rise of Asian trans-national producers as key "carriers" and organisers of important segments in the GVC with the presence of these companies documented in many low-income production locations (Azmeh and Nadvi 2014, Appelbaum 2008, Gibbon 2003; Lall 2005; Chiu 2007; Kaplinsky and Morris 2008; Phelps et al. 2009; Gereffi and Bair 2010; Natsuda et al. 2010; Fernandez-Stark et al. 2011; Morris et al. 2011; Rotunno et al. 2012). Due to rapid shifts in trade policies, production factors, sourcing policies of key buyers, and labour relations, the GVCs of such firms are inherently unstable particularly in production locations they perceive as unstable or "non-core". As a result, those firms strategically aim to limit their embeddedness in these locations leading to transient GVC integration that is often translated in limited local supply linkages, limited investments in heavy machinery, a preference for migrant workers especially in managerial and skilled positions, and limited investments in training local workers. This has important implications for the economic and social developmental outcomes of GVC integration and also for the feasibility and type of industrial policies that can be implemented by nation states. Trade regimes are often an important element in this model of GVC integration. On the one hand, trade regimes that are highly unstable are an important driver of such transient GVCs in locations where GVC integration is driven by trade preferences. RoOs, on the other hand, play an important role in facilitating or hindering this transient GVC integration model. Restrictive RoOs, while limiting rapid take-off in exports, force GVC producers to adapt their production networks and invest in supply linkages that make them eligible for preferential access while flexible RoOs facilitate this disembedded GVC integration model. The issue of RoOs has been highlighted in a number of studies using the GVC framework (Bair & Dussel Peters 2005, Pickles and Godfrey 2013, Frederick and Gereffi 2009). More work is, however, needed to examine how RoOs as a key element of PTAs are linked to the overall organisation of GVCs and how they affect the way GVCs "touch down" in different locations especially when preferential market access is a key driver of GVC integration.

This paper examines this in the context of one of the few north-south PTAs with less-restrictive RoOs which is the Qualifying Industrial Zones (QIZs) agreement between Jordan, Egypt, Israel, and the United States and the subsequent FTA between Jordan and the US. The QIZ was designed in the 1990s with the objective of using preferential access to the US as an incentive to create trade linkages between Israel and the Arab countries that had signed peace treaties with Israel (See Azmeh 2014 for more details on this agreement). These agreements deviate on a permanent basis from the relatively strict "yarn forward" rules on textiles and garments and adopt a local value added system enabling firms to use fabrics from third countries and still gain preferential access to the US. This has contributed to a dramatic increase in the combined exports of the two countries to the US. Jordan, in particular, has experienced a surge from few million dollars to more than one billion dollars in less than a decade. The agreement has also led to an influx of foreign garment firms, mostly Asian, especially to Jordan to establish export production destined to the US. Jordan became one of the countries with the highest utilisation rates of its trade preferences to the US (Abreu 2013). At first, this seems to confirm the hypothesis that less-restrictive RoOs lead to better developmental outcomes. Nonetheless, Jordan is perceived by these firms as a small non-core location with limited "real" comparative advantage in the industry beyond preferences. The flexible RoOs of the QIZ and the FTA in addition to the labour regime in Jordan, enabled these firms to exploit the preferences while maintaining a highly footloose and largely disembedded presence in the country limiting the economic and social impacts of these exports. The flexible RoOs also contributed to the counter-intuitive preference by Asian firms to locate in Jordan where the developmental impact of these investments was smaller in comparison to Egypt. This case, the paper concludes, raises important questions about the issue of RoOs and how best they can be used to promote development. The rest of the paper unfolds as follows. Section two provides a discussion of the issue of RoOs in the textile and garments global value chain. Section three looks into the case of Jordan and Egypt. Finally, conclusions and policy implications are discussed.

Transient Value Chains, Preferential Trade Agreements, and Rules of Origin

The dynamic nature of global value chains has been highlighted in a number of studies with the research using the global production networks (GPNs) framework in particular emphasising the dynamic nature of these chains/networks organisationally and geographically. These chains/networks, as Coe et al. (2008: 272) put it, "are always, by definition, in a process of flux—in the process of becoming—both organizationally and geographically. The spatio-temporality of production networks, therefore, is highly variable and contingent". While this applies to all types of GVCs, the degree of contingency varies between different types of GVCs and between different locations of production. The garments industry is one of the GVCs in which a very high level of organisational and geographical contingency can be seen. This reflects a number of factors. First, the garments segment of the industry is largely labor-intensive with limited capital investments needed. This provides firms with higher locational mobility than in sectors where large outlays of initial investments are needed. Second, the industry is subject to quick shifts in demand reflecting constantly changing trends and market requirements. This often has important implications for the GVCs as can be seen in the geographical and organisational restructuring driven by the rise of "fast fashion" (Tokatli et al. 2008). Thirdly, the trade environment under which the industry operates is constantly changing with new trade regimes affecting locations of production and driving investments and trade. This was seen in the past through "tariff hopping" investments in many developing countries and can still be seen today in the way new trade agreements drive flows of investments and trade in the sector. The potential for concluding the Trans-Pacific Partnership (TPP), for instance, is currently driving a growth in textile and garments investments in Vietnam.[1]

While this contingency can be seen throughout the garments GVCs, it is particularly important in the significant part of the industry that is managed through Asian trans-national producers along the "triangle manufacturing" model (Gereffi 1999b). In this model, large suppliers, the majority of which are Asian firms, link different and constantly changing map of low income production locations with the final market through their headquarters. The headquarters of these companies, especially in Taiwan, Hong Kong, and also South Korea, perform key functions in the GVC such as managing relations with buyers, configuring

the architecture of the GVC and locations of production, and sourcing of inputs and materials while production is moved to multiple low-cost locations. This model is particularly important in the US market with firms such as TAL Group, Crystal Group, Nien Hsing, Tainan Enterprises, and Makalot Industrial Co becoming key strategic partners for US buyers and a large number of smaller Asian firms adopting a similar global strategy in their exports to the US.

A key characteristic of the GVCs of these Asian trans-national suppliers is how inherently unstable they are. This reflects the commercial, economic, and political environment in which these chains operate. First, Asian first-tier suppliers rely on a relatively small number of leading US buyers. The decisions by Asian firms to invest in a specific location are often discussed with those buyers. In some cases, buyers provide sourcing commitments for a period of time to their suppliers to ensure the success of the investments. In many cases, however, such promises are not made or are not credible enough. Notwithstanding such commitment, the sourcing model that dominates the US market moves the investment risks from the buyer to the investor which in these cases is the supplier. Sourcing decisions are substantially easier to change than investment decisions. Second, as mentioned earlier, constant shifts in trade policy create new opportunities for new locations and make old production locations less competitive. In addition, many trade agreements are highly politically contingent themselves. While free trade agreements and other reciprocal agreements tend to be stable, most unilateral trade programmes require renewals by the granting country with little influence of the exporting country (Manger and Shadlen 2014). The African Growth and Opportunity Act (AGOA), for instance, which grants duty-free access to the US market to a large number of Sub-Saharan African countries needs to be renewed by the US congress every few years with heated political debates in the congress about this renewal. Furthermore, the eligibility of each country to AGOA is reviewed and assessed annually by the US with eligibility decisions issued by the US president. Amongst other African countries, Madagascar and Swaziland, two countries with garments production, have seen their AGOA status revoked in the last few years due to a military coup in the case of Madagascar and labour and human rights concerns in the case of Swaziland.[2] Third, many of these Asian firms operate in “difficult” environments from a political and economic perspective. This reflects the search for lower costs in the GVC and the fact that trade

preferences are often granted to least developed countries many of which have an unstable political and economic environment. Working conditions in the garment sector also often create tensions in labour relations and disruption to production in different locations. A number of Asian factories in Vietnam, for instance, were attacked in 2014 following political tensions with China.[3] The industry is also highly subject to logistical disruptions and industrial action in logistics nodes. While such instability is not a major issue for buyers who can adapt their sourcing policies more easily, it is a serious issue for producers. Investing in different locations involves time and financial investments in learning and adapting to distinct political and economic environments, building a productive and consistent labour force with workers coming from very different cultural backgrounds, and developing systems of work with local providers of products and services. This learning is often acquired by a process of trial and error. In some segments of the modern garments GVC, however, firms do not have the time to engage in these processes nor the resources to spend on location-specific factors that will be of little use if a dis-investment decision is made. This leads to a strategy of transient investments particularly in locations that are seen by the headquarters as non-core or unstable politically or economically. For example, since its establishment in 1988, Nien Hsing, a leading Taiwanese denim manufacturer, invested (and dis-invested) in Taiwan, Lesotho, Nicaragua, Mexico, Cambodia and Vietnam. Crystal Group, a leading Hong Kong garments producer, operated in Hong Kong, Malaysia, Sri Lanka, Mauritius, Vietnam, and Bangladesh, and four different locations in mainland China.[4]

Rules of origin are one of the important factors in enabling or hindering such transient GVC integration. RoOs are the set of rules that determine the origin of a specific product. They serve to determine if a product is entitled to receive preferential treatment or not (Brenton 2003; Anson et al. 2005; Krishna 2005; Falvey and Reed 2009). The role of RoOs in the textile and garments trade is significant reflecting the global fragmentation of the industry, the relative large number of countries with manufacturing capacities, and the importance of duty-free access in a highly competitive market (James and Umemoto 2000; Ahmad 2007; de Melo and Portugal-Perez 2013). The importance of RoOs in the garments sector has made them one of the most politically contested areas in trade negotiations. During the negotiations for the North American Free Trade Agreement (NAFTA), for instance, this issue was one of the highly debated issues with strong pressure from US textile producers to

implement restrictive RoOs in these agreements to maintain their position in the US market and in regional markets (Bair & Dussel Peters 2005). The outcome of the NAFTA negotiations was the "yarn forward" rule that became the standard in subsequent US trade agreements and initiatives.[5] The yarn forward rule entails that duty-free access of garments products requires that these products are made within the free trade area from yarn onwards. Exporters to the US need to either use yarns from the exporting country (or other qualifying countries within the same trade area), or alternatively yarns from the US in order to qualify for preferential treatment. This plays an important role in shaping the impact of such PTAs on trade. In countries with limited industrial infrastructure in the more capital-intensive textile industry, geographical proximity to the US becomes an important factor in the ability of the developing country to exploit the opportunities created by the PTA. In countries close to the US where fabrics and inputs can be cheaply and quickly shipped from the US, processed, and re-exported to the US, this resulted in the division of labour common in a number of Central American and Caribbean production locations. Labour-intensive garments production has been outsourced from the US to these locations while the more capital-intensive textile production remains in the US. The RoOs facilitate the creation of a value chain between these locations and the US and limit the ability of third countries to break into this network. This can be seen in the strong link between imports of textile and exports of garments between these countries and the US (Ahmad 2007; Benabderrazik 2009) (Figure 1). In countries where such a division of labour is infeasible due to distance and transportation costs, the yarn forward rule results in a smaller impact of trade preferences. Benabderrazik (2009), for instance, shows that the RoOs in the US-Morocco FTA are one of the reasons contributing to the limited enthusiasm amongst Moroccan exporters to the US market in comparison to the EU.

Figure one here

Such rules have important implications for the ability of trans-national producers to exploit trade preferences while maintaining a transient GVC in non-core or unstable locations. Flexible RoOs enable producers to minimise the changes to their overall GVC that result from moving to a new location. Some of these companies are vertically-integrated with global operations that are spread in a large number of locations. In such cases, the ability to integrate production across different locations and still benefit from trade preferences is an

important consideration. Firms who own production facilities in one only stage of production are often integrated in long-term value chain arrangements with suppliers of materials and inputs. These relationships represent investments that have been developed over time with degrees of knowledge and trust underpinning these networks. In such contexts, meeting the RoOs of different PTAs might entail investing in new relationships with new suppliers involving financial and time investments creating new supply and logistical risks. Restrictive RoOs might also entail the relocation of sourcing functions from the headquarters to production locations, entailing more location-specific investments. An example on this can be seen in the investments of Nien Hsing, a globalised and vertically-integrated Taiwan-based denim manufacturer, in Nicaragua where the company actively aimed to limit local supply links, recruitment of local workers as managers, and significant investments in heavy capital goods reflecting the way the company perceived Nicaragua as a short-term production location with an "artificial" comparative advantage mainly reflecting the temporary nature of the RoOs under which Nien Hsing was using fabrics and inputs from its own factories mainly in Asia (Van Wunnik 2011). Another example is AGOA where the temporary "third country provision" allowed garment exporters to use fabrics and inputs from third countries and still enjoy duty-free access to the US. This provision contributed to faster growth of exports but also encouraged highly transient investments, limited embeddedness of these firms in their host locations, limited industrial and economic developmental impacts, and a high vulnerability of these exports (Phelps et al. 2009; Kaplinsky and Wamae 2010; USITC 2009, Staritz and Morris 2012, Rotunno et al. 2012).

Jordan and Egypt offer a case in which flexible RoOs are not temporary and subject to renewals but permanent. The next section investigates the outcome of these RoOs in the two countries.

Rules of Origin in the Qualifying Industrial Zones and US-Jordan FTA

The US-Jordan FTA and the QIZ agreement between Jordan, Egypt, Israel, and the US offer permanent exception to the yarn forward rule by adopting a value-added system that requires a certain percentage of the value (35%) to be added in the beneficiary country/countries. In the FTA with Jordan, this 35% should be of Jordanian content with the possibility of using up to 15% US material to reach that. In the QIZ, the 35% should be produced in Jordan-Israel or Egypt-Israel (or the West Bank/Gaza) with specific rules on the contribution of each country to that total value (Kardoosh and Khouri 2005; Ahmad 2007). An important difference between the QIZ which is still the main export channel in Egypt and was the main export channel in Jordan until 2010 and Jordan's FTA is that the QIZ requires the use of Israeli inputs (minimum of 8-10%) to gain preferential access to the US while the FTA does not include such a requirement. Overall, however, the two agreements allow firms to use third country fabrics and still enjoy preferential treatment (Ahmad 2007). The local value-added requirements are met by labour costs, other processing costs, utilities, rent, transportation, and few locally or regionally sourced inputs (chemicals and accessories) (Saif 2006). This section is based on research that was conducted in the period 2010-2014 and included field research in Jordan and Egypt in 2011. Forty semi-structured interviews with producing firms, buying offices and supply chain management firms, labour organisations, NGOs, and experts in the sector were conducted in Egypt and Jordan. The firms that were interviewed in Jordan account for more than half of total Jordanian exports to the US. A quantitative analysis of the exports and imports of the two countries through the use of UN Comtrade and USITC data was also carried out. In addition, an intensive review of other secondary sources was conducted.

The QIZ was implemented in two very different countries with regard to their economic structure. Prior to the QIZ, Egypt was an important exporter of textile and garments products. The country is a low-cost production location with sizeable and trained labour force in textile and garments and with production capacities in earlier production stages and in support industries. Jordan, on the other hand, had virtually no export-oriented textile and garments industry before the QIZ. It is a higher cost location with a smaller labour force and a limited industrial base in textiles and other accessories and is also more difficult logistically. The factor endowments of Jordan and its cost structure indicate that the country

lacks an economic comparative advantage in garments production and "may be above the level of economic development at which an apparel industry normally emerges" (Domat et al. 2012:2). Despite these differences, both countries experienced rapid growth in their US exports following the QIZ. Perhaps surprisingly, the country that experienced the largest increase was Jordan whose exports to the US increased from almost zero in the late 1990s to US$ 1.25 billion in 2006. Reflecting the RoOs of the QIZ, this increase was not accompanied by an increase in imports of textiles from the US (figures two and three).

Figure two here

Figure three here

The difference between the two locations was reflected in very distinct post-QIZ growth trajectories. Most of the growth in Egypt took place through firms that were already operating in the country prior to the QIZ. Most of these firms were Egyptian companies in addition to some Asian firms (Nugent and Abdel-Latif 2010). In Jordan, on the other hand, the key driver of the rapid growth in exports has been a post-QIZ influx of Asian investments. The majority of these firms are trans-national companies with multiple production locations (Azmeh and Nadvi 2013; Azmeh and Nadvi 2014). From interviews with managers of such firms, it is clear that most of these firms saw the region generally as a "non-core" location reflecting their dependency on a few large US buyers, the small share of the Middle East in the overall global sourcing of those buyers, and the rapid changes in trade and sourcing policies. In addition, they saw the Middle East as a new political, business, and cultural environment, leading to a degree of experimenting in their early investments in the region. The QIZ, however, was seen as an important trade advantage and a few companies stated that it was their US buyers that suggested they invest in the region in order to exploit the QIZ. It was, however, not seen yet as a core long-term production location for these highly mobile global firms. These firms thus aimed to limit their integration in the host location and maintain an exit option, retaining a high level of global locational mobility.

Two important elements were important in enabling this transient GVC integration. The first was the RoOs of the QIZ. Rather than investing in new local or regional supply linkages, these firms were able to import their fabrics and most of their inputs from their existing

network of suppliers from Asia. The only exception was the Israeli requirements which firms met through imports of inputs such as chemicals and accessories (buttons, zippers, boxes). Through this, these firms minimised the changes to their production network and limited the financial and time investments and the new risks that are created by new supply networks. Firms were also capable to easily meet the requirements of some buyers to use certified sources of inputs, the majority of which originates in the large producing countries in Asia. The RoOs also eliminated the need to localise sourcing functions and thus enabled firms to reduce their embeddedness in the location and limit their location-specific investments. This can be seen in the high reliance on imported fabrics and inputs in the case of the Jordanian industry particularly from China and Taiwan (figure four). This translated into weak economic linkages with the Jordanian economy limiting organisational and technological spillovers. The exact scale of these linkages is highly debated in Jordan with the government and the industry presenting higher local value-added estimations and critics of the agreements and the industry providing lower estimates. Some studies (Saif 2006, Kardoosh and Khouri 2005) have highlighted the very limited linkages of QIZ companies as they are highly reliant on imported inputs and also highlighted the range of tax and customs exemptions these companies enjoy in Jordan to argue that their developmental impact has been limited. More recently, based on data from Jordan's Department of Statistics, Brown and Deardorff (2011) found that by looking at capital and labour payments, only 11% of the value-added go to domestic agents with 8.1% the share of capital and only 3% the share of labour. Looking, however, at some locally produced materials purchased by the industry, direct and indirect taxes, and transport, the domestic value-added in the industry increases to 36.9%, according to them.

Figure four here

In Egypt, the post-QIZ period witnessed a growing tendency by QIZ firms to use Asian fabrics rather than locally or regionally produced fabrics (figure five). This reflected a shift in the sourcing patterns of some existing companies in addition to the arrival of new firms with different sourcing strategies. Some of these new firms own textile factories elsewhere while others benefitted from the ability to use the cheapest sources of inputs and still benefit from preferential access to the US. The mismatch between the requirements of garments exporters and their buyers and the upstream stage in textile and fabrics was also a factor

and the RoOs limited the incentives to address this mismatch (Nugent and Abdel-Latif 2010). This pattern led to a rise in textiles imports and a growing deficit in the textile and garments trade balance. The different RoOs of the QIZ in comparison to Egypt's FTA with Europe also led to a division in the garments industry between a US-focused sector and an EU-focused sector (Ghoneim 2003). This was translated into growing tensions between textile and garments producers in Egypt in regard to trade and industrial policy as textile producers felt that the QIZ had a negative impact on them.

Figure five here

The second important element in facilitating this transient GVC integration was the labour regime implemented on these companies. Following demands by Asian companies in the early 2000s, Jordan permitted firms to bring in migrant workers with minimal restrictions leading to more than 100,000 workers from China, India, Sri Lanka, Bangladesh, and other Asian countries moving to Jordan to provide the bulk of the labour force in the industry (Azmeh 2014). Importing labour enabled firms to further limit their integration within the host economy by bypassing the process of learning that is needed to build a productive and consistent labour force and also minimise investments on training especially for supervisors, managers, and skilled workers. Rather than recruiting local workers, training them, and developing a production system that can meet the norms and expectations of the local labour force, firms transferred almost complete factories -not only machinery but also with their workers, supervisors, supply linkages, and production and labour relations- into the new location. Through such transfers, they reduced their initial investment costs, limited their embeddedness in the national economy, and boosted their global locational flexibility. While firms in Jordan justify their preference for migrant workers by highlighting the small labour force in Jordan and the skills mismatch with their requirements, the case in Egypt illustrates that this is only part of the story. A number of QIZ exporters in Egypt, including some Asian firms, lobbied the government to remove the restrictions on the employment of migrant workers despite that the overall cost of migrant workers (including transportation, accommodation, food, etc) will be substantially higher than local workers. This, however, was politically very difficult in Egypt due to the large labour force in the industry and the more important economic and political role of the textile and garments industry.

The flexible RoOs of the QIZ were thus, in addition to the flexible labour regime, a key factor in enabling the integration of Jordan in the transient GVCs of Asian firms. This can be seen even in cases of firms that have 100% of their global production in Jordan. The largest exporter from Jordan is an Indian-owned company that exports almost all its production to the US with Wal-Mart as its main buyer. The company was originally based in Dubai which was preferred to India due to quota restrictions under the multi-fibre arrangement (MFA). With rising costs in Dubai, the company moved to Oman and then to Qatar. As costs continued to rise in these locations, the owner considered Madagascar, Jordan, and Kenya to relocate to. Jordan was chosen due to its preferential market access, relative political stability and a favourable business environment. The country, however, according to the general manager/owner of the company, is a high cost location in terms of energy, transportation, buildings, etc, and also has a geographical disadvantage in the industry. The only two locational advantages Jordan has, according to him, are the QIZ/FTA and labour. The QIZ/FTA, he explained, provides both duty free access to the US market and also flexibility in the use of inputs while Jordan's permission to bring migrant workers allows a higher degree of flexibility in terms of the labour force. The company, according to him, will stay and expand in Jordan as long as these two elements are in place. Similar short-term "we are here for now" approach was expressed by five other main Asian companies in Jordan. This vulnerability was illustrated during the second half of the 2000s when a combination of factors especially the decline in US demand in the period 2007-09 led to a drop in Jordanian exports from US$ 1.2 billion in 2006 to US$ 765 million in 2009. In this period, a number of Asian companies in Jordan closed their factories in the country. One of these companies was a major Taiwanese producer, Tainan Enterprises, which employed around 1,100 workers in Jordan in 2007. The company, which started operating in Jordan in 2004, left the country completely in 2008. Another Taiwanese company opened it Jordan factory in the early 2000s, had an employment of around 2000 workers by 2007, and closed its factory completely during the crisis. In another case, a Taiwanese company which employed around 1000 workers in Jordan had this factory completely dedicated to a single small-scale US buyer. The factory was closed with the shift in the sourcing strategy of this buyer during the crisis.

The cost, labour, and logistics advantage of Egypt (shorter time to market and also shorter time to deliver inputs), in addition to the availability of local inputs and support industries were not deemed important enough for these companies as they had little intension to source from local or regional producers. Five of the main Asian exporting firms from Jordan stated that they had contemplated the establishment of factories in Egypt following the QIZ but decided not to. From a production cost and logistics perspective, all these firms found Egypt to be a more attractive location. Nonetheless, these companies stated that they thought the country was "more difficult" mainly due to labour issues and the inability to bring migrant workers. The Indian company discussed above did open a factory in Egypt following the Egyptian QIZ but it faced a major "labour discipline" problem there, as the general manager put it, with high rates of labour turnover and absenteeism. The factory was closed after only three years. The smaller number of Asian companies that chose Egypt as a location had a longer-term strategy of operating in the country. A Taiwanese company that is based in Alexandria saw Egypt as a potential long-term growth location. Initially, the company moved garments production to Egypt but kept textile production in mainland China. At the time of the visit in 2011, the company was planning to relocate fabric production from mainland China to Egypt to reduce costs and to better integrate the two stages of production. A small company from mainland China was also investing in Alexandria in garments production with the longer-term plan of relocating its own textile production from mainland China to Egypt.

Conclusions

The case of Jordan and Egypt shows that an important segment of the textile and garments GVC particularly when operating in non-core or unstable locations (from a political, economic, or trade perspective) needs to be conceptualised as transient and highly contingent organisationally and geographically. This does not necessarily mean that these GVC will only operate in the location for a short period of time but that the factors on which the integration of the location in the GVC are based are highly vulnerable. These transient GVCs interact with the locations and their workers in a unique way as firms strategically limit their embeddedness in the location through minimising location-specific investment

through what Krifa and Héran (1999) called the “passive approach to the territory” (cited by Van Wunnik and Escuer Costa 2008). In cases of unstable trade programmes, the trade regimes under which these GVCs operate can contribute to this transient nature of the GVC but it is not the only factor. Jordan has a very stable reciprocal trade access to the US through a free trade agreement but the garments GVC in Jordan remains highly transient and vulnerable reflecting constant shifts in sourcing, production, and regulatory factors. The rules of origin adopted by these trade regimes are an important facilitator or barrier to such transient GVCs. The flexible RoOs of the QIZ and Jordan-USA FTA did contribute to a dramatic increase in exports from the two locations particularly in the case of Jordan but they contributed to the highly vulnerable nature of these exports as they eliminated the need to invest in building a new local or regional supply base (including organisational linkages, information, localising sourcing of material tasks, and the risks that emerge in new supply relations) and removed the availability of local inputs from the locational choices of the foreign firms that moved to the region (or the potential to build an inputs industry). This focus on locational flexibility and “light presence” led many of these companies to choose a location with the less clear advantage in the industry, Jordan, rather than Egypt as the labour regulations in Jordan enabled more flexibility. Transient GVCs found Jordan to be the most attractive location while a smaller number of firms with longer term strategies preferred Egypt.

This case raises important questions regarding trade and industrial policy. In regard to the case of Jordan and Egypt, it can be argued that more restrictive RoOs would have led to a smaller increase in the combined exports of the two countries with Egypt capturing a larger share of the growth. More restrictive RoOs that allow regional cumulation (offering an exception to regional partners from the restrictive RoOs) could have led to the creation of a regional value chain between Jordan, Egypt, and potentially other countries in the region. It is indeed notable how little Asian companies in Jordan import from regional textiles producers such as Turkey and Egypt. Even the original purpose of the QIZ, promoting trade between the Arab countries and Israel, was not achieved as sourcing from Israel declined consistently. The less-restrictive RoOs have indeed created more south-south trade but this was captured by large GVC-integrated producing countries with limited regional and more lasting trade linkages being created. It can also be argued that more restrictive RoOs could

have led to more investment diversion in the textile industry by firms setting up production in the region to meet the requirements of RoOs. Finally, In addition to the value-added and job creation debate, we need to consider the extent to which this industry and the working conditions that became associated with the Jordanian industrial zones had the effect of crowding out other activities that would have had greater developmental impacts. Jordan was only the fourth country to have an FTA with the US following Canada and Mexico (NAFTA) and Israel and remains one of a relatively small number of developing countries with highly stable preferential access to the US market.

More broadly, this case has important implications for discussions around industrial and trade policies in the era of GVCs (Kaplinsky 2013, Milberg 2013). Labour-intensive garments manufacturing was always seen by development experts as the first step on the industrialisation ladder. The extent to which transient GVCs play this role is questionable especially in non-core production locations. Key actors in such GVCs actively aim to limit the linkages through which industrial and technology spillovers can take place. Even in regard to job creation, the ups and downs in production and the constant threat of exit can make such investments highly destabilising for the local economy with little developmental outcomes. Industrial policies that do not take this issue into consideration are likely to fail. For instance, initiatives to train skilled workers in the garments sector in collaboration with foreign firms are unlikely to succeed if firms have no interest in investing in training local workers in a location they perceive as short-term. Similarly, programmes that aim at improving the capacities of local suppliers to meet the standards of global production are unlikely to have a positive impact if the strategy of garment producers is to minimise local linkages. Trade policy and RoOs can be one of the ways to glue GVCs to production locations to allow successful industrial policies and the extraction of economic and social developmental benefits. More stability and predictability in trade regimes and removing the uncertainties created by short-term renewals and eligibility criteria will help limit the short-termism of GVCs actors in production locations. RoOs can also play a role in hindering the transient nature of GVC integration even if at the expense of rapid growth in exports. This does not suggest that reforming RoOs and making them simpler to comply with and more consistent in order to improve preference utlisation is not needed. It suggests, however,

that a wholesale shift toward flexible RoOs might not be the answer in a world of rapidly-moving global value chains.

Endnotes

[1] A number of Asian firms have already started expanding in Vietnam including investments in textiles production in preparation for the need to use TPP-fabrics if the "yarn forward" rule is adopted in the agreement as expected. One of the largest new projects that are near completion is a US$ 500 million joint-venture by two leading Hong Kong companies: Crystal Group, a leading global garments producer, and Pacific Textiles Holdings, a leading textiles producer. The project, located in in Lai Vu Industrial Zone in Hai Duong province, is expected to employ around 30,000 workers and will support Crystal's garment factory located nearby. TAL Group is another leading Hong Kong garment producer working on a US$ 200 million new factory in Vietnam. See "Pacific Crystal Textiles gears up for Vietnam production", Just-Style, 25 September, 2014 and "Garment firms set sights on Vietnam amid TPP talks", Just-Style, 22 April, 2014.

[2] See "Swaziland's AGOA Status Revoked: Madagascar All Over Again?", the Brooking Institute, 23 May, 2014.

[3] "Vietnamese mobs ransack foreign factories in anti-China violence", Financial Times, May 15, 2014.

[4] Websites of these companies and other news reports.

[5] The same political debate around rules of origin can be seen in other trade agreements as well. In the ongoing TPP negotiations, the US National Council of Textile Organizations (NCTO) is strongly supportive of the adoption of "yarn forward" in the TPP while organisations such as the U.S. Association of Importers of Textiles and Apparel (USAITA) and the Retail Leaders Industry Association (RILA) are arguing that there is no longer a need for special RoOs in trade deals.

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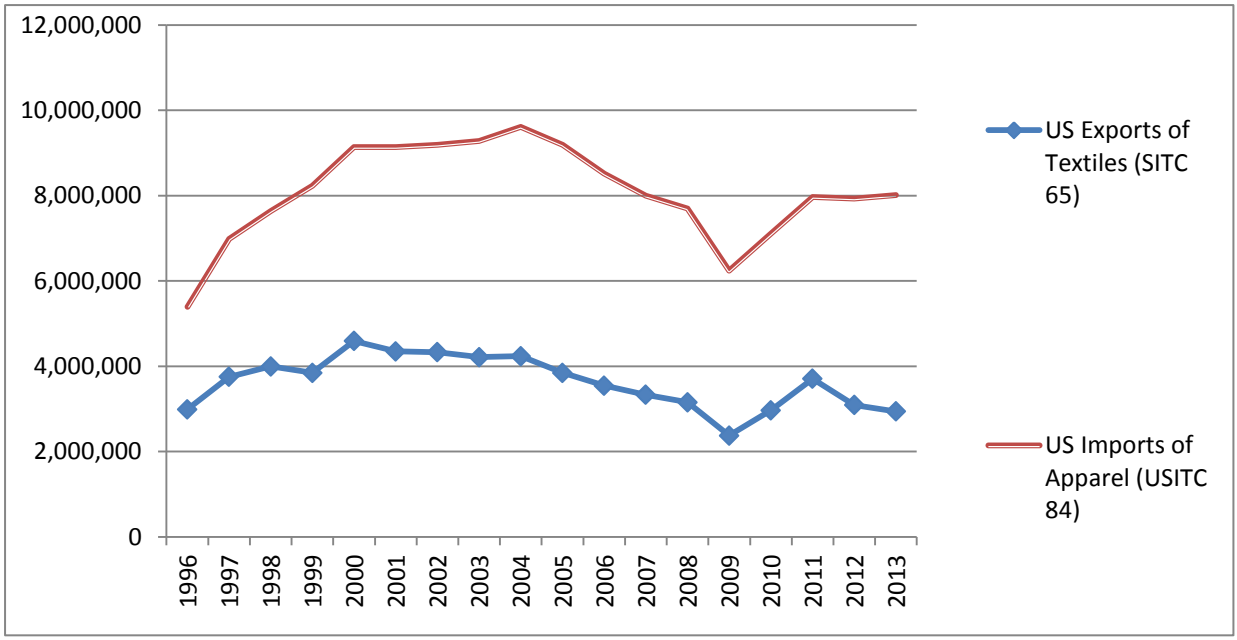
Figure 1: US Trade in Textile and Garments with the CAFTA-DR Region, US$ million



Source: The United States International Trade Commission (USITC)

Figure 2: Jordan Trade in Textile and Garments with the US, US$ millions

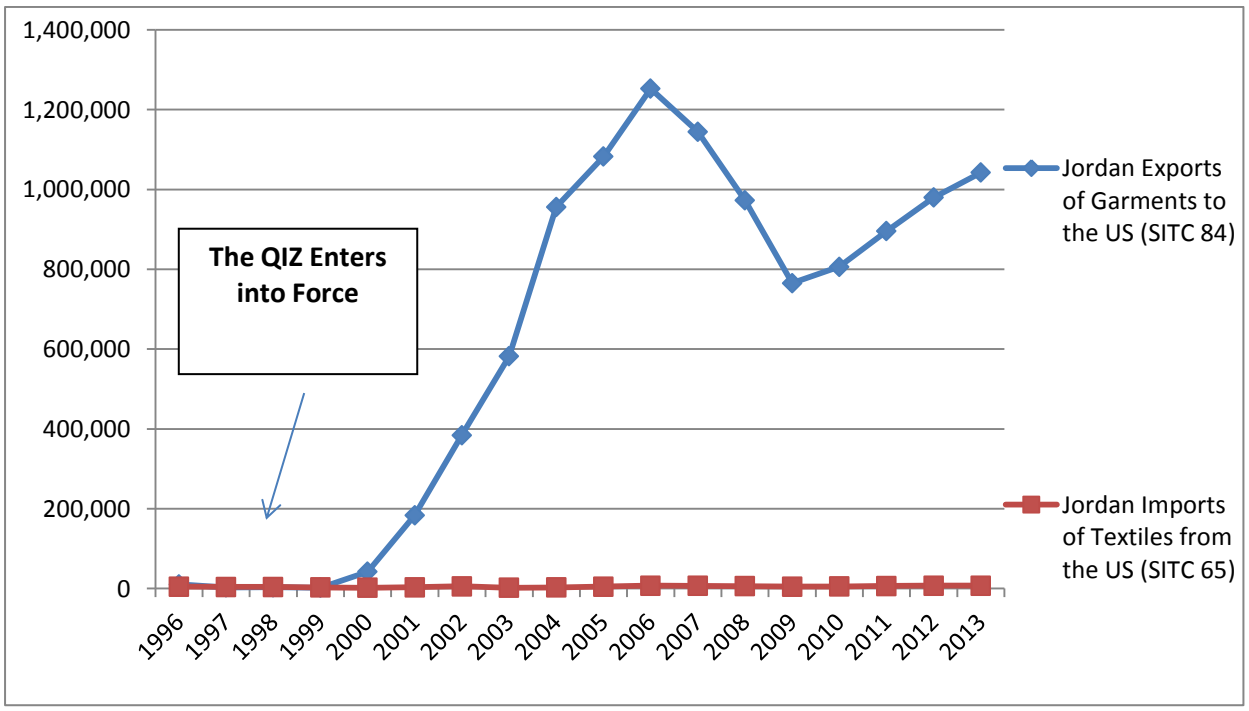
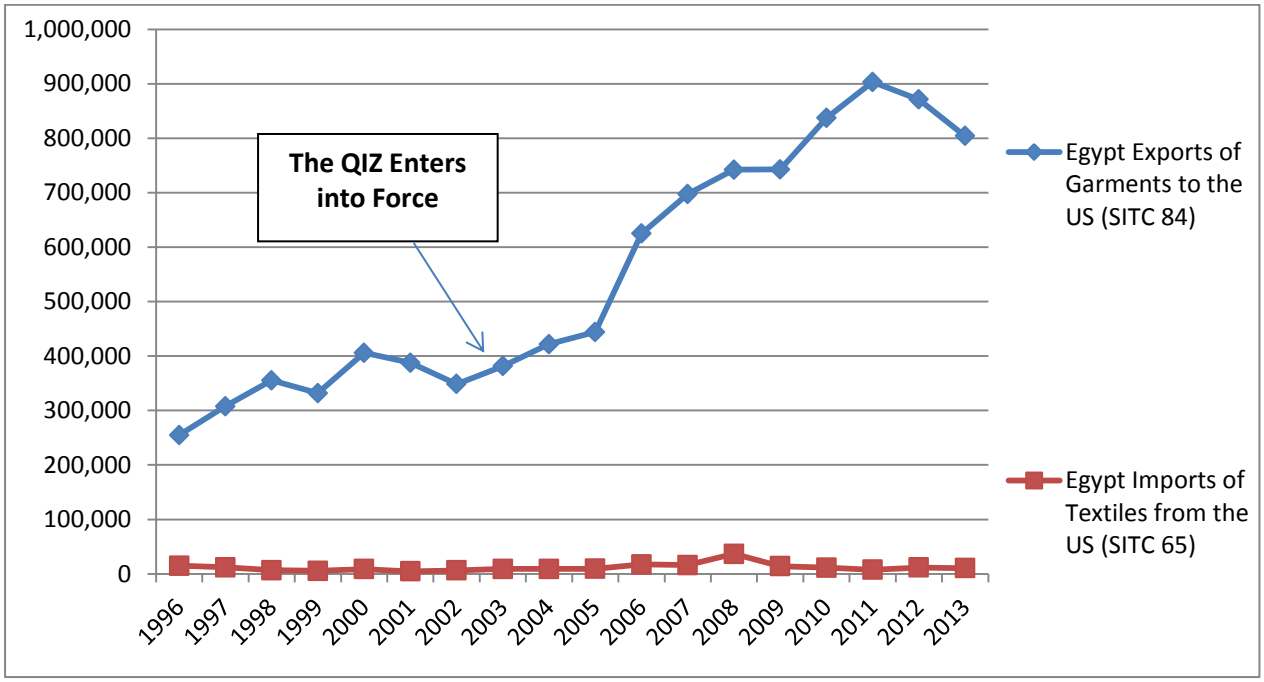
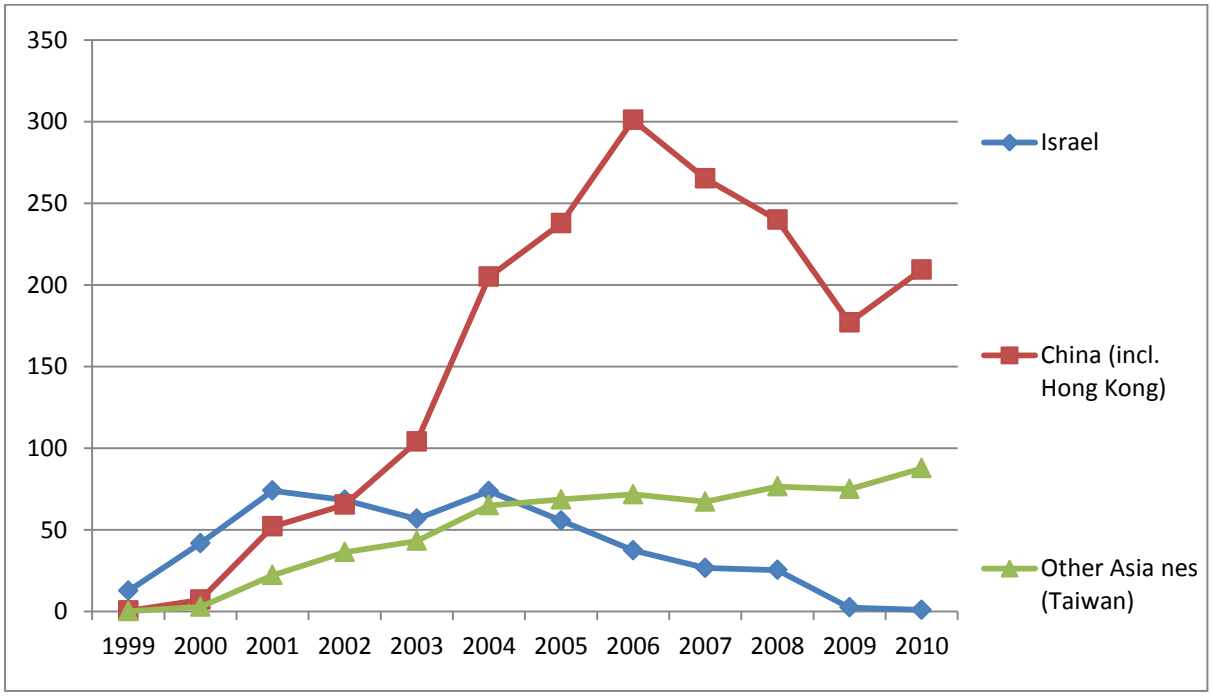


Figure 3: Egypt Trade in Textile and Garments with the US, US$ millions



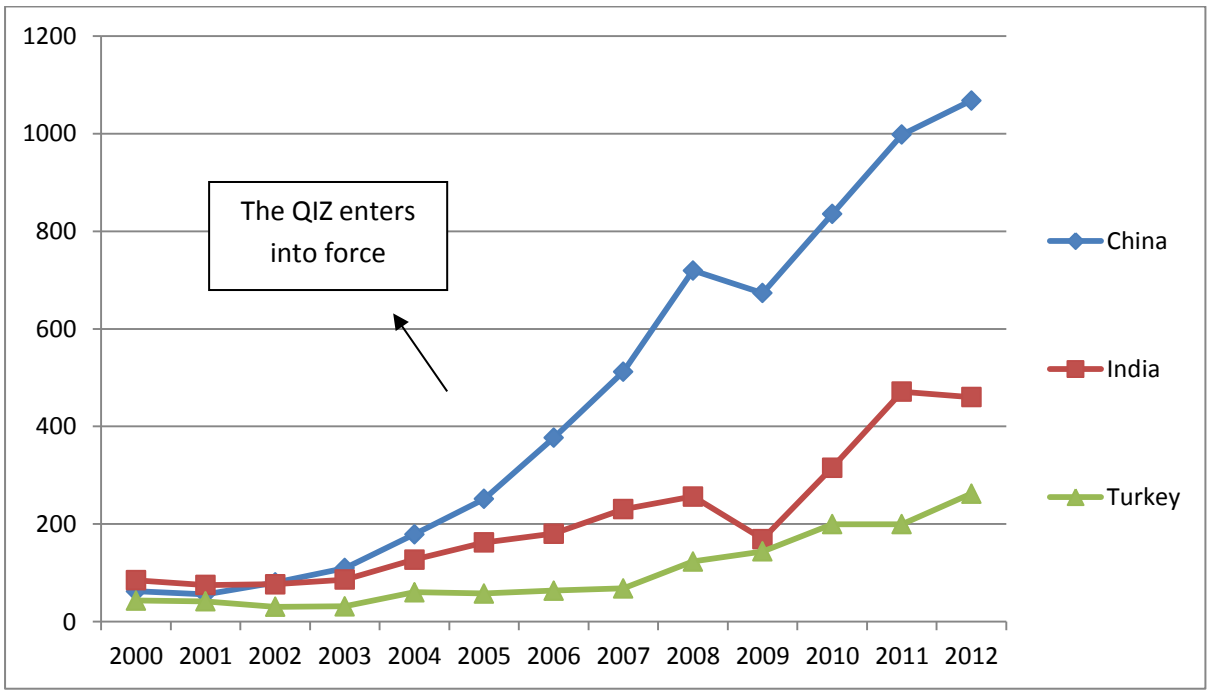
Source: The United States International Trade Commission (USITC)

Figure 4: Jordan Imports of knitted or crocheted fabrics (HTS 60), US$ million



Source: Comtrade, reporter: Jordan

Figure 5: Egypt Imports of textile yarn, fabrics, and made up articles (SITC 65)



Source: Comtrade, reporter: India, China, and Turkey