

**AN ASSESSMENT OF THE POLITICAL ECONOMY OF TRADE
BETWEEN JORDAN AND THE UNITED STATES OF AMERICA**

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Abstract

This thesis considers the political economy of trade between Jordan and the United States. In so doing a number of questions are asked regarding the national interests which have led to the facilitation of bilateral trade, the nature of contemporary trade and market integration as well as the impacts of these on inter-state cooperation. Throughout this thesis the role of Jordanian and US engagement in international institutions is considered and conclusions formed regarding the utility of these in trade relations and inter-state cooperation.

It is found that the Jordanian government's key interests over the past decade or so have been the pursuit of economic growth and stability. It is also found that these interests have been pursued through economic reform at the domestic level and trade liberalisation through international institutions at the international level. It is also concluded that the United States is pursuing a number of key policy goals in the Middle East and North Africa. These are, securing sustainable access to the region's resources, gaining greater access to the region's markets and achieving inter-state cooperation with MENA states. It is demonstrated that the United States is pursuing these goals by encouraging states in the region to engage in international institutions and liberalise trade with each other and with the United States to increase economic integration and inter-state cooperation. The convergence of the two states' policy directions has led to inter-state cooperation in the facilitation of trade between Jordan and the United States.

In order to assess the current nature of contemporary trade between Jordan and the United States and what the impacts of inter-state cooperation have been, trade in three economic sectors has been studied. It is demonstrated that trade in textiles and clothing, a low value-added manufacturing sector, has significantly increased since the process of trade liberalisation began in 1997. However, this form of trade almost exclusively consists of exports from Jordan to the United States. Trade in pharmaceutical products is also studied. It is found here that, while bilateral trade in these goods does exist, this form of economic activity is quite limited and has not greatly increased in the post-liberalisation era. Thus

economic integration has been limited in these high-value added goods. The study is taken further when trade in financial services is considered. The conclusion here is that this form of trade is extremely limited and has not been impacted upon in any significant way by inter-state cooperation and engagement with international institutions.

The overall conclusions are that Jordan and the United States as state actors have engaged with international institutions and liberalised bilateral trade in the hope of pursuing national policy goals. The impact, however, of international institutions and trade liberalisation on economic growth, economic integration, interdependence and inter-state cooperation has been limited. Some significant growth in trade has occurred, but only in certain sectors, and some economic growth in Jordan has been witnessed as a result. However, wide-ranging integration between the two markets has not occurred because non-state actors are largely not engaging with trade and economic activity between the markets. Furthermore, inter-state cooperation has been restricted to specific economic issue areas. It is found that the utility of international institutions and trade liberalisation in this case is restricted by the agency of non-state actors and their roles in trade and market integration.

The originality of this thesis lies in both what is studied and how it is studied. In short, this study attempts to address a gap in IPE literature which, broadly speaking, discusses Jordan and US-Jordan trade relations. Furthermore, this study acknowledges the Trans-Atlantic divide in IPE and the related contemporary debates but remains free from advocating one or the other camp. Instead a reflective approach is adopted in the use of critical liberal institutionalist theory which remains free from these constraints and develops a non-western-centric approach.

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Contents Page

Abstract	2
Acknowledgements	4
Contents Page	7
Introduction	10
Originality and Relevance	18
Twenty-First Century International Political Economy: Towards a New Understanding of US-Jordan Relations	25
Introduction	26
The Problem with International Political Economy	27
An Introductory Examination of Orthodox IPE	32
Orthodox Methodology	37
The Orthodox IPE Issue Agenda	43
Beyond Orthodox IPE	50
State-Centric and Conflict-Centric MENA Studies	53
Re-interpreting US Strategies and Interests	56
Conclusions	58
Theory and Methods	59
Introduction	60
Ontological Foundations	61
Epistemological Foundations	64
Conception of Theory	67
Methods	53
Conclusions	94
State-Facilitation of Trade: Jordanian Interests and Domestic and Foreign Policy	95
Introduction	96
Initial Political and Economic Reform: 1989-1999	98
Political Liberalisation and Democratisation	103
Economic Reform: Structural Adjustment	108

Economic Reform: Privatisation	114
Trade Liberalisation	121
Conclusions	134
State-Facilitation of Trade: US Interests and Trade Policy	140
Introduction	141
US Interests in the MENA Region	142
The Development of US-MENA Policy	143
US Trade Policy in the Twenty-First Century	161
US Trade Policy to the MENA Region	164
Conclusions	169
Bilateral Trade in Textiles and Clothing	172
Introduction	173
The Growth of the T&C Sector in the Jordanian Economy	175
The Performance of Jordanian T&C Exports in the EU Market	180
The Performance of Jordanian T&C Exports in the US Market	181
The Qualifying Industrial Zones and Industrial Estates	184
Public-Private Partnership	188
Multilateral Investment in the T&C Sector	198
Labour Issues	201
The US Market and Jordanian T&C Exports	205
Conclusions	208
Bilateral Trade in Pharmaceutical Products	211
Introduction	212
TRIPs and Pharmaceutical Production in Jordan and the United States	214
Protection of Intellectual Property Rights and the JUSFTA	219
The Jordanian Pharmaceutical Sector	220
Jordanian Pharmaceutical Manufacturers	223
TRIPs, JUSFTA and the Jordanian Pharmaceutical Industry	232
The US Pharmaceutical Industry and Government Policy	235
US Corporations Operating in the Jordanian Pharmaceutical Market	238
TRIPs, JUSFTA and the US Pharmaceutical Industry	244
Conclusions	246

Bilateral Trade in Banking and Insurance Services	250
Introduction	251
Trade in Financial Services	253
The International Framework for Financial Services Trade: GATS and JUSFTA	256
The Jordanian Banking and Insurance Sectors	259
The US Banking and Insurance Sectors	275
Conclusions	284
Conclusions	288
Bibliography	304
Book Sources:	305
Journal Articles:	327
Reports:	335
Database Sources:	342
Primary Interviews:	342
Secondary Interviews:	345
News Articles:	345
Legal Documentation:	346
Conference Papers and Speeches:	347

Introduction

The title of this thesis was developed in order to portray the focus of this thesis as well as to indicate the disciplinary framework within which this study takes place. In so doing the intention was not to define this research project simply as a narrow study of one form of relations between two states. In fact the opposite is true. It is the hope of the author that the reader will understand from the initial encounter with this thesis through its title that it is a broad assessment and analysis of a number of contemporary processes and related actors. Thus this thesis assesses and analyses the political economy of trade relations between the United States of America and the Hashemite Kingdom of Jordan (hereon referred to as the United States and Jordan respectively) within the disciplinary framework of International Political Economy (IPE) using a critical liberal institutionalist theoretical approach – note that this is not a *neoliberal* approach and is not based upon *neoliberal ideology*.

The purpose of this study is to understand and offer explanations of contemporary change in the relationship between the United States and Jordan. This is done by examining the United States and Jordan as state actors and as markets comprised of non-state actors. Furthermore, this is done by studying state relations and the subsequent impact upon the framework within which the two markets interact as well as studying the actual interaction of the markets through the activity of non-state actors. This thesis also addresses the significance of these elements of change and develops a set of predictions and prescriptions for both state and non-state actors pertaining to the future of US-Jordan trade and wider political and economic relations.

The hypothesis tested is grounded in liberal political and economic thought and holds that trade liberalisation between Jordan and the United States has and will continue to lead to greater levels of bilateral trade, economic growth, greater economic integration and subsequently an increase in inter-state cooperation. In this endeavour four core research questions are addressed. The first question considers whether or not trade liberalisation through the engagement with international institutions in the forms of international organisations (IOs) and trade regimes leads to greater levels of trade between Jordan and the United

States. The second core question considers if greater levels of trade have led to greater levels of bilateral market integration. The third question then asks whether increased trade and market integration have resulted in greater state-level cooperation between Jordan and the United States. The final research question considered in this thesis asks what the interests of the two state actors have been with regards to their bilateral relations and if these are met as a result of contemporary trade between them.

This thesis is presented in three main sections, the first section of which is chapters one and two. Together these chapters establish the disciplinary framework within which the study takes place, and the theoretical approach and research methods used. The second section then uses the approaches outlined in chapter two to examine relations at the state level, assessing relations and policies determining how the United States and Jordan (as state actors) have shaped the framework within which trade takes place. This section thus contains two chapters, one studying Jordanian domestic, foreign and trade policy and one studying US foreign and trade policy (the inclusion of domestic policy in the former is explained below).

The third section of the thesis uses the theoretical approach and research methods established in chapter two to study the actual trade relations between the US and Jordanian markets. This is done by studying non-state actors as well as state actors and their roles in three economic sectors and the interaction of these sectors in the two markets. This section consists of three chapters each addressing one economic sector (outlined below). It must be noted here that the three chapters in this section each draw upon various components of the conception of critical liberal institutionalism which is outlined in chapter two. However, the analyses in these chapters in some ways constitute individual elements of the overall theoretical analysis. As such they do not necessarily draw upon all of the elements of the theory used here. The conclusions to each of these chapters will, however, draw the analyses together into an overall theoretical analysis. The second and third sections of this thesis are based to a certain extent on primary data collected on field research trips to Jordan, the United States and Geneva, Switzerland. A conclusion follows this third main section of the thesis.

The first chapter critically assesses the disciplinary framework within which the remainder of this study takes place. Chapter one is thus entitled ‘Twenty-First Century International Political Economy: Towards a New Understanding of US-Jordan Relations.’ The aim of this chapter is to introduce and engage with the debate within IPE regarding the nature of the discipline in the early twenty-first century¹ and how relations between the United States and the Middle East and North Africa (MENA) region (including US-Jordan relations) have been included² and review relevant literature. It traces the emergence of the debate between the two main schools within IPE (discussed below) from the 1990s and highlights the short-comings of a discipline which has to some extent failed to keep pace with a changing international political economy and changing US-Jordan and US-MENA relations. The argument in this chapter is that IPE has been dominated by an orthodox or hegemonic *version* of the discipline which is mostly, although not exclusively, rooted in the US academy.³

There have been significant efforts to develop a more heterodox discipline and this thesis contributes to what has been termed a ‘new’ IPE.⁴ However, this is not done by defending one of the two main IPE camps and contributing to it. Rather, in this thesis the nature of IPE is introduced in order to give an overview of the discipline as a whole but this study intentionally remains outside of the Trans-Atlantic debate (discussed below). This is done to remain free from the constraints of this debate and to focus on the topic of study. Furthermore, chapter one argues that the study of the MENA region and US-MENA relations have been relatively limited in IPE and often state- and conflict-centric. The discussion in this chapter then offers suggestions as to how the elements of IPE which are problematic are addressed in this thesis.

¹ Cohen, B. J., 2008, *International Political Economy: An Intellectual History*, Princeton: Princeton University Press.

² Halliday, F., 2005, *The Middle East in International Relations: Power, Politics and Ideology*, Cambridge: Cambridge University Press.

³ Murphy, C., and Tooze, R (eds.), 1991, *The New International Political Economy*, Boulder: Lynne Reiner Publishers, p: 4.

⁴ Gills, B., Forum: Perspectives on New Political Economy: Re-orienting the New (International) Political Economy, in *New Political Economy*, 2001, Vol. 6, No. 2, pp: 234-236.

Chapter two is simply entitled ‘Theory and Methods’ and develops the conclusions in chapter one by defining the theoretical approach and research methods used here. The theoretical approach used in this thesis is a critical version of liberal institutionalism. This chapter discusses the development of liberal institutionalism in IPE demonstrating how the approach addresses the weaknesses of traditional IPE and studies of US-MENA relations. The development of a critical version of liberal institutionalism is also presented outlining the specific theory and key concepts used in this thesis. A key element of this project is the study of tangible and non-tangible institutions (discussed in detail in chapter two) and the role of these in shaping bilateral trade, market integration and cooperation. The focus here is on *formal* institutions – both state and non-state – more than *informal* institutions. This is for a number of reasons, both by design and by necessity. This project is based on a number of assumptions within liberal institutionalist theory which places emphasis on both types of institutions at certain times and in certain places. However, in order to complete a study of this type it is necessary to emphasise formal institutions more than informal ones. The hypothesis to be tested in this research project and the core research questions asked tend to focus more on formal institutions and their impacts. Thus it is not within the remit of this project – which is limited in terms of size and scope – to discuss at great length informal institutions in place of formal ones. Furthermore, the availability of and access to information on informal institutions is limited, in part due to the sensitive nature of the constraints and impacts of informal institutions on, for example, decision makers.

The remainder of chapter two then develops a discussion of the advantages and weaknesses of quantitative and qualitative methods of research. The combination of these two types of methods is rationalised and the methods of research used in this thesis to collect, analyse and present data are outlined.

Chapter three examines Jordanian domestic, foreign and trade policy since the 1990s. The core focus of this chapter is a discussion of how changes in the domestic and international economic and political spheres have encouraged dual

processes of reform.⁵ This chapter therefore studies how processes of political and economic reform have interacted, resulting in the primacy of the latter over the former leading to contemporary Jordanian foreign economic policy aimed at facilitating trade through engaging with international institutions. The change in Jordanian foreign economic policy and economic reform at home, it is argued here, are a result of changes in demands and constraints - largely economic in nature - on national interests.

The following chapter presents a discussion of change in US foreign and trade policy since the early 1990s and how these are related to political and strategic policies and interests. This chapter argues that US foreign and economic policies are in fact largely one and the same.⁶ Furthermore, the United States has, throughout its history, used economic and political policies in conjunction with each other in order to pursue various interests in the MENA region. Since the 1990s there has been a change in foreign and economic policy to the region exemplified by the drive towards bilateral economic integration through trade liberalisation.⁷ An analysis of the state-facilitation of trade between the US and Jordanian markets is then presented outlining how this relates to broader US trade facilitation. The analysis in the preceding chapter is complimented by chapter four completing the analysis of state involvement in shaping the framework within which trade between the two markets takes place.

It must be emphasised at this point that this study, while seeking to discuss the political economy of trade between the United States and Jordan by looking at a range of state and non-state actors, explores these types of actors in differing detail. As is discussed further in chapter two, a plurality of actors is assumed in the theoretical framework which is used in this thesis. Furthermore, the assumption is made that no single form of actor has universal primacy over all

⁵ Abu-Hammour, M., 2005, *Jordan's Economic Reforms*, Abu Dhabi: S.n.; Singh, R., Liberalisation or Democratisation?: The Limits of Political Reform and Civil Society in Jordan, in Joffé, G. (ed.), 2002, *Jordan in Transition: 1990-2000*, London: MacMillan Press, pp. 66-90.

⁶ Ward, A., US Policy to the Middle East: Utopianism and Realism, *IISS Strategic Comments*, January 2003, Vol. 1, Issue 1, p. 2.

⁷ Rosen, H., Free Trade Agreements as Foreign Policy Tools: The US-Israel and US-Jordan FTAs, in Schott, J. J. (ed.), 2004, *Free Trade Agreements: US Strategies and Priorities*, Washington: Institute for International Economics.

others. Thus, within this project it is claimed that in order to understand the complex relationship between Jordan and the United States as both state actors and markets of non-state actors we must discuss and analyse a range of actor types. These non-state actors will include MNCs, trade associations and IGOs. However, the roles of the various state and non-state actors in trade between Jordan and the United States differ in character and often in significance.

As this study progresses state actors are seen to have an important role in defining the framework in which bilateral trade takes place. Non-state actors are discussed in detail as a whole. However, no individual non-state actor receives as much attention as the individual state actors discussed. The result of the difference in levels of discussion between state and non-state actors should not be seen as either an assumption of the primacy of the state as actor or a conclusion of state actor primacy. This point is taken further in the conclusion.

The final section of the thesis begins with chapter five which is entitled 'Bilateral Trade in Textiles and Clothing.' The trade relations studied in this chapter are situated in a low value-added, labour-intensive manufacturing sector which is dominated by non-state actors (corporations and multinational corporations) operating in the Jordanian market and exporting their goods to the US market and so the classification of the exports as being 'Jordanian'. This chapter aims to study how US-Jordan textiles and clothing trade relations have changed as a result of state facilitation of trade and discuss which actors are involved in this trade as well as explain the impact of international institutions. The chapter demonstrates that the change in state policy has had a significant impact on change in non-state actor activity between the two markets in this sector.

Continuing the analysis of trade relations and market integration, chapter six examines both the nature and level of trade in pharmaceutical goods between the US and Jordanian markets. The discussion develops the examination of how the change in regulatory framework within which trade takes place has begun to reshape the interaction between the two sectors in the two markets. In doing so, the assessment of the political economy of trade relations between the United States and Jordan is developed by analysing what can be classed as a second form

of trade activity. This form of trade takes place in a high value-added, capital intensive and high-technology manufacturing sector. This chapter demonstrates that this form of trade is characterised by low but more even levels of trade in value terms but dominance by the United States in determining the framework within which the bilateral trade takes place. Furthermore, this chapter examines how the World Trade Organisation (WTO) negotiated agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) has shaped both bilateral trade in pharmaceutical products as well as the nature of the Jordanian pharmaceutical sector. This analysis is developed by examining the significant differences between TRIPs regulation of the pharmaceutical sectors and the Jordan-United States Free Trade Agreement (JUSFTA) which embodies so-called TRIPs-Plus provisions (which are far more stringent than TRIPs provisions as agreed upon at the WTO).

Chapter seven completes the analysis of market interaction and the nature of contemporary trade between the United States and Jordan by assessing bilateral trade in financial services in the form of banking and insurance services. This chapter considers another high value-added and capital intensive sector and demonstrates the limits to the trade liberalisation which has been facilitated by the US and Jordanian governments. As is the case in chapters five and six this chapter is based largely on primary data collected during field research and considers the activity of non-state actors and examines the institutional framework within which they operate. The general observations and argument of this chapter are that despite the increasing interaction and rising trade levels between the two economies, the low levels of trade in financial services prevalent in the pre-2000 period persist today. The significance of this lack of trade activity lies not in contemporary economic opportunities being missed but in the overall potential for US-Jordan trade and the limits to the impacts of international institutions.

The conclusion to the thesis draws together the analyses of the previous five chapters within the framework established in chapters one and two and presents a discussion answering the core research questions. A discussion of the hypothesis tested in the thesis is also presented and a number of significant conclusions are

made with relevance to the political economy of trade between the United States and Jordan and what this demonstrates for the future of US-Jordan relations and the role of trade liberalisation and economic integration in these relations.

Originality and Relevance

This thesis, while complex and ambitious in some ways, is relatively particular in terms of its originality and its relevance. In the first instance there are several easily identifiable elements of this thesis which make it original in terms of what is being studied and the disciplinary and methodological approaches used. Studies of international political economy which have included Jordan as either a state actor or market of multiple actors are limited in number (discussed in chapter one). Furthermore, no study has considered exclusively the political economy of trade relations between the United States and Jordan in the post-2001 era. Therefore this study addresses a topic which has not been previously engaged with. Work done by academics in IPE and International Relations (IR) as well as MENA Studies have discussed relations between the United States and other MENA states and have examined the political economy of trade relations between these states. However, Jordan has been largely excluded from these discussions.⁸

In one sense, therefore, this project contributes to a body of literature by bringing Jordan into the discussion. It is also the case that research done on US-MENA relations tends to revolve around the issues of security and conflict - or what in traditional language is called high politics.⁹ Other studies have focused on political economy or other issue areas such as development or environmental studies - or what is termed low politics in traditional language.¹⁰ However, the endeavour of combining the study of high and low politics by looking at the relationship between the two in US-MENA relations is not a common occurrence.

⁸ See Oren, M., 2007, *Power, Faith and Fantasy: America in the Middle East: 1776 to the Present*, London: W. Norton and Co Ltd.

⁹ See Hobbes, T., 1996, *Leviathan*, Cambridge: Cambridge University Press.

¹⁰ See Keohane, R., and Nye, J., 1977, *Power and Interdependence: World Politics in Transition*, Boston: Little, Brown and Company.

This study is also original in this sense as it examines both issues of high and low politics and how they relate to each other in the US-Jordan relationship.

A third way in which this study is original is in the way in which it is founded in the IPE discipline. Debates over the Trans-Atlantic divide in IPE between what are loosely termed the American and British schools are constant and well documented.¹¹ Furthermore, IPE as a discipline has harboured a relatively lively debate about the nature of orthodox IPE within both schools since the early 1990s. However, often ignored as a result of these debates are links between what constitutes IPE and what is left out. Here, studies of the MENA region have often been excluded from what is considered as relevant in IPE unless seen from a western-centric perspective. In other words the international political economy of the MENA region is often seen as only being important or worthy of discussion if it complements a broader discussion on western actors or issues, or if it contributes to the defense of one of the two main schools.¹² Perhaps too great a focus has been given to the American and British schools of IPE and the divide between them (and bridging this divide) that other potentially emerging schools are ignored.

It is possible that a school of IPE which focuses on issues of relevance to the MENA region in its own right and is done from a non-western perspective will emerge and have much to offer the discipline in the future. This project thus highlights the mainstream debate within IPE regarding the nature of the discipline, drawing upon the work of scholars such as Roger Tooze and Craig Murphy,¹³ Benjamin J. Cohen,¹⁴ Mark Blyth,¹⁵ Susan Strange¹⁶ and Barry Gills,¹⁷ but unlike other studies does not choose one side of the argument to reinforce.

¹¹ Dickens, A., The Evolution of International Political Economy, in *International Affairs*, 2006, Vol. 82, No. 3, p:480.

¹² See for example, Lawrence, R., 2006, *A US-Middle East Trade Agreement: A Circle of Opportunity*, Washington: Institute for International Economics.

¹³ Murphy, C., and Tooze, R., (eds.), 1991.

¹⁴ Cohen, B. J., 2008.

¹⁵ Blyth, M., and Spruyt, H., Our Past as Prologue: Introduction to the Tenth Anniversary Issue of Review of International Political Economy, in *Review of International Political Economy*, 2003, Vol. 10, No. 4.

¹⁶ Strange, S., 1995, *Political Economy and International Relations*, in Booth, K., and Smith S., *International Relations Theory Today*, Cambridge: Polity.

¹⁷ Gills, B., 2001.

Instead, the debate is introduced and described but the disciplinary discussion concludes at that point in chapter one. What follows is an IPE study that attempts to remain free from the constraints of the Trans-Atlantic divide and pursues an original project which is perhaps closer to an emerging MENA school of IPE.

A further realm in which this research project is distinct is in the theoretical approach used and the theoretical questions raised and answered. Trade as an issue of study in IPE has more often than not entailed a liberal theoretical approach. This is because liberalism as a broad school of thought encompasses many analytical principles and theories which allow for the study of political economy, of which trade is a key issue area.¹⁸ Liberal approaches unlike others allow for the study of multiple actors at multiple levels of analysis and for the study of multidimensional issues and processes.¹⁹ The study of trade usually necessitates the study of state and non-state actors at the domestic, state and international levels and relationships characterised by complex interdependence. Thus the explanatory richness of liberal approaches is very well suited to the study of trade and other issues in IPE. This thesis does not attempt to break with this tradition nor defend it. Rather this thesis employs a slightly amended and critical version of a liberal approach - in this case a critical version of liberal institutionalism. While it cannot be claimed that the exact conception of theory employed in this project (as outlined in chapter two) is entirely unique, it is possible to claim that the application of the version of this theory to study the political economy of trade between Jordan and the United States is unique.

At a more fundamental level the theoretical questions asked here are at the same time concise yet overarching. In this thesis common assumptions made in liberal institutionalism regarding the effects of the creation of international institutions and the way in which they operate are examined. Thus some of the basic principles of the approach are questioned. In the first instance basic principles such as the assumption that free trade is guaranteed through the creation and

¹⁸ Baldwin, D. A., 1993, *Neorealism and Neoliberalism: The Contemporary Debate*, New York: Columbia University Press.

¹⁹ See Keohane, R., *Neoliberal Institutionalism: A Perspective on World Politics*, in Keohane, R., 1989, *International Institutions and State Power: Essays in International Relations Theory*, Boulder: Westview Press.

operation of liberal institutions - both IOs and international regimes - leads to greater levels of trade are not assumed but instead are questioned. The result of this process is that the basic principles of the conception of liberal institutionalism used here do not entirely match those in mainstream liberal institutionalism. It must be noted, however, that this process is ongoing throughout this thesis and while introduced in chapter two is not entirely complete until the concluding chapter. In this way this element of the thesis is original in two ways. Firstly, in the sense that the basic principles of liberal institutionalism are questioned in the way that they are and secondly, in the sense that this thesis while answering certain questions about the US-Jordan relationship also serves as a test of certain theoretical concepts.

As discussed in more detail in chapter two, the conception of liberal institutionalism used in this thesis differs from more traditional institutionalist approaches in two main ways. Firstly, while a key assumption here is that actors have interests and they take courses of action in order to pursue these interests it is argued that these interests and subsequent actions are not necessarily rational nor do they necessarily come as a result of rational calculation in conditions of perfect information. Secondly, while cooperation in international relations through international institutions is a plus-sum game, here it is believed that there are multiple levels of relations between multiple actors, some of which are zero-sum and some of which are positive-sum games. The overall result, however, once these levels are combined is a positive-sum game where absolute gains can be achieved.

It is perhaps worth highlighting at this stage that the research methods used in this thesis and the combination of different types of methods at various moments in the project are not necessarily original. Furthermore, there is no claim to originality with regards to the research methods used, beyond the unique nature of the interviews conducted on the four field research trips. Here, two trips to Jordan, one to the United States and one to Geneva, Switzerland were carried out in order to gather information from state and non-state actors not readily available from elsewhere. The interviews conducted do represent an original element of this thesis and the questions designed and the ways in which the interviews were

carried out also are unique. However, the other methods used to collect and analyse information were not unique but instead based upon a vast body of literature pertaining to social science research methods (this literature is reviewed and discussed in chapter two).

The relationship between Jordan and the United States is often ignored (perhaps for reasons such as the perceived small size of Jordan in terms of population, economy, military power and so on) and attention paid to the relationship between the United States and larger MENA actors such as Egypt, Iraq or Saudi Arabia.²⁰ However, the Jordan-US relationship is extremely important and should not be underestimated. In the post-9/11 era the United States has pursued a number of more revisionist policies in the MENA region, the 2003 invasion and occupation of Iraq being the most obvious example.²¹ If the aim of a research project is to analyse the impacts of forced regime change in a Middle Eastern state it would be useful to examine the US-Iraq conflict and relationship. In the same manner it is useful, and perhaps essential, to study the political economy of trade between Jordan and the United States if the aim is to understand the changing nature of US-MENA trade relations and how this impacts upon broader relations through processes of interaction and integration. This is because the state-level framework established by the JUSFTA for trade and economic interaction and integration between Jordan and the United States was the first of its kind between the latter and an Arab MENA state. The JUSFTA has acted as a model for further regulation of trade and thus market interaction between the United States and other MENA states and represents the first step on the path to a desired US-MENA FTA.

Understanding the state-level facilitation of trade between Jordan and the United States by examining government policy goals and decisions as well as the nature of market interaction and integration is essential in understanding the directions in which relations between the two are going. An understanding of this

²⁰ See for example: Little, D., 2002, *American Orientalism: The United States and the Middle East Since 1945*, London: I.B. Tauris & Co. Ltd.

²¹ Simons, G., 2003, *Future Iraq: US Policy in Reshaping the Middle East*, London: Saqi Books.

relationship and the directions it may take will also be useful in understanding changes in US-MENA as well as Jordan-MENA relations.

While this thesis is relatively broad and encompasses a large number of actors, issues and processes in the contemporary relationship between Jordan and the United States there is much scope for further study. Firstly, this study has focused on three different market sectors in order to examine the nature of trade between Jordan and the United States. Within these sectors (low value-added manufacturing, high value-added manufacturing and high value-added services) there is room for the study of other goods and services. This could further enhance the understanding of the nature of trade between the two states and reinforce (or perhaps even undermine) the conclusions presented in this study. Secondly, this study has examined US-Jordan relations over a relatively short period of time - mostly since 1999. Thus the conclusions formed are for a relatively short period of time in the years immediately after a number of key changes in state-level cooperation and interaction between the two states. Further studies of the political economy of trade between Jordan and the United States would therefore be useful in the future as the bilateral relationship develops.

As discussed above, studying the political economy of trade between Jordan and the United States offers useful insights into both contemporary US-MENA and Jordan-MENA relations. It would be interesting and useful to study and perhaps compare the political economy of trade between Jordan or the United States and other MENA states. Furthermore, there are implications of Jordan-US trade relations on the endeavour to create a US-MENA FTA. Future studies could analyse why and how this broad ranging alteration in the framework of trade between the MENA region and the United States could emerge and what its impacts could be, based on the analysis in this study. Another element of this thesis which could be taken further in future studies is the greater inclusion of informal institutions on actor behaviour. This is an element which due to the reasons briefly outlined above is not included in this thesis as much as the impact of formal institutions. One might note that a discussion of informal institutional relations would be more appropriately developed within a constructivist

framework. Further analysis of the roles of non-state actors in Jordan-US trade relations would also prove useful in future research.

Chapter One

Twenty-First Century International Political Economy: Towards a New Understanding of US- Jordan Relations

Introduction

This chapter considers the development and contemporary nature of the discipline of IPE and how the discipline includes the study of contemporary relations between the United States and the MENA region, and Jordan in particular. In the case of the former, the purpose of the discussion is to highlight the shortcomings of a discipline which has struggled, analytically, to keep pace with a changing international political economy. Furthermore, following the discussion of the problems with IPE, suggestions are made as to how the elements of the discipline which are problematic can be managed with respect to this thesis. This forms the basis of how this study will be carried out. This discussion is taken further in chapter two which forms the second half of the first part of this thesis. In the case of the discussion on US-MENA relations, the aim once again is to highlight the shortcomings of a number of disciplines, including MENA Studies, Foreign Policy Studies and International Relations as well as IPE, in their study of contemporary relations. This discussion also offers answers as to how problematic issues can be addressed.

In order to complete these tasks, this chapter is structured in to a number of sections. The first section introduces the argument that IPE as a discipline is incomplete. The core issues to be addressed in the following sections on IPE are highlighted and a blueprint as to how to critique IPE is offered. The second section then presents an introductory examination of what is here termed 'orthodox' IPE. As is the case throughout this chapter, the work of a range of scholars, contributors to both IPE and other disciplines, is considered. The following section examines the methodology used by orthodox IPE highlighting the problems of common approaches. This discussion is then taken further in chapter two which establishes the methodological parameters of this study. The fourth section further develops the critique of IPE by questioning the scope of issues which are considered to be part of the agenda of IPE studies. A critique of the primary position of trade as an issue of study is developed along with a defence of the inclusion of trade as an issue of study in this thesis. The final section to deal exclusively with IPE assesses attempts that have been made to

develop a heterodox or ‘new’ IPE since the mid- to late-1990s. This is done because this thesis draws on liberal institutionalism as a whole but also draws upon, and in some cases resists, some of the more recent criticisms of it.

The following sections address the issue of contemporary studies of US-MENA relations. The insular and often state- and conflict-centric nature of studies of these relations is critiqued in section six. Included here is a discussion of how, while the range of issues studied in IPE are limited, the agenda of studies involving the MENA region are even more narrow, and how this region is largely ignored by IPE. The penultimate section offers an analysis of how US foreign and trade policy strategies may be re-conceptualised within a ‘new’ IPE. It is worth noting that these latter two sections of the chapter are designed to be brief critical overviews of these two areas of study as opposed to comprehensive reviews. They are thus observably shorter in length than the review of IPE which precedes them. This chapter then concludes by presenting a summary of the main points and arguments as well as outlining how this thesis can offer new insights to the study of US-Jordan relations.

The Problem with International Political Economy

There is no single accepted definition of international political economy. It is, however, the position of this author following in the footsteps of such great and varied scholars as Adam Smith, Norman Angell, Edward Said, Noam Chomsky, Susan Strange, Jagdish Baghwati, Robert Cox, and Karl Polanyi that, broadly speaking, the purpose of social science is to understand and explain the human condition - how we got to where we are and the ways in which human activity is shaped and organised - as well as to contribute to the improvement of this condition. The author here would like to acknowledge the disciplinary and theoretical divergences between the above mentioned scholars as well as to state that these differences are inconsequential in the debate about the purpose of social science and its contribution to the human condition. This is a debate far too great to be engaged with in this thesis although one which should indeed receive far more attention in scholarly work. In short though, it is the belief of this author

that scholarly work limited to the development of understanding and explaining, which makes no attempt to develop predictive and prescriptive ability is the true enemy of progressive social science. Many scholars have engaged with ‘understanding’ and ‘explaining’ in IPE through the use and development of theoretical approaches.²² However, further development of the analysis undertaken to include prediction and/or prescription is not a given. A source of this failure is due to what actually constitutes the field of IPE in terms of *what* issues are studied and *how* they are studied.²³

It is largely acknowledged that there are two broadly defined schools within IPE. One centred on scholarly institutions in the United States and associated with the American journal *International Organisation* (IO) and the other on British academic institutions (although many members of this school are actually American or Canadian) which can be labelled the ‘critical’ school (and whose main outlets have come in the journals *Review of International Political Economy* (RIPE) and *New International Political Economy* (NIPE)).²⁴ Amanda Dickens efficiently characterises the former as based on positivist methodological approaches and as being dominated by the hegemony of rationalist knowledge production.²⁵ On the other hand, as Mark Blyth and Hendrik Spruyt have so effectively outlined, the latter has developed more as a critique to the hegemonic position of the ‘American’ school in IPE.²⁶ A more critical statement regarding the British School, which will be developed below, and has been suggested by Robert Keohane, is that it can be characterised by problem-highlighting as much as if not more than problem-solving.²⁷ However, despite their differences and seemingly polarised agendas, a deeper analysis of IPE as a discipline and the ‘schools’ within it highlights a number of common problems.

²² Burch, K., and Denemark, R., 1997, *Constituting International Political Economy*, Boulder: Lynne Reinner.

²³ Editorial, Forum for Heterodox International Political Economy, in *Review of International Political Economy*, 1994, Vol. 1, No. 1, p: 2.

²⁴ Murphy, C., and Nelson, D., International Political Economy: a Tale of Two Heterodoxies, in *British Journal of Politics and International Relations*, October 2001, Vol. 3, No. 3, p: 393.

²⁵ Dickens, A., The Evolution of International Political Economy, in *International Affairs*, 2006, Vol. 82, No. 3, p: 480.

²⁶ Blyth, M., and Spruyt, H., Our Past as Prologue: Introduction to the Tenth Anniversary Issue of *Review of International Political Economy*, in *Review of International Political Economy*, 2003, Vol. 10, No. 4.

²⁷ Katzenstein, P. J., Keohane, R., and Krasner, S., International Organisation and the Study of World Politics, in *International Organization*, October 1 1998, Vol. 52, No. 4, pp: 645-685.

Roger Tooze identifies IPE as “denoting an area of investigation, a particular range of questions, and a series of assumptions about the nature of the international ‘system’ and how we understand this ‘system’.”²⁸ This characterisation of IPE is accepted by many IPE scholars, although debate exists about what should be included in the set of defining questions. Susan Strange, for example, entitled her seminal introductory text to international political economy *States and Markets*. In this text she highlights the argument that the questions of IPE concern the relationship between the state (as actor) and the market (as system) as two ways of organising human activity.²⁹ It must be noted, however, that for Strange the core characteristic of this relationship is concerned with the socio-political and economic arrangements that affect the global system of production and distribution – she is in fact criticising the states and markets approach.³⁰ Others such as Robert Gilpin, while also arguing for the focus to be placed on the relationship between the state and the market are concerned with a different set of broad research questions. Gilpin is more concerned with the political and economic causes and effects of the market system and the significance of these at the domestic level.³¹

Underlying the problem of what to study is the problem of how to study it. Historically concerned with understanding and explaining the post-Second World War world and the international liberal economic order established in that period with the aim of strengthening this order, IPE scholars have often failed to achieve their goals.³² However, As Roger Tooze asserts, the causes for this failure have rarely been the subject of scrutiny as most IPE scholars have been content with strengthening IPE as a discipline without examining the foundations on which it

²⁸ Tooze, R., 1982, *World Political Economy*, New York: Continuum International Publishing Group, p: 2.

²⁹ Strange, S., 1988, *States and Markets: An Introduction to International Political Economy*, London: Pinter Publishers, p: 18.

³⁰ Ibid.

³¹ Gilpin, R., 1987, *The Political Economy of International Relations*, Princeton: Princeton University Press, p: 11.

³² Gills, B., Forum: Perspectives on New Political Economy; Re-orienting the New (International) Political Economy, in *New Political Economy*, 2001, Vol. 6, No. 2, pp: 234-236.

is based.³³ Importantly, there has been a lack of evaluation of the hierarchy of issues that IPE studies and a tendency to continuously attempt to produce “more accurate” conclusions about a number of ‘old’ or over-studied issues. These tendencies have led to what Craig Murphy and Roger Tooze term the orthodoxy of IPE.³⁴ They argue that this orthodoxy consists of a restricted view of what the important issues that need to be studied are and what questions need to be asked regarding these issues.

Tooze and Murphy were among the first IPE scholars to call for a revision of IPE as a response to the embedded nature of orthodoxy in the discipline in their edited book *The New International Political Economy* in 1991. Richard Stubbs and Geoffrey Underhill have also called for a revision of IPE, although their argument differs slightly from that presented by Murphy and Tooze. Stubbs and Underhill describe IPE in their book *Political Economy and the Changing Global Order* as a discipline which is often in a state of analytical and explanatory paralysis due to the internal debates of how to study the international political economy.³⁵ They argue that the majority of IPE texts tend to adopt one of the three main paradigms (neo-realism, neo-liberalism or historical structuralism/Marxism) or some form of synthesis and then embark on defending their choice.³⁶ This focus on competing paradigms severs the connection between the material interests of actors and the resulting relationships they have with the international system and other actors and thus reduces analytical power.

The key to understanding the growth of orthodox IPE is understanding how the growth of the discipline through the 1970s until the mid-1990s largely reflected an IR agenda and was not shaped by a political economy or economics agenda. As a result of this the debates which shaped IR from the late 1970s, 1980s and early 1990s also had an impact on IPE.

³³ Tooze, R., The Unwritten Preface: International Political Economy and Epistemology, in *Millennium: Journal of International Studies*, 1988, Vol. 17, No. 2, pp: 285-294.

³⁴ Murphy, C., and Tooze, R. (eds.), 1991, *The New International Political Economy*, Boulder: Lynne Reiner Publishers, p: 4.

³⁵ Stubbs, R., and Underhill, G., 2000, *Political Economy and the Changing Global Order*, 2nd Edition, Oxford: Oxford University Press, p: 21.

³⁶ Ibid.

Despite differences in the discrete aims of critical or ‘revisionist’ scholars, such as Karl Polanyi, Peter J. Katzenstein, Stephen Gill, E. Helleiner and P. G. Cerny, a core aim is constant: to attend to the problem of orthodox IPE. While most revisionist scholars do not argue that they have the answer to what a new IPE should look like they do provide valuable directions that can be taken in order to further develop the discipline. Tooze and Murphy, for example, outline four key areas one should critique. Firstly, one must examine the conceptual foundations of IPE bringing them into question. Second, one must use this to construct the argument that having a diverse range of approaches to IPE should be welcomed and not rejected. This is because, as Stephen Krasner has highlighted, arguing for a single new approach to IPE would simply be replacing one form of orthodoxy with another.³⁷ Third, one should evaluate the philosophical and conceptual framework of IPE in order to increase understanding of the complex global order. Finally, it is claimed that it is evident that a high level of understanding of international political economy is only achievable by including competing analyses within IPE and analyses of other subjects from the social sciences.³⁸

While these four key themes for the revision of IPE are promising it is not necessarily the only ‘broad map’ for such a critique. However, Robert Denemark and Richard O’Brien warn that any critique of IPE must be done tentatively for two reasons. In the first instance any attempt to challenge orthodoxy and current thinking *will* be met with a level of hostility and criticism.³⁹ Second, an essential feature of attempting to ‘open-up’ IPE concerns the issues being studied and the questions being addressed. One of the core criticisms of orthodox IPE, made by Ian Taylor in his work on ‘globalising’ IPE,⁴⁰ is that it has a narrow and replicated issue agenda that continues to ask the same questions.⁴¹ It is possible to bring this feature into question simply by examining alternative issues and asking

³⁷ Krasner, S., International Political Economy: Abiding Discord, in *Review of International Political Economy*, 1994, Vol. 1, No. 1, pp:13-19.

³⁸ Krasner, S., 1996, The Accomplishments of IPE, in Smith, S., Booth, K. and Zalewski, M. (eds.), *International Theory: Positivism and Beyond*, Cambridge: Cambridge University Press.

³⁹ Denemark, R., and O’Brien, R., Contesting the Canon: International Political Economy at UK and US Universities, in *Review of International Political Economy*, 1997, Vol. 4, No. 1, pp: 214-238.

⁴⁰ Taylor, I., Globalisation Studies and the Developing World: Making International Political Economy Truly Global, in *Third World Quarterly*, 2005, Vol. 26, No. 7.

⁴¹ While international trade has been the most cited issue area, others have also been the focus of much attention in IPE. These include; interdependence, development and economic regimes.

different questions. It is essential to note that simply stating that IPE has a narrow issue agenda that should be expanded to include other issues in contemporary international political economy does not necessitate the expulsion of issues which have already been studied. Colin Hay and David Marsh have argued that ‘old’ issues that have received much attention from IPE scholars such as bilateral and multilateral trade may have been studied at the expense of other issues, but are still important nonetheless.⁴² Any research that primarily aims to study issues such as trade but at the same time attempt to move away from orthodox IPE will therefore run the risk of being contradictory if existing critiques such as that of Murphy and Tooze are precisely followed. Rather it is necessary to build on existing critiques to develop new ones.

Nevertheless, there are a number of tasks that must be completed in order to critique orthodox IPE and develop heterodox and more effective approaches - although the ways in which these tasks can be carried out may vary. Any attempt at moving away from orthodox IPE must begin with an evaluation of what orthodox IPE actually is. This entails an assessment of its ontological and epistemological foundations in order to establish patterns of knowledge and knowledge production. Following must be an assessment of the methodological dimensions which define the range over which the methodology of orthodoxy varies. Thirdly, an assessment and critique of the orthodox issue agenda needs to be carried out. A successful critique of these areas of orthodox IPE will not necessarily yield precise answers as to how the limitations of the orthodox approach can be overcome. However, it will provide some insight as to how to develop more complete approaches to understanding and analysing various contemporary issues.

An Introductory Examination of Orthodox IPE

The primary aim of theoretical discussion in IPE is to evaluate “the appropriateness of the instrumental categories and theories used to ‘make sense’

⁴² Hay, C., and Marsh, D., Introduction: Towards a New (International) Political Economy, in *New Political Economy*, 1999, Vol. 4, No. 1, p: 6.

of the changing ‘reality’ of a Global Political Economy.”⁴³ Many scholars and students of IPE have successfully engaged with this discussion, but many others have failed.⁴⁴ But it is relatively easy to test the competing narratives of IPE and their varying analyses against a ‘reality’ that is understood through common sense.⁴⁵ It is here that any critique of social understanding and explanation must start, for, according to Robert Cox, ‘reality’ as understood by common sense *exists* even before theoretical analysis is undertaken.⁴⁶ For this reason a degree of scepticism is needed about how knowledge that is taken as common sense in IPE is attained. Antonio Gramsci went as far as to state that such a critique of common sense should be the starting point of all progressive social change.⁴⁷ Gramsci suggested that we should examine common sense in order to highlight the ways in which ‘theory’ often determines what are taken as facts as well as outline the inconsistencies that exist in accepted preconceptions. Furthermore, the aim should be to reveal the historic and practical reasons behind the development of common sense ideas, and answer the question of who is and who is not served by ideas that are believed to be common sense.⁴⁸

The discipline of IPE itself can initially be seen as one that is deeply contested through the existence of a profusion of approaches and research programmes and one that therefore has no universally accepted ‘common sense’ knowledge. Groom and Light, writing explicitly on IR, and implicitly on IPE, argue that the broad range of contradictory approaches and the variations of these approaches project the image that IPE research can produce varying results and competing analyses.⁴⁹ Therefore, allowing for differing common sense arguments to advocate the most convincing explanation.

⁴³ Murphy, C., and Tooze, R. (eds.), 1991, p: 11.

⁴⁴ See Krasner, S., 1996, for a discussion on the level of effectiveness of IPE research.

⁴⁵ Katzenstein, P. J., Keohane, R., and Krasner, S., 1998, pp: 645-685.

⁴⁶ Cox, R., *Social Forces, States and World Orders: Beyond International Relations Theory*, in *Millennium: Journal of International Studies*, 1981, Vol. 10, No. 2, p: 123.

⁴⁷ Gramsci, A., 1971, *Selections From the Prison Notebooks*, New York: International Publishers.

⁴⁸ Ibid.

⁴⁹ Groom, A., and Light, M. (eds.), 1994, *Contemporary International Relations: a Guide to Theory*, London: Pinter Publishers.

The view of a dynamic discipline is misleading. Robert Cox argues that there is a global political economy of the production of IPE knowledge.⁵⁰ This has over the last two decades evolved into an orthodoxy defined by a clear set of values, theories and a “particular mode of production of IPE knowledge that specifies a particular relationship between the objective and subjective and uses appropriate epistemological and ontological categories to support this relationship.”⁵¹ According to Cox a theory that is divorced from a particular standpoint in time and space simply cannot exist. Rather he argues that “theory is always for someone and for some purpose.”⁵² Using this argument as a core principle, Richard Higgott suggests that an investigation of who benefits from knowledge production and re-production is beneficial in order to ascertain how best to avoid claims about the truthfulness of certain types of knowledge.⁵³

The core issue here is that the vast majority of IPE research is done within a framework of ‘paradigm production’ that is formed by a number of intellectual assumptions and practices. The resultant implication of this is that the divergent paradigms that exist within IPE and that contradict each other on one level are in fact all created in a single, larger framework of ‘knowledge production’. This argument, made by scholars including Cox, Strange, Tooze and Murphy⁵⁴ has been met with the pro-orthodox response, by scholars such as Ernest Haas,⁵⁵ that the competing paradigms within IPE are contradictory and hence must be divergent in their origins and their application to studying IPE. This is true to some extent in that the competing paradigms do contain differing views on how to understand and explain certain features of international political economy and can produce contradictory explanations. However, according to Ash Amin and Ronen Palan, the epistemological and ontological foundations of orthodox IPE

⁵⁰ Cox, R., Ideologies and the New International Economic Order: Reflections on Some Recent Literature, in *International Organization*, 1979, Vol. 33, No. 2, p: 269. For a thorough analysis of knowledge production in the broader social sciences see Gibbons, M. et al, 1994, *The New Production of Knowledge / the Dynamics of Science and Research in Contemporary Societies*, London: Sage.

⁵¹ Murphy, C., and Tooze, R. (eds.), 1991, p: 13.

⁵² Cox, R., 1981, p: 127.

⁵³ Higgott, R., Toward a Non-Hegemonic IPE: An Antipodean Perspective, in Murphy, C., and Tooze, R. (eds.), 1991, p: 98.

⁵⁴ Cox, R., 1981; Strange, S., 1988; Murphy, C., and Tooze, R., 1991.

⁵⁵ Haas, E. B., 1997, *Nationalism, Liberalism and Progress: The Rise and Decline of Nationalism*, Ithaca: Cornell University Press.

allow for the synthesis of these paradigms (most commonly realist-liberal) to allow for the resolution of such incompatibilities.⁵⁶ In order to understand this framework of knowledge production we must first examine the process of ‘intellectual production’ by assessing the material and theoretical bases of knowledge in orthodox IPE.⁵⁷

It can be argued that identifying a particular range of theories and empirical referents does not immediately lead to an identification of what actually constitutes orthodox IPE. In order to accomplish this, as Bob Jessop and Ngai-Ling Sum⁵⁸ indicated towards in their discussion of IPE, the distinct set of ontologies and epistemologies on which orthodox knowledge is produced and interpreted must be highlighted. This is because when combined with the existing range of theories in IPE, these produce the *culture* of orthodox IPE. This culture has its material bases and theoretical foundations for knowledge production and perception.⁵⁹ Unfortunately, simply being aware that there is a culture of knowledge production and interpretation within orthodox IPE that pre-assigns the researcher to participate in the processes of orthodox IPE’s reproduction is not enough to prevent this from happening. All research that is undertaken will contribute in one form or another to orthodox IPE.⁶⁰ This is because orthodox IPE often encourages different positions and views in an attempt to be a contested discipline only to either ignore such alternatives or to incorporate them into the orthodox mainstream.⁶¹ It is certainly not the purpose of this research project to break entirely from orthodox IPE. The aim here is merely to critique the foundations of IPE research and produce a study which takes some steps towards heterodox research which incorporates a level of reflexivity in the analysis (discussed further in chapter two).

⁵⁶ Amin, A., and Palan, R., Towards a Non-Rationalist International Political Economy, in *Review of International Political Economy*, 2001, Vol. 8, No. 4, pp: 561-564.

⁵⁷ Cox, R., 1979, p: 269.

⁵⁸ Jessop, B., and Sum, N.L., Pre-Disciplinary and Post-Disciplinary Perspectives, in *New Political Economy*, 2001, Vol. 6, No. 1, p: 90.

⁵⁹ Murphy, C., and Tooze, R. (eds.), 1991, p: 14.

⁶⁰ Editorial, 1994, p: 10.

⁶¹ Strange, S., Political Economy and International Relations, in Booth, K., and Smith S., 1995, *International Relations Theory Today*, Cambridge: Polity.

It is difficult to explain what the ontological and epistemological bases of orthodox IPE knowledge production are without briefly considering an example of how they materialise in research. Robert Gilpin in his text *The Political Economy of International Relations*⁶² (which is considered by many to be one of the seminal IPE texts) offers an explanation of the nature of IPE, what its dynamics are and what constitutes the research agenda. Gilpin's opening remarks provide an insight into what he suggests IPE is concerned with:

A significant transformation of the post-war international economic order has occurred. The Bretton Woods system of trade liberalisation, stable currencies, and expanding global economic interdependence no longer exists, and the liberal conception of international economic relations has been undermined since the mid-1970s. The spread of protectionism, upheavals in monetary and financial markets, and the evolution of divergent national economic policies among the dominant economies have eroded the foundations of the international system.... What has happened to the system? What are the implications of the failure of the system for the future?⁶³

This introduction to IPE portrays the discipline as having a specific and narrow issue agenda. Here it is suggested that *trade liberalisation, stable currencies and economic interdependence* are the key issues that the discipline attempts to study and explain. Furthermore, this introductory paragraph exemplifies how IPE has often been concerned with understanding and explaining the US-dominated liberal economic order with a view of strengthening this order – something which Joan Spero highlights in her book *The Politics of International Economic Relations*.⁶⁴ While each of the seven editions of this book change the focus of IPE slightly, Spero is always liberal in her work and she provides little indication that IPE can be concerned with processes and events that do not immediately relate to the above mentioned issues.

⁶² Gilpin, R., 1987.

⁶³ Ibid, p: 3.

⁶⁴ Spero, J., 1990, *The Politics of International Economic Relations*, 7th Edition, London: Routledge.

Gilpin goes on to attend to the theoretical level of his text. He states that "...this work is part of an expanding body of scholarship on the political economy of international relations: it assumes that an understanding of the issues of trade, monetary affairs and economic development requires the integration of the theoretical insights of the disciplines of economics and political science."⁶⁵ While Gilpin's work *does* incorporate economics and politics, the problem remains that the issues he regards as being relevant in terms of the 'common sense' of IPE are still few in number and narrow in scope.

Finally, as the text progresses Gilpin turns his attention to the paradigms used in IPE. It is interesting to examine how he refers to, and describes the place of, ideology in IPE. The key criticism here is that he refers to "the ideologies of liberalism, realism, and Marxism..."⁶⁶ as being the totality of ideology within IPE. There is no mention of, or explanatory space left for, alternative paradigms such as feminism, green thought or post-modernism. Furthermore, Gilpin refers to the three key paradigms as being unitary and makes no mention of the divergences within them and the cross-fertilisation amongst them. He goes on to declare that he refers to paradigms as being "systems of thought and belief which [individuals and groups use to] explain ... how their social system operates and what principles it exemplifies."⁶⁷ This highlights one of the core problems of orthodox IPE research in relation to paradigms.

Orthodox Methodology

From the above example of what orthodox IPE research can look like and the results it may produce it is possible to take the examination of orthodox IPE further by examining the methodological range employed. According to Louise Amoore, Randall Germaine, Richard Dodgson, Paul Langley, Iain Watson and Barry Gills there are three main methodological dimensions by which all

⁶⁵ Gilpin, R., 1987, p: 3.

⁶⁶ Ibid, p: 25.

⁶⁷ Reference taken from: Helbroner, R., 1985, *The Nature and logic of Capitalism*, New York: W.W. Norton, p: 107.

orthodox research is influenced.⁶⁸ The first stems from the orthodox perception of all IPE research being positivist and scientific. This ‘positivist epistemology’⁶⁹ creates what has been termed the most restrictive methodological approach used by orthodox IPE. This is because this type of methodology is based on the assumption that subject and object can be separated thus creating objective knowledge that can be tested using hypotheses against an objective and pre-existing ‘reality’.

Russell Keat, John Urry,⁷⁰ Peter Halfpenny⁷¹ and Christopher Lloyd⁷² claim that this process produces scientific understanding and explanation that is, in essence, ‘truth’. However, this kind of approach can easily be brought into question. In the first instance, as mentioned above, there is the underlying question of how ‘reality’ is (pre-)determined. There is also the problem of tautological claims that stem from the question of *what* constitutes the ‘real’ world. Quine argues that the framework in which the knowledge that is produced from positivist research is founded on assumptions about the presumed real world that are not necessarily as solid as they are believed to be.⁷³ The danger of accepting the notion that truth and what is ‘real’ can be determined unquestionably is, as E. P. Thompson explains, that there is not necessarily a distinction between what is ‘out there’ and what is ‘inside here’. “Thought and being inhabit a single space, which is ourselves.”⁷⁴

The advocates of positivist research, such as A.J. Ayer, have claimed that positivist knowledge (truth) is generated through infallible scientific research.⁷⁵ However, other scholars such as Thomas Kuhn⁷⁶ and Paul Feyerabend⁷⁷ argue

⁶⁸ Amoores, L., Dodgson, R., Germain, R., Gills, B., Langley, P., and Watson, I., Paths to a Historicized International Political Economy, in *Review of International Political Economy*, Spring 2000, Vol. 7, No. 1, pp: 54-56.

⁶⁹ Murphy, C., and Tooze, R. (eds.), 1991, p: 18.

⁷⁰ Keat, R., and Urry, J., 1975, *Social Theory as Science*, London: Routledge.

⁷¹ Halfpenny, P., 1982, *Positivism and Sociology*, London: Allen & Unwin.

⁷² Lloyd, C., 1993, *The Structures of History*, Oxford: Blackwell.

⁷³ Quine, W., 1961, *From a Logical Point of View*, New York: Harper & Row.

⁷⁴ Thompson, E. P., 1978, *The Poverty of Theory*, London: Merlin Press, p: 211.

⁷⁵ Ayer, A. J., 1940, *The Foundations of Empirical Knowledge*, London: Macmillan.

⁷⁶ Kuhn, T. S., 1970, *The Structure of Scientific Revolution*, 2nd Edition, Chicago: Chicago University Press.

⁷⁷ Feyerabend, P., 1975, *Against Method: Outline of An Anarchistic Theory of Knowledge*, London: Verso.

that research of this kind does not allow for the issue of inter-subjectivity to be addressed. In this sense inter-subjectivity relates to the non-material features of the international system such as values, ideals and beliefs. Positivist approaches disregard the possibility that non-material features can themselves be a part of and interact with the international political economy.

Alan Deardorff and Robert Stern, while defending the WTO, have in fact taken account of such factors in their work on anti-globalisation and anti-WTO currents.⁷⁸ In fact non-material features can be as important as material structures and agents such as international organisations. For example, the WTO is an agent that affects change within the international political economy in a profound way. However, both the actions of the WTO and those agents that respond to its actions are often determined by values or goals. John Dobson presents a good analysis of how anti-globalisation, anti-capitalist or simply anti-WTO organisations and movements, can have a profound impact on international affairs.⁷⁹ According to Marjorie Mayo this can take the form of direct action such as protests or through the spreading of knowledge and awareness regarding issues relating to the WTO.⁸⁰ These movements are rarely inspired by any rational self-interest but by certain beliefs and opinions about various issues that they deem as being important. A positivist research approach, such as the three volume, three-thousand page analysis of the WTO by Patrick Macrory, Arthur Appleton and Michael Plummer,⁸¹ is unable to account sufficiently for this type of phenomenon due to its exclusion of the study of non-material features. Murphy and Tooze also argue that positivist IPE produces inadequate explanations because it excludes phenomena which are not captured by its ontological foundations.⁸² Regardless of what the explanatory framework is and what issue is being studied, if there are phenomena included in the study that are not found in the ontological foundation of the positivist IPE approach the explanations produced will be incomplete.

⁷⁸ Deardorff, A., and Stern, R., What You Should Know About Globalization and the World Trade Organization, in *Review of International Economics*, 2002, Vol. 10, No. 3, pp: 417-423.

⁷⁹ Dobson, J., The Battle in Seattle: Reconciling Two World Views on Corporate Culture, in *Business Ethics Quarterly*, 2001, Vol. 11, No. 3, pp: 403-413.

⁸⁰ Mayo, M., 2004, *Global Citizens: Social Movements and the Challenge of Globalization*, London: Zed Books.

⁸¹ Macrory, P., Appleton, A., and Plummer, M., 2005, *The World Trade Organization: Legal, Political and Economic Analysis*, New York: Springer.

⁸² Murphy, C., and Tooze, R. (eds.), 1991, p: 19.

The second main methodological dimension of orthodox IPE is a clear and unwavering commitment to explaining events and issues as the results of the rational actions of unitary individual actors.⁸³ This commitment is not necessarily overtly advocated but is in fact often un-stated. The dedication to this form of methodological individualism can lead to misunderstandings of IPE research that attempts to break away from mainstream approaches. As a result such research is often discredited by orthodox scholars. Therefore there is the need to address the shortcomings of using a methodology that advocates the analysis of the (supposed) rational actions of (supposed) unitary actors. As stated elsewhere, and as emphasised by Claire Sjolander and Wayne Cox, the problem is not rooted in orthodoxy's commitment to methodological individualism as opposed to the fact that there is a lack of openness to other types of explanation.⁸⁴

Orthodox IPE tends to exemplify the argument that combining explanations of events and issues that are based on either the individual or on historical and contextual social structures is ineffective. Part of this is due to what is taken as common sense about explanation within orthodox IPE. For example, Stephen Krasner in his seminal essay on regimes⁸⁵ summarises a number of explanatory approaches that have been suggested by IPE scholars. In this essay Krasner suggests that regimes can be explained as a result of the interactions of rational individuals.⁸⁶ However, what Krasner does not suggest is the possibility that individuals and their 'rational' actions may be explained as being constituted by broad historical and social institutions.⁸⁷ In contrast consider the work of other scholars such as Bernard Lewis.⁸⁸ In his work on the causes and patterns of the relative economic and social decline of the MENA region over the last three centuries, Lewis highlights the effectiveness of explanations that are based on the study of individual rational action. However, Lewis grounds his analysis within

⁸³ Amin, A., and Palan, R., 2001, Vol. 8, No. 4, pp: 561-564.

⁸⁴ Sjolander, C., and Cox, W., 1994, *Beyond Positivism: Critical Reflections on International Relations*, Boulder: Lynne Rienner.

⁸⁵ Krasner, S., Structural Causes and Regime Consequences: Regimes as Intervening Variables, in *International Organisation*, 1982, Vol. 36, No. 2, pp: 185-206.

⁸⁶ Ibid, p: 195.

⁸⁷ Murphy, C., and Tooze, R. (eds.), 1991, p: 20.

⁸⁸ Lewis, B., 2002, *What Went Wrong: Western Impact and Middle Eastern Responses*, London: Phoenix.

the framework of broader historical and contextual structures that determine what are considered to be rational actions and how the actions are constructed.

Alternatively consider some of the later work of Karl Marx such as *Das Kapital*⁸⁹ which can be taken as more obviously linked to the contemporary discipline of IPE as it deals with an analysis of capitalism and related economic theories. Here, Marx constructs conclusions about the social consequences of the combined actions of a number of rational individual actors, namely capitalists, within the context of historical social institutions. In short, his was a theory of action which linked issues of structure and agency (social causation and actions of the individual) into a single explanatory framework. Orthodox IPE lacks the ability to do this due to the explanatory boundaries created by its enduring reliance on and commitment to explanations which focus on rational individual actors.

Orthodox IPE scholars, such as Rogowski, Frieden, and Helen Milner, may argue that what are interpreted as rational actions and what constitutes an individual actor are not affected by historical social institutions to any great extent.⁹⁰ Such arguments do have their merits. However, if this were the case and common sense dictates what the rational actions that can be taken in any given situation are and individual actors are unitary due to their very existence there are still reasons to combine the study of rational individuals and over-riding structures. Chris Farrands and Owen Worth claim questions must be asked about the impacts that broad systemic structures may have on the options rational individual actors may take.⁹¹ In this sense actors may have a set of rational choices but the number and scope of these choices may be bounded by broader structures.⁹²

The final methodological dimension of orthodox IPE regards the three dominant paradigms of liberalism, realism and Marxism. According to Geoffrey Underhill, at the heart of orthodox IPE explanation and theoretical analysis is the contest

⁸⁹ Marx, K., 1890, *Das Kapital*, Washington: Regnery Publishing Inc.

⁹⁰ See Frieden, J., and Rogowski, D., 1996; Milner, H., 1997, *Interests, Institutions and Information: Domestic Politics and International Relations*, Princeton: Princeton University Press.

⁹¹ Farrands, C., and Worth, O., Critical Theory in Global Political Economy: Critique? Knowledge? Emancipation, in *Capital and Class*, 2005, Issue 85, pp: 49-51.

⁹² Krasner, S. (ed.), 1983, *International Regimes*, Cornell: Cornell University Press.

between these paradigms, each of which offers a particular view of the world and contemporary political and economic life.⁹³ The place of paradigms within orthodox IPE research and the impact this has on the explanations produced needs to be examined. The incorporation of ideology into IPE study is equivalent to the evolutions seen in the social sciences as a result of the exposure to the “problems of enquiry and explanation.”⁹⁴ However, as Y. Lapid noted as early as 1989, unlike other social sciences, orthodox IPE has not allowed the incorporation of ideology to undermine the positivist epistemology and methodology that orthodox research is based upon.⁹⁵

During the 1970s the social sciences underwent a period of change in the way social forms were understood. Increasing scepticism about the possibility and utility of purely scientific research emerged during this period within both IPE and IR. Scholars (largely western), such as Frances Cairncross⁹⁶ and Tadeusz Rybczynski,⁹⁷ began to adapt their approaches to accommodate ideologies and values into studies of social phenomena. An example of this is the attempt to understand the seemingly irrational support given by the vast majority of developing states to the Organisation of Petroleum Exporting Countries (OPEC) in the policies of raising oil prices and periodically reducing supply - which proved difficult. In this case non-material features such as values had to be taken into account in order to explain this situation. Simply relying on a positivist epistemology and a methodology that studies the rational actions of unitary agents did not produce sufficient answers.

The incorporation of ideologies into orthodox IPE was therefore necessary but often unwelcome. They were embraced as a part of international political economy as explanatory tools. However, the extent of and ways in which factoring in ideology as a reality of international political economy in theoretical

⁹³ Underhill, G., State, Market and Global Political Economy: Genealogy of an (Inter-?) Discipline, in *International Affairs*, 2000, Vol. 76, No. 4, pp: 805-824.

⁹⁴ Murphy, C., and Tooze, R. (eds.), 1991, p: 22.

⁹⁵ Lapid, Y., The Third Debate: On the Prospects of International Theory in a Post-Positivist Era, in *International Studies Quarterly*, 1989, Vol. 33, No. 3, p: 240.

⁹⁶ Cairncross, F., 1975, *The Second Great Crash: How the Oil Crises Could Destroy the World's Economy*, London: Meuthen.

⁹⁷ Rybczynski, T., 1976, *The Economics of the Oil Crisis*, London: Macmillan.

understanding and explanation has been used has varied and is often contradictory. Firstly, ideologies are not used to explain fundamental actions. They have generally only been used to explain the differences between the communities that examine real events and issues.⁹⁸ Therefore, ideology is only assigned a limited role in orthodox IPE, the role of interpretation. But it is not seen as a material reality and orthodox scholars do not use ideology in an attempt to explain existing material reality.⁹⁹

While the contradictory use of ideology in orthodox IPE's explanatory framework is the most important aspect of the use (or lack of use) of ideology it is not the only point of contestation. As mentioned above the position of liberalism, realism and Marxism in analytical discussion means that the content of these paradigms is privileged. There are, however, a range of paradigms beyond these three that have much to offer the field of IPE especially when expanding the issue agenda. Sandra Whitworth argues that it is often the case that if other paradigms are considered in IPE research they are viewed from the standpoint of one of the three core paradigms and are discredited or at best incorporated into the traditional approach being used.¹⁰⁰ Furthermore, the consideration of paradigms generally necessitates the inclusion of the debate over which one is most appropriate. The distraction of focusing on the competing paradigms immediately reduces the analytical power of any investigation.¹⁰¹

The Orthodox IPE Issue Agenda

Having highlighted to some extent the ways in which orthodox IPE studies and offers explanations of events and issues it is worth addressing the problem of *what* to study. For scholars calling for a revision of IPE there is a distinct problem with orthodox IPE relating to how the discipline is constructed and how this reflects the issues that it deals with. Ben Rosamund claims that the way in which the framework of knowledge production within IPE is organised results not only

⁹⁸ Gilpin, R., 1987, p: 25.

⁹⁹ Murphy, C., and Tooze, R. (eds.), 1991, p: 23.

¹⁰⁰ Whitworth, S., *Theory as Exclusion: Gender and International Political Economy*, in Stubbs, R., and Underhill, G. (eds.), 2000, pp: 116-120.

¹⁰¹ Stubbs, R., and Underhill, G. (eds.), 2000, p: 6.

in the restrictive patterns of how to study international political economy but also in certain issues being privileged.¹⁰² This prevents the inclusion of ‘new’ or different issues on the IPE agenda. As Hay and Watson assert, orthodox IPE “renders specific views of the world ‘correct’ by reducing them to the status of common sense.”¹⁰³ The problem of a relatively narrow and exclusive issue agenda has its roots also in the social realm in which IPE was established. Matthew Watson argues that the social sciences in general, including IPE, have developed largely as a reflection of the policy concerns of the main powers (traditionally state powers) within the western world and in particular, the United States.¹⁰⁴ These policy concerns include US supremacy, the spread of democracy, capitalism, economic growth, and international trade. In addition to the dominance of western interests and concerns, IPE has tended not to give credence to potential changes in the interests and concerns of peripheral states and regions. Ian Taylor has argued that “the global division of wealth and power is taken, if not as natural, then certainly as something seemingly normal and not to be interrogated too deeply.”¹⁰⁵

This is the case in practically all research undertaken with regards to the economic and political relationships between Jordanian and US state and non-state actors. For example, William Lovett, Alfred Eckes Jr. and Richard Brinkman use the 2001 FTA between the two states, as a case study in US foreign trade policy.¹⁰⁶ Robert Lawrence also studies the FTA as an element in US foreign trade policy: surprisingly little is mentioned of Jordan in his study.¹⁰⁷ Equally as selective is Howard Rosen who suggests by way of ignoring Jordanian

¹⁰² Rosamund, B., *Babylon and On: Globalization and International Political Economy*, in *Review of International Political Economy*, 2003, Vol. 10, No. 4, pp: 661-665.

¹⁰³ Hay, C., and Watson, M., *Globalisation: Sceptical Notes on the 1999 Reith Lectures*, in *Political Quarterly*, 1999, Vol. 70, No. 4, pp: 418-225.

¹⁰⁴ Watson, M., 25 February - 1 March 2003, *Constructing and Contesting Orthodoxies: General Equilibrium Economics and the Political Discourse of Globalisation*, 44th Annual Convention of The International Studies Association, Portland, USA.

¹⁰⁵ Taylor, I., 2005, p: 1031.

¹⁰⁶ Lovett, W., Brinkman, R., Eckes, A., and Eckes, A. Jr., 2005, *US Trade Policy: History, Theory and the WTO*, 2nd Edition, New York: ME Sharpe.

¹⁰⁷ Lawrence, R., 2006.

involvement in the process leading to the FTA that the JUSFTA was only signed by the US and forced upon Jordan.¹⁰⁸

When the FTA is considered as an issue in Jordanian foreign trade policy it is done in a manner which prioritises western or US interests. Bashar Malkawi, a leading Jordanian academic studying trade law and policy in Jordan, for example, largely concentrates on what is better for the global economic system – bilateral FTAs or the pursuit of multilateral agreements. Malkawi makes limited reference to why the Jordanian government pursued the FTA and how Jordanian state and non-state actors have been impacted by it from a Jordanian perspective.¹⁰⁹ This is a question which is at the core of the purpose of this thesis.

The issues, values and methods of interpretation that IPE is founded on exist within a broader framework of post-1945 industrial society. For Deborah Johnston this translates into (largely) American values and issues of interest being presented in a privileged and materialistic manner as well as determining what constitutes the questions of IPE.¹¹⁰ The core problem with this form of agenda creation is that, as Peter Vale has stated the system of states and the majority of issues seen as important by the core of this system is often of little relevance to large parts of the world's population.¹¹¹ For example, the issue of development has been seen as important and requires addressing in one form or another and currently appears to be gaining increasing attention. The fact that development has been determined as an issue that IPE should address is welcomed by both orthodox and heterodox IPE scholars. However, as stated by Bjorne Hettne, Development Studies has evolved into a discipline of relatively low academic standing.¹¹² The core problem with development studies in IPE is the underlying question of *what* it is that we should be studying when we say 'development'.

¹⁰⁸ Rosen, H., Free Trade Agreements as US Foreign Policy Tools: The US-Israel and US-Jordan FTAs, in Schott, J. J. (ed.), 2003.

¹⁰⁹ Malkawi, B., 2005, *Jordan and the World Trading System: A Case Study for Arab Countries*, Washington: American University, Washington College of Law.

¹¹⁰ Johnston, D., Constructing the Periphery in Modern Global Politics, in Murphy, C., and Tooze, R. (eds.), 1991.

¹¹¹ Vale, P., Engaging the World's Marginalised and Promoting Global Change: Challenges for the United Nations at Fifty, in *The Harvard International Law Journal*, 1995, Vol. 36, No. 2, pp: 96-100.

¹¹² Hettne, B., 1995, *Development Theory and the Three Worlds: Towards an International Political Economy*, Harlow: Longman.

The answers to this question may vary greatly. Of most importance is that the key prescriptions as to what to do in order to ‘develop’ alter significantly depending on the basic assumptions about what development is. According to B. Dasgupta, in practice, it has been western conceptions of development and prescriptions which have been focused on and generated with little real understanding of the processes and concerns of the very people under consideration.¹¹³

A further key assumption often made within orthodox IPE research that helps to determine the issue agenda, relates to the extent to which economics and politics are (still) held as separate. This distinction is based on the definition of *economics* as the scientific area of investigation that deals with the production and distribution of wealth, while *politics* is defined as the area of scientific research that investigates the organisation of (non-economic) human activity.¹¹⁴ The study of politics and economics as related but separate spheres is an inherent trait of traditional IR. IPE exists as a separate discipline¹¹⁵ from IR in part due to the lack of analytical and explanatory power that this separation produces. However, while IPE research does not always (at least overtly) express this separation of politics and economics, the interaction between the two is founded upon an ahistorical conception of the relationship between them. This conception derives from the political and ideological influences of early liberalism. The result is a “value-based political economy utilizing a closed set of economic techniques and analytical schemes.”¹¹⁶

Orthodox IPE has largely inherited the agenda of traditional IR. For Gerard Strange, orthodox IPE *claims* to study the politics of international economic

¹¹³ Dasgupta, B., 1998, *Structural Adjustment, Global Trade and the New Political Economy of Development*, London: Zed Books.

¹¹⁴ Frieden, J., and Lake, D., 1995, p: 1.

¹¹⁵ Note that the often lively debate regarding the relationship between IPE and IR is not engaged with at great length in this thesis. This is intentionally done as to not distract the reader from the already numerous and complex aims this piece of work is undertaking. However, this issue shall be briefly addressed here. The majority of IPE scholars, works and degree programmes date back only to the 1960s and early 1970s, long after the emergence of IR as a discipline in 1919. This basic examination may lead the student of IPE to the conclusion that the discipline is a sub-field of IR as opposed to an independent discipline. However, accepting this view without attempting to assess the history of IPE further is misleading. Adam Smith, for example, was *doing* (I)PE in the 1770s as was David Ricardo in the 1890s. It can be argued that studying IPE was simply *forgotten* until the late 1960s and early 1970s when events such as the oil crises and the end of the fixed exchange rate prompted the re-discovery of the discipline.

¹¹⁶ Murphy, C., and Tooze, R. (eds.), 1991, p: 25.

relations but often it does little more than simply study the issues of international economics.¹¹⁷ At the same time Alison Watson argues that the adoption of a largely economic issue agenda is inherently restrictive and produces a hierarchy of issues of importance with some more privileged than others.¹¹⁸ There are a number of ways in which this manifests itself. First, the issues which are privileged are assumed to be more important in both theory and policy terms than those issues that are not, which are subsequently marginalised. Stephan Haggard and Sylvia Maxfield's analysis of financial internationalisation in the developing world offers a good example of this form of hierarchy.¹¹⁹ Second, the issues which are privileged are not only seen as being more important but also act as the basis of assessment and evaluation for all the marginalised issues. For example, an issue such as the importance of nepotism in low-ranking regional government decision making entities in the less prosperous states of the MENA region only becomes an important issue when evaluating its impacts on international trade.¹²⁰

It is widely acknowledged that the most privileged issue within orthodox IPE is international trade (and perhaps finance). Barry Gills claims that the fact that international trade is so privileged is an example of the incorporation of the agenda of international economics into mainstream IPE as well as the impact of liberal economic thought on the formation of the discipline.¹²¹ At its fundamental level liberal international economics is founded on the perception of the international political economy as an international economy of trading states where the totality of economic interaction is trade. Thus for liberal economists the international economy is the principle structure of human activity and therefore all other issues and forms of human interaction are understood as being determined by this structure. Orthodox IPE adopts this perception in large part. However, this limited view can be easily discredited by the study of the phenomenon of 'international production' and the global division of labour and

¹¹⁷ Strange, G., Globalisation, Regionalism and Labour Interests in the New International Political Economy, in *New Political Economy*, 2002, Vol. 7, No. 3.

¹¹⁸ Watson, A., Seen But Not Heard: The Role of the Child in International Political Economy, in *New Political Economy*, 2004, Vol. 9, No. 1.

¹¹⁹ Haggard, S., and Maxfield, S., The Political Economy of Financial Internationalization in the Developing World, in *International Organization*, 1996, Vol. 50, No. 1.

¹²⁰ See Demir, O., Mustafa, A., and Toprak, M., Anatolian Tigers or Islamic Capital: Prospects and Challenges, in *Middle Eastern Studies*, 2004, Vol. 40, No. 6.

¹²¹ Gills, B., 2001.

their implications for the belief that the international economy merely is trade between states.¹²²

In order to understand fully the pre-eminence of the issue of international trade it is necessary to refer back to the claim that orthodox IPE largely reflects the issues and policy interests of the United States. Following the end of the Second World War and the beginning of the era of US supremacy, international trade emerged as an area of significance in US domestic politics.¹²³ In the post-1945 international political economy the United States dominated global economic activity, producing a vast majority of goods and having the largest share of international trade. Thus the issue of trade became increasingly important to certain classes, sectors and firms within the United States.¹²⁴ The interest of these groups translated into political pressure on the way the US government acted with regards to the interaction between the international and US economies.¹²⁵ Also, the emergence of the United States as the most significant power in world affairs after 1945 meant that it was at the forefront of managing the restructuring of the world economy.¹²⁶ In part due to the status of the issue of international trade within US decision making circles along with basic economic principles, the task of restructuring the world economy was undertaken with structures of trade as the focal point.

It must be conceded that in contemporary world affairs the issue of international trade remains highly significant both to the United States and the majority of other states and actors. This is for a number of reasons. In the first instance, in the decades since the rise of US supremacy there has been a reversal of the nature of the patterns of US trade. As the French historian and anthropologist Emmanuel Todd in his book *After the Empire: The Breakdown of the American Order* has pointed out, the United States currently imports far more than it exports. Growing

¹²² See Michalet, C. A., From International Trade to World Economy, in Makler, H., Martinelli, A., and Smelser, N., 1982, *The New International Economy*, London: Sage Ltd.

¹²³ Destler, I. M., 2005, *American Trade Politics*, 4th Edition, Washington: Institute for International Economics.

¹²⁴ Ambrose, E., 1997, *Rise to Globalism: American Foreign Policy Since 1938*, 8th Revised Edition, London: Penguin Books Ltd.

¹²⁵ Bergsten, F., 1988, *America in the World Economy: A Strategy for the 1990s*, Washington: Institute for International Economics.

¹²⁶ Zinn, H., 2003, *A People's History of the United States*, 3rd Edition, London: Pearson Ltd.

reliance on the world's true productive centres,¹²⁷ Japan, Western Europe and now arguably China, for goods and services have led to record trade deficits in recent years. Second, the ability of the United States to 'manage' the world economy and global trade has been under question since the late 1970s. For these reasons, among others, Daniel T. Griswold is quite accurate in his acknowledgement that trade is one of the more important features of the study of international political economy.¹²⁸ Even a critic of the orthodox IPE issue agenda must concede this point.

The hegemony of 'trade' in orthodox IPE began to be challenged in earnest in the early 1990s, not least of all by Susan Strange whose favourite and chosen area of study became money and international finance. Unfortunately the result has been a further polarisation within the discipline. Here orthodox scholars who remain intent on analysing trade on one side and so-called heterodox scholars who focus on money and finance on the other, and yet others still who focus largely on other issues such as development. Rather than leading to a diversified 'new' IPE, these processes have given rise to competing hegemonies within an increasingly indecisive discipline.

There exist other confrontations over the range of issues within IPE. Orthodox IPE seems to have largely ignored security as an area of study, for example. Susan Strange had gone some way in addressing this issue by developing ideas pertaining to the international political economy of security in her work on the 'security structure' and technology in her work on knowledge structures.¹²⁹ However, this work along with similar research has too often been excluded from orthodox IPE research. Other issues such as resource scarcity and depletion, by scholars such as Thomas Homer-Dixon;¹³⁰ technological developments, by

¹²⁷ Todd, E., 2003, *After the Empire: The Breakdown of the American Order*, Birmingham: Constable.

¹²⁸ Griswold, D. T., Trading Tyranny for Freedom: How Open Markets Till the Soil for Democracy, in *Trade Policy Analysis*, January 6 2004, No. 26, p: 2.

¹²⁹ Strange, S., 1991, An Eclectic Approach, in Murphy, C., and Tooze, R. (eds.), 1991, pp: 33-49.

¹³⁰ Homer-Dixon, T., 1999, *Environment, Scarcity, and Violence*, Princeton: Princeton University Press.

scholars such as Michael Talalay;¹³¹ demographic change, and culture also hold a subordinate status to the issue of international trade in orthodox IPE. However, within heterodox IPE the problem of hierarchy in the issue agenda has resurfaced. In short, the issues mentioned above as subordinate to international trade in orthodox IPE have, individually, become the primary focus in the ‘new’ IPE.

Realisation that IPE can be perhaps above all other social sciences, the most diverse discipline in terms of scope and methodological approaches and capacity for change is essential. Adopting a hierarchical issue agenda which has as a core formative element the principle of selectivity is perhaps the most serious hindrance to the development and generation of IPE research. Barry Gills for example, warns against the ‘colonisation’ of IPE by specific issues such as identity, stating that this will not prove ‘fruitful’ and lead to unwanted conflict within the discipline.¹³² As with theoretical and methodological approach, the issue agenda should be permanently opened to practically all possible issues of study. If it is not, the result will be the continued stagnation of IPE and the continued fracture of the invisible college of academics and scholars.

Beyond Orthodox IPE

Following the above assessments of what constitutes orthodox IPE, what methodological range orthodoxy employs and the issue agenda to which attention is paid, it is now important to return to the question of how to transcend the limits of orthodox IPE. There are four important steps that should be taken in order to develop an IPE approach to the study of US-Jordan trade relations. The first step is required in order to overcome the restrictions on the range of issues that can be studied and the hierarchy of issues that are studied. It is necessary here to reject the existing orthodox hierarchy, thus refusing to place international trade as the primary issue of study. This does not necessitate the refusal of the study of international trade. Rather it simply means rejecting “the means of constructing

¹³¹ Talalay, M., Tooze, R., and Farrands, C., 1997, *Technology, Culture and Competitiveness: Change and the World Political Economy*, London: Routledge.

¹³² Gills, B., 2001, p: 238.

the universe of (orthodox) IPE.”¹³³ As Diana Tussie states, this means questioning the ahistorical distinction between politics and economics and recognising the impacts that western, largely American, cultural values have had on orthodox IPE.¹³⁴ This constitutes the second step. It is often the case that this step will need to be taken simply because the issue that is being brought into question may not be located within the realm of US policy interests.

The third step, and something that Owen Worth and Carmen Kuhling have highlighted, is to be self-conscious of the research that is being undertaken.¹³⁵ While it is easy to criticise orthodox scholars for only studying issues that are of significance when viewed in the sense of US policy interests or western values, the same criticism must be exacted on most IPE research. As stated above, this research project represents a set of specific interests which include the issue of US-Jordan relations from both a dual perspective. It is also important to realise the connection between the research project and the interests and values of the author. Carrying out this research project thus may be construed as being contradictory, exchanging one set of values and interests in IPE research for another. However, the difference is that the connection between the researcher and the research here is explicitly made and reflected upon, therefore acknowledging the subjective relationship.

Incorporating such self-consciousness and reflexivity into the research process allows for the IPE researcher to take a further step towards producing a heterodox piece of work. This is the step of addressing the epistemological inadequacies of the methodology that orthodox IPE uses.¹³⁶ The three main methodological dimensions as explained above have specific problems which must be addressed and resolved in order to produce a more complete IPE study. Initially there is the problem of the reliance on positivism’s awkward distinction between subject and object in an attempt to achieve objectivity. Orthodox scholars attempt to produce scientific understanding of the world and its events, processes and structures and

¹³³ Murphy, C., and Tooze, R. (eds.), 1991, p: 28. Note ‘(orthodox)’ added.

¹³⁴ Tussie, D., 1994, Trading in Fear: US Hegemony and the Open World Economy in Perspective, in Murphy, C., and Tooze, R. (eds.), 1991, pp: 79-97.

¹³⁵ Worth, O., and Kuhling, C., Counter-Hegemony, Anti-Globalisation and Culture in International Political Economy, in *Capital and Class*, 2004, Issue 84, pp: 31-42.

¹³⁶ Amoore, L., Dodgson, R., Germain, R., Gills, B., Langley, P., and Watson, I., 2000, p: 55.

present this understanding as ‘truth’ through truth-seeking research. Heterodox IPE scholars on the other hand offer an alternative version of research and truth-seeking. This being the self-conscious identification with a certain set of values, interests and perhaps group(s) of people. As Murphy and Tooze state, “The scholar...*needs* to understand the world in order to change it.”¹³⁷ By taking this fourth step it is possible to present a solution to the problem of objectivity by reflecting multiple *sources* of objectivity or even multiple sources of subjectivity.

The second problematic methodological dimension of orthodox IPE is the commitment to explaining events and issues in terms of the rational actions of individual actors. Attempts to study and explain the actions of individual actors should be included in IPE research in most instances depending on the area of study. However, in order to fully understand these actions it is important to also study the historical construction of these actors and the broader structures that they operate within.¹³⁸ This does not necessarily mean agreeing on specific explanations of historical and contextual structures and events. For example, there are varying explanations on the historical evolution of the post-Second World War international economy as well as varying interpretations on the impacts that the different processes of globalisation may have on the economies of the MENA region.

One final criticism of the epistemological difficulties of orthodox IPE relates to the use of theory. Acknowledging the diverse range of theories that exist and not simply *labelling* or approaching research using one of the three main paradigms (realism, liberalism or Marxism) has two main results. First, this allows the researcher to understand the arguments, theories, explanations and interpretations offered by other social scientists. Second, the problem of communication between different research programmes¹³⁹ can be resolved which in turn can lead to the understanding that heterodox scholars do not necessarily claim their research agendas should be everyone else’s¹⁴⁰ as orthodox scholars do. The following chapter expands on this brief map of how to produce more effective and

¹³⁷ Murphy, C., and Tooze, R. (eds.), 1991, p: 28.

¹³⁸ Nelson, D., 1994, Trade Policy Games, in Murphy, C., and Tooze, R. (eds.), 1991, p: 129.

¹³⁹ This constitutes one of the central issues of the post-positivist philosophy of science.

¹⁴⁰ Murphy, C., and Tooze, R. (eds.), 1991, p: 29.

heterodox IPE work by presenting the methodological foundations of this thesis in detail.

State-Centric and Conflict-Centric MENA Studies

According to F. Gregory Gause, the majority of research and scholarly work focusing on the MENA region has traditionally been carried out by western academics or western-educated academics.¹⁴¹ For Fred Halliday this has led to the majority of work on the international relations or international political economy of the MENA region being dominated by a narrow range of approaches and a limited range of issues being considered.¹⁴² In short, the study of the MENA region in IPE, IR, Foreign Policy Analysis and MENA Studies among other disciplines has been dominated by western conceptions of the region and western interests. Thus there is a distinct problem of when and how IPE takes into consideration the actors, issues and processes of the MENA region. In the case of the actors of the region, the vast majority of scholarly work concentrates on a system of states. L. Carl Brown's *International Politics and the Middle East* is a prime example of the state-centric approach.¹⁴³ With regards to the issues and processes of relevance, Edward Said has argued that mainstream approaches focus on inter- and intra-state conflict and natural resources.¹⁴⁴ The result is that a range of issues of importance, such as the integration of legal frameworks governing various international economic activities, are not studied.

With regards to the dominant state-centric approach there are two main critiques. The first, according to Tariq Ali, is that the MENA region has not historically been constituted by states.¹⁴⁵ The modern state in the MENA region is a relatively new type of actor. The second critique is, as Peter Mansfield argues, that human forms of social organisation in the region have historically taken the form of a

¹⁴¹ Gause, F. G., 1999, *Systemic Approaches to Middle East International Relations*, International Studies Association Annual Convention, published by Blackwells.

¹⁴² Halliday, F., 2005.

¹⁴³ Brown, L. C., 1992, *International Politics and the Middle East: Old Rules, Dangerous Game*, Princeton: Princeton University Press.

¹⁴⁴ Said, E., 2005, *Power, Politics and Culture: Interviews with Edward Said*, London: Bloomsbury Publishing.

¹⁴⁵ Ali, T., 2003, *Bush in Babylon: The Recolonisation of Iraq*, London: Verso.

number of hierarchical entities very much unlike the modern state.¹⁴⁶ At the top of this hierarchy of actors is the *Dar al-Islam*, or House of Islam, the singular yet not unitary empire of Islamic peoples.¹⁴⁷ Progressing down the hierarchical structure, Fernand Braudel claims that sub-regional entities with some of the characteristics of modern states can be found, although these entities were organised around geographical, ethnic and tribal lines.¹⁴⁸ The most discrete form of organisation in the region has been and still is the tribe – which this author likens to contemporary non-governmental organisations (NGOs) in other regions.

An old and resurgent form of actor also exists parallel to the tribe. This is the corporation or multinational corporation (MNC). Thus in the first instance, simply analysing the state as the dominant form of actor in the region risks producing inaccurate conclusions due to the historically ‘foreign’ nature of and relatively recent arrival of the state as actor in the region. In the second instance, as Kenichi Ohmae has highlighted,¹⁴⁹ failing to incorporate other forms of actors such as the MNC in any study of international political economy produces incomplete analyses. This is because the agency and impact of a large number of actors is not understood or considered, thus producing false or incomplete conclusions.

In relation to the range of dominant issues which are studied, Andrea Teti and Claire Heristchi claim that conflict has more often than not been the focus.¹⁵⁰ Tariq Ismael meanwhile argues that the study of the region’s natural resources and their importance to extra-regional actors and systems comes second on the hierarchical issue agenda.¹⁵¹ Studies of the international political economy of the MENA region have focused on other issues such as trade, poverty alleviation, education, environmental protection and so on, however, these issues and the research done on them, are consistently excluded from the ‘core intellectual

¹⁴⁶ Mansfield, P., 2003, *A History of the Middle East*, 2nd Edition, London: Penguin.

¹⁴⁷ Ibid.

¹⁴⁸ Braudel, F., 1993, *A History of Civilisations*, London: Penguin Books, pp: 69-93.

¹⁴⁹ Ohmae, K., 2005, *The Next Global Stage: The Challenges and Opportunities in Our Borderless World*, New Jersey: Pearson Education Inc.

¹⁵⁰ Teti, A., and Heristchi, C., The Middle East After the Politics of Certainty, in *The Journal of Mediterranean Studies*, 2004, Vol. 14, No. 1, pp: 1-15.

¹⁵¹ Ismael, T. (ed.), 1990, *Middle East Studies International Perspectives on the State of the Art*, London: Greenwood Press, pp: 12-15.

discourse' on MENA studies. For Larbi Sadiki this is a disciplinary weakness which must be rectified by 'bringing in' to mainstream discourse previously excluded and under-studied issues and research topics.¹⁵² It is the belief of this author that while the study of the politics, economics, international relations and international political economy of the MENA region in the social sciences in general has been limited, the most extreme case of exclusion and selectivity is within IPE. This is for the reasons highlighted above regarding what is studied and also for how these issues are studied.

The unfortunate truth is that the majority of issues pertaining to the international political economy of the MENA region that are studied are examined from a non-MENA perspective. Edward Said's work on Orientalism has led to the emergence of a new paradigmatic approach to studying the MENA region which does not reduce the actors - and most importantly the people - of the region to mere subjects of study by 'others'.¹⁵³ Despite this, however, as mentioned above, scholars such as Rashid Khalidi and Bashar Malkawi, originating from the MENA region have often produced studies which use a western approach in the sense that the study does not take account sufficiently of MENA actors and interests. Worthy of mention here is a recently established academic journal entitled *Arab Insight* published by the World Security Institute, whose remit is to provide a platform for research on international relations done by MENA-based academics with a non-western approach. It is the aim of this study to break with the mainstream tradition and use a more holistic approach to the study of US-Jordan trade relations. Thus, this study will not focus solely on any one *type* of actor such as the state, nor will it focus on conflict as a central theme. Furthermore, the actors, interests and processes of the Jordanian element of this study will not be ignored. This does not, however, equate to this study being Jordanian or non-western focused – this would simply be replacing one incomplete approach with another.

¹⁵² Sadiki, L., 2004, *The Search for Arab Democracy*, London: C Hurst & Co Publishers Ltd.

¹⁵³ Said, E., 1978, *Orientalism*, London: Claves Ltd St Ives Plc.

Re-interpreting US Strategies and Interests

Of the three areas of academic enquiry reviewed in this chapter, the study of US foreign and trade policy is perhaps the most complete. However, there are still issues and processes which have not been fully considered or analysed. As Eugene Wittkopf, Charles Kegley and James Scott claim, attention has generally tended to be directed towards *either* the United States' strategic interests and the use of foreign and trade policy as a mechanism to achieve these interests *or* on the economic impacts of such policies.¹⁵⁴ In short, there has too often been a divide between research focusing on the political aspects of US foreign and trade policy on the one hand and economic aspects on the other. John Rothgeb Jr. argues that consideration of the *political economy* of US interests and policies has not tended to be the traditional route of analysis.¹⁵⁵ With regards to US-MENA relations this has historically been the case.

With regards to US-MENA relations, there are a number of key political, economic and social issues within the MENA region which have been seen as the root causes of the major problems the region has faced. As Peter Hahn¹⁵⁶ has highlighted, the attention to what is essentially the domestic structure of a foreign region stems from the vested political and economic interests that the United States has in this region.¹⁵⁷ Douglas Little argues that for the United States, the threat of instability and conflict in the MENA region is the primary challenge to these key strategic interests.¹⁵⁸ For example, the threat of military action in the region can easily disrupt the flow of oil to the world market. The second major concern for the United States since the end of the Cold War has been

¹⁵⁴ Wittkopf, E., Kegley, C. W. Jr., and Schott, J., 2005, *American Foreign Policy: Pattern and Process*, 7th Edition, London; Wadsworth.

¹⁵⁵ Rothgeb, J. Jr., 2001, *US Trade Policy: Balancing Economic Dreams and Political Realities*, Washington: CQ Press.

¹⁵⁶ Hahn, P., 2005, *Crisis and Crossfire: The United States and the Middle East Since 1945*, Cambridge: Potomac Books Inc.

¹⁵⁷ For the United States there have traditionally been three key foreign policy goals with regards to the MENA region. The first policy goal has been maintaining access to the region's markets. The second key goal has been securing accessible and reliable supplies of oil and gas. Finally, the United States has sought cooperation from the region's states – whether coerced or voluntary.

¹⁵⁸ Little, D., 2002.

international terrorism.¹⁵⁹ Prior to September 11 2001, terrorism emanating from the MENA region was seen mostly as a threat faced by the ruling elites of the region and US interests abroad. However, the phenomenon has since become a direct threat to the territory of the United States. Furthermore, slow economic growth, impassable barriers to trade and relatively isolated economies in the MENA region have become key obstacles not only to regional stability but also to US access to the region's markets.

According to Michael Oren any study of US- governmental and non-state actor policy towards the MENA region, whether foreign or trade policy, must take these broad interests into account.¹⁶⁰ However, as Richard Feinberg argues,¹⁶¹ this must be done in a manner which allows for the synthesis of political and economic interests and policies to enable a study of the political economy of such policies. For Tom Hanahoe this entails moving away from focusing solely on one key interest at a time and critically assessing how US governmental interests interact with the interests of US non-state actors such as MNCs.¹⁶² In the post-9/11 era, it has too often been assumed that the US government desires above all else a restructuring of the state system of the MENA region through forced regime change in order to secure its main interests in the region. Thus attention has been drawn mostly towards security issues and military conflict. Geoff Simons' book entitled *Future Iraq: US Policy in Reshaping the Middle East* is a prime example of this type of approach.¹⁶³

This study aims to demonstrate how it is possible to develop more comprehensive and eclectic analyses of US foreign and trade policy towards the MENA region. However, the approach taken in order to accomplish this does not necessitate ignoring the traditional key interests of the US government and non-state actors. Instead, what is necessary is a re-interpretation of these interests and what the

¹⁵⁹ Laqueur, W., 2000, *The New Terrorism: Fanaticism and the Arms of Mass Destruction*, Oxford: Oxford University Press.

¹⁶⁰ Oren, M., 2007.

¹⁶¹ Feinberg, R., 2003, *The Political Economy of United States' Free Trade Arrangements*, Washington: Peterson Institute for International Economics.

¹⁶² Hanahoe, T., 2003, *America Rules: US Foreign Policy, Globalization and Corporate USA*, Dingle, Co. Kerry: Brandod Ltd.

¹⁶³ Simons, G., 2003.

political economy of US- governmental and non-state actor policy is and how it remains oriented towards securing these interests.

Conclusions

This chapter has critically assessed the nature of contemporary IPE and the shortcomings of orthodox research. Within the discipline there are prevalent characteristics which limit the effectiveness of research carried out. In the first instance there are limitations to the range of methodological tools employed which often result in research which has more in common with the natural sciences than the social sciences. These are the commitment to positivism, rationalism and only three main paradigms. Second, the issue agenda included in IPE has been constructed and perpetuated in a manner which excludes certain types of issues as well as alternative interests and competing analyses. Within these limitations, the areas of MENA studies and US foreign and trade policy studies present even greater problems. Studies of the international political economy of the MENA region have been dominated by a hegemony of state- and conflict-centricism. In the case of US foreign and economic policy, studies have focused on state actor interests and conflictual relationships as the means of pursuing these interests. Furthermore, politics and economics have either been separated or studied in a dominant-less dominant manner favouring the former.

It has been argued that the first step in order to undertake a heterodox IPE research project is to establish the framework within which the issue(s) to be studied can be assessed and analysed. Initially this means determining *how* the issue(s) will be studied. There are a number of problems that must be resolved relating to the paradigmatic choices the project makes and the methodology employed. As explained above a main shortfall of much IPE research is the unnecessary amount of attention paid to engaging with the debate surrounding the three main paradigms of IPE. This is a debate which will not be engaged with in more detail here than it already has been. It is important, however, to outline the paradigmatic approach that will be used. The following chapter thus addresses in

detail the theoretical foundations of this research project and the methods used to collect, analyse and present information.

A brief summary of the main points is, however, useful at this stage. This study utilises an approach which rejects the totalitarianism of positivism and the fallacy of objectivism. However, this is not an entirely post-positivist and subjective study. Rather, the possibility of objective and positivist research is acknowledged and the benefits of empirical observation and data collection are also utilised in chapters three through seven. Furthermore, an ontological position is acknowledged which allows for the analysis of varying types of actors including non-state actors such as MNCs as well as the varying forms these types of actors may take between different regions.

The second key feature of the research framework that must be decided upon and highlighted before a heterodox research project can be undertaken is to produce an outline of what the issue agenda of the project is going to be. As stated above the traditional issue of most concern to orthodox IPE scholars has been international trade. The lack of ability of orthodox scholars to incorporate other issues into the issue agenda has been their most important failure. However, there exists an equally important problem with the commitment to preserving the issue of international trade as the primary issue on the agenda. When a 'secondary' issue is the focus of a research project the result has tended to be that the project is undertaken with the purpose of assessing the issue and analysing its impacts on primary issues such as trade. The reader could be forgiven here for assuming that this research project is therefore in contradiction with the aims of diversifying and developing IPE as this is a study about international trade. However, there exists a key difference between this research project and other such studies that are orthodox in their approach and their findings.

While this project aims to assess the political economy of international trade between the United States and Jordan, there are a number of more subtle issues that are engaged with. As highlighted above, a common misunderstanding is that international trade is the primary issue and all other issues are always understood as part of its processes. While this is sometimes the case, this study does not aim

to simply assess the impacts of international institutions on trade levels. Likewise this project does not aim to assess perceived ‘secondary’ issues of US-Jordan relations such as cultural animosity, forms of governance and so on, on current and future levels of bilateral trade. However, this study also does not ignore trade as an issue simply because it has received much attention in IPE. In fact the study of trade in IPE has often ignored the MENA region and Jordan in particular. Furthermore, US-Jordan relations and US-MENA relations in general have focused largely on issues of conflict and resources.

The intention of this study is therefore to offer alternatives to both the orthodox approach of studying trade *and* the critical approach of ignoring trade. This study thus assesses the relationship between state and non-state actors in both the United States and Jordan in forming patterns of trade in order to evaluate current and future patterns of political and economic cooperation and integration between the two states. In this sense the primary issue of this study is international cooperation and interdependence while the secondary issue is international trade.

The following chapter develops the arguments in this chapter relating to the nature of IPE research and how best to study the political economy of US-Jordan trade. Thus chapter two establishes the theoretical parameters and the methodological tools of the liberal institutionalist approach used in this study.

Chapter Two

Theory and Methods

Introduction

After establishing the aims, focus and disciplinary relevance of this study in the introduction and chapter one it is necessary to now establish how this project will be approached theoretically. Furthermore, it is imperative at this point to establish the research methods used to collect, analyse and present information.

In order to coherently achieve these aims it is necessary to establish a structural framework to the chapter that identifies and addresses four main areas pertaining to the research process. The first two sections of the chapter will therefore address the related questions of ontology and epistemology respectively. David Marsh and Gerry Stoker summarise the importance of these two issues to the research process and the final work presented as follows: “...*ontological and epistemological positions are crucial because they shape what we think we are doing as [Social] scientists, how we do it and what we think we can claim about the results we find.*”¹⁶⁴ Here it is important to refer back to the critique of orthodox IPE and the common ontological and epistemological foundations it is largely based upon presented in chapter one. Directly linked to and founded upon where one finds oneself in terms of ontological and epistemological positions is the conception of theory, implicitly or explicitly, employed in any research project.¹⁶⁵ The third section will thus outline liberal institutionalism as the theoretical approach this study takes (albeit as a *critical liberal institutionalist* approach). Here, some of the criticisms of this approach will be taken into consideration.

The fourth section introduces the research methods used to collect, analyse and present data in this study. It has historically been the case that the majority of social science research, IPE research included, has been based *either* on qualitative *or* quantitative research methods.¹⁶⁶ However, this type of

¹⁶⁴ Marsh, D., and Stoker, G. (eds.), 2002, *Theory and Methods in Political Science*, 2nd Edition, Basingstoke: Palgrave & MacMillan, p: 311, [Social] added.

¹⁶⁵ Hollis, M., and Smith, S., 1991, *Explaining and Understanding International Relations*, Cambridge: Clarendon Press, pp: 57-61.

¹⁶⁶ Devine, F., and Heath, S., 1999, *Sociological Research Methods in Context*, London: Palgrave MacMillan, p: 200.

exclusionary methodology does not always allow for the most effective research. Rather, if done correctly, the combination of qualitative and quantitative methods in social science research can be beneficial and can provide the research findings with an added legitimacy. This position has been advocated by scholars such as Norman Denzin and Yvonna Lincoln,¹⁶⁷ Martyn Hammersley,¹⁶⁸ John Creswell,¹⁶⁹ Abbas Tashakkori and Charles Teddlie,¹⁷⁰ and Melvyn Read and David Marsh.¹⁷¹ This section of this chapter will thus draw upon some of this work to solidify the arguments presented. A brief conclusion will summarise the main points providing an outline of the research undertaken and presented in the following five chapters.

Ontological Foundations

David Marsh and Paul Furlong argue that in order to outline how any study will be carried out it is important first to outline what the project is fundamentally about.¹⁷² Chapter one established the disciplinary framework within which this study takes place while the introduction to this thesis established the core research questions regarding the political economy of US-Jordan trade relations. It is essential also, however, to introduce the ontological orientation of this research project. According to Martin Hollis there are two main forms of social science study. The first being a study which seeks to *understand and explain* the nature of social phenomena, relations, structures and/or processes in international political economy, such as the causal factors and prospects for trade relations between the United States and Jordan. The second type of study is one that seeks to offer *interpretations* of these phenomena.¹⁷³ Therefore, as Frank Bechhofer

¹⁶⁷ Denzin, N., and Lincoln, Y., 2003, *Strategies of Qualitative Inquiry*, London: Sage Publications.

¹⁶⁸ Hammersley, M., 1995, *The Politics of Social Research*, London: Sage Publications.

¹⁶⁹ Creswell, J., 2002, *Research Design: Qualitative, Quantitative and Mixed Methods Approaches*, London: Sage Publications.

¹⁷⁰ Tashakkori, A., and Teddlie, C., 1998, *Mixed Methodology: Combining Qualitative and Quantitative Approaches*, London: Sage Publications.

¹⁷¹ Read, M., and Marsh, D., Combining Qualitative and Quantitative Methods, in Marsh, D., and Stoker, G. (eds.), 2002.

¹⁷² Marsh, D., and Furlong, P., A Skin, Not a Sweater: Ontology and Epistemology in Political Science, in Marsh, D., and Stoker, G. (eds.), 2002, pp: 17-18.

¹⁷³ Hollis, M., 1994, *The Philosophy of Social Science: An Introduction*, Cambridge: Cambridge University Press, pp: 1-23.

and Lindsay Paterson have argued, defining whether a research project seeks either to offer a tautological claim *or* to offer an interpretation is where one must begin in order to establish how the project will be carried out.¹⁷⁴ One of the problems with IPE outlined in the previous chapter is that the majority of orthodox research firstly is based upon a foundationalist ontology restraining any enquiry to seeking merely to understand and explain the ‘truth’ of the phenomenon studied. Secondly, the common sense acceptance of this type of position is not questioned and so a conscious decision as to whether or not the project seeks to understand, explain, predict or prescribe (or a combination of these) is not engaged with.

If a research project seeks to present a tautological understanding and explanation of social phenomena, the project will be based upon an ontology that is foundationalist rather than interpretivist or anti-foundationalist.¹⁷⁵ Foundationalist ontology holds that there is a ‘real’ world which exists regardless of whether or not the researcher exists and whether or not the researcher is aware of this world.¹⁷⁶ Furthermore, foundationalist research perceives this ‘real’ world to be observable. Scholars such as Michael DePaul argue that this ‘real’ world can be understood and, more importantly, explained through scientific research.¹⁷⁷ However, if the research project seeks to provide an *interpretation* of social phenomena without claiming to provide a universally true and accurate *description* of such phenomena, then the project is anti-foundationalist or interpretivist. This means that one would believe or view that there is no single real world, or absolute truth in existence. Instead the world is *socially constructed* and can only be *interpreted* in different ways.¹⁷⁸

This project is based upon a number of basic principles relevant to the discussion of ontological foundations, which are as follows: the social world contains a

¹⁷⁴ Bechofer, F., and Paterson, L., 2000, *Principles of Research Design in the Social Sciences*, London: Routledge, pp: 1-10.

¹⁷⁵ Rockmoore, T., 2004, *On Foundationalism: A Strategy for Metaphysical Realism*, Birmingham: Rowman & Littlefield Publishers.

¹⁷⁶ Ibid.

¹⁷⁷ DePaul, M., 2001, *Resurrecting Old-Fashioned Foundationalism*, Birmingham: Rowman & Littlefield Publishers.

¹⁷⁸ Simpson, E. (ed.), 1988, *Anti-Foundationalism and Practical Reasoning: Conversations Between Hermeneutics and Analysis*, Toronto: Academic Printing and Publishing.

range of constitutive elements which exist regardless of the cognitive awareness or interpretation of the researcher but any understanding of these elements is subject to subjective interpretation. Furthermore, analysis of these elements and many tautological claims developed remain to a certain extent influenced by opinions or interpretation. In the first instance there exists a global economy or international political economic system which has observable elements. However, this global economy is dynamic and in a constant state of change as opposed to being static and un-changing. That is not to say that there is general progress in the nature of this system and the well-being it provides for those involved in it. Instead there is constant 'horizontal' change in the structures, and processes, as well as the constituent social phenomena (which include actors at the individual, national and international levels) and the relations between them.

The global economy is dynamic because it is constituted of and by individual humans and collectives of humans. The global economy is therefore subject to alteration by the actions of its constituent parts but at the same time influences and constrains the actions that agents can take. The issue of structure and agency is therefore one of great importance to this study. Furthermore, features of this global economy can be observed and descriptions and analyses produced. It is important to note then that this project shares some common ground with foundationalist approaches. However, this thesis does not seek to offer a tautological claim regarding the nature of the political economy of trade between the United States and Jordan. Instead this project seeks to provide an interpretation of the political economy of these relations and offers the best analysis possible within the remit of this study.

There are also agents within international political economy that exist separate from the study and understanding of them. While the exact nature and functional characteristics of these actors are subject to varying interpretations and explanations, this is not simply because the only way in which they exist is as social constructs through discourse. Rather, any study of these actors is subject to both practical and intellectual limitations. In short, there are limitations on the depth and scope of research into social phenomena such as time available for the study, physical access to relevant data, material, or people and so on. There are

also limitations on the ability of the researcher to process the mass of data and material garnered in research carried out. This second point directly relates to the ontological position of the researcher. How the world is viewed and how knowledge is acquired from this view is unique to the observer and as such understanding of the world is bounded by intellect.

Actors, therefore, exist and are observable, and it is possible to identify patterns of behaviour, processes and relationships between and among these actors. However, as with the global economy, these actors are subject to constant change and dynamic movement and subjective limitations are unavoidably placed on the study of them. The actors in international political economy considered in this study are the individual, the NGO, MNC, the International Governmental Organisation (IGO), the International Financial Institution (IFI) and the state.

Epistemological Foundations

While ontology has been discussed first, ontological foundations do not form the basis of epistemological positions. Rather the two are intertwined, neither being of primary importance.¹⁷⁹ However, for the purpose of developing the approach taken in this study it is perhaps necessary to consider epistemology second. Epistemology, crudely defined is how one understands and explains or how one 'knows'. Of most importance here is the question of whether or not one can tautologically understand and explain phenomena and the relations between them. Are these relationships all directly observable or are there some which cannot be directly observed? How one answers this question defines one's epistemological position.¹⁸⁰ There are in broad terms two ways of classifying the answers to this question. The first broad classification is 'scientific', that is that the answer is yes there are relations between social phenomena and we can observe these and understand a singular truth and offer tautological explanations about them. The second classification is 'hermeneutic', this being that there are no real relations between social phenomena that can be observed and identified, only

¹⁷⁹ Marsh, D., and Furlong, P., 2002, p: 19.

¹⁸⁰ Ibid.

interpreted.¹⁸¹ It is important for the purpose of undertaking social science research to first be aware of one's own epistemological position by addressing this issue and ascertaining one's answer. Again with much IPE research as outlined in chapter one, these questions are not addressed. This often leads to not only the maintenance of the political economy of knowledge production as defined by Robert Cox but also reinforces the western-centric and hierarchical nature of orthodox IPE.

Scientific epistemology is generally positivist and foundationalist in ontology, arguing that there is a real world out there and we can observe, understand and explain it through vigorous research.¹⁸² There are in fact two types of scientific epistemology: positivist and realist. A point to note is that the realist strand of scientific epistemology is not to be mistaken with the paradigm of realism. Where it differs from positivist scientific epistemology is that it also entails the belief that there are some structural relations and processes which cannot be observed but which are important parts of the social world.¹⁸³ These structures and processes determine and constrain the social phenomena which we can observe. Furthermore, this type of approach allows for an acknowledgment of subjectivity to a certain extent and a synthesis with the interpretivist conception of understanding. In a sense, realist scientific epistemology is more *desirable* than positivist scientific epistemology in a heterodox research project as there is the admittance of the fact that we may only be able to offer the *best* explanation and description of social phenomena as opposed to the 'scientifically proven' explanations and descriptions of positivism.¹⁸⁴

The hermeneutic or interpretivist epistemological position is the polar opposite of positivism but shares some similarities with realist scientific approaches.¹⁸⁵ As mentioned above the hermeneutic approach sees the world not as existing separate from us but as socially or discursively constructed. It is therefore anti-

¹⁸¹ Cardinal, D., Hayward, J., and Jones, G., 2004, *Epistemology: The Theory of Knowledge*, London: Holder Murray.

¹⁸² Ibid.

¹⁸³ Benton, T., and Craib, I., 2001, *Philosophy of Social Science: The Philosophical Foundations of Social Thought*, London: Palgrave MacMillan.

¹⁸⁴ Giddens, A. (ed.), 1974, *Positivism and Sociology*, London: Ashgate.

¹⁸⁵ Bevir, M., and Rhodes, R., in Marsh, D., and Stoker, G. (eds.), 2002.

foundationalist. In this view social phenomena do not exist independently of our understanding of them, instead it is our awareness and understanding of them that directly affects outcomes and the way in which the world *exists*.¹⁸⁶ It is therefore, the interpretations and meanings attached to social phenomena which we should be trying to identify and understand. As the social realm exists only as a social construct it is therefore not possible to study and explain social phenomena, structures and processes and claim ‘truths’ about these.¹⁸⁷ It must also be acknowledged that it is not possible to carry out objective research as the researcher is part of the traditions and discourses which are being studied. This position therefore acknowledges the double hermeneutic.¹⁸⁸

In addition to the ontological foundations introduced above, all research projects, this one included, are approached with a set of epistemological foundations. For this study these are as follows: there are observable social phenomena which can be understood and explained, however, there are also many other phenomena which cannot be directly observed, understood and explained. Furthermore, there are deterministic structures and processes which are unobservable. *Some* of these phenomena, structures and processes can be analysed, understood and explanations produced within the framework of the research project. In contrast to the hermeneutic position, interpretation is not identified as the only element of research, social existence or international relations as a whole. However, objective research is not believed to be possible here as the researcher will always have individual interpretations, biases, values and so on which interfere with the understanding and explaining of social phenomena. This project is therefore approached by acknowledging to an extent foundationalist elements in the theoretical approach but is anti-foundationalist in ontological position and uses a synthesis of a realist-scientific and interpretivist epistemological position.

Conception of Theory

¹⁸⁶ Marsh, D., and Furlong, P., 2002, p: 26.

¹⁸⁷ See Howarth, D., Discourse Theory, in Marsh, D., and Stoker, G. (eds.), 1995, *Theory and Methods in Political Science*, Basingstoke: MacMillan.

¹⁸⁸ Schmidt, L., 2006, *Understanding Hermeneutics*, Birmingham: Acumen Publishing Ltd.

As discussed in the previous chapter there are a number of demands and constraints regarding the theoretical approach to be used in this study. The critique of the discipline of IPE and the pursuit of a more heterodox approach to studying international political economy accounts for much of these. Analysing the political economy of trade between the United States and Jordan at the domestic, state and international levels also places yet more demands and constraints on the theoretical tools to be used. A third set of demands and constraints are generated by the need for a theoretical approach which allows for the inclusion in this study of multiple types of actors. On account of these demands and constraints chapter one briefly introduced liberal institutionalism as the theoretical approach to be used in this study.

It is *not* necessary, here, to outline and write in depth on other theoretical approaches in IPE. Rather it *is* necessary, for the purpose of this research project, to introduce and discuss liberal institutionalism, considering some of the main developments in the history of the approach, its ontological and epistemological foundations and how these relate to those of this study in order to introduce the exact variant of the liberal institutionalist approach to be used here. In defence of this position it will also be necessary to briefly relate this approach to others. A final look at the use of liberal institutionalism in IPE will be followed by a summary of how exactly it will be employed in this project as a critical liberal institutionalist approach.

The Development of the Institutional Approach

Within political science and the broader social sciences there exists a relatively broad school of theory which is labelled by many scholars of IPE and IR as liberal institutionalism.¹⁸⁹ It must be noted however, that there is no single institutional approach. Instead, there are a number of approaches which are related but which are occasionally contradictory which are classed as

¹⁸⁹ Hall, P., and Taylor, R., Political Science and the Three New Institutionalisms, in *Political Studies*, 1996, Vol. 44, No. 4, p: 937.

institutionalist.¹⁹⁰ It is this variety and the way this has come to be that constitutes one of the strengths of this approach and thus one of the reasons why it has been chosen for this research project. The variety of institutionalist approaches stems in part as a result of the ever changing nature of social science theory and the debates that continue, seemingly endlessly, about how best to do social science research.¹⁹¹ Institutionalism has gained much from reacting to this debate after coming under criticism in the early post-war era. As Vivien Lowndes points out “[u]ntil the 1950s the dominance of the institutional approach within political science was such that its assumptions and practices were rarely specified, let alone subject to sustained critique.”¹⁹² This would soon change.

The study of the role of international institutions in international political economy has been central since the end of the Second World War and admittedly has been a focus of orthodox IPE research.¹⁹³ In the first decades following the war a highly practical organisational analysis emerged that focused on the issue of how well the newly formed international institutions addressed the problems for which they were created.¹⁹⁴ A central assumption in this debate was that post-war institutions would be shaped and limited by the international politics of the time. As a result few scholars held the view that such organisations would be able to significantly impact international relations and live up to the tasks they were assigned.¹⁹⁵ The United Nations (UN),¹⁹⁶ the International Monetary Fund (IMF)¹⁹⁷ and the General Agreement on Tariffs

¹⁹⁰ March, J., and Olsen, J., The New Institutionalism: Organizational Factors in Political Life, in *American Political Science Review*, 1984, No. 78, pp: 734-749.

¹⁹¹ Lowndes, V., Institutionalism, in Marsh, D., and Stoker, G. (eds.), 2002, pp: 90-91.

¹⁹² Ibid, p: 90.

¹⁹³ Martin, L. L., and Simmons, B. A., Theories and Empirical Studies of International Institutions, in *International Organisation*, 1998, Vol. 52, No. 4, p: 729.

¹⁹⁴ Ibid, p: 731.

¹⁹⁵ Ibid.

¹⁹⁶ Goodrich, L. M., From League of Nations to United Nations in *International Organization*, 1947, Vol. 1, No. 3; Fox, W., The United Nations in the Era of Total Diplomacy, in *International Organization*, 1951, Vol. 5, pp: 265-273. For the optimistic view, see Bloomfield, L., 1960, *The United Nations and US Foreign Policy*, Boston: Little & Brown.

¹⁹⁷ See Knorr, K., The Bretton Woods Institutions in Transition, in *International Organization*, 1948, Vol. 2, pp: 19-38; and Kindleberger, C. P., Bretton Woods Reappraised, in *International Organization*, 1951, Vol. 5, pp: 32-47.

and Trade (GATT)¹⁹⁸ were the subject of a large number of studies - a large proportion of which were highly critical.

A number of these early studies assessed the impacts that international institutions could have on the policies of the major powers in Europe and North America as well as the military relations between them. Howard C. Johnson and Gerhart Niemeyer, for example, investigated the impacts and roles that international norms and the organisations to implement them had on state behaviour.¹⁹⁹ They asked the important question of whether states would be willing and able to use force in order to preserve public law and order rather than for the sake of gaining relative advantages over other states.²⁰⁰ Johnson and Niemeyer ultimately saw more value in the balance of power approach. Nevertheless, they called for a specific mechanism that could explain the effects of institutions on actor behaviour.²⁰¹

Following this call for such a mechanism was a large number of studies throughout the 1950s focusing on answering the question of institutional impact on state behaviour. Understandably the majority of these studies focused on international institutions and the role of the United States in world affairs. For example, the United States' role in decolonisation was seen as being influenced by a range of institutions that were believed to be raising US consciousness about pressing issues that affected American interests.²⁰² One of the results of this surge of research was the conclusion that the UN had in fact had an impact on some of the most important international issues of the time (although this impact was seen as being marginal).

¹⁹⁸ Golfer, W., GATT After Six Years: An Appraisal, in *International Organization*, 1954, Vol. 8, pp: 1-18.

¹⁹⁹ Johnson, H. C., and Niemeyer, G., Collective Security: The Validity of an Ideal, in *International Organization*, 1954, Vol. 8, pp: 19-35.

²⁰⁰ Ibid, p: 27.

²⁰¹ Niemeyer, G., The Balance Sheet of the League Experiment in *International Organization*, 1952, Vol. 6, p: 58.

²⁰² Cohen, B. V., The Impact of the United Nations on United States Foreign Policy in *International Organization*, 1951, Vol. 5, pp: 274-81. For a parallel analysis of institutional effects on Soviet behaviour, see Rudzinski, A. W., The Influence of the United Nations on Soviet Policy in *International Organization*, 1951, Vol. 5 pp: 282-99.

Lisa Martin and Beth Simmons argue that “*though lacking the elaborate theoretical apparatus of current research, early studies of post-war organizations had many of the same insights that have informed ‘modern’ institutionalism.*”²⁰³ However, it is worth noting that much of the research carried out in the 1950s on institutions would be abandoned for the following two decades and only re-emerged in the late 1970s. Of the most significant ‘re-discoveries’ of early institutionalist research, and one that is instrumental to this research project, was the idea that international institutions can have a significant impact on state behaviour by acting through political channels at the domestic level. B.E. Matecki, writing in 1956, even went so far as to say that international institutions had the ability to encourage national forces that could directly influence the making of national policy.²⁰⁴ Other key findings of the early institutionalist research included: that the nature of international political economy impacts upon the effectiveness of international institutions; that it is worth studying this effectiveness in order to understand and predict actor behaviour; and that elaborate organisational structures are not always the best way to ensure international cooperation.

More importantly, scholars writing on international institutions in the 1950s and 1960s were concerned not only with whether international institutions have an impact but also *how* they have an impact. However, a lack of a theoretical framework within which to understand and answer these questions meant that the insights developed were simply replaced by other methodological tools borrowed from the broader social sciences. Attention was subsequently paid to the internal politics of international institutions as opposed to their external characteristics and ‘actions’ in order to explain their impacts on international political economy. This was largely encouraged by issues such as the use of the veto in the UN Security Council (UNSC) which in many ways resulted in the paralysis of this organisation. The UN General Assembly (UNGA) too was scrutinized as it increasingly became a workshop for East-West confrontation throughout the Cold

²⁰³ Martin, L. L., and Simmons, B. A., 1998, p: 731.

²⁰⁴ See Matecki, B. E., Establishment of the International Finance Corporation: A Case Study, in *International Organization*, 1956, Vol. 10, pp: 261-75.

War. Furthermore, following the influx of newly independent states in the 1960s, the UNGA developed also into an arena for North-South conflicts.²⁰⁵

Regardless of the advancements in institutionalist theory, its dominance in social science research would be challenged and discredited by the behavioural revolution of the 1960s. Behaviouralist scholars were insistent upon dismissing the formalisms of social science and political science in particular, such as institutions, organisational charts, legal assumptions and so on.²⁰⁶ Over the next three decades theorists sought to find a more comprehensive way of doing social science research. Rational choice theorists such as Anthony Downs sought to explain international relations in terms of the independent individual unit's rational self-interests.²⁰⁷ At the same time theorists of a neo-Marxist orientation attempted to understand and explain the human world via the roles of structures and systemic power.²⁰⁸

The influence of behaviouralism and the study of US domestic politics have been highly significant in developments in institutionalist research. This is not least of all because the many scholars in IPE have traditionally been western (often American) in origin or in education. The majority of the emerging literature on the internal politics of the UNGA throughout the 1960s, for example, could be traced back to developments and literature in the study of US domestic politics. Hayward Alker and Bruce Russett's study *International Politics in the General Assembly*, for example, acknowledged "*that studies of the American political process by Robert Dahl, Duncan Macrae, and David Truman were theoretically and methodologically suggestive of ways in which roll-call data could be used to test for the existence of a pluralistic political process in a quasi-legislative international organization.*"²⁰⁹

²⁰⁵ Keohane, R., 2002, *Power and Governance in a Partially Globalised World*, Suffolk: Burrey St. Edmunds Press, p: 28.

²⁰⁶ Goodin, R., and Klingemann, H. (eds.), 1996, *A New Handbook of Political Science*, Oxford: Oxford University Press.

²⁰⁷ Downs, A., Social Values and Democracy, in Monroe, K. (ed.), 1991, *The Economic Approach to Democracy*, New York: Harper Collins.

²⁰⁸ Wallerstein, I., 1984, *The Politics of the World-Economy: The States, the Movements and the Civilizations*, Cambridge: Cambridge University Press.

²⁰⁹ Alker, H., and Russett, B., 1965, *World Politics in the General Assembly*, New Haven: Yale University Press, p: 12.

By the 1970s a new research path in understanding international institutions had been taken. Rather than focus on the formal character of international institutions, Robert Cox and Harold Jacobson's study of eight specialised UN agencies in an edited volume focused on the structure and processes of influence of these institutions and their outcomes.²¹⁰ Their underlying assumption was that IOs could be analysed as though they are unitary political systems which had evident patterns of influence. This research path led to an inter-governmental model of the influences of IOs. The core assumption of which was that there exist intimate inter-governmental and transnational relationships between different government bureaucracies as well as between domestic pressure groups.²¹¹

A final strand of institutionalist research during the 1970s emerged from Ernst Haas' neo-functional work. According to Haas "*political integration is the process whereby actors shift their loyalties, expectations, and political activities toward a new centre, whose institutions possess or demand jurisdiction over pre-existing national states.*"²¹² Building on this assumption, the roles of interest groups and individuals in the processes of integration and institutionalisation were emphasised. The involvement in the national policy-making process of individuals and groups was seen as being highly significant. Furthermore, these actors were hypothesised to perceive benefits in involvement in international institutions and thus view them as favourable.²¹³ In this study a range of actors are considered and it is the interaction of this plurality of actors which is examined rather than processes of integration brought about by consensus building.

The developments within institutionalist research since the end of the Second World War were rapidly disrupted during the early 1970s. The two decades of predictable and relatively stable monetary relations under the Bretton Woods institutions were shattered by the unilateral US decision made in 1971 to abandon

²¹⁰ Cox, R., and Jacobson, H., 1973, *The Anatomy of Influence: Decision Making in International Organization*, New Haven: Yale University Press.

²¹¹ Ibid, p: 214.

²¹² Haas, E. B., 1958, *The Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*, Stanford: Stanford University Press.

²¹³ Ibid, p: 10.

dollar-gold convertibility and later to float the dollar.²¹⁴ The sudden emergence of OPEC and its power with respect to oil pricing and supply further shook the foundations of the liberal economic order. The 1973 oil embargoes of the United States and the Netherlands exemplified the new found power and influence that OPEC had in international political economy.²¹⁵ As a result a multitude of responses to the series of events that undermined the international order during the 1970s were presented. The most advocated one of which was to strengthen IOs in order to combat the problems of an increasingly interdependent world.²¹⁶ The majority of the responses suggested were often contradictory, however, one similarity was evident. The focus on formal structures and agreements based on multilateral treaties such as the UN was no longer sufficient in understanding and explaining international issues and events.²¹⁷

Confronted by a world characterised by complex interdependence, scholars began to expand the study of international institutionalism by including international regimes - where an international regime is defined as a set of rules, norms, principles and procedures, or in other words a set of non-tangible institutions.²¹⁸ By encompassing international regimes in institutionalist research it then became possible to study how international rules and norms *as well as* IOs affect actor behaviour. This allowed for the substitution of an understanding of the workings of IOs for a more thorough understanding of international governance.²¹⁹ Through the late 1970s and early 1980s the study of international regimes developed in order to analyse in more detail the circumstances and ways in which states cooperate with each other. A key component to these questions is the inquiry into how international institutions affect the potential for cooperation.

²¹⁴ Martin, L. L., and Simmons, B. A., 1998, p: 736.

²¹⁵ For a brief but authoritative summary of the events leading up to the oil embargo and its immediate impacts see Schlaim, A., 2000, *The Iron Wall: Israel and the Arab World*, London: St. Ives plc.

²¹⁶ See Ruggie, J., Collective Goods and Future International Collaboration in *American Political Science Review*, 1972, Vol. 66, pp: 874-93.

²¹⁷ For an example of this scepticism see Strange, S., 1988.

²¹⁸ Keohane, R., 2002, p: 29.

²¹⁹ See, for example, Hopkins, R., and Puchala, D., 1978, Perspectives on the International Relations of Food, in *International Organization*, 1978, Vol. 32, No. 2, pp: 581-616.

The study of international regimes developed in three main directions. First, distributive consequences of actor behaviour were replaced by consideration of how international regimes are created in the first place and how they change over time and what role norms and values have in this process.²²⁰ Second, specific attention has been paid to the subjective meaning of the norms and values which influence the nature of international regimes.²²¹ Third, explanations began to emerge by the mid-1980s that overtly connected international regimes with broader international cooperation. Here the realist-based critique that states' relative power, national-interests and relative gains²²² are key features of international politics has been adopted and built upon. Robert Keohane, for example, developed research in the 1980s regarding how international institutions provide ways for states to overcome the problems of high transaction costs (an economist's term which means the cost of making and enforcing agreements), collective action, and information deficits or asymmetries.²²³ It must be noted that Keohane's work, while developing the institutionalist approach in one direction, also reneged on some institutionalist work by viewing states as unitary rational actors and ignoring transnational coalitions. Furthermore, the strength of Keohane's work lies in the value of explaining how institutions are created and maintained as opposed to how they affect state behaviour.²²⁴

So, despite the tide of new approaches to social science there remained many scholars who saw the institutionalist approach as the most complete way of doing research. Scholars such as R.A.W. Rhodes²²⁵ have argued that the institutional approach is still useful and claims that *adapting* the approach to meet the criticisms of others has been successful. The result is a range of *new* institutionalisms which specify and defend the assumptions and practices found

²²⁰ Krasner, S., *Theory of World Politics: Structural Realism and Beyond*, in Finifter, A. (ed.), 1983, *Political Science: The State of the Discipline*, Washington: American Political Science Association.

²²¹ Ruggie, J., 1972.

²²² Grieco, J., *Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism*, in *International Organization*, 1988, Vol. 42, No. 2, pp: 485-507; and Mearsheimer, J., *The False Promise of International Institutions*, in *International Security*, 1994, Vol. 19, p: 549.

²²³ See Keohane, R., 1984, *After Hegemony: Cooperation and Discord in the World Political Economy*, Surrey: Princeton University Press.

²²⁴ Martin, L. L., and Simmons, B. A., 1998, p: 738.

²²⁵ Rhodes, R.A.W., 1997, *Understanding Governance*, Buckingham: Open University Press.

there within. These approaches have six core characteristics which as a whole make *new* institutionalisms much more complete. First, there has been a shift from focusing on organisations, and other tangible institutions to include non-tangible institutions such as rules, norms, values, and procedures. Second, institutions are no longer held to be exclusively formal, but including informal conceptions too. Third, the view of IOs has therefore become increasingly dynamic as opposed to fixed. Fourth, the values embedded in institutionalism which have come under scrutiny, have explicitly been defended and included in institutionalist research. Furthermore, the conception of institutions has become disaggregated whereas traditionally it has been holistic. And finally there has been an over-bearing move from the view of institutions as independent actors to one where they are embedded in particular contexts.²²⁶

James March and Johan Olsen, who coined the term ‘new institutionalism’,²²⁷ have helped to redefine what the term institution means for social science. Thus:

The bureaucratic agency, the legislative committee, the appellate court are arenas for contending social forces, but they are also collections of standard operating procedures and structures that define and defend interests. They are political actors in their own right.²²⁸

This argument prompts a number of important questions for this study which must be answered. Such as: what actually constitutes an institution; how do institutions operate; what is the capacity for individuals to influence the functions and nature of institutions; and in turn how do institutions shape and influence the functions and nature of individuals and other actors? There seems to be no single answer to any of these questions, instead, institutionalist theorists offer differing, but sometimes similar and over-lapping answers.²²⁹ The result of these differing

²²⁶ See Pierson, P., *The Path to European Integration: A Historical Institutional Analysis*, in *Comparative Political Studies*, 1996, Vol. 29, No. 2, pp: 122-163.

²²⁷ March, J. G., and Olsen, J. P., 1984, p: 747.

²²⁸ Ibid, p: 738.

²²⁹ Jessop, B., 18-19 December 2000, *Institutional (Re)turns and the Strategic-Relational Approach*, paper presented at the Institutional Theory in Political Science Conference, Ross Priory, Loch Lomond.

answers is the range of institutional approaches, which Peters identifies as the following: normative institutionalism; rational choice institutionalism; historical institutionalism; empirical institutionalism; sociological institutionalism; and network institutionalism.²³⁰

Forms of Institutionalism

The differences in institutionalist approaches arise from the answers given to the questions mentioned above. These answers are based on slightly differing epistemological positions. All institutionalist approaches seek to understand and explain social phenomena and relationships and as such are largely foundationalist in ontology. However, they vary in the manner in which the world is understood and explained. On the one hand there are the normative institutionalist approaches (normative institutionalism; sociological institutionalism; network institutionalism) and on the other, approaches which are rational choice variants (rational choice institutionalism; historical institutionalism; empirical institutionalism and international institutionalism).²³¹ The normative strand views institutions as organisations, sets of rules and values that determine appropriate behaviour.²³² In international political economy this could mean institutions such as international copyright laws which determine when, where and by whom certain goods and services are eligible for production and sale. A further example could be the Most Favoured Nation (MFN) principle of the WTO. The rational choice strand views institutions as organisations, rules, values, norms, and procedures as determinants of interactions between utility-maximising actors.²³³

Referring back to the epistemological foundations and the core aims of this study provides some clarity to the utility of the institutionalist approach in this case.

²³⁰ Peters, G., 1999, *Institutional Theory in Political Science: The New Institutionalism*, London: Pinter.

²³¹ Lowndes, V., Varieties of New Institutionalisms: A Critical Appraisal, in *Public Administration*, 1996, Vol. 74, No. 2, pp: 194-195.

²³² Knight, J., 1992, *Institutions and Social Conflict*, Cambridge: Cambridge University Press, p: 17.

²³³ Weingast, A., 1996, Political Institutions: Rational Choice Perspectives, in Goodin, R., and Klingemann, H. (eds.), *A New Handbook of Political Science*, Oxford: Oxford University Press.

The general theme of this research project is to study the nature and characteristics of trade relations between states on a bilateral and multilateral basis. The aim is to understand these relations in the context of the international institutions that have helped to determine them. This is in order to explain the nature and characteristics of these relations and provide some insight into the future prospects of cooperation and integration between these states and others. It is not therefore a normative project but one that is interested in the inherent interests of actors and how these are pursued in the context of international institutions. These themes and aims are best exemplified in the institutionalist approach which aims to assess how the behaviour of actors determines the nature of and is in turn steered by the formal and informal structural constraints of international political economy.²³⁴

However, this approach does not leave much room in terms of analytical power for the inclusion of the impacts of international institutions on actor behaviour in the normative sense. In short, an implicit assumption of this project is that international trade can in certain circumstances lead to increased cooperation between actors and thus increased stability at both the domestic and international levels. With this consideration, it seems most appropriate to conceptualise the theoretical approach to this project as one which allows for a synthesis of both rational choice and normative elements. This can best be accomplished by using the liberal institutionalist approach used largely, but not exclusively in IPE and IR by theorists such as Robert Keohane, Joseph Nye, Daniel Griswold and Brink Lindsey.

Liberal Institutionalism

IPE theorists often point to the importance of certain types of actors and relationships for the management of international relations. The most often cited are international institutions and hegemony.²³⁵ As mentioned above there have

²³⁴ For an example of this type of research project see Rittberger, V., 1993, *Regime Theory and International Relations*, Oxford: Clarendon Press.

²³⁵ Cohn, T., 2003, *Global Political Economy: Theory and Practice*, 2nd Edition, London: Addison Wesley Longmann, p: 100.

traditionally been two types of international institutions that are of significant interest to IPE scholars:²³⁶ first IOs and second international regimes. International regimes often attempt to promote an international system of cooperation in the areas of monetary relations and international trade.²³⁷ In more recent institutionalist work as outlined above there has been the expansion of what is classed as an institution to include abstract and non-tangible elements of the social world. These include: values, norms, beliefs, procedures, structures and processes. At the same time many IOs attempt to promote both economic and political cooperation in a system which is characterised by a high level of interdependence between actors.

Liberal institutionalism focuses on the use of international institutions and a liberal international economic order to promote peace and prosperity among states through greater interdependence.²³⁸ Achieving cooperation²³⁹ in a system of states and other actors is highly problematic as there is no centralised authority which can establish and enforce rules of behaviour. Nevertheless, the liberal institutionalist contends that a strong set of IOs provides the framework upon which states can settle their disputes peacefully without resorting to violent conflict.²⁴⁰

Liberal institutionalists further contend that a liberal international economic order created and maintained by international regimes leads to greater economic interdependence between states.²⁴¹ This economic interdependence helps to prevent conflict by increasing the profits of peaceful coexistence while at the

²³⁶ Robert Keohane identifies three types of international institutions - IOs, international regimes and conventions. See Keohane, R., *Neoliberal Institutionalism: A Perspective on World Politics*, in Keohane, R., 1989, pp: 3-4.

²³⁷ Haas, E. B., *Words Can Hurt You: or Who Said What to Whom About Regimes*, in Krasner, S. (ed.), 1983, *International Regimes*, Cornell: Cornell University Press, p: 27.

²³⁸ Keohane, R., 1984, p: 44.

²³⁹ It is here held that cooperation between actors in the international system and in particular states is desirable. Liberals advocate international cooperation as the most desirable form of international interaction in order to establish and promote a 'free', prosperous and peaceful world order in which, as John Locke (1632-1704) stated, people's 'lives, liberties and estates' can be preserved. See Locke, J., 1964, *Two Treatises of Government*, Cambridge: Cambridge University Press, p: 368.

²⁴⁰ Keohane, R., 1984, p: 49.

²⁴¹ Ibid.

same time increasing the costs of conflict.²⁴² According to liberal institutionalism, power is primarily economic in nature, and therefore much competition between actors takes place in the economic sphere. Hence, by increasing economic interdependence and thus economic cooperation, competition between actors is reduced. Furthermore, liberal institutionalists argue that two conditions are required in order to sustain a state of peace: interdependence and liberal democracies.²⁴³

One way in which interdependence is fostered is through inter-state cooperation and economic integration by greater international trade. In a globalising world system these trends are ever-increasing. However, greater levels of international trade between states do not only affect relations at the international level. Rather, there is also a significant impact at the domestic level.²⁴⁴ Daniel T. Griswold has argued that increased trade can have significant socio-political and socio-economic impacts within states. In the first instance trade can help to influence the political system of a state through increasing interaction between that state's citizens and those of other (perhaps freer) societies.²⁴⁵ This interaction can take the form of face to face meetings as well as via electronic communications such as phone, fax or email. Furthermore, increased communication between groups of people who are involved with the processes of trade can bring a sharing of ideas along with exposure to alternative ways of thinking and organising civil society and business. The flow of books, magazines and other forms of media can often have a political and social context, helping to further spread different ways of thinking. By exploiting the opportunities for foreign travel and study that come with foreign investment and trade, citizens can experience the political and civil liberties of others thus further influencing the direction of domestic political demands.²⁴⁶

²⁴² For an authoritative and informative assessment of how economic interdependence renders violent confrontation obsolete see Angell, N., 1911, *The Great Illusion: a Study of the Relation of Military Power to National Advantage*, London: Read Books.

²⁴³ Krugman, P., and Obstfeld, M., 2000, *International Economics: Theory and Policy*, 5th Edition, Reading, Harlow: Addison-Wesley, p: 3.

²⁴⁴ Griswold, D. T., Trading Tyranny for Freedom: How Open markets Till the Soil for Democracy, in *Trade Policy Analysis*, January 6 2004, p: 2.

²⁴⁵ Ibid, p: 6.

²⁴⁶ Lindsey, B., The Trade Front: Combating Terrorism with Open Markets, in *Trade Policy Analysis*, August 5 2003, p: 2.

For liberals a key constraint on individual political freedom is the extent of governmental power. Economic freedom and trade can provide a counterweight to this. This is because the free market diffuses economic decision-making from the control of a small number of governmental actors and into the hands of a broader range of actors. This reduces the power of the centralised actors who often use the power gained by monopoly over decision-making to marginalise other actors. David Held claims that the subsequent dispersion of economic control creates space for non-governmental actors and private sector alternatives to central political control and authority, such as civil society.²⁴⁷ The presence of private sector corporations creates an alternative source of wealth, influence and leadership. Furthermore, non-state institutions can be funded by the private economy. According to March and Olsen, these institutions can provide new ideas, influence and leadership outside the control of the government.²⁴⁸

Anthony Downs claims that increased international trade is often accompanied by faster growth and greater levels of wealth.²⁴⁹ These in turn promote democratic practices by creating an economically independent and politically aware middle class. A larger middle class means a larger number of people who can afford to be educated and take an interest in political affairs. Authoritarian systems of governance can be prone to acute shifts in economic policy. As citizens gain more assets and establish businesses and careers in the private sector they will be more likely to desire continuity.²⁵⁰ At the same time that increased international trade and integration at the international level can lead to impacts at the domestic level, actors, institutions, and processes at the domestic level can impact upon the emergence, nature and success of international integration.²⁵¹

Liberal institutionalism like other theoretical approaches, as mentioned above, is very broad, complex and encompasses a large number of key principles. Furthermore, how these key principles relate to each other often deviates from

²⁴⁷ Held, D., 1995, *Democracy and the Global Order: From the Modern State to Cosmopolitan Governance*, Cambridge: Polity Press.

²⁴⁸ March, J. G., and Olsen, J. P., 1995, *Democratic Governance*, New York: Free Press.

²⁴⁹ Downs, A., 1957, *An Economic Theory of Democracy*, New York: Harper and Row.

²⁵⁰ Mill, J. S., 1991, *On Liberty and Other Essays*, Oxford: Oxford University Press.

²⁵¹ Axelrod, R. M., 1984, *The Evolution of Cooperation*, New York: Basic Books.

one version of the theory to another. It is, however, possible to identify and present the key principles used in any particular approach and how these relate to each other. The exact nature of these principles and their relationship to each other determine the unique nature of any theoretical analysis. In this thesis a critical version of liberal institutionalism is used which shares much in common with the institutionalisms used by scholars such as Robert Keohane, Joseph Nye, Ernest Haas and Robert Axelrod as highlighted above. Some amendments and re-interpretations are made, however, which while limited in scope are significant in terms of impact on what is studied here and how.

With regards to the similar key principles and assumptions adopted in the theoretical approach to this project are a number of common elements within broader institutionalist approaches. In the first instance is the assumption of a global system which is characterised by limited global governance and regulation of state and non-state behaviour. Here, while some elements of global governance can be seen with regards to some issues and processes in particular regions, the belief in the existence of a global system which is closer to the conception of anarchy is adopted. Furthermore international institutions are aimed at addressing the anarchic system and allow for greater interaction which helps reduce anarchy. Secondly, institutions are seen here as being IOs and regimes. Thirdly, a plurality of actors is assumed. No single type of actor, be that a state or MNC and so on, can ultimately be defined as universally dominant over time and space. Rather, all types of actors can be relevant and can have differing levels of importance with regards to different issues, processes, relationships in different places and at different times.

A fourth key principle which forms the version of liberal institutionalism used in this thesis is the belief that all actors have aims and objectives which they pursue – whether through cooperation or conflict. However, a rationalist approach is not fully adopted here. Instead, while actors have interests which they pursue these interests and the actions taken to achieve them may not come as a result of wholly rational calculation under circumstances of perfect information. The belief here is that often interests and subsequent policies are based upon imperfect information and imperfect calculation. In short we can only go so far as to claim that actors

have interests which they pursue but we cannot assume rationality. We must therefore include a deeper discussion of the formation of actor interests and policies.

Issue linkage or issue interdependence is also a key principle discussed in this project. This point is linked directly to a sixth principle which is that international relations are a plus-sum game – this point is discussed below. The assumption of issue linkage and interdependence is pivotal to this study as it allows for a complex analysis of the political economy of trade between Jordan and the United States in a heterodox manner. The issue of bilateral trade facilitation at the state level, for example, is directly linked with other issues such as state level cooperation on foreign policy matters, non-state actor activity in domestic markets as well as societal interaction and so on. Furthermore, international relations and domestic relations are intricately linked and often inseparable. Thus the Jordanian government's decision to facilitate trade with the United States should be discussed not only by examining Jordanian foreign policy but domestic policy and interests as well. Also, repercussions of processes and relationships at one level of analysis can be extremely important in leading to repercussions at another level – such as the arguments put forward by Brink Lindsey and Daniel Griswold regarding the link between trade and democratic processes at the domestic level.

The critical version of liberal institutionalism used in this thesis is original in a number of ways. A first way, as mentioned above, is the denial of the inherent rationality of interests and actions. A second, and perhaps the most significant element of originality, is the belief that international cooperation through international institutions is a plus-sum game where the actors involved are all able to pursue their interests in order to maximise their gains. However, these relations are characterised by multiple linkages between different issue areas at different levels of analysis which can be defined as either plus-sum or zero-sum games but when combined result in an accumulation of gains leading to a plus-sum situation.

These principles and the relationship between them form the theoretical framework within which the remainder of this study takes place. Throughout chapters three through seven these theoretical signposts will be used to guide the discussion and analysis that follows. Having now defined the conception of theory used in this project it is possible to discuss and define the methods used to collect and analyse information.

Methods

Ontological and epistemological foundations have a direct impact on the methods employed in any research project. It is thus useful to briefly consider the ontological and epistemological foundations of the different strands of social science methods – the qualitative and quantitative approaches. The possibility of combining these two types of methods will then be assessed and an outline of the methods used in this project presented.

There are two broad methodological directions this project can take. First the research can be *either* quantitative *or* qualitative and second, the approach could be to *combine* the two methods in a manner which allows for the coherent application of both.²⁵² Historically, most social science research has taken the first route.²⁵³ However, it is becoming increasingly the case that researchers are aware of the utility of combining the different types of methods.²⁵⁴ Doing this is, however, more difficult and needs to be carefully attempted in order not to produce a piece of work which is incoherent and ineffective in its findings. This is because both qualitative and quantitative methods are based upon different and occasionally contradictory ontological and epistemological positions.

The quantitative approach has in the past been seen as closely linked to a foundationalist ontology and a positivist epistemology. In other words, quantitative methods are employed to study the ‘real world’, which is observed,

²⁵² Devine, F., and Heath, S., 1999, p: 200.

²⁵³ Read, M., and Marsh, D., 2002, p: 231.

²⁵⁴ Denzin, N., 1970, *Sociological Methods: A Sourcebook*, Chicago: Aldine.

and presented in the form of figures, tables, graphs and so on.²⁵⁵ There is little if any room for *interpretation* in the ‘presentation’ of the ‘real world’. Instead this presentation is intended to be taken as the accurate and true portrayal of the social world. On the other hand qualitative methods have traditionally been seen as having an anti-foundationalist ontology and an interpretivist epistemology.²⁵⁶ In other words, methods which are qualitative in nature are employed to understand the dynamic, constructed and evolving nature of the social world, not to unearth and explain observable ‘truths’ – of which, to the qualitative researcher, there simply are non.

It would seem therefore, from this very basic outlining of traditional assumptions of the ontological and epistemological foundations of these two types of methods that a research project such as this one, which is based on an anti-foundationalist ontology and a realist scientific epistemology, that methods to be used pose a problem. However, this thankfully is not the case. While the divide between quantitative and qualitative research remains highly pronounced in academic circles and some researchers do still reject certain methods out-right because these methods do not correspond with their epistemological position (whether implicitly or explicitly),²⁵⁷ this is increasingly not the case for many researchers. Social science researchers have realised that both qualitative and quantitative methods are of some use and that there is in fact benefits to combining them.²⁵⁸ This is the approach that is adopted in this project.

While these two research traditions do have their own characteristics and in some ways are very different and have traditionally been used to study different things, the academic discussion surrounding them has led to a false dichotomy.²⁵⁹ It is worth briefly discussing the positive aspects as well as the criticisms of quantitative and qualitative methods in order to ascertain how this is the case and how the two methods can be combined.

²⁵⁵ Kirk, J., and Miller, M., 1986, *Reliability and Validity in Qualitative Research*, London: Sage.

²⁵⁶ Lofland, J., and Lofland, L., 1985, *Analysing Social Settings: A Guide to Qualitative Observation and Analysis*, Belmont: Wadsworth, p: 12.

²⁵⁷ Miles, M., and Huberman, A., 1994, *Qualitative Data Analysis: A Source Book*, London: Sage, p: 40.

²⁵⁸ Bryman, A., 1988, *Quantity and Quality in Social Research*, London: Routledge, p: 90.

²⁵⁹ Read, M., and Marsh, D., 2002, p: 230.

Quantitative Methods

Quantitative methods have largely held primacy in social science research, including IPE research as discussed in chapter one.²⁶⁰ This strand of method relies on the observation and measurement of repeated incidences of social phenomena,²⁶¹ such as the value of imports and exports or levels of trade. Advocates of quantitative methods argue that by observing social phenomena over a period of time it is possible to understand, explain, predict and prescribe. The methods employed include the collection of data and the construction of tables, graphs, charts and models. This management of the data is used to display ‘facts’ as well as to deduce causal relationships and produce predictive information.

There are, however, a number of limitations of these methods. First and foremost there is the question of where does the data that has been collected and managed originate from?²⁶² It is argued that the use of secondary data from existing sources raises the possibility that the data used is biased, exclusionary and potentially false. For example, the use of data on the dollar value of annual trade between the United States and its trading partners in this study is taken from the US Government Census Bureau. While it is believed that this is a reliable source there is no immediate proof that these figures are in fact correct. A second, critique regards the quest of quantitative researchers to turn social phenomena into a series of repeated and identical events.²⁶³ IPE is a vast, dynamic and complex field and as a result, any project that seeks to produce explanations of one set of social phenomena and relate them to others must provide a mass of evidence to support the claims it makes. Furthermore, providing evidence will often not suffice to silence critics as this evidence will generally claim to be objective, a claim that is rejected by many scholars. This is because objective research is seen by most qualitative and some quantitative researchers as simply

²⁶⁰ Finch, J., 1986, *Research and Policy*, London; Sage, p: 1.

²⁶¹ Pole, C., and Lampard, R., 2001, *Practical Social Investigation: Qualitative and Quantitative Methods in Social Research*, London: Prentice Hall.

²⁶² Ragin, C., 2000, *Fuzzy-Set Social Science*, Chicago: Chicago University Press.

²⁶³ Ibid.

not possible.²⁶⁴ Quantitative research, therefore, must in some way take into account these criticisms and provide the most convincing arguments possible while conceding that all parties will not be satisfied with the research findings. This thesis uses some quantitative methods but the logic of this enquiry rests on qualitative argument and methodology.

Qualitative Methods

Qualitative methods often involve the researcher immersing him or herself in the social setting which is being studied, observing and participating in social phenomena. The aim is to interpret the socially constructed phenomena being studied.²⁶⁵ During the research phase of the qualitative research project, the researcher will take extensive notes, construct questionnaires and conduct in-depth interviews as well as using various forms of text. The interviews may be individual or group interviews and use a range of open-ended questions or guided 'yes/no' questions. The use of the open-ended question in such interviews is to allow the interviewee to talk at length about a topic, this enables the researcher to explore the phenomena being studied in more depth. Qualitative research using interviews will usually only include a relatively small number of interviewees but a large number of interviews can be carried out.²⁶⁶

The qualitative methods mentioned here are not without their criticisms. Using only a small number of interviewees, for example, entails the problem of representation. In order to collect data of most use to the research project it may be necessary to select a range of sources that one would anticipate would provide a wide range of opinions, information and so on. Conducting interviews of only a small number of individuals risks alienating some while favouring others as is the case when snow-balling interviews (the practice of asking interviewees to

²⁶⁴ Allan, G., 1991, Qualitative Research, in Allan, G. and Skinner, C. (eds.), *Handbook for Research Students*, London: Falmer Press.

²⁶⁵ Devine, F., in Marsh, D., and Stoker, G. (eds.), 2002, p: 198.

²⁶⁶ Fielding, N., Qualitative Interviewing, in Gilbert, N. (ed.), 1993, *Researching Social Life*, London: Sage, pp: 140-141.

nominate others for interview). This must be taken into account and justification of one's sampling strategies must be made to resolve this issue.²⁶⁷

A second area where qualitative researchers have been criticised is in terms of objectivity and bias. Critics argue that there is a lack of objectivity in the research process and there exists a bias in the research due to the relatively close relationship between the researcher and, say the interviewees.²⁶⁸ However, as information revealed in the research process may be relatively personal or when topics that are of a sensitive nature are discussed there is often an inherent need for such a close relationship and it may be unavoidable.²⁶⁹ As a result qualitative researchers do not seek objective research and in fact perceive this as not being possible even if it was desired. In terms of the charge of bias, qualitative researchers tend not to deny this but rather tend to consider its impacts on the research findings. Bias, it is believed is not entirely avoidable.²⁷⁰

A further concern with qualitative research is that there is a lack of legitimacy in the research findings when generalisations are attempted.²⁷¹ With only studying a small sample of individuals it is not likely that one could make broad conclusions about social phenomena that enable the understanding of other situations. Any comparisons that could be made between different phenomena would act only as guides and have limited confirmatory use.²⁷² When employing qualitative research, therefore, one may have to be careful that the aim of the research project is not to produce understandings and explanations of causal relationships. A final weakness of qualitative research to note is that one can never be certain as to whether such research findings are simply the interpretations of the researcher and therefore not necessarily of great use.²⁷³ As such, qualitative research must

²⁶⁷ Devine, F., and Heath, S., 1999, pp: 3-4.

²⁶⁸ Newell, R., Questionnaires, in Gilbert, N. (ed.), 1993.

²⁶⁹ Bulmer, M., Facts, Concepts, Theories and Problems, in Bulmer, M. (ed.), 1984, *Sociological Research Methods: An Introduction*, 2nd Edition, London: MacMillan, p: 111.

²⁷⁰ Finch, J., It's Great to Have Someone to Talk to: The Ethics and Politics of Researching Women, in Bell, C., and Roberts, H. (eds.), 1984, *Social Researching: Politics, Problems and Practice*, London: Routledge and Kegan Paul.

²⁷¹ Rose, G., 1982, *Deciphering Sociological Research*, London: MacMillan, p: 38.

²⁷² Marsh, C., Problems With Surveys: Method or Epistemology, in Hay, C. (ed.), 1977, *Sociological Research Methods: an Introduction*, London: MacMillan, p: 91.

²⁷³ Silverman, D., 1997, *Qualitative Research: Theory, Method and Practice*, London: Sage.

emphasise the plausibility of the interpretation of the research findings in detail in order to add legitimacy.

Combining Methods

It is clear from the brief overview above that both quantitative and qualitative methods have their merits and their weaknesses. However, the criticisms of these approaches are somewhat answered by combining the two in some form. This is for two reasons: first, there are often too many aspects of any research question addressed to be dealt with comprehensively by just one approach, which provides the basis for criticism; and second, the use of two types of methods produces increased validity through the one acting as a check on the other and also addresses most if not all of the aspects of the study.²⁷⁴

Creswell argues that there are three basic forms of combining qualitative and quantitative methods.²⁷⁵ The first is a two-phase design which entails the study conducting separate qualitative and quantitative phases. The benefit is that the researcher can use both methods and operate within the corresponding epistemological paradigm thus silencing critics. The second approach Creswell labels as a dominant/less dominant design. This entails the researcher selecting a dominant approach with elements of the other included in the overall study. The strength of this approach is that it allows coherency while at the same time selecting data from either a larger or smaller population (depending on the dominant approach). Finally, Creswell suggests a mixed-methodology design could be employed in social science research. This means that either type of method approach can be used at any stage of the project. This adds to the complexity of the project but allows the researcher the chance to take advantage of all the methodological tools available.²⁷⁶

²⁷⁴ Read, M., and Marsh, D., 2002, p: 237.

²⁷⁵ Creswell, J., 1994, *Research Design: Qualitative and Quantitative Approaches*, London: Sage.

²⁷⁶ Ibid, p: 177.

Attempting to combine the two types of methods is not without its complexities. Returning to Marsh and Furlong's argument, ontology and epistemology constitute a 'skin not a sweater'. In the above sections the ontological and epistemological foundations of this study have been outlined. It is important to note that these have not been *chosen* for this project, but have been identified as an inherent part of the research process. This is important for the potential of combining qualitative and quantitative methods. Unlike some scholars, such as, Hamersley,²⁷⁷ Padgett,²⁷⁸ and even Creswell,²⁷⁹ this author does not believe that the issue of ontology and epistemology and their effects on the coherence of research methods employed can be down-played. It is difficult to envisage a situation where an interpretivist could collect and analyse hard, quantitative data, such as facts, figures and so on. However, it is possible to envisage a situation where the collecting and analysing of hard data and the attempt to explain the social phenomena which are being studied can be done by using both quantitative and qualitative methods. This is what is termed 'triangulation' in the data and is most similar to Creswell's second position, that of a dominant/less dominant approach.

It would be false and highly incoherent solely to employ qualitative research methods in a study such as this one which seeks to study phenomena in the 'real' world and explain them. For this, quantitative methods must be employed. In more detail, it would be unrealistic to study trade relations by neglecting or refusing to use quantitative methods to collect and analyse figures on levels of trade between states, the goods and services which are being traded and so on. Therefore, quantitative tools will form a major part of the methods employed here. It is important to note however, that the use of quantitative methods to collect, analyse and present information on international trade does not equate to the orthodox methodology of separating subject from object. Rather, measuring the supply and movement of goods and services from one market to another (trade) can be easily differentiated from the subjective nature of the individual and is thus in most cases readily quantifiable.

²⁷⁷ Hammersley, M., 1992, *Social Research: Philosophy, Politics and Practice*, London: Sage.

²⁷⁸ Padgett, D., 1998, *Qualitative Methods in Social Work Research*, London: Sage.

²⁷⁹ Creswell, J., 1994, *Research Design: Qualitative and Quantitative Approaches*, London: Sage.

It is essential in any study which discusses international trade to include the collection, analysis and presentation of empirical evidence on the nature and levels of trade. However, sourcing this data is not necessarily without problems. In the first instance reliable sources must be found which have used reliable and accurate methods of data collection and presentation. It is worth noting that in a project of this kind it is not entirely possible (although potentially desirable) to gain first-hand primary data on trade. However, if gaining this data first-hand is not possible then gaining the relevant information from sources which have reliably gained the data first-hand is essential.

Here quantitative research on trade is gained from a number of sources. The US Census Bureau's Department of Foreign Trade Statistics, the Jordanian Ministry of Industry and Trade's Trade and Investment Information Database, the UN's Comtrade Database, the EU's Eurostat Database and the Organisation for Economic Cooperation and Development's (OECD) Department of Statistics are all utilised as means of gathering primary quantitative data. It must be conceded that while these sources are all very reliable and the methods used to collect information are in line with common good practices, there is an issue with timing. All of these sources in their collection and presentation of information on trade have a time-lag between the period being represented and the actual release of information. The US Census Bureau and Jordanian Ministry of Industry and Trade each only release information several months later. In other words data on trade between say Jordan and the United States for January to June 2008 will only be available in (approximately) September 2008.

Due to the nature and level of attention given to US-Jordan relations in IPE literature as outlined in chapter one there are only limited sources of information and analysis which are relevant to this project that deal with US-Jordan trade relations. In order to collect information for this thesis which is both reliable and essential to the analysis presented here primary research is essential as a means of gaining a deeper insight in to and collecting information on trade between Jordan and the United States and actor involvement in this relationship. Thus four field research trips were planned in 2006 and carried out in December

2006, April 2007, August 2007 and March 2008. In the case of the former a ten day field research trip to Amman, Jordan was carried out while a second week long trip was conducted in August 2007. Prior to the second trip to Jordan a week-long trip to Geneva, Switzerland was undertaken. A final research trip for this project was completed with a week-long trip to Washington, DC in the United States.

During the field research trips a number of intensive individual interviews were carried out. In total some thirty interviews were held. Some of these interviews were designed to contain guided discussions with set questions (usually between ten and twenty questions) pertaining to the relevant issues and some were designed to be rolling discussions with open-ended questions to allow for the interviewees to talk in detail about the issue in question. The purpose of this latter method was to gain more information regarding issues being discussed that were to some extent not covered in previous research. It is important to note that simply selecting the questions to ask and the sources to address in search of answers risks neglecting other areas of questioning and other sources that have not yet been considered.²⁸⁰

Using qualitative interviewing techniques thus gained further information on the questions that should be addressed and the sources exploited in the later stages of the research process. This is a method that has been suggested and employed by other scholars.²⁸¹ It is often difficult to approach and gain access to relevant individuals, especially within government organisations. This problem was to a certain extent addressed by ‘snow-balling’ on the field research trips in order to utilise networks of relevant individuals. As a result of this technique a number of additional interviews to those that had been planned were conducted and further information sourced. The interviews conducted can be categorised in to four main groups: firstly, information about state-actor agency sourced from individual agents of state actors; secondly, information about private sector actor agency sourced from individual agents of private sector actors; thirdly,

²⁸⁰ Padgett, D., 1998, *Qualitative Methods in Social Work Research*, London: Sage, pp: 120-129.

²⁸¹ Read, M., and Marsh, D., 2002, p: 239-241.

information about IGO agency sourced from individual agents of IGOs; and finally, commentary on the above three.

In terms of the analysis and presentation of information in this research project there are two overlapping phases. In the first instance quantitative analysis and presentation of international trade between Jordan and the United States is utilised in chapters three through seven. Here the use of numerical data such as levels of trade between actors in a set time period and the graphical representation of comparisons of these levels are used. While the arguments against foundational, positivist, and quantitative methodology have been highlighted above the use of such a methodology is the most effective way to study international trade. This is because trade is and should be a quantifiable issue area to a certain extent and to fully discuss this issue a valid and concise representation of multiple relationships at multiple levels of analysis is needed. On the other hand, however, the second phase of analysis and presentation in this thesis utilises qualitative methodology based more on an awareness of subjectivity and interpretation and comparative study.

Both of the two phases of research can be found in chapters three through seven which, while to a certain extent are independent analyses of relationships between multiple actors, are also utilised as comparative case studies. Furthermore, both quantitative and qualitative methods are used in the collection and analysis of information from primary and secondary literature sources. As reviewed in chapter one there is ample literature on IPE as a discipline, the debates within it and so on which can be drawn upon. Literature on US-Jordan relations and trade relations in particular is relatively limited and so sources of broader US-MENA relations and Jordan-international relations as well as broader literature on the United States and on Jordan are drawn upon. As this study includes the analysis of non-state actors as well as state actors, primary literature on and by the relevant actors is utilised in order to offer as comprehensive a discussion as possible. For example, in chapters five, six and seven material such as the annual reports of MNCs are used to a relatively large extent.

Conclusions

This chapter has considered the questions of which theory and methods are to be employed in this research project. Any discussion of theory and methods must first begin with a discussion of the ontological and epistemological positions of the researcher carrying out the work. Presented above is a brief assessment of these as a ‘skin not a sweater’. The initial aims and objectives of this research project at the most basic level have been identified, as have the methodological approaches used. In summary, these include the position that the world consists of ‘real’ and existing elements, and that social phenomena, relationships between these phenomena and some but not all structures and processes can be observed. Thus this project is approached with an anti-foundationalist ontology and a realist scientific epistemology but the foundationalist roots of institutionalist approaches are acknowledged. However, it is worth highlighting again that there is an admission of interpretation in all social science research as well as the importance of subjectivity. Thus it is more accurate to label the ontological and epistemological foundations of this study as *critical* anti-foundationalism and *critical* realist scientific. This in part has led to the adoption of a critical version of liberal institutionalist theory as the theoretical approach to this project.

While the developments in institutionalist study over the past several decades have been significant in relation to the broader fields of study encompassed in IPE and IR, they have often been ignored by mainstream research. However, in relation to assessing and evaluating the political economy of trade relations between the United States and Jordan a critical liberal institutionalist approach will prove highly effective. This is for a number of reasons: first, current trends in these trade relations suggest a greater move towards political and economic reform. Second, there is an emerging broad-ranging adoption of liberal trade policies by Jordan and other states in the MENA region coupled with a strengthening impetus within the United States to encourage this adoption. The move to liberal policies could precede a move to greater integration with the global economic system and to greater integration with the United States in particular.

At a more basic level employing a critical liberal institutionalist approach allows for the reconciliation of a number of basic components essential to this study. In the first instance this approach allows for the study of a range of different actors without giving primacy to any single one. In this study this is important as states, MNCs, IGOs, NGOs and individuals as actors are all studied. At the core of the approach used here is the assumption that all of these actors may have agency, however, no single one may have ultimate primacy. Furthermore, while some of these actors are studied as tangible institutions in the form of IOs, this study also examines non-tangible institutions such as trade liberalisation agreements and regimes. Finally, this theoretical approach allows for the fusion of an anti-foundationalist and realist scientific approach with an interpretivist approach to a certain extent and does not require exclusively positivist research to be carried out.

During the research phase of this project a combination of quantitative and qualitative methods is employed in a dominant/less dominant approach. Quantitative and qualitative methods are both used in the collection, analysis and presentation of data. Furthermore, the combination of both types of methods allows for the resolution of some of the main criticisms of social science research and IPE research in particular that is foundationalist and scientific in nature.

Chapter Three

State-Facilitation of Trade: Jordanian Interests and Domestic and Foreign Policy

Introduction

In the endeavour to study the political economy of trade between Jordan and the United States it is necessary to address a number of questions regarding how state actors have created and engaged with international institutions. This chapter thus begins the assessment of state level facilitation of trade by discussing Jordanian state interests at the domestic and international levels and the links between them through issue interdependence. This is done in order to determine what the state's main interests are, the policies taken to pursue these interests and how these are both formed. By analysing the demands and constraints on government decision-making within the context of an anarchic international system with limited international governance, the main state interests can be identified. It is then possible to offer a description and an explanation of how Jordan has engaged with international institutions in the form of both IOs and regimes pertaining to trade in order to achieve its main aims through cooperative relations. The main premise is that dual processes of reform in both the political and economic spheres at the domestic level have been encouraged by changes in the domestic and international environments. Furthermore, these processes of reform have interacted resulting in a reinforcement of change in the domestic and international interests of the Jordanian government.

Under the rule of King Hussein Jordanian interests had largely been determined by external actors and processes, much the same as today.²⁸² However, the international relations of the Middle East and the broader international system coupled with the level of socio-economic development within Jordan historically resulted in a security oriented set of government interests.²⁸³ While socio-economic interests were evident, they were constantly subservient to the greater interests of national security, regime survival and regional stability.²⁸⁴ In the twenty-first century the accelerating processes of globalisation, economic and strategic regional transformation and the changing socio-economic characteristics

²⁸² Mansfield, P., 1992, *The Arabs*, London, Clays Ltd., p: 418.

²⁸³ Sasley, B. E., Changes and Continuity in Jordanian Foreign Policy, in *Middle East Review of International Affairs*, March 2002, Vol. 6, No. 1, p: 37.

²⁸⁴ Ryan, C., 2002, *Jordan in Transition: From Hussein to Abdullah*, London: Lynne Rienner Publishers Inc, p: 110.

of Jordanian society have produced a far different environment. In short there has been a shift from the focus on security interests and a set of security-oriented domestic and foreign policies to a focus on socio-economic interests and a political economy-oriented set of domestic and foreign policies. This new policy focus has led to state level facilitation of international trade through the engagement with international institutions.

In the endeavour to explore the current set of national interests it will be necessary to first briefly explore the transformation of Jordanian domestic and foreign policies over the past decade and a half or so. The first section briefly explores changes in government decision-making in the 1990s and the early King Abdullah II era. Changes through the 1990s provided the basis from which government interests have been redefined since 1999. Gil Feiler argues that in part a result of the re-orientation of national interests and in part a cause of it a vast range of interdependent issues are now having a significant impact upon the decision-making process.²⁸⁵ Subsequent sections of this chapter address these issues. Two broad categories of interests can be identified at both the domestic and international levels: socio-economic and security. As will be shown through this chapter, the majority of contemporary interests fall within the former category. At the same time some interests and policy responses fall within the latter category and continue to impact decision-making. For the purposes of this chapter and in order to allow for a cohesive argument to be made socio-economic interests will be explored in detail.

Philip Dew and Anthony Shoult claim that policy making under King Abdullah II can best be described as reformist.²⁸⁶ Political and economic liberal reform has been the calling card of the various governments and main institutions since 1999. The second section of this chapter outlines efforts towards political liberalisation and the processes of democratisation supported by the government since 2000. Economic liberalisation is dealt with in the following sections. There are three elements to economic reform pursued by the Jordanian government over

²⁸⁵ Feiler, G., 2000, *The Middle East in the New Millennium: Economic Development and Business Law*, The Hague: Kluwer Law International, pp: 117-124.

²⁸⁶ Dew, P., Wallace, J., and Shoult, A., 2004, *Doing Business with Jordan*, London: GMB Publishing Ltd, p: 15.

the past two decades. The first element is macro-economic structural adjustment. Section three addresses the relevant adjustment policies taken by the government through the 1990s and early twenty-first century. The following section examines the second element of the government's economic reform: privatisation. The fifth section develops the previous discussions by assessing the government's move towards facilitating external trade through FTAs. With all of the areas of economic reform the Jordanian government has engaged with existing or constructed in partnership with other state actors liberal economic international institutions.

A conclusion will re-emphasise the main points of the evolution of governmental domestic and foreign policy in the twenty-first century. A summary of the framework within which current political economy-orientated policy is made will also be provided.

Initial Political and Economic Reform: 1989-1999

In 1989 the Jordanian government announced the temporary suspension of external debt repayments. A financial crisis had befallen the kingdom that evolved into the worst economic crisis in the short history of the country. One of King Hussein's responses was to implement an adjustment and austerity agreement which had been made with the IMF in return for assistance.²⁸⁷ It must be noted, however, that this agreement (and indeed economic reform in general) was disrupted in 1990 and did not re-start until 1992. The agreement's main recommendation was the cutback of government subsidies on food and other basic goods.²⁸⁸ The result was a gradual easing of budgetary demands on the government and resumption of debt servicing. Such moves were not welcomed at home, however, as a large part of the population was heavily reliant on government subsidies and in particular the subsidy for bread. Riots broke out across Jordan from Amman to Ma'an, Karak and Salt. In response to calls for greater governmental accountability and transparency the government announced

²⁸⁷ Hamarneh, M., 1994, *The Jordanian Economy: Problems and Prospects*, Amman: Centre for Strategic Studies.

²⁸⁸ Maciejewski, E., and Mansur, A., *Jordan: Strategy for Adjustment and Growth*, IMF Occasional Paper No. 136, May 20 1996.

that parliamentary elections would be held in November 1989. A national charter to guide the democratisation process was adopted in June 1991. The following year martial law was lifted, political parties were legalised and restrictions on freedom of expression were relaxed.²⁸⁹

The pace of change drastically slowed following the August 2 1991 Iraqi invasion of Kuwait. Once again security concerns seemed to negate all other interests and the Jordanian government reverted back to advocating a strict security state with a slow and tightly controlled programme of political reform.²⁹⁰ With the economic situation still in crisis and the likely prospect of the Iraq-Kuwait conflict evolving into a broader international conflict involving regional and extra-regional states the prospect for domestic political change seemed extinguished. King Hussein, weary of domestic sentiment which strongly favoured Saddam Hussein, officially adopted a neutral stance in the Gulf Crisis and subsequent war.²⁹¹ This neutrality was seen as being pro-Iraq both at home and abroad.

With regards to the international relations of the region and broader international system, this stance proved to be extremely costly. Members of the Gulf Cooperation Council (GCC) feared an Iraqi invasion further south down the Persian Gulf as well as domestic rebellions by 'foreigners' from neighbouring Arab states who resided within their borders.²⁹² Their response was to side with the US led coalition against Iraq, to expel large numbers of expatriate workers (most of who were of Palestinian, Jordanian, Egyptian and Sudanese origin) and to reduce or cease aid to those states seen to be siding with Saddam Hussein's regime.²⁹³ The cost to the Jordanian economy verged on catastrophic. Approximately three hundred thousand expatriate workers 'returned' to the

²⁸⁹ For an overview of political liberalisation in 1989, see Brand, L. A., *Liberalization and Changing Political Coalitions: The Bases of Jordan's 1990-1991 Gulf Conflict Policy*, in *Jerusalem Journal of International Relations*, 1991, Vol. 13, No. 4.

²⁹⁰ Milton-Edwards, B., and Hinchcliffe, P., 2001, *Jordan: A Hashemite Legacy*, London: Sage.

²⁹¹ Swaidan, Z., and Nica, M., The 1991 Gulf War and Jordan's Economy, in *Middle East Review of International Affairs*, June 2002, Vol. 6, No. 2, p: 3.

²⁹² Halliday, F., The Gulf War and its Aftermath: First Reflections, in *International Affairs*, April 1991, Vol. 67, No. 2, p: 233.

²⁹³ Wilson, R., The Regional Economic Impact of the Gulf War, in *Middle Eastern Studies*, 1991, p: 185.

kingdom adding to the demand for housing, services, jobs and government subsidies.²⁹⁴ The halt in discounted oil coupled with the drop in financial aid from the GCC states and the West (most notably the United States) further negatively impacted the economy.²⁹⁵

At home the result of the government's position was far different. According to Ranjit Singh, King Hussein's popularity in 1991 was as high as it had ever been and popular sentiment towards the government was extremely accommodating.²⁹⁶ Riding this wave of popular support and satisfaction further slowed the pace of change at home. Parliament was postponed in the fall of 1991 (seen by most as an attempt to prevent a no-confidence vote on the government of then Prime Minister Tahir Masri). Changes to the electoral law were made in November 1993, which subsequently enhanced the electoral chances of pro-regime candidates.²⁹⁷ The government then seized on the opportunity to conclude the 1994 peace treaty with Israel which was assured to be unpopular at home among both the approximately 60 percent population of Palestinian decent and the remaining 'East Bankers'.

The following five years saw a decline in support for the government and a rise in the expression of anti-government sentiments through independent media, political associations and popular movements.²⁹⁸ The government's response was to re-introduce restrictions on the media. The final reversal of the hard-won political liberalisation which had taken place through the late 1980s and early 1990s came when in 1997 "the opposition parties, professional associations and prominent independent figures boycotted the elections."²⁹⁹ With only pro-regime candidates, parliament was solidified as an adjunct to the regime.

²⁹⁴ Swaidan, Z., and Nica, M., p: 5.

²⁹⁵ Ibid.

²⁹⁶ Singh, R., Liberalisation or Democratisation: The Limits of Political Reform and Civil Society in Jordan, in Joffe, G. (ed.), 2002, pp. 66-90.

²⁹⁷ Brand, A., The Effects of the Peace Process on Political Liberalisation in Jordan, in *Journal of Palestine Studies*, Winter 1999, Vol. 28, No. 2.

²⁹⁸ Singh, R., 2002.

²⁹⁹ Anon, October 8 2003, *The Challenge of Political Reform: Jordanian Democratisation and Regional Instability*, Amman/Brussels: International Crisis Group, p: 5.

By February 1999 and the passing of King Hussein, the democratic gains made in the 1989-1993 period had been reversed and the kingdom had once again become a state where security apparatus were omnipresent, and security interests and concerns defined government policy. However, the seeds had been sewn and for the first time in its history the Jordanian government had seriously considered reform over a significant period of time. The preponderance of high politics in the making of policy had for a time been interrupted by issues of low politics. With the death of King Hussein and the ascension to power of a young, inexperienced and relatively unknown head of state the opportunity for change once again presented itself.

Political Liberalisation and Democratisation

While 1999 brought potential for change with a new head of state with arguably a more ‘contemporary’ outlook, the ascension of King Abdullah II did not translate into immediate political change. It was hoped, although not expected, that Abdullah would instantly initiate a broad ranging programme of political liberalisation that would open-up the political system in Jordan and usher in more democratic practices. As the initial months of his reign passed it became clear that the analysts who had suggested the transition from one ruler to another would mean tighter controls were in fact correct. The actual succession had in the first instance been ‘rocky’ as the ailing King Hussein removed the designation of Crown Prince and heir to the throne from his brother Hassan Bin Talal in favour of his eldest son, Abdullah. Hassan had been Crown Prince for almost the entirety of King Hussein’s rule and was widely expected to take power once his elder brother had passed away.³⁰⁰ It came as a relative shock therefore that this would not be the case and that Abdullah, a figure of unknown political capabilities, would lead the kingdom into the twenty-first century. With a plethora of destabilising forces (economic, political and regional) against him King Abdullah II cautiously retained the role of the security services. Security issues became ever more important and the *Mukhabarat* increased in importance.³⁰¹ Over the

³⁰⁰ Robins, P., 2004, *A History of Jordan*, Cambridge: Cambridge University Press, p: 193.

³⁰¹ Saikal, A., and Schnable, A., 2003, *Democratization in the Middle East: Experiences, Struggles and Challenges*, New York: United Nations Press, p: 130.

first year and a half of King Abdullah II's reign press freedoms receded further, there was a general crackdown on protests and academics, journalists and others were dismissed for perceived political offences.³⁰²

As has become a hallmark of Abdullah's leadership, he managed to escape the following negative response from the masses. Instead it was the Director of the General Intelligence Department (GID), Samih Batikhi that was the target of blame for the worsening political environment.³⁰³ Critics scorned Batikhi for his dual role as Director of the GID and Royal Advisor and laid the blame for the tightening of the political system on him. In November 2000 Batikhi was replaced by Major General Saad Kheir who remained out of the public eye and as such also escaped blame, although the prospects for political liberalisation still remained small.³⁰⁴ The following November King Abdullah II postponed parliamentary elections under the guise that more time was needed to implement procedures that had been mandated by a newly drafted electoral law. This postponement evolved into an indefinite suspension of parliament signalling that there were still no intentions of loosening the government's grip over the political sphere.³⁰⁵

Regardless of who became the target of condemnation further government controls on the political system continued through the following years. In 2001 an amended Article of the Penal Code, article 150, was passed by royal decree establishing severe penalties for those that published news that could damage national unity, incite crimes and hatred or jeopardise stability. The amendment to article 150 further built upon the 1999 Press and Publications Law – a law which in itself was seen as harsh. A range of other laws were passed that same year including the Public Gatherings Law,³⁰⁶ the State Security Court Law³⁰⁷ and the

³⁰² Ryan, C., Reform Retreats Amid Jordan's Political Storms, in *The Middle East Report*, June 10, 2005.

³⁰³ Anon, ICG Report, October 8 2003.

³⁰⁴ Robins, P., 2004, p:

³⁰⁵ Ibid.

³⁰⁶ This law required organisers of public events to not only inform the government prior to the event but also to acquire a permit three days in advance and assume liability for any damage to property.

³⁰⁷ Seen as extremely harsh this law denies those convicted of misdemeanours the ability to appeal.

Municipalities Law.³⁰⁸ It must be noted however, that while the introduction of these new or amended laws was unwelcome, the suspension of parliament was seen by some as a blessing in disguise. One opinion was that parliamentarians, who were conservative and deprived of any real power, were corrupt and inefficient. Others (generally within the government) viewed parliament as a liability which would offer only criticism of the government's foreign policy and would act as a hindrance to economic reform. Former Finance Minister Michel Marto claimed that "the absence of parliament was essential for the introduction of legislative reform, because in the past gaining parliamentary approval proved very difficult."³⁰⁹

Throughout this period of consolidation of control the government was split in to two camps. On the one hand were those who advocated strict controls and further roll-back of the processes of political reform begun in 1989. According to Bouillon, the rationale for such a position was two-fold: first that security in the kingdom was under increasing threat as a result of the destabilising impact of the transition in leadership and the more worrying march to war by the international community against Iraq.³¹⁰ Second was the recognition that the vast majority of the population were more interested in economic issues such as increased employment and income as opposed to democratic freedoms.³¹¹ On the other side were those who called for greater liberalisation and reform such as entrepreneur and former Prime Minister Ali Abul Ragheb. However, within this camp there was a general consensus that economic liberalisation and reform was of greater immediate importance. Furthermore, it was believed that this would be more readily accomplished under a more closed political system.³¹² Then Minister of the Royal Court, Faisal Al-Fayez, argued that once economic reform was well underway then democratic forces could emerge.³¹³ Despite their different

³⁰⁸ While it had been the case that all municipal council members (outside of the Greater Amman Municipality) had been elected for four year terms, this law bestowed on the government the right to appoint the Head and approximately half the members of all municipal councils.

³⁰⁹ Marto, M., ICG Interview, Amman, May 13 2003.

³¹⁰ Bouillon, M., *Walking the Tightrope: Jordanian Foreign Policy from the Gulf Crisis to the Peace Process and Beyond*, in Joffe, G. (ed.), 2002, pp: 1-23.

³¹¹ Anon, ICG, October 8 2003, p: 5.

³¹² Ibid.

³¹³ Al-Fayez, F., ICG Interview, Amman, May 13 2003.

objectives, both camps shared the belief that political liberalisation should be slow and managed.

It was the advocates of the latter camp that eventually gained more influence within government by 2002 and in October of that year the 'Jordan First' campaign was launched.³¹⁴ The launch of this reformist campaign was not solely as a result of the disposition of those in the government. External factors coupled with economic processes within Jordan also contributed. Jordan has the misfortune of being located in what has been termed the rough neighbourhood of the Middle East, sandwiched between two conflict zones. On the east lies embattled Iraq which by October 2002 was on the verge of being invaded for the second time in just over a decade. To the west lies Palestine and Israel, between whom the Second Intifada was raging at that time. With economic woes remaining largely unchanged since the late 1980s and early 1990s and with large parts of the population living below the poverty line (see later discussion) pressure on the government was mounting. As Faisal Al-Fayez had argued, ordinary Jordanians were more interested in their own economic well-being than in political freedoms. However, by 2002 neither economic nor political expectations were being met thus putting more pressure on the government to act in some manner.

Throughout the build up to the third Gulf War King Abdullah II had managed successful brinkmanship by satisfying popular pressures at home and international (largely US) pressure abroad.³¹⁵ At home the vast majority of the population was overwhelmingly against any further confrontation between Iraq and the international community. Abroad, Washington was applying immense pressure to its regional allies in the attempt to drum up political and military support. For Jordan this meant use of Jordanian territory in the eastern desert region bordering Iraq for use by Special Forces – deployed by the United States and United Kingdom in an effort to seek out and destroy Iraqi Scud missile

³¹⁴ For a full introduction into this campaign aimed at strengthening national identity, civil society and democratisation see the Jordan First project section on the Hashemite Kingdom of Jordan, Foreign Ministry website: http://www.mfa.gov.jo/pages.php?menu_id=437

³¹⁵ Robins, P., 2004.

units.³¹⁶ With these dual pressures increasing the government was aware that a way for the general public to express their feelings was needed. Coming away from a meeting with President Bush at The White House in the summer of 2002 King Abdullah II knew that the United States would invade Iraq in the coming winter or spring. According to Alan George he also knew he would have to offer some support to this endeavour.³¹⁷

In order to win support from his western allies and at the same time keep the Jordanian street quiet Abdullah embarked on an active period of diplomacy. Following his meeting at the White House in 2002 Abdullah shuttled across the globe in an effort to drum up support for a peaceful solution to the crisis. This was done carefully to show his people at home that every effort was being made to avert war and help the Iraqi brethren (not necessarily the regime) while not annoying Washington. He also ensured that his government denied that there were US and UK troops stationed in his country beyond the acknowledged several hundred troops there for the defence of the kingdom – manning Patriot Anti-Ballistic Missile units and so on. Other measures included assuring the public that oil would continue to be subsidised in the event of a loss of Iraqi supply (which was guaranteed when war started); issuing stern warnings that while the public was allowed to express displeasure with events they were not allowed to disrupt the stability of the kingdom; and to continue to issue condemnations of the conflict once it had gotten underway.³¹⁸

As was expected, the initial military-engagement period of the conflict was over in a relatively short period of time. Coming as a great relief to many regimes in the region and especially to the Jordanian government, this meant that the storm had so far been weathered successfully. However, public opinion was wreathing and condemnation over the king's international decisions was common.³¹⁹ Furthermore, the economy had suffered in the months leading up to the invasion with continuing problems in the early 'post-war' period. Most badly hit were

³¹⁶ Burns, J. F., Jordan's King, in Gamble, Lends Hand to the US, *The New York Times*, March 9 2003.

³¹⁷ George, A., 2005, *Jordan: Living in the Crossfire*, London: Zed Books Ltd, p: 53.

³¹⁸ Ryan, C., 2005.

³¹⁹ Anon, ICG, October 8 2003, p: 9.

sectors which affected the people more directly than others. Tourism for example had seen a serious plunge in revenues earned leading to lower incomes and loss of jobs. The result was the decision made by the government, led by those who supported political reform first followed by economic reform, to once again attempt to open up the political system.³²⁰ In order to defuse the pressures emanating from the public parliamentary elections were announced for June 17 2003 (less than two weeks after the official end of combat operations in Iraq). This was followed by the repeal of the temporary amendments to Article 150 of the Penal Code that were implemented in 2001.³²¹

By late summer 2003 it appeared that there were calls for further democratisation and political liberalisation for the years ahead. Then Foreign Minister Marwan Muasher in an interview conducted by the Brussels-based think tank International Crisis Group (ICG) claimed that the way to greater security and stability was through political liberalisation.³²² One reason given was that Jordan needed to pre-empt calls for democratisation from Washington which, he claimed were counter-productive. The majority of the Jordanian population are untrusting of the Washington administration and have viewed President Bush's insistence on democratisation, in the same way as other US prescriptions, as part of an imperialist plot.³²³ According to Muasher those Arab regimes which heed such calls are therefore seen as US stooges. Furthermore, Muasher argued that those who advocate true reform have subsequently been marginalised by this interpretation. He went on to describe Jordan's strength as lying "in the fact that we are more open – politically and economically – than the rest of the region. This is how we managed to capture the attention of the West in the first place."³²⁴ It was the belief of many in the government that in order to maintain Jordan's position as a reliable and competitive partner and to continue to receive economic support, the government must pursue greater political liberalisation.

³²⁰ George, A., 2005.

³²¹ Anon, ICG, October 8 2003, p: 9.

³²² Muasher, M., ICG Interview, Amman, June 16 2003.

³²³ Ibid.

³²⁴ Ibid.

Others have agreed with Muasher's call for greater liberalisation but for differing reasons. The common fear seems to be that as a result of economic stagnation and in the absence of legitimate political means of expression Jordanians will pursue undemocratic means to express their frustration.³²⁵ With conflicts on two of its borders and with a population which is highly sensitive to these conflicts the risk of extremism taking root in the kingdom is very real. Some realise this including Ahmad Obeidat who has acted as Prime Minister, Head of the GID and director of the National Centre for Human Rights. Obeidat has argued that total democracy as well as absolute political closure would harm national security. Rather he argues that:

The government needs to balance between risks and needs – between security, human rights and democracy. It is all a matter of wise state management – you need a vision, a strategy, a system and regulations. Jordan is not a new state, it has been in existence for more than seventy years. It should not be that worried about opening up politically. Regional problems are bound to be felt here but this should not mean that the government must place a limit on political openness.³²⁶

Since 2003 the call by those in government such as Muasher and Obeidat has been heeded and greater political freedoms have been implemented. With economic reform well under way prior to 2003 and continuing liberalisation in this sphere taking place it seems that the short to medium term future holds further reform.

Economic Reform: Structural Adjustment

Following the 1989 financial crisis and economic slowdown in Jordan, epitomized by the 1989 default on debt repayments by the government, poverty and unemployment rose dramatically to unofficial figures as high as 70 percent of

³²⁵ George, A., 2005.

³²⁶ Obeidat, A., ICG Interview, Amman, June 16 2003.

the total population³²⁷ and 40 percent of the active labour force.³²⁸ Macroeconomic restructuring throughout the 1990s was difficult and detrimental to large parts of Jordanian society but was largely accomplished by the time King Abdullah II took the throne.³²⁹ The process of economic reform in Jordan dates back to the 1989 financial crisis. Through the 1980s the drop in oil prices on the international market led to a general slowing down of the region's economy as a whole. The effect on Jordan was relatively severe with lower remittances coming from expatriate workers living and working in GCC states and lower demand for export goods and services.³³⁰ The government responded by increasing public spending which was financed by external borrowing in order to stimulate the economy. The result was counter to the set intentions, however, as external debt quickly expanded but the economy remained weak with high inflation and an increasing budget deficit.³³¹

Following the economic difficulties faced by the kingdom in 1989 came a series of tough economic reform measures aimed at stabilising the government's budget in order to re-instate the servicing of external debt. Initially these reforms were prescribed by external actors such as the IMF, World Bank (WB) and various donor states such as the United States. As such they were not domestically constructed plans implemented with the sovereign intent of improving the economic standing of the nation's citizens.³³²

The reforms were centred on restoring growth and reducing economic imbalances. In mid-1989 the WB and IMF both supported the process. The former with a \$150 million Industrial and Trade Policy Adjustment Loan (approved in December 1989 and closed in 1992).³³³ The latter through a macro-

³²⁷ Shaban, R. A., Abu-Ghaida, D., and Al-Naimat, A. S., 2001, *Poverty Alleviation in Jordan in the 1990s: Lessons for the Future*, Washington: World Bank, p: 4.

³²⁸ World Bank 1995, Country Report – Jordan, Washington: World Bank.

³²⁹ Silva-Jauregui, C. (ed.), 2002, *Jordan Development Policy Review: A Reforming State in a Volatile Region*, Washington: World Bank, p: 5.

³³⁰ Hourani, A., Khoury, P., and Wilson, C., 2004, p: 52.

³³¹ For reasons and details see Kanovsky, E., *Jordan's Economy: From Prosperity to Crisis*, in Ayalon, A., and Shaked, H. (eds.), 1990, *Middle East Contemporary Survey Volume XII*, Boulder: Westview Press, pp: 333-369

³³² Lucas, R., 2005, *Institutions and the Politics of Survival in Jordan: Domestic Responses to External Challenges*, New York: State University of New York Press, p: 96.

³³³ World bank, 1996, *Structural Adjustment in Jordan*, Washington: World Bank.

economic stabilization programme in the form of a Standby Arrangement. A WB report on the reform process initiated in 1989 states that the Jordanian government's response to the crisis included three elements:

- 1) Macroeconomic policy adjustment to reduce internal and external imbalances, mainly by reducing the fiscal deficit and maintaining a flexible and competitive exchange rate.
- 2) Trade liberalization and industrial policy reforms to induce a strong supply response.
- 3) Protection of the poor through restructuring of public expenditures and provision of targeted safety nets. The policy changes were to be accompanied by reforms of the legal and regulatory regimes to stimulate investment.³³⁴

Reforms were directed towards four main areas of the economy. These were: obtaining macro-economic balance by fiscal adjustment, reducing inflation through tightening the monetary policy, liberalisation of the trade regime and protecting the poor (according to Carlos Silva-Jauregui, a task manager in the WB's Social and Economic Development Sector MENA Region department, this latter aim was more popular within the Jordanian government than with external actors such as the IMF and WB).³³⁵

The main problem faced by the government in 1989 was the fiscal deficit which had grown to record levels. The IMF supported a programme to reform the tax system while the WB supported programmes to cut public expenditures, including food subsidies. In 1988 the government's total expenditures had topped 49 percent of GDP.³³⁶ This figure was reduced to 39 percent by 1992 after the government implemented the IMF and WB backed programmes.³³⁷ Efforts included cutting military spending, implementing a targeting mechanism for the

³³⁴ Ibid.

³³⁵ Silva-Jauregui, C. (ed.), 2002 , p: 9.

³³⁶ Ibid.

³³⁷ Abu-Hammour, M., 2005.

poorest segments of society to replace food subsidies and in 1992 oil prices were increased, practically eliminating oil subsidies. Higher tax revenues due to increased trade levels and a conversion from quantitative restrictions into tariffs (doubling revenue from trade between 1990 and 1992) along with reduced budget expenditures led to a decline in the deficit. Between 1989 and 1993 the deficit had dropped from 18 percent of GDP to 6 percent.³³⁸

With the account deficit declining, inflation rates within Jordan also declined. In 1989 inflation had stood at approximately 26 percent.³³⁹ By 1993 following the implementation of broad economic reforms this figure had dropped to the relatively low figure of just over 4 percent. At the same time the government adopted a policy of tightening monetary policy which included liberalizing the financial sector. By decontrolling deposit and lending rates the government was able to avoid higher inflation and encourage short term capital inflows due to domestic interest rates climbing. This process was briefly interrupted by the Gulf Crisis and War in late 1990 and early 1991.³⁴⁰ However, while the crisis had negative effects on the Jordanian economy including the return of three hundred thousand expatriate workers the return of these citizens also meant the repatriation of savings. Coupled with the increase in capital inflows this resulted in foreign reserves within Jordan increasing ten-fold between 1989 and 1993.³⁴¹

This was significant in no small part due to the fact that the Jordanian economy was burdened with a large external debt. By the middle of 1990 total external debt accounted for 180 percent of the kingdom's GDP. The government managed to reduce this figure to 132 percent of GDP by the end of 1993.³⁴² This was initially achieved mostly by pursuing policies of debt restructuring, which leads only to the short term relief of some of the pressure caused by debt servicing. However, following success in reducing the budgetary expenditures and increasing capital inflows and currency reserves the government was able to pursue more aggressive debt reduction policies by 1992. Supplementing the

³³⁸ World Bank., 1996.

³³⁹ Ibid.

³⁴⁰ Moore, P., 2004, *Doing Business in the Middle East: Politics and Economic Crisis in Jordan and Kuwait*, Cambridge: Cambridge University Press, p: 150.

³⁴¹ CBJ, 1994, *Fiscal Year Report 1994*, Amman: Central Bank of Jordan.

³⁴² Kanovsky, E., 1990.

policy of debt restructuring the government pursued market-based operations such as debt buybacks and debt swaps. While these policies led to a greater reduction of external debt they were nevertheless still limited as was realised towards the late 1990s.³⁴³ An increase in the ability to service external debt and to repay it was needed.

Due to the perceived limitations on the structural adjustments discussed above the Jordanian government was encouraged by the IMF and WB to embark on a process of trade liberalisation in the mid-1990s in the hope of further stabilising the economy and increasing revenues through exports. In order to do this a broad ranging liberalisation programme was initiated. This programme had a number of elements, both demanded by external actors and devised by domestic policy planners. Before the WB would release its \$150 million loan it requested that the majority of quantitative restrictions and import bans be removed and replaced with import tariffs.³⁴⁴ As a response to this condition of the loan the Jordanian government was instructed to rationalise the tariff structure in order to conform to the WB's standards but at the same time to not undermine the increase in revenues sought after. In 1990 the vast majority of domestic price controls were lifted, including on food although essential commodities such as bread remained under a tight monetary policy to ensure that the most vital commodities remained available to the population. Like many other countries, Jordan at the start of the 1990s had a fixed exchange rate which prevented depreciation of the Jordanian Dinar (JD). However, this policy acted as a brake on international trade levels and so was adjusted and a policy of a 'managed' floating of the JD was adopted – the result was an almost immediate depreciation of the JD by 50 percent. This policy remained until October 23 1995 when the JD was pegged to the US Dollar.

To compliment these international trade reforms domestic adjustments were made. In 1991 the investment law was revised to allow for the licensing of domestic investment to become more efficient and less discretionary. According to Sabri Al-Khassib, the Head of the Research and International Agreements Unit

³⁴³ World Bank, 1996.

³⁴⁴ Shaban, R. A., Abu-Ghaida, D., and Al-Naimat, A. S., 2001.

at the Amman Chamber of Commerce, this streamlining of the process led to a two-fold increase in the number of privately owned enterprises operating in the kingdom between 1989 and 1992.³⁴⁵ In the same year Jordan's primary mechanism for financing exports, the Export Discount Facility (EDF), was reformed to become more accessible to exporters. However, this policy had little effect on increasing exports. Commercial banks were not attracted to the EDF's low interest margins and rigid administrative procedures. Again, further policies had to be taken to improve domestic conditions for export-oriented economic activities and increase overall international trade.

It is worth noting that while the macro-economic structural adjustments implemented in the first half of the 1990s extensive measures were taken to protect the most vulnerable segments of the kingdom's population from any detrimental effects. During the period of adjustment the government employed two main policies aimed at meeting this end. The first policy was aimed at restructuring public spending so that the reduced amount of resources directed to the public sphere was targeted at those who needed it the most. For example, while military and fiscal spending for general price subsidies were reduced, spending on key sectors such as health and education were not.³⁴⁶ General food subsidies and price controls were removed and replaced with a rationing system which supplied those households with the lowest income to receive subsidies and other financial support.³⁴⁷

The second policy aimed at protecting the poor from the economic shocks of the adjustment process was to improve the efficiency of the kingdom's networks which supported the poor. The main component of this policy was the establishment in 1990 of the Development and Employment Fund (DEF) which coordinated the activities of the government and NGOs involved in poverty alleviation.³⁴⁸ However, while the policy of targeted support was relatively successful, the DEF was not. Initially the creation of the fund helped to win

³⁴⁵ Al-Khassib, S., Head of the Research and International Agreements Unit, Amman Chamber of Commerce, interview held in Amman, December 24 2006.

³⁴⁶ World Bank, 1996.

³⁴⁷ Shaban, R. A., Abu-Ghaida, D., and Al-Naimat, A. S., 2001.

³⁴⁸ World Bank, 1996.

support for the adjustment process and was relatively active. Over time the role of the fund evolved and the DEF became involved more in direct lending as opposed to coordinating poverty alleviation activities.

In short the kingdom's first major encounter with economic reform had been significant. Some successes had been seen, such as the decline in the fiscal budget and subsequent decline in the budgetary deficit, decreasing levels of debt and the resumption of debt servicing. However, overall macro-economic adjustment in the 1990s did not translate into high levels of economic growth or a general strengthening of the economy. Rather the process of structural adjustment allowed the Jordanian economy to recover from the immediate effects of the 1989 financial crisis and resume servicing of its external financial obligations.³⁴⁹ Efforts to strengthen the economy and press forward into the twenty-first century with strong economic growth were in large part missing. This was partly due to the fact that policies that would have led to greater economic growth were not pursued until the royal succession of 1999.

Economic Reform: Privatisation

Although macro-economic restructuring and subsequent economic policy has allowed the Jordanian government to resume relatively healthy external debt servicing overall debt remains at approximately 30 percent of GDP and stood at almost 50 percent at the end of 2007.³⁵⁰ One medium term goal professed by the Jordanian government is to reduce this figure. In this endeavour further economic restructuring is likely. According to the Jordan Investment Trust Corporation, in the government's pursuit to achieve the above mentioned socio-economic goals as well as the pursuit of overall economic growth, attracting foreign direct investment (FDI) is of prime importance.³⁵¹

The structural adjustment programme and macro-economic reforms employed through the first half of the 1990s as mentioned above were aimed at economic

³⁴⁹ Joffe, G. (ed.), 2002.

³⁵⁰ Anon, Foreign Grants up by End of April, in *Jordan Times*, June 27 2008.

³⁵¹ Jordan Investment Trust, 2005, *Jordan: Growth Despite Difficulties*, Amman: Jordan Investment Trust, p: 14.

recovery and stabilisation and not growth. In order to pursue sustained economic growth the Jordanian government embarked upon a process of wide ranging policy reforms in late 1996.³⁵² A linchpin of this drive for economic development was the privatisation of government-owned enterprises and service industries. Implementation of this programme had been slow through the 1990s³⁵³ but began in earnest in 1998 with the general aim of rebalancing the role and scale of the public sector in the economy by reducing the government's stake in industrial sectors dominated by state-owned enterprises.³⁵⁴ According to The Executive Privatisation Commission (EPC) - established in 1996 and which was initially called The Executive Privatisation Unit (EPU), to spearhead the privatisation process - the goals of the programme are:

To increase the efficiency and hence production levels of privatised firms, creating a competitive market where demand and supply can freely interplay, attracting FDI, allowing the private sector to participate in infrastructure investments, deepening and developing the Jordanian financial market, and most importantly, limiting the government's role to that of the regulator rather than that of the inefficient producer of goods and services.³⁵⁵

Prior to 1996 the government had founded and managed most of the kingdom's infrastructure, including power generation, telecommunications services, transport services and water supply. The government also had a major role in other industries such as mining and manufacturing, for example, majority shares in Jordan Phosphate Mines Corporation (JPMC), Arab Potash Corporation (APC) and Jordan Cement Factories (JCFC). The possibility of embarking on a privatisation programme had been discussed as early as 1989 however, the ongoing structural adjustment programmes along with worker resistance, bureaucratic red tape and an overall lack of government support prevented any

³⁵² Robins, P., 2004.

³⁵³ El-Said, H., Waiting for Privatisation in the Arab World: The Case of Jordan, in El-Said, H., and Becker, K., 2001, *Management and International Business Issues in Jordan*, Binghamton: International Business Press, p: 145.

³⁵⁴ Ibid.

³⁵⁵ Abu-Hammour, M., 2006, *Letter from the Chairman*, The Executive Privatization Committee, Amman, Jordan.

serious attempt at privatisation being made.³⁵⁶ With the structural adjustment programmes implemented and largely accomplished by the mid-1990s the Jordanian government was able to address the issue of reducing the level of public sector involvement in the economy.

According to Tarooob Al-Zu'bi, the Chief Communications Officer of the EPC, there have been five main methods of privatisation. The first and most common method has been the sale of government shares in public share holding companies, or *Capital Privatisation*.³⁵⁷ This has been relatively effective and the government has to date sold the majority of its stake holdings. A second approach has been to sign *Management Contracts* with private sector actors.³⁵⁸ These contracts usually have a relatively short initial timeframe allowing for assessment of the management and possible extension of the contract, as happened with the water and sewage systems management in the Greater Amman area. The third main method employed so far has been to sign *Concession Agreements*, or *Exclusivity Agreements*, where the private sector is given the responsibility to build a particular enterprise, exploit and operate it pursuant to the concession, as in the case of the Public Transportation Corporation (PTC) which was privatised in 1998.³⁵⁹ This latter example signifies the initial completion of the privatisation of a major company.

Another method employed has been to sign *Lease Agreements* where the operation of a facility is leased out to a private sector actor but where the government remains the sole owner.³⁶⁰ The private sector actor will operate the enterprise and reap the profits in exchange for a fee paid to the government. *Private Infrastructure Development and Operation* contracts constitute the final approach. Of these there are four types, it is worth quoting the EPC directly here;

³⁵⁶ Al-Khouri, R., and Pasch, P., 2002, *Privatisation in Jordan*, Amman: Friedrich Ebert Stiftung Consultancy.

³⁵⁷ Zu'bi, T., Chief Communications Officer of the Executive Privatisation Committee, interview held in Amman, December 21 2006.

³⁵⁸ Kandah, A. S., 2004, *Uses of Privatisation Proceeds*, Amman: Centre for Strategic Studies, p: 11.

³⁵⁹ Zu'bi, T., December 21 2006.

³⁶⁰ Kandah, A. S., 2004, p: 11.

- 1) Build-Operate-Transfer: The private sector designs, finances, builds, and operates the facility over the life of the contract at the end of which, ownership reverts to the government.
- 2) Build-Transfer-Operate: The private sector designs, finances and builds the facility then transfers it to the government while retaining the right to operate it for a specific period of time.
- 3) Build-Own-Operate: The private sector designs, finances and builds the facility, retains ownership and operates it.
- 4) Build-Operate-Own-Transfer: The private sector builds the project, owns it for a specific period, operates it and then relinquishes it to the public sector.³⁶¹

In order to successfully carry out the privatisation of inefficient and uncompetitive government owned enterprises and to open up public sector-dominated industries but at the same time to utilise the revenues from such a programme the Jordanian government has created a legal and institutional framework. This framework was not drafted until 1999 after King Abdullah II took power and consists of three elements. An organisational structure was needed in order to oversee the privatisation programme and so the Higher Committee for Privatisation (HCP), the EPC and the Privatisation Steering Committees (PSC) were created. According to the WB “this form of institutional structure provided the right balance of effectiveness and transparency.”³⁶²

A National Privatisation Strategy (NPS) was also created and ratified by parliament in 1999. This document acts as a general guide for the government on privatisation and also addresses the use of the proceeds from such a programme. The NPS specifies three general uses for the proceeds: “resolving the employees’ issues of the privatised enterprises; paying back foreign debts; and financing

³⁶¹ EPC, 2006, *Types of Privatization*, Amman: The Executive Privatisation Committee.

³⁶² World Bank, *World Bank Press Report*, 2006, Washington: World Bank.

infrastructure projects.”³⁶³ The following year the Privatisation Law (No. 25) was passed. It provides the procedural, legislative and institutional basis for the programme and allows the government to decide on the main issues of privatisation including the allocation of proceeds.

As of the end of 2007 over sixty transactions had been completed including the sale of the government’s shares in fifty-four companies under the Jordan Investment Corporation (JIC) portfolio. The total proceeds of the privatisation programme equal approximately \$1.3 billion (see table 4.1) while total investment – both domestic and FDI – have surpassed \$850 million – mostly in the water, telecommunications, transport and power sectors.³⁶⁴

Table 4.1: Privatisation Transactions During the Period 1998 - 2007³⁶⁵

Enterprise	Millions of US Dollars	Completion Date
Cement JCFC	112	1998, 2002
Telecom. JTC	691.5	2000, 2002
Public Transport/Amman	0.7	1999
Airport Duty Free Shops	60.1	August 2000
Aircraft Catering Centre	20.02	August 2001
Royal Jordanian Air Academy	5.8	January 2003
Arab Potash Company	173	October 2003
Jordan Aircraft Maintenance Company JorAMCo	55.1	January 2005
Total	1118.1	
JIC Portfolio	152	
Grand Total	1270.1	1998-2007

The issue of how to use these proceeds has been perhaps the area of most concern and the legal and institutional framework briefly detailed above is focused largely on resolving this matter. The NPS stipulated that the proceeds should not be

³⁶³ EPC, 2001, *Privatisation Newsletter*, Amman: The Executive Privatisation Committee.

³⁶⁴ Zu’bi, T., December 21 2006.

³⁶⁵ EPC, 2007, *Report on Completed Transactions*, Amman: The Executive Privatisation Committee.

allocated to cover the contemporary expenditures of the Treasury.³⁶⁶ Article 13 of the Privatisation Law sets out the allocation of proceeds from the privatisation programme. The initial step was the creation of a Privatisation Proceeds Fund (PPF) where all the revenues are deposited. This fund is supervised by the Privatisation Council (PC) and regulated and administered by the EPC. Once the proceeds have been deposited in the PPF they are allocated for seven different purposes, once again it is worth referring to the EPC directly:

- 1) Settlement of government debts accumulated by the institutions or enterprises undergoing a restructuring or privatisation process and covering the expenses resulting from such a process.
- 2) Purchase of government debts to benefit from deductions on these debts or to settle such debts through debt-swap deals or by any other method approved by the Council and consented to by the Council of Ministers.
- 3) Investments in financial assets.
- 4) Financing economic activities and new investments in infrastructure sectors with feasible economic and social returns and which will assist in achieving sustainable development, provided that such financing is included in the government's budget.
- 5) Re-qualifying and training employees working at institutions and organisations undergoing a restructuring or privatisation process and settlement of their ensuing financial rights.

³⁶⁶ Page, J., 2002, *Structural Reforms in the Middle East and North Africa*, Washington: World Bank, p: 72.

- 6) Retrospective subscription with the Social Security Corporation on behalf of employees of privatised institutions who will become subjected to the Social Security Law.
- 7) Proceeds of investments of the Privatisation Proceeds Fund shall be considered revenues for the Treasury.³⁶⁷

At the time of writing the Jordanian government has largely followed these guidelines and used proceeds in six main areas. The area of most importance appears to have been external debt settlement with proceeds used to the sum of \$111.827 million.³⁶⁸ Approximately 66 percent of the proceeds generated by the JICP totalling \$91.1 million have been spent on recurrent expenditures of the general budget.³⁶⁹ This constitutes the second largest area of expenditure from the PPF. The government has also spent \$64.134 million on the settlement of domestic banking loans including \$21.449 million to the Housing Bank for Trade and Finance (discussed in chapter seven) and \$18.721 million to the Savings Fund and Social Security Corporation.³⁷⁰ Development projects have also been a key area of concern for the government and have been focused upon in the course of the latest round of economic reform. Using PPF revenues, \$63.973 million has been spent on projects such as the construction and maintenance of rural and agricultural roads (\$11.63 million), the Lejoun and Corridor Water Projects (\$21.6 million) and sewerage projects (\$2 million).³⁷¹

In terms of the rate of the privatisation of government-owned or affiliated corporations as well as the relative number of such entities being privatised, the programme as a whole has been quite successful, to the point where the WB has stated that it ranks as “one of, if not the most, successful in the Middle East region.”³⁷² It is worth briefly highlighting some of the projects undertaken as part

³⁶⁷ *The Privatization Law 25/2000*, Amman: The Executive Privatization Committee.

³⁶⁸ EPC, *Report on Privatisation Proceeds*, 2006, Amman: The Executive Privatization Committee.

³⁶⁹ Ibid.

³⁷⁰ Ministry of Finance, *Government Finance Bulletin*, Amman: Ministry of Finance, January 2002, Vol. 3, No. 12.

³⁷¹ Zu'bi, T., December 21 2006.

³⁷² Anon, *Jordan's Privatisation Programme is one of the Most Successful in the Region: World Bank*, Jordan Times, Economy Section, March 4 2002.

of this programme in order to identify how the government's policy has been implemented. On January 23 2000 40 percent of the government's shares in the Jordan Telecommunications Company (JTC) were sold to an international consortium, which included France Telecom and The Arab Bank for \$508 million.³⁷³ The transaction was a fee-based management contract. A further 1 percent of shares were allocated to the JTC employees' Provident Fund that same month. The following month a further 8 percent of the government's shares were sold to the Jordan-based Social Security Corporation for \$102 million. The remaining 51 percent of total shares still owned by the government were endorsed for sale through Initial Public Offering in 2002 with JPMorgan and the Jordan Investment Bank as the lead managers for the transaction. The "IPO was completed on October 29 2000 with the sale of 10.5 percent of JTC total shares whereby 3.5 percent were acquired by retail investors and 7 percent by local and non-Jordanian financial institutions; total proceeds amounted to around \$86.2 million."³⁷⁴ Throughout the privatisation of JTC US-based Merrill Lynch acted as the consultant and financial advisor for the project while legal firm Macarthy, of Canada, was the legal consultant. As a result of the privatisation of JTC, over seven thousand jobs have been created and over \$500 million invested in the telecommunications sector in Jordan. Since 2000 and the initial steps towards privatisation of the sector, two more telecommunications operators have established themselves, Mobilecom (2000) and Fastlink (2002). Total revenues from the project (as shown in table 4.1 above) stood at \$691 million.³⁷⁵

There are a number of other major projects that have been completed in a number of fields as outlined above. It would be useful in other studies to outline these projects and provide some form of assessment of their success and implications. However, for the purpose of this study the above discussion is sufficient to develop the analysis of contemporary Jordanian economic policy. The next logical step in the analysis is to examine Jordanian efforts towards trade liberalisation. This is the most relevant issue area in this chapter in terms of this

³⁷³ EPC, 2000, *Report from the Executive Privatisation Committee*, Amman: Executive Privatisation Committee.

³⁷⁴ Ibid.

³⁷⁵ Kandah, A. S., 2004, p: 12.

study. However, it has been the intention to create a picture of contemporary Jordanian interests and so the previous sections should be viewed in this light.

Trade Liberalisation

As part of the government's efforts to maximise the benefits of the structural adjustments of the late 1980s and mid-1990s as well as to further the process of economic reform in order to boost economic growth, a broad ranging policy of external trade liberalisation through domestic legislation and international institutions was established in the late 1990s.³⁷⁶ Efforts towards greater intra-Arab trade have been underway for many years dating back as far as 1953 and the establishment of a treaty between the member states of the League of Arab States aimed at facilitating transit of trade (one element of what is termed the first wave of Arab regionalism).³⁷⁷ Further attempts at greater Arab integration were pursued throughout the following decades including the 1964 creation of the Arab Common Market (ACM) which envisaged the elimination of all tariffs between Arab states.

In 1981 the Agreement for Facilitation and Promotion of intra-Arab Trade was signed by all Arab states.³⁷⁸ This was followed by another declaration for the elimination of all tariffs and non-tariff barriers to trade in manufactured and semi-manufactured goods. However, the impact of these and other agreements on intra-Arab trade has been until recently, minimal, leading to what appears to be a latest wave of regionalism.³⁷⁹ The latest round of integration goes much further than previous attempts and it could be argued that this wave of regionalism has more in common with the broader processes of globalisation than regionalism and is powered by the increasing importance of international institutions.

³⁷⁶ Feraboli, O., 2003, *A Dynamic Analysis of Jordan's Trade Liberalisation*, Hamburg: Universität Hamburg - Institut für Wachstum und Konjunktur.

³⁷⁷ Zarouk, J., The Greater Arab Free Trade Area, in Hoekman, B., and Zarrouk, J., 2003, *Catching Up With the Competition: Trade Opportunities and Challenges for Arab Countries*, Ann Arbor: The University of Michigan Press.

³⁷⁸ Dennis, A., February 2006, *The Impact of Regional Trade Agreements and Trade Facilitation in the Middle East and North Africa Region*, Washington: World Bank, p: 4.

³⁷⁹ Carkoglu, A., Eder, M., and Kirisci, K., 1998, *The Political Economy of Regional Cooperation in the Middle East*, London: Clays Ltd, p: 16.

For the Jordanian government, this wave of integration has not been ignored. Unlike some regional governments, such as those of the GCC states, the Jordanian government has been active in promoting policies aimed at greater economic integration with the Arab world as a whole and perhaps more importantly with the global economy.³⁸⁰ There are six main elements to the government's process of trade liberalisation and economic integration. These elements are as follows: accession to the WTO, the Jordan-EU Association Agreement (JEUAA), the Greater Arab Free Trade Area (GAFTA), the Mediterranean Arab Free Trade Area (MAFTA), the European Free Trade Association (EFTA), and bilateral FTAs such as the JUSFTA.

Within the government's decision making bodies there exists a debate that dates back to the establishment of the latest round of trade reform in 1996. The trade policy issue in debate is whether the process should focus on *regional* or *global* integration.³⁸¹ Referring back to the discussion in chapter two, there is much evidence that suggests that trade liberalisation and economic growth are directly and positively related.³⁸² There is even more evidence that suggests that non-discriminatory trade liberalisation leads to higher economic growth than preferential liberalisation.³⁸³ Preferential trade liberalisation is likely to cause a diversion in trade. This can include diversion away from sources of efficient production and lower costs to sources of less efficient production and higher costs. Furthermore, trade diversion could mean that access to larger or more lucrative markets is prevented.³⁸⁴ For the Jordanian government these implications have been considered and a non-discriminatory and broad ranging process of multilateral trade liberalisation has been pursued. Accession to the WTO is a clear indication of the government's chosen route to trade liberalisation.

³⁸⁰ Hosoe, N., A General Equilibrium Analysis of Jordan's Trade Liberalization, in *Journal of Policy Modelling*, August 2001, Vol. 23, No. 6.

³⁸¹ Winters, A. L., April 1996, *Regionalism Versus Multilateralism*, paper presented at the CEPR Conference on Regional Integration, La Coruna, Spain.

³⁸² Sachs, J., and Warner, A., 1995, *Economic Reform and the Process of Global Integration*, *Brookings Papers on Economic Activity*, Washington: The Brookings Institute, p: 1.

³⁸³ Vamvakidis, A., 1998, *Regional Trade Agreements Versus Broad Liberalisation: Which Path Leads to Faster Growth? Time-Series Evidence*, Washington: IMF Working Paper 40.

³⁸⁴ Al-Khouri, R., Trade Policies in Jordan, in Hoekman, B., and Kheir-El-Din, H. (eds.), 2000, *Trade Policy Developments in the Middle East and North Africa*, Washington: The World Bank, p: 149.

Accession to the WTO

The Hashemite Kingdom of Jordan became the one-hundred and thirty-sixth member of the WTO on April 11 2000 following initial negotiations that began in late 1994.³⁸⁵ The accession negotiations were largely focused on the major economic and legislative reforms discussed above whose implementation was required before admission to the organisation was possible. According to the Jordanian Ministry of Industry and Trade the government had to make “amendments to the [kingdom’s] Trademarks and Copyrights laws” and new laws had to be created “on Patents, Models and Industrial Design, Integrated Circuits, Trade Secrets and Unfair Competition, Geographical Indications, and Plant Variety Protection”³⁸⁶ (discussed at length in chapter seven). Furthermore, existing laws on “Standards and Metrology, the Customs Law, General Sales Tax Law, and the Law on Unifying Fees and Taxes” had to be revised in order to conform with WTO standards and regulations.³⁸⁷

The Jordan-European Union Association Agreement

The JEUA is just one of a number of Association Agreements signed between the EU and MENA states and is just one element of the broader Barcelona Process between the two regions.³⁸⁸ The agreement also replaces the 1977 Cooperation Agreement signed by the EU and Jordan. The JEUA itself was signed November 24 1997 but was not ratified by the Jordanian Parliament until September 1999. The implementation of the agreement was delayed still further until May 15 2002 as it was not ratified by all of the then fifteen EU member states until that time. As an element of the process of regional integration between the EU and MENA the JEUA incorporates three issue areas which are

³⁸⁵ WTO, *Report of the Working Party on the Accession of Jordan*, World Trade Organisation, December 3 1999, p: 1.

³⁸⁶ Ibid, p: 39.

³⁸⁷ Ibid, p: 46.

³⁸⁸ Anon, 2003, *Annual Report*, Amman: The European Commission in Jordan, p: 19.

of importance to greater bilateral and multilateral integration: these areas are in the political, economic and financial, and socio-cultural spheres.³⁸⁹

Article three of the JEUA states that a regular political dialogue shall be established between the two parties especially between the EU parliament and the Jordanian parliament.³⁹⁰ The aim of the political aspect of the agreement is to develop mutual understanding and cooperation between the parties with emphasis placed on the achievement of peace, security and human rights. Quoting the text directly the political dialogue aims in particular to do the following:

...develop better mutual understanding and an increasing convergence of positions on international issues, and in particular on those issues likely to have substantial effects on one or the other Party; enable each Party to consider the position and interests of the other; enhance regional security and stability; and promote common initiatives.³⁹¹

The economic component of the JEUA aims to establish in progressive steps an FTA between the EU and Jordan by 2010. The agreement covers the following sectors: industrial and agricultural products, services, right of establishment, payments and movements of capital, competition, intellectual property rights (IPRs), standards and measurements, financial cooperation, economic cooperation in the field of industry, agriculture and investment, transportation, telecommunications, science and technology, environment and tourism as well as energy.³⁹² This element is based upon the provisions existing in the General Agreement on Tariffs and Trade (GATT) and in the General Agreement on Trade in Services (GATS). Also important to the development of links between the EU and MENA are socio-cultural issues. In this respect the JEUA also has provisions established in order to increase the interaction between civil society

³⁸⁹ Patten, C., 2006, *The EU-Jordan Association Agreement: Opportunities and Challenges*, Amman: The European Commission in Jordan.

³⁹⁰ EC, *Summary of the Provisions of the Jordan-EU Association Agreement*, The European Commission in Jordan.

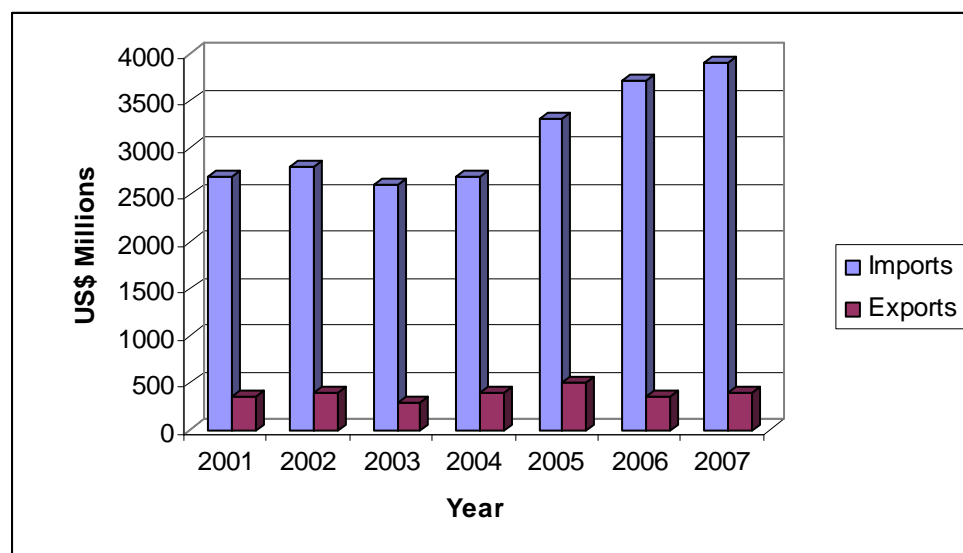
³⁹¹ Ibid.

³⁹² Dessus, S., Devlin, J., and Safadi, R. (eds.), 2001, *Towards Arab and Euro-Med Regional Integration*, Paris: OECD.

actors.³⁹³ Emphasis is placed upon education, training, the role of women in society, migrant population groups, health and cooperation in justice and home affairs and in particular action to combat international crime such as drug trafficking and international terrorism.³⁹⁴

Significantly the JEUA has had limited impact in both the total value and total quantity of trade between the Jordanian and the EU markets. Furthermore, the sectors within which this trade takes place have remained constant. This is important for two reasons. First, there is a stark contrast between the results of the JEUA and the JUSFTA (discussed below) in the value and quantity of trade in goods and services as well as the sectors within which trade takes place. Note that the JEUA is some three years older than the JUSFTA. The second way in which this is important is in the implications for the positive returns on FTAs for the Jordanian economy. The later discussion on non-state actors (chapters five, six and seven) engages with this anomaly and offers an explanation. Figure 4.1 below outlines the constant nature of trade relations between Jordan and the EU.

Figure 4.1 Total Jordanian Trade Levels With the EU 2001-2007³⁹⁵



The Greater Arab Free Trade Area

³⁹³ Devlin, J., and Page, J., Testing the Waters: Arab Integration, Competitiveness and the Euro-Med Agreements, in Dessus, S., Devlin, J., and Safadi, R. (eds.), 2001.

³⁹⁴ Patten, C., 2006.

³⁹⁵ Eurostat, 2007.

A number of MENA economies are liberalising their trade regimes. However, there has been a distinct lack of political will and commitment to fully integrating with both the regional economy and the global economy. There has also been a serious lack of cohesion and agreement on the ways in which to pursue an overarching MENA free trading economy.³⁹⁶ This is shown by the number of regional economic integration projects ongoing as of late 2007. These are as follows; GAFTA, GCC, the Arab-Maghreb Union (AMU), and MAFTA. All of these preferential trade agreements have the same aim of reducing tariff and non-tariff barriers to intra-Arab trade and promoting greater economic integration. However, they often overlap and contradict one another and often lose internal cohesion.³⁹⁷

The largest and most comprehensive agreement, in terms of the scope of states involved and the range of issues dealt with is GAFTA, signed at the League of Arab States General Meeting on February 19 1997 in Amman.³⁹⁸ Jamel Zarrouk argues that to some extent GAFTA was created as a result of the fear that the EU-MENA Association Agreements would divert intra-Arab trade away from the MENA regional economy to Europe.³⁹⁹ It can also be argued that GAFTA came as a response to the Uruguay Round of trade negotiations which it was believed would hinder Arab access to the European economy. At the same time as the Barcelona Process was born so too was an Executive Programme, established under the auspices of the League of Arab States. The aim of the Executive Programme was to revive the 1981 Agreement for Facilitation and Promotion of Trade, which had largely been abandoned. It was realised that the main flaw of the 1981 agreement was that it was merely a statement of intent and did not include any concrete steps or targets for implementation. GAFTA was established

³⁹⁶ Haddad, M., 2001, *Export Competitiveness: Where Does the Middle East and North Africa Region Stand?* Cairo: Economic Research Forum.

³⁹⁷ Konan, D., Alternative Paths to Prosperity: Economic Integration Among Arab Countries, in Galal, A., and Hoekman, B. (eds.), 2003, *Arab Economic Integration*, Washington: The Brookings Institute.

³⁹⁸ Signed by the following Arab states: Jordan, Bahrain, UAE, Tunisia, Saudi Arabia, Syria, Iraq, Oman, Qatar, Kuwait, Lebanon, Libya, Egypt, Morocco, Tunisia, Algeria, Mauritania.

³⁹⁹ Zarrouk, J., 2003.

to reduce traditional barriers to intra-Arab trade at the rate of 10 percent per year with the end target being 0 percent tariff on all intra-Arab trade by 2010.⁴⁰⁰

However, progress in implementing the negotiated steps towards tariff reduction in GAFTA since 1998 has been interrupted and unequal.⁴⁰¹ Nevertheless on January 1 2005 the full removal of customs duties on all merchandise traded between the member states came into effect. Bernard Hoekman and Jamel Zarouk claim that the role of the Jordanian government, and the Ministry of Industry and Trade in particular, was instrumental in the early stages of negotiating and implementing GAFTA. The result of Jordan's involvement has been a three-fold increase in trade exchange between the Jordanian market and those of the other member states of GAFTA⁴⁰² (see table 4.2 below).

Table 4.2: Jordanian Trade Levels in US\$ Millions with GAFTA Members⁴⁰³

Year	Imports	Exports	Total	Balance
1993	719.76	411.2	1130.96	-308.56
1994	749.11	482.2	1231.31	-266.91
1995	854.1	642.13	1496.23	-211.97
1996	1039.2	674.3	1713.5	-364.9
1997	931.12	764.4	1695.52	-166.72
1998	716.4	634.4	1350.8	-82
1999	788.8	570.9	1359.7	-217.9
2000	1077.25	580.13	1657.38	-497.12
2001	1147.9	1082.1	2230	-65.8
2002	1268.49	1229.26	2497.75	-39.23
2003	1571.8	1235.65	2807.45	-336.15
2004	1702.3	1297.02	2999.32	-405.28
2005	1759.05	1311.5	3070.55	-447.55
2006	2064	1433	3497	-631

⁴⁰⁰ League of Arab States, 1997, *Executive Programme of the Agreement on Facilitating Trade and Developing Intra-Arab Trade for Establishing the Greater Arab Free Trade Area (GAFTA)*, Secretariat of the Arab League, Directorate of Economic Affairs, Cairo, Egypt.

⁴⁰¹ Hoekman, B., and Zarrouk, J., 2003, p: 290.

⁴⁰² Anon, 2007, *Foreign Trade Statistics of Jordan 1993-2006*, Cairo: Arab Monetary Fund.

⁴⁰³ Arab Monetary Fund Statistics Division, 2006.

The Mediterranean Arab Free Trade Area

As a result of what Hassan Al-Atrash and Tarek Yousef call the uneven development of GAFTA⁴⁰⁴ a number of other regional trade agreements have been signed by various members of the original seventeen Arab states who created GAFTA as well as other states. The Jordanian government signed the MAFTA agreement (also known as the Aghadir Process) on February 25 2005. The agreement involves Egypt, Morocco, Tunisia and Jordan and was initially agreed at a meeting between the foreign ministers of the above mentioned states in Aghadir, Morocco on May 8 2001.⁴⁰⁵ The Aghadir Declaration has three key objectives which are as follows:

- 1) To enhance mutual Arab cooperation and to further develop the Pan-Arab Free Trade Agreement and the efforts exerted to establish an Arab Common Market.
- 2) To establish a strong economic alliance responsive to challenges of sustainable economic development and global economic developments.
- 3) To arrive at a proper mechanism for trade liberalisation between the Mediterranean-Arab countries and the EU, and which will be compatible with contemporary economic trends in both the regional and international arenas.⁴⁰⁶

It at first seems confusing as to why a secondary regional economic integration initiative would be taken three years after the GAFTA agreement was signed and came into effect. A closer analysis of the MAFTA agreement though shows that this initiative while having the same aim of reducing trade barriers within the MENA region has two main differences to GAFTA. Firstly, MAFTA is relatively

⁴⁰⁴ Al-Atrash, H., and Yousef, T., 2000, *Intra-Arab Trade: is it too Little*, Washington: IMF.

⁴⁰⁵ Peridy, N., Toward a Pan-Arab Free Trade Area: Assessing Trade Potential Effects of the Aghadir Agreement, in *Developing Economies*, September 2005, Vol. 43, No. 3, pp: 329-345.

⁴⁰⁶ Hamoudeh, M., 2005, *The Aghadir Process*, Amman: Ministry of Industry and Trade.

exclusive in the sense that it includes Arab states on the Southern Mediterranean (granted Jordan does not actually have a Mediterranean coastline).⁴⁰⁷ Second, the medium to long term intention is to increase the prospects specifically for EU-Arab integration. In this respect, the initiative aims at developing a single block with which negotiations with the EU can commence.⁴⁰⁸ It is worth noting that GAFTA also seeks to create a single block with which other regions could negotiate economic cooperation. The creation of MAFTA signifies a desire of the member states' governments to further encourage the process of greater integration with the global economy – a process which is rather slow in the context of GAFTA.⁴⁰⁹

The Jordan-United States Free Trade Agreement

Due to the relevance of the JUSFTA to this current piece of work a slightly more in-depth look is necessary here than has been granted to the other FTAs signed by Jordan outlined above. However, as it is just one element of trade relations between the two states (as will be shown in the following chapters) only an introduction and brief evaluation is required here. Thus the following section discusses the origins of the JUSFTA, a breakdown of the main elements, a summary of its implementation up to the point of this work and the overall impacts seen thus far on US-Jordan trade levels in terms of total value and quantity.

Origins

One could argue that the JUSFTA is merely a reward to Jordan by the United States for supporting US policy in the MENA region. During an interview held in Amman in December 2006, Yousef Al-Shamali, the Deputy Director of the Foreign Trade Policy Department of the Ministry of Industry and Trade, described this position as viewing the FTA as granting Jordan access to the world's largest market as a form of support for the Jordanian government's pro-

⁴⁰⁷ Dennis, A., 2006, p: 4.

⁴⁰⁸ Konan, D., 2003.

⁴⁰⁹ Hoekman, B., and Zarrouk, J., 2003, p: 286.

western stance.⁴¹⁰ This assumption would be based on the belief that the Jordanian economy will benefit by greater exports to the US market – a development that is seen as contributing to economic growth and employment in Jordan.⁴¹¹ This may all be true: for certain the fact that Jordan was the first Arab state to sign an FTA with the United States and only the fourth globally did have something to do with the support the Jordanian government has given the United States over the past decade or so. This support has come in the forms of cooperation in military missions in the region and diplomatic and economic efforts to promote stability in the Palestinian territories. However, one must not accept this interpretation without delving deeper into the FTA's origins.

Accepting the argument above prevents the researcher from examining a number of other factors that may have been involved in the creation and ratification of the JUSFTA. For one, the position of the United States should not be seen simply as a reward for an ally. As mentioned above Jordan was only the fourth country globally to sign an FTA with the United States. This alone adds more importance to the FTA. To reward the Jordanian government's cooperation and political stance, the United States need only extend the numerous grants given Jordan under the United States Agency for International Development (USAID) project there.⁴¹² Or simply provide the Jordanian military with new or upgraded equipment as happened in 1996 as a result of the signing of the Jordan-Israel peace treaty in 1994.⁴¹³ Rather it is the case that there are overarching factors which the Bush Administration took into account when ratifying the JUSFTA.

The JUSFTA was a first in many ways in US trade policy. It was the first with an Arab country and only the second in the MENA region – the first being with Israel. It also was the first time a bilateral FTA between any states included provisions for labour, the environment and IPRs.⁴¹⁴ As will be shown below and

⁴¹⁰ Al-Shamali, Y., Deputy Director of the Foreign Trade Policy Department of the Ministry of Industry and Trade, interview held in Amman, December 24 2006.

⁴¹¹ Ibid.

⁴¹² For a breakdown of US economic and military aid to Jordan see the Embassy of the Hashemite Kingdom of Jordan, Washington: DC.

<http://www.jordanembassyus.org/new/aboutjordan/uj1.shtml>

⁴¹³ Ibid.

⁴¹⁴ US-Jordan Free Trade Agreement, *Schedule of Specific Commitments*.

in later chapters the impact of the JUSFTA on trade levels between the two states has been significant and has evolved into a model for FTAs between the United States and other MENA states. This latter point is perhaps the most compelling in light of the position of the US government towards the MENA region and its current political, military and economic activity there. In the chapter four it is shown that the Bush Administration has spear-headed a comprehensive change in US-policy towards the region. The United States wishes to transform its relations with the MENA region.⁴¹⁵ In this way, the JUSFTA was not merely a reward but an initial step on the way to transforming economic relations with the MENA region. If this is true then the 'reward' is greater for the United States than for Jordan - this will be discussed in more depth in the following chapters.

What is also important and often overlooked in the discussion of the JUSFTA is the position and contribution of the Jordanian government in the formation of this agreement. It is often assumed that the Jordanian government was handed out charity and gratefully took it. However, this view only hinders a deeper analysis of the agreement and its implications. As has been shown above, and indeed has been the purpose of this chapter, the interests and foreign and trade policy of the Jordanian government have undergone a transformation in the last decade. Pursuit of membership in the WTO, the signing of multiple bilateral (such as the Jordan-Singapore FTA of May 16 2004) and multilateral FTAs (GAFTA, MAFTA, JEUAA) have been a priority of the Jordanian government. The Ministry of Industry and Trade has transformed Jordanian foreign trade policy since 1997 and pushed for greater economic liberalisation and reform. As part of this process, negotiations for the JUSFTA were launched in 1998 under the Clinton Administration – the JUSFTA was in fact finalised while the Clinton Administration was still in office and the Bush Administration merely ratified it.⁴¹⁶ The desire for greater access to the US-market went hand in hand with the overall diversification of Jordanian foreign trade. The results of the agreement with the United States have been very significant for the Jordanian economy as will be shown below. However, the greater significance lies in the pursuit of trade

⁴¹⁵ Leverett, F., 2005, *The Road Ahead: Middle East Policy in the Bush Administration's Second Term*, Washington: The Brookings Institute, p: 5.

⁴¹⁶ Rosen, H., Free Trade Agreements as Foreign Policy Tools: The US-Israel and US-Jordan FTAs, in Schott, J. J. (ed.), 2004, pp: 51-53.

liberalisation and the repositioning of the Jordanian economy in the global economy as a result of this process (to be discussed in the following chapters).

Outline of the FTA

With regards to trade in goods, the FTA requires the removal of all tariffs by 2010. The transition to 0 percent tariffs is scheduled in four main stages as shown in table 4.3 below. The exception is a list of two-hundred and fifty Jordanian products which were granted immediate 0 percent tariff access to the US-market.⁴¹⁷

With regards to trade in services Jordan already had complete access to the US market at the time the FTA came into effect.⁴¹⁸ The United States however did not have reciprocal access to the Jordanian market. The FTA calls for the total liberalisation of this market in Jordan for access to US-based and US-affiliated corporations over a ten year transitional period. The sectors to be liberalised include: energy distribution, convention services, printing and publishing, courier services, audiovisual, education, environmental, financial, health services, tourism, recreation and transport services (an assessment of trade in financial services is the focus of chapter seven).⁴¹⁹ The agreement also stipulates in annex 2.2 that 35 percent of the value of any good that is traded between the two economies must originate in the exporting country.

Table 4.3: Removal of tariffs between Jordan and the USA⁴²⁰

2000 Tariff Level	Phase-out Period
<5%	2 years
5%-10%	4 years
10%-20%	5 years
>20%	10 years

⁴¹⁷ USTR, 2005, *The US-Jordan FTA Fact Sheet*, Washington: Office of the United States Trade Representative.

⁴¹⁸ Jardaneh, D., 2003, *US-Jordan Free Trade Agreement: Reaching the Finish Line*, Amman: Atlas Investment Group.

⁴¹⁹ Ibid.

⁴²⁰ Ibid.

Implementation

The JUSFTA came into effect on December 17 2001 and has seen success in the implementation of the phased reduction in trade barriers. The target year of 2010 to have eliminated all barriers to trade between the two economies looks set to be met. To summarise, tariffs on all goods outlined in the agreement have been reduced according to schedule: unhindered access to the Jordanian services market has been granted to US-based corporations; studies have been completed according to the labour and environment provisions of the agreement and joint committees established; and the dispute mechanism (although not tested) has been confirmed.⁴²¹ The impacts have been significant and have transformed Jordan-US trade relations in terms of value, quantity and to a certain extent sectors involved. As can be seen from the tables below the overall value and quantity of trade between the two markets has increased from \$568.2 million in 2001 (the last year before the FTA came into effect) to a total of \$2.1851 billion in 2007, and is estimated to rise to approximately \$2.4 billion in 2008.⁴²² Furthermore, while traditionally the United States held a surplus trade balance with Jordan (\$109.8 million in 2001) since the FTA came into effect the trade balance has been in Jordan's favour (\$8 million in 2002 and \$472.7 million in 2007).⁴²³

An analysis of the sectors in which this trade has taken place and within which this growth in trade has been witnessed is important and revealing. It offers an insight into the nature of trade relations between the two economies and will provide the basis for the analysis of the impact of non-state actors in Jordan-US trade in the following chapters. The main Jordanian exports to the US market are in the following sectors: textiles and clothing, Dead Sea cosmetics, orthopaedic appliances, olive oil, chemical fertilizers, paints and varnishes, luggage, antibiotics, household appliances and articles of jewellery.⁴²⁴ Other sectors which

⁴²¹ Ministry of Industry and Trade, *Implementation of the JUSFTA: Review 2006*, Amman: Ministry of Industry and Trade.

⁴²² US Census Bureau Foreign Trade Statistics, 2007.

⁴²³ Ibid.

⁴²⁴ Jardaneh, D., 2003.

appear to be on the rise in total export value are phosphates, aluminium bars and insecticides.⁴²⁵

Table 4.4: Jordan Trade Levels in US\$ Millions with The United States 2000-2007⁴²⁶

Year	Exports	Imports	Balance
2000	73.3	316.9	-243.6
2001	229.2	339	-109.8
2002	412.4	404.4	+8.0
2003	673.5	492.4	+181.0
2004	1,093.45	51.5	+541.9
2005	1266.8	644.2	+622.7
2006	1422.1	650.3	+771.7
2007	1328.9	856.2	+472.7

Conclusions

The aim of this chapter has been to discuss state-level facilitation of trade in Jordan. This has been done by tracing the changes in the main interests in contemporary Jordanian domestic, foreign and trade policy and the domestic and international environment within which these take place. Towards this endeavour a number of key interests and processes have been identified. These signify a break from traditional interests which have been largely focused on national security and regime survival. An overarching shift has been made in the key objectives of Jordanian decision-making. With an analysis of the major policy directions taken by the Jordanian government over the past decade it can be discerned that the main policy focus is now on issues of economic reform and international cooperation which are aimed at achieving economic growth and sustained development. It must be noted, however, that issues and interests of an economic nature are directly linked in an interdependent relationship with political issues and interests. One element of the reform pursued has been to

⁴²⁵ Ibid.

⁴²⁶ Ibid.

reform the regulatory framework within which trade takes place to facilitate greater levels of trade between Jordan and international markets in the anarchic international system. This has been done by engaging with international institutions in the form of both IOs, such as membership of the WTO and regimes such as the GAFTA and JUSFTA.

This transformation from security to economic interests dates back to the mid-1990s. However, with the ascension to the throne of King Abdullah II came a re-configuration of how government interests in Jordan are formulated. This has led to subsequent reform-oriented governments which have pursued economic reform more aggressively in the form of structural adjustment, privatisation and the liberalisation of trade. The implications of this reorientation for the political economy of trade relations between the United States and Jordan have been significant and will remain so in the medium to long term future.

As outlined in chapter one this study is not state-centric and in fact aims to diversify the study of actors in trade relations. However, it is important to include the relevant state actors – or national governments – as part of the analysis. The Jordanian government is one of the central actors impacting trade between the United States and Jordan. This impact comes in many ways but the most important here are in the forms of government control of state borders, administration and the creation and enforcement of international agreements. In this way the government of Jordan has adopted a policy direction which has overtly facilitated trade. By pursuing economic liberalisation and reform the government has attempted to develop an environment where economic activity can evolve, seeing this as being in the state's best interest. By creating a more transparent political environment states can attract economic activity. Coupled with privatisation this political reform has led to greater inward investment and economic activity. The government's efforts at structural adjustment and trade liberalisation have complemented this process and have spawned greater economic integration with the international economy thus facilitating trade – a key goal in the pursuit of economic growth.

As this and the following chapter show the governments of the United States and Jordan have pursued policies aimed at facilitating trade between the two states which have culminated in the JUSFTA. This agreement is an integral element in the regulatory regime governing bilateral trade. While both governments have pursued their respective national interests, these overlap and have resulted in a synthesis of interests in the overall facilitation of trade. In the case of Jordan links between and the interdependence of economic and political issues at the domestic and international levels have shaped a set of state interests. Full rationality is not assumed in state identification of interests and the decisions taken in order to pursue national goals. However, the analysis above presents the argument that the Jordanian government has identified various state interests and has generated policy decisions which it is believed will achieve these goals. Furthermore, these policies include as a main element the reform of political and economic forms of governance at the domestic level and the engagement with international institutions at the international level.

The Jordanian government has in the past decade and a half or so pursued a slow and uneven process of political liberalisation as well as macro-economic structural adjustment, privatisation and engagement with international institutions. While there are unique characteristics to all of these policy areas they have one broad common characteristic. They are all, in one form or another, aimed at achieving economic growth and stability. Facilitating trade is a key element in fostering economic growth in Jordan and the engagement with international institutions as a means of inter-state and inter-market cooperation is a pivotal component of this facilitation.

The assumption that international institutions encourage cooperation and stability, offering a level of governance of international relations in an international system which is characterised largely by anarchy seems to be less important in Jordanian policy making than the benefits to economic growth through international trade. This would suggest that liberal economic thought and the importance of international institutions in facilitating trade are more important in understanding the Jordanian government's involvement in IOs and trade regimes. A similar discussion of US interests, foreign and trade policies and involvement in

international institutions follows in the next chapter. This analysis presents a clearer assessment of state actor belief in the utility of international institutions in fostering cooperation and stability in international relations. Broadly speaking the United States has different interests to Jordan and different policies are pursued in order to achieve these goals. However, the engagement with international institutions and with Jordan in these institutions is a key convergence of the two states' policies. The following chapter thus develops, in line with the discussion in this chapter, the argument that cooperation between Jordan and the United States through international institutions is overall a positive-sum game but with multiple levels of zero-sum and positive-sum games.

Chapter Four

State-Facilitation of Trade: US Interests and Trade Policy

Introduction

This chapter completes the analysis of state actor facilitation of trade between Jordan and the United States. The focus here is on the continuities in US interests in the MENA region and Jordan, and changes in foreign and economic policies there. The main argument here is that US foreign and economic policies to the region are in fact largely one and the same and have been used in conjunction with each other to pursue policy goals and interests. These goals and interests have remained largely constant but major foreign and economic policy directions have changed - as is exemplified by the move towards bilateral economic integration through international institutions and trade liberalisation.

There are two broad categories which need to be discussed in order to understand US facilitation of trade with Jordan. These are firstly, US interests and second US foreign and economic policies. This chapter is therefore constructed in four main sections. The first section offers a brief discussion of the three main US policy goals with regards to the MENA region and Jordan. The second section then offers historical examples of US policy in pursuit of these interests from the onset of the Cold War to the present. This section demonstrates the differences between policies which rest upon military or hard power and those which rest upon soft power and international institutions.

Understanding broader trends in US trade policy is essential to the discussion of US-Jordan trade policy and so must be included at this stage of the thesis. Section three thus offers an analysis of US trade policy as a whole and not simply to Jordan or the MENA region. The move from focusing on multilateral trade liberalisation to bilateral liberalisation since the mid-1990s is discussed here. The following section then develops an assessment of US trade policy to the MENA region as a whole and how US-Jordan trade policy fits in to this adding to the discussion of the JUSFTA included in the previous chapter.

A concluding section then summarises the main policy goals and interests the United States has had with regards to the MENA region and Jordan, as well as contemporary US trade policy. A conclusion of how US-Jordan trade policy is

shaped by these interests and policies is then offered. What this section does not do is offer an overall summary of US foreign economic policy or trade relations. This is an important issue area, however, this chapter exists to serve a much more specific function within this particular argument. So more general issues of US external economic policy are only touched upon to the extent that they make sense in terms of this discussion. To do otherwise would be a large, and unnecessary, discussion.

US Interests in the MENA Region

It is possible to identify three core interests that the United States has in the MENA region which act as demands and constraints on US policy there. It must be made clear that the United States, as both state and market of non-state actors, has an incalculable range of interests with regards to the states and markets of the MENA region. However, for the purpose of discussing US foreign and economic policy in the region three core interests are primary and dominant. These interests have developed since the late nineteenth century and have grown in importance since the 1950s.⁴²⁷

The first core interest to develop was access to the region's markets for US exports of goods and capital as well as markets to import from.⁴²⁸ This interest emerged as the first major US policy interest in the region and has remained relatively constant. The second core interest has been the maintenance of secure access to the region's natural resources – mostly oil and gas.⁴²⁹ Here it must be noted that access to these resources for the broader global economy has been as important to the United States as securing access for the US economy. This interest developed from the early twentieth century but was not overly significant until the 1930s. The final core interest emerged *after* the 1950s as the MENA states became independent from European patrons and the former imperial powers largely withdrew from the region. The subsequent power vacuum,

⁴²⁷ Little, D., 2002, *American Orientalism: The United States and the Middle East Since 1945*, London: I.B. Tauris & Co. Ltd.

⁴²⁸ Oren, M., 2007.

⁴²⁹ Khalidi, R., 2004, *Resurrecting Empire: Western Footprints and America's Perilous Path in the Middle East*, London: IB Taurus.

growing importance of oil and gas in the global economy and instability in inter-state relations that ensued led to the US interest of creating stable and cooperative relationships with the states of the region.⁴³⁰ This third core policy goal has developed in large part in order to achieve the first two policy interests (and during the Cold War reinforced broader US policy vis-à-vis the Soviet Union).

Throughout this period of core US interests and especially after the third core interest of achieving inter-state cooperation, Jordan has been less important than some states, such as Saudi Arabia. However, following a series of developments which resulted in a decrease in US-friendly regimes in the region (discussed below), Jordan became a more significant potential partner for the United States.⁴³¹ Since the 1990s Jordan has developed into one of the more important states for US-MENA cooperation. This has mostly been due to worsening relations between the United States and other states in the region since the 1990s (such as Syria, Iraq and Yemen) as well as instability in others which otherwise maintain healthy relationships with the United States (such as Lebanon and Saudi Arabia).⁴³² Thus while Jordan only represents a small market (and prior to 2001 trade with the United States was insignificant) and possesses no natural resources of significance, the importance of Jordan in inter-state cooperation and regional stability have made US policy to Jordan partly synonymous with broader US-MENA policy. The following discussion offers examples of how US policy in pursuit of its core interests has developed and how US-Jordan policy has been impacted.

The Development of US-MENA Policy

The United States, while arguably the most influential and important external actor in the MENA region, has not had core interests in the region for much more than seventy years. While some, such as Douglas Little,⁴³³ would argue this is not

⁴³⁰ Ambrose, S., and Brinkley, D., 1997, *Rise to Globalism: American Foreign Policy Since 1938*, 8th edition, London: Penguin Books, pp: 254-281.

⁴³¹ Madfai, M. R., 1993, *Jordan, The United States and the Middle East Peace Process 1974-1991*, Cambridge: Cambridge University Press.

⁴³² Ibid.

⁴³³ Little, D., 2002.

the case and US interests and policy goals in the region date back to the mid- to late-nineteenth century, one must examine the commitment of the United States to pursuing its interests in the region over time. Let us start in the late eighteenth century when the newly independent United States was far from possessing the capabilities and resources of the great European powers of the time. One of the areas of most disparity was in naval power. The United States did not possess a sufficient naval capacity at that time and as a result could not protect its shipping. Britain had formerly guarded American shipping while it was a colony but that privilege had been revoked following the American Revolution in 1776.⁴³⁴ By the turn of the nineteenth century US shipping in the Western Mediterranean and Eastern Atlantic had to be protected by relying on payments of goods and money to the Barbary States of the North African coast.⁴³⁵ However, such agreements were constantly breaking down either because the United States did not pay on time or because the Barbary States raised their demands.⁴³⁶

An action of this kind by the Caramanli ruler of Tripoli in 1801 prompted a war between the United States and Tripoli that lasted until 1805 as well as a series of wars with the broader Barbary Coast that lasted until 1815. The most famous event of the war was the march from Alexandria to Tripoli by the US consul in Tripoli, William Eaton, and a small number of US Marines.⁴³⁷ This expedition was ultimately a failure but it signified the first US military engagement in the region and a significant commitment to pursuing policy goals. General Eaton (as he was later entitled) was able to redeem his initial lack of success when in 1815 the newly formed US Navy was able to send a squadron to Algiers under Commodore Decatur and secure a favorable treaty from the Algerians thus ending US reliance on 'protection' payments.⁴³⁸

⁴³⁴ See Allison, R. J., 2000, *The Crescent Obscured: The United States and the Muslim World, 1776-1815*, Chicago: University of Chicago Press.

⁴³⁵ Ibid.

⁴³⁶ Mansfield, P., 1992, *The Arabs*, Clays Ltd, St Ives Plc., pp: 113-14.

⁴³⁷ Thus the origin of the opening line of the Marine Hymn: 'From the halls of Montezuma to the shores of Tripoli'.

⁴³⁸ Allison, R. J., 2000.

The following century was not, however, overly characterised by active US policy making or engagement in the region.⁴³⁹ Unlike the European powers which had ventured into the quagmire of the region in the previous decades and remained involved⁴⁴⁰ the United States remained largely detached from the region. This had more to do with broader isolationist tendencies within US government.⁴⁴¹ Broader US foreign policy during the nineteenth century reflected the tendency to remain disengaged from international affairs except for the promotion abroad of the principles on which the American nation was founded. Thus John Quincy Adams, who would become the sixth President of the United States in 1825, in an 1821 address warned of seeking ‘Monsters to Destroy’ and greater involvement in the broader world.⁴⁴² During the first half of the twentieth century US interests in the MENA region were significant. However, US policy toward the region remained less active than that of European powers and much less vigorous than US policy towards other regions such as South America or South East Asia.⁴⁴³

It is more appropriate to identify US interests in the MENA region and then discuss how vigorously these have been pursued through foreign and economic policy to determine how and when they became central in US foreign policy overall. Thus the following section highlights key periods of US policy to the region as a whole and demonstrates some of the policies taken in pursuit of the three core US interests. It is important to note that there is a distinct difference between the two main types of US policy to the region. The first is characterised by hard power in the form of military power and coercion. The second form of policy is characterised by what Joseph Nye has termed soft power⁴⁴⁴ in the form of liberal institutions and integration. Both forms, however, demonstrate the commitment of the United States to pursuing its interests in the MENA region.

⁴³⁹ Oren, M., 2007, pp: 297-300.

⁴⁴⁰ See Lewis, B., 2002, *What Went Wrong: Western Impact and Middle Eastern Responses*, London: Phoenix.

⁴⁴¹ Deudney, D., and Meiser, J., American Exceptionalism in Cox, M., and Stokes, D., 2008, *US Foreign Policy*, Oxford: Oxford University Press, p: 36.

⁴⁴² Adams, Q., 1821, *Seeking Monsters to Destroy*, s.i.: s.n.

⁴⁴³ Hook, S., and Spanier, J., 2007, *American Foreign Policy Since World War Two*, Washington: CQ Press, pp: 80-99

⁴⁴⁴ Nye, J. Jr., 2004, *Soft Power: The Means to Success in World Politics*, New York: Perseus Books Group.

Soviet Influence and US Responses in the 1950s and 1960s

By the onset of the 1948 Arab-Israeli war both the US government and academic scholars had acknowledged that the MENA region was increasingly important in world politics. In the inaugural issue of *The Middle East Journal*, the first American scholarly quarterly that was established to study the contemporary Middle East, it was declared that “the region was now ‘very near’ the United States, both in point of time-distance and with respect to the United States’ new involvement there in questions of power politics.”⁴⁴⁵ Yet, even with the realisation of the strategic, economic and political importance of the MENA region, US policy towards the region remained to a large extent non-committal until the 1950s.⁴⁴⁶

The importance of the MENA region to the United States increased further following the first Arab-Israeli war in 1948. However, this was not due to any normative response to the plight of the Jewish nation. Instead it had more to do with an assessment of the *utility* of securing access to the region’s resources and markets, in no small part in the pursuit of US supremacy and the defeat of international Communism.⁴⁴⁷ In the 1950s and 1960s the United States was increasingly concerned with surging Soviet influence in the MENA region and a perceived threat to US allies and interests there.⁴⁴⁸ This concern was justified by two key assumptions. The first was that the Union of Soviet Socialist Republics (USSR) was an expansionist power whose motivations while ideologically based were nothing more than imperial designs and confrontational to the West.⁴⁴⁹ The second was that the strategic interests of the Arab states would leave them susceptible to Soviet influence if the United States did not present itself and its support as a second option.⁴⁵⁰

⁴⁴⁵ Hall, H. P., Editorial, in *Middle East Journal*, Jan. 1947, Vol. 1, No. 1, pp: 1-2.

⁴⁴⁶ Oren, M., 2007.

⁴⁴⁷ Easton, S. C., 1968, *World History Since 1945*, Unknown Publisher.

⁴⁴⁸ Kuniholm, B., 1994, *The Origins of the Cold War in the Near East: Great Power Conflict and Diplomacy in Iran, Turkey and Greece*, Princeton: Princeton University Press.

⁴⁴⁹ Kennan, G., Containment Then and Now, in *Foreign Affairs*, 1986, Vol. 65, pp: 886-890.

⁴⁵⁰ Ambrose, S., and Brinkley, D., 1997, p: 106.

Developments following the end of the Second World War and their interpretation by US scholars, analysts and politicians led to the embedded assumption that the USSR did pose a threat to US interests.⁴⁵¹ As a result of this interpretation of the international political environment the policy of *Containment* was conceived and implemented. George F. Kennan a former advisor, diplomat, political analyst, and historian, is regarded as the author of the Containment strategy.⁴⁵² By analysing Soviet foreign policy, traditions, ideology and Russian history Kennan argued that the USSR was an expansionist power.⁴⁵³ Furthermore, regardless of its historical interests, Kennan argued that the USSR would pursue new avenues of expansion in any region of the world – including the MENA region.⁴⁵⁴

The United States was increasingly concerned with the rapid increase in Soviet influence in the MENA region throughout the 1950s and 1960s.⁴⁵⁵ This concern was coupled with the realisation in the 1940s that the Arab world was strategically important to the West and the United States in particular for a number of reasons. First, in the geographical sense the Arabs sit astride the Suez Canal, besides the Straits of Gibraltar, and they control the northern approaches to the Indian Ocean.⁴⁵⁶ Second, because a small percentage of the region's people control a vast amount of the world's oil and gas reserves.⁴⁵⁷ Regardless of the growing US interest in maintaining the MENA region independent of the Communist sphere of influence – if not within the US sphere – Soviet advancements were made. In late 1955 it was revealed that Egypt under Colonel Gamal Abdul Nasser had negotiated a massive arms deal with Czechoslovakia - tantamount to a Soviet-Egyptian arms deal.⁴⁵⁸ Egypt was able to purchase some two hundred tanks and other advanced weapons systems. This arms deal signalled the gradual opening up of the Soviet arsenal first to Egypt and subsequently also

⁴⁵¹ Flemming, D. F., 1961, *The Cold War and Its Origins: 1917 - 1960*, New York: Doubleday Publishers.

⁴⁵² Gaddis, J. L., 1998, *We Now Know: Rethinking Cold War History*, Oxford: Oxford University Press.

⁴⁵³ Kennan, G., 1986, p: 888.

⁴⁵⁴ Ibid.

⁴⁵⁵ Flemming, D. F., 1961.

⁴⁵⁶ Ambrose, S., and Brinkley, D., 1997, pp: 254-255.

⁴⁵⁷ Yergin, D., 1991, *The Epic Quest for Oil: Money and Power*, London: Simon and Schuster.

⁴⁵⁸ Schlaim, A., 2000, *The Iron Wall: Israel and the Arab World*, London: Penguin Books, p: 127.

to Syria and Iraq.⁴⁵⁹ Along with severely altering the balance of power in the region, this arms deal allowed the Soviet Union to develop a foothold where it previously had to accept western exclusivity.

As a result of the announcement of the Czechoslovakian arms deal then Secretary of State John Foster Dulles offered the Egyptians US aid for the Aswan High Dam in return for a rebuke of the arms deal and future Soviet assistance. By February 1956 Nasser was ready to sign an agreement, however, Dulles had trouble selling the project to the United States.⁴⁶⁰ Pro-Israeli politicians denounced the dam, southern Congressmen wondered why the United States should build a dam that would allow the Egyptians to produce more cotton thus threatening their industries and the Cabinet feared supporting the project would unbalance the budget.⁴⁶¹ The matter was made worse when in April 1956 Nasser formed a military alliance with Saudi Arabia, Syria and Yemen and refused to cancel the Czechoslovakian arms deal.⁴⁶² For Secretary Dulles there was only one option – to withdraw the backing of the Aswan High Dam. He had believed at the time that the Russians would not be able to take the United States' place and back the dam project due to a lack of technical and financial capabilities.⁴⁶³ However, the Russians had both capabilities and began work on the project at the invitation of Nasser in 1957.

With thousands of Russian technicians and engineers and their families as well as large amounts of Soviet money now in Egypt a firm foothold in the region had been established. The US position in the MENA region was not strengthened nor emulated by the pan-Arab sentiments emanating from Egypt. Nasser continued to spread propaganda for Arab unity and socialism while continuing to take increasing amounts of Soviet economic and military aid.⁴⁶⁴ Secretary of State Dulles and President Eisenhower grew increasingly concerned that the Soviet

⁴⁵⁹ Dinerstein, H. S., 1968, *Fifty Years of Soviet Foreign Policy*, Washington: Johns Hopkins University.

⁴⁶⁰ Schlaim, A., 2000, p: 153.

⁴⁶¹ Ambrose, S., and Brinkley, D., 1997, pp: 153-154.

⁴⁶² Mansfield, P., 1992, p: 262.

⁴⁶³ Little, D., 2002, pp: 168-171.

⁴⁶⁴ Ambrose, S., and Brinkley, D., p: 158.

Union would move into the region and fill the vacuum left by the withdrawal of the European powers and were convinced this must not be allowed to happen.⁴⁶⁵

In light of this expansion of Soviet influence in the region a new foreign policy doctrine was called for. In a message given to Congress on January 5 1957 then President Dwight D. Eisenhower presented the *Eisenhower Doctrine* which stated that the United States would use armed force upon request in response to imminent or actual aggression from Communist forces in the Middle East.⁴⁶⁶ Furthermore, countries that took stances opposed to Communism would be given aid in various forms.⁴⁶⁷ The military provisions of the doctrine were applied in the Lebanon Crisis in the following year. The intervention in Lebanon perfectly illustrated Eisenhower's methods and the solidification of US strategic policy towards the MENA region. It was a unilateral action not approved by the UN that was undertaken in haste and with the aim of supporting an undemocratic government that had very little popular support amongst its own people.⁴⁶⁸ The Lebanon intervention was indeed a far cry from the normative policies employed by the Wilson Administration. Nevertheless, the Eisenhower Doctrine and the intervention in Lebanon demonstrated the importance of US interests in the region and the significance of US policies aimed at securing these interests.

Premier Khrushchev had not wanted to escalate the situation in the region following the US action in Lebanon and so refused Nasser's request for more aid in 1958.⁴⁶⁹ Khrushchev realised that the US action was taken to protect its oil interests in the region which were extremely important to the West and not so important to the USSR.⁴⁷⁰ However, Khrushchev was also not willing to resist exploring further avenues for involvement in the Middle East at a time when the Soviets were making progress in military and strategic parity with the United

⁴⁶⁵ Walker, M., 1995, *The Cold War: A History*, Birmingham: Holt Paperbacks.

⁴⁶⁶ Parmet, H., 1972, *Eisenhower and the American Crusades*, New Jersey: Transaction Publishers.

⁴⁶⁷ Eisenhower, D. D., *Special Message to the Congress on the Situation in the Middle East*, January 5 1957, pp. 6-16.

⁴⁶⁸ Nathan, J., and Oliver, J., 1978, *United States Foreign Policy and World Order*, London: Longman.

⁴⁶⁹ LaFeber, W., 2006, *America, Russia and The Cold War*, 7th Edition, Sydney; McGraw Hill.

⁴⁷⁰ Dinerstein, H. S., 1968.

States.⁴⁷¹ Pressures on US policy were increased when in late 1957 US newspapers discovered and published the findings of a committee headed by H. Rowan Gaither Jr., of the Ford Foundation. The Gaither Report concluded that Soviet Gross National Product (GNP) was increasing at a much faster pace than that of the United States, that the Russians were spending as much on developing heavy industries and military forces as the United States and that by 1959 the Soviets might be able to launch an attack on the continental United States with over one hundred ICBMs carrying megaton-sized nuclear weapons.⁴⁷² As a result of the growing pressures and concerns Eisenhower increased the US military presence in the MENA region. He dispersed strategic bombers and installed medium range ballistic missiles (MRBMs) armed with nuclear warheads in Turkey.⁴⁷³ These policies were further embedded by the 1967 Six Day War and the deepening relations between the USSR and Egypt, Syria and Iraq that followed.

Idealism and Realpolitik During the 1970s

In November 1976 Jimmy Carter narrowly defeated Gerald Ford to become the President of the United States. While the preceding decade of US foreign policy had been characterised by the realpolitik of Henry Kissinger and confrontational doctrines such as the Eisenhower Doctrine, Carter's foreign policy would initially be idealistic and Jeffersonian.⁴⁷⁴ He did not regard Communism as the chief enemy and argued that the United States had become too fearful of the perceived Communist threat. Instead he argued that the United States had given too much support for corrupt and dictatorial right-wing governments around the world as a result of its policy of Containment.⁴⁷⁵

⁴⁷¹ Ambrose, S. and Brinkley, D., p: 159.

⁴⁷² Sprague, R. et al, *Deterrence and Survival in the Nuclear Age*, November 7 1957, Washington: Security Resources Panel of the Science Advisory Committee, Executive Office of The President.

⁴⁷³ Ambrose, S., 2007, *Eisenhower: The President*, Washington: American Political Biography Press.

⁴⁷⁴ Brzezinski, Z., 1985, *Power and Principle: Memoirs of the National Security Advisor, 1977-1981*, New York: Farrar, Strauss and Giroux.

⁴⁷⁵ Smith, G., 1986, *Morality and Reason: American Diplomacy in the Carter Years*, New York: Farrar, Strauss and Giroux.

Idealism rather than strategic imperative would be the core of Carter's US foreign policy. Carter represented a return to normative principles such as the protection of universal human rights as well as the right to self-determination and the respect of the rule of law whether domestic or international. With regards to the MENA region this entailed settlement of the Arab-Israeli conflict through establishing a viable and secure Palestinian state, the conclusion of peace treaties between Israel and her neighbours, and a resolution of the Palestinian refugee crisis.⁴⁷⁶ However, Carter was shaken when in December 1979 some eighty-five thousand Soviet troops invaded Afghanistan to support the existing pro-Moscow government there which could not suppress a growing Muslim insurgency. Carter went as far as to declare that the Soviet invasion of Afghanistan constituted "the most serious threat to world peace since the Second World War."⁴⁷⁷

Fearful of a threat to western oil supplies Carter backed away from the SALT II talks, announced that the restrictions on CIA activity abroad would be lifted and declared a Carter Doctrine for South West Asia. Defining the Persian Gulf region as an area of vital importance to the United States, Carter announced that he would repel any Soviet assault there by any means necessary – meaning the use of military force, including nuclear weapons.⁴⁷⁸ This stark contrast with the idealistic foreign policy Carter had intended to formulate and implement when he came to office was further influenced by other events taking place in the MENA region.

In an unexpected turn one of Carter's aims, that of securing peace in the Middle East, became a sincere possibility. In December 1977 then Egyptian President Anwar Al-Sadat went to Israel to speak directly to the Israeli Parliament. This was an act of great courage that was helped by Carter's efforts to mediate between the Israelis and the Arabs. Sadat also realised that Egypt could not afford another war with Israel and was incapable of removing the Israelis from the Sinai Peninsula by force.⁴⁷⁹ In the fall of 1978, Carter invited Sadat and Israeli Prime

⁴⁷⁶ Quandt, W. B., 1986, *Camp David: Peacemaking and Politics*, Washington: The Brookings Institute.

⁴⁷⁷ Carter, J., 1983.

⁴⁷⁸ Brzezinski, Z., 1985.

⁴⁷⁹ Schlaim, A., 2000.

Minister Menachin Begin to the Presidential retreat at Camp David. In almost two weeks of intensive discussions there were five issues on the table: Israeli withdrawal from the Sinai Peninsula, Golan Heights, West Bank of the Jordan River, and East Jerusalem and recognition of the PLO as the legitimate representation of the Palestinian people. In return Israel would receive recognition of the right to exist in peace and security from her Arab neighbours.⁴⁸⁰ However, only the issue of Israeli withdrawal from Sinai and subsequent Egyptian guarantees of peace could be agreed upon and the talks reached an impasse. Undeterred Carter made a sudden trip to the Middle East in early 1979 during which he persuaded Sadat and Begin to sign a peace treaty resulting in a staged Israeli withdrawal from Sinai.⁴⁸¹

Carter's idealism had paid off. However, it was the very conclusion of a peace treaty between Egypt and Israel that further solidified the lack of stability and peace in the remainder of the Middle East and made the pursuit of US policy goals there unachieved. The Arab states had been split into two camps and Israel's position strengthened as a result. This led to the inability of the remaining Arab states to bargain and achieve at least some of their goals. Without achieving the necessary goals it would be impossible for the Arabs to negotiate peace with Israel.⁴⁸² Israel in the mean time was rewarded not only with peace with Egypt but also a massively improved negotiating position from which point they could engage in negotiations if it best suited them or not if the likely outcomes of negotiations would be mediocre.⁴⁸³

In the same year as the Egypt-Israel peace treaty events farther to the east also shook the foundations of US foreign policy. Since 1953, the year in which the CIA was involved in a coup to restore the Shah to power in Iran, the United States had strongly supported Iran. Eisenhower was perhaps the most enthusiastic supporter of the Shah while Kissinger and Nixon viewed Iran as the United States' best friend in the Middle East, a principle partner in the containment of

⁴⁸⁰ Quandt, W. B., 1986.

⁴⁸¹ Dayan, M., 1981, *Breakthrough: A Personal Account of the Egypt-Israel Peace Negotiations*, London: Weidenfeld and Nicholson.

⁴⁸² Kipper, J., and Saunders, H., (eds.), 1991, *The Middle East in Global Perspective*, Oxford; Boulder: Westview.

⁴⁸³ Kedourie, E., 1992, *Politics in the Middle East*, Oxford: Oxford University Press.

the Communist threat and the only reliable supplier of Middle Eastern oil.⁴⁸⁴ However, what the US, and the CIA in particular, failed to realise was that the Iranian leader was despised at home as much as he was praised abroad and anti-US feeling was growing among Iranians. In late January 1979 the Ayatollah Khomeini – an exile living in Paris who had emerged as the leader of the Iranian opposition – returned to Iran while the Shah was on extended ‘vacation’. Khomeini was greeted by hundreds of thousands of supporters concluding a bloodless revolutionary coup moved by religious and nationalistic zeal that the US administration had no idea was possible.⁴⁸⁵ The result was a loss of perhaps the most strategically important ally the United States had outside of Europe. Despite all the rhetoric of idealistic foreign policies – of which US support for the Iranian dictator was not an example – events in the Middle East had once again shown that strategic interests not liberal ideals had to dictate foreign policy. Furthermore, the three core policy goals the United States was pursuing there had to be pursued using force and coercion if necessary.

The 1990-1991 Iraq-Kuwait Crisis and War

On August 2 1990, Iraqi troops invaded and overran Kuwait. On the same day President George H.W. Bush condemned the invasion and asked world leaders to join him in action against Iraq. On the same day the UN Security Council condemned Iraq and demanded an immediate and full withdrawal from Kuwait on pain of mandatory sanctions.⁴⁸⁶ Four days later a full economic embargo was placed on Iraq. This followed a joint statement issued by then US Secretary of State, James Baker III and the Soviet Foreign Minister Eduard Shevardnadze, in Moscow calling for a worldwide embargo on arms to Iraq.⁴⁸⁷ The Cold War had ended and Communism had ceased to be a major threat to the United States. The geopolitical environment had been greatly altered, so much so that many heralded the dawn of a ‘new world order’ in which the rule of law and multilateralism would be the key characteristics of international relations.⁴⁸⁸ In this new

⁴⁸⁴ Ambrose, S., and Brinkley, D., 1997, p: 293.

⁴⁸⁵ Stempel, J., 1981, *Inside the Iranian Revolution*, Indianapolis: Indiana University Press.

⁴⁸⁶ Ambrose, S., and Brinkley, D., 1997, p: 382.

⁴⁸⁷ Bresheeth, H., and Yuval-Vais, N. (eds.), 1991.

⁴⁸⁸ Ibid.

environment the Persian Gulf Crisis of 1990-1991 presented the first real test of both these characteristics as well as what US policy in the new world order would look like.

By August 8 1990 President Bush had put in motion a defensive operation entitled Desert Shield in which he dispatched US Paratroopers, an armoured brigade and fighter airplanes to Saudi Arabia where they were joined by forces from Syria, Egypt and Morocco. At the same time the UN was finally fulfilling its role. Since its foundation following World War Two, the UN had been largely left paralysed by great power rivalry and the use of the veto in the Security Council. With the end of the Cold War came the end of much of this hostility and in the political vacuum created was space for greater UN effectiveness.⁴⁸⁹ The six months following the invasion that started the crisis saw the United States actively pursuing the creation of an international military coalition that would eventually consist of over thirty states, empowered by a UN mandate to restore Kuwaiti sovereignty and punish Iraqi aggression. With regards to the invasion President Bush declared that 'this will not stand'. A World War Two veteran and heading an administration filled with World War Two veterans, Bush had seemingly learned the lessons of Munich in 1938.⁴⁹⁰ Open aggression between members of the international community simply could not be accepted and collective action must be employed in order to preserve world peace.

The mistake of interpreting Bush's foreign policy in the early 1990s as being idealistic must not be made. At the same time as the Persian Gulf Crisis, events around the world perhaps demanded more multilateral humanitarian intervention. In the former Yugoslavia conflict was erupting between Serbs, Croats and Bosnians which was tearing the state apart. This conflict was largely characterised by massive civilian and material loss and ethnic cleansing.⁴⁹¹ However, President Bush and indeed all of Western Europe did little to intervene until the mid-1990s. Furthermore, US interest in the Persian Gulf was still

⁴⁸⁹ Parsons, A., 1995, *From Cold War to Hot Peace: UN Interventions, 1947-1995*, London: Penguin Books.

⁴⁹⁰ Michaels, J. E., 1997, *The President's Call: Executive Leadership From FDR to George Bush*, Pittsburgh: University of Pittsburgh Press.

⁴⁹¹ Almond, M., 1994, *Europe's Backyard War: the War in the Balkans*, 2nd Edition, London: Mandarin Press.

dominated by strategic imperatives. While Bush had lived through World War Two, he had also lived through the oil crisis of 1973-1974 and fully understood the importance of the Middle East to US interests and security. As such the overwhelming US response to the crisis can be seen more as a result of a US foreign policy constructed on realist interpretations of events than one founded on the concern for Kuwaiti civilians.⁴⁹² This is extremely important in terms of US policy towards the MENA region. Bush's response to the events of the summer of 1990 indicated that the United States, free from the constraints of Cold War considerations, was still inclined to pursue its key foreign policy goals there by force if needed.

Democratic Enlargement

When Bill Clinton took office in 1992 he inherited a US foreign policy framework that was unlike any previously seen. The United States remained militarily engaged around the world, and pivotal to the global economy. However, the United States that President Clinton would lead for the next eight years was the only superpower in a world relatively free from great power rivalries and characterised by an emerging pattern of multilateralism. Furthermore, with the collapse of the Soviet Union and international Communism (with the exception of North Korea, Cuba and China – where a slow process of economic liberalisation was taking place in the latter) the world was seen as embracing the very values that the United States was founded upon.⁴⁹³ The rule of law, democracy and free market economics were interpreted as being in ascendancy around the world.⁴⁹⁴ However, Clinton possessed no post-Cold War, post-Gulf War strategy which he would promote while in office. He did, however, have three broad policy goals which he intended to pursue. First, his administration would work to modernise and restructure the US military and security capabilities; second, elevate the role of economics in international

⁴⁹² Bromley, S., 1998, *Oil and the Middle East: The End of US Hegemony*, in *Middle East Report* Issue 208, pp: 1-22.

⁴⁹³ Ambrose, S., and Brinkley, D., 1997, p: 398.

⁴⁹⁴ Dumbrell, J., 1997, *American Foreign Policy: Carter to Clinton*, Basingstoke: Macmillan Press.

affairs; and third, promote democracy abroad. These three imprecise aims would shape US policy towards the MENA region for the next decade and more.

On the whole though, Clinton had little interest in forging a new and grand relationship with the rest of the world with foreign and trade policies to complement it. In his first eight months in office he made only four foreign policy speeches and in general followed the implementation of his predecessor's policies.⁴⁹⁵ By the end of his first year as President, Clinton began to realise the importance of a central foreign policy doctrine both for purposes of domestic appeasement and international stability.⁴⁹⁶ The administration's public and much touted military blunders in Haiti and Somalia, along with right-wing rumour-mongering and severe criticism by foreign policy analysts preceded the necessity for some form of foreign policy direction. For such a direction Clinton turned to his National Security Adviser, Anthony Lake, to construct some form of concept that would embrace his three main policy goals.⁴⁹⁷ The result was 'Democratic Enlargement', a phrase which embodied the notion of expanding the international community of free market democracies. Lake working with Jeremy Rosner, a speechwriter for the National Security Council, developed a blue print that had four key components. First, "strengthen the community of market democracies;" second, "foster and consolidate new democracies and market economies where possible;" third, "counter the aggression and support the liberalisation of states hostile to democracy;" and finally "help democracies and market economies take root in regions of greatest humanitarian concern."⁴⁹⁸

At first interpretation the doctrine of Democratic Enlargement can appear to be idealistic. Encouraging and facilitating the empowerment of the masses and supporting the accountability of those who govern in order to truly emancipate the individual is indeed a noble cause. However, Clinton categorically rejected the idealistic notion that the United States was duty bound to promote

⁴⁹⁵ Renshon, S. A., 1995, *The Clinton Presidency: Campaigning, Governing, and the Psychology of Leadership*, Oxford: Westview.

⁴⁹⁶ Ambrose, S., and Brinkley, D., 1997, p: 398.

⁴⁹⁷ Berman, W. C., 2001, *From the Centre to the Edge: the Politics and Policies of the Clinton Presidency*, Lanham: Rowman and Littlefield Publishers.

⁴⁹⁸ Ambrose, S., and Brinkley, D., 1997, p: 406.

constitutional democracy and free market economics around the world.⁴⁹⁹ Rather like his predecessors, he saw the protection of primary US strategic and economic interests as the core of US foreign policy. The interests the United States had in the MENA region were no exception. He simply needed a policy that would provide this protection, and the spread of democracy and economic freedom was seen as the surest way to international peace and cooperation.⁵⁰⁰ At the heart of the Clinton Administration was an overwhelming concern with domestic renewal. The United States had by 1992 amassed a federal budgetary deficit of over \$290 billion, the highest in US history. Clinton had seen the fiscal imbalances he had inherited as a result of twelve years of Republican economics and an over-emphasis on foreign policy as opposed to domestic management.⁵⁰¹ Nevertheless, by 1994 Clinton and his staff had begun to incorporate foreign policy with domestic renewal.

The realisation that the processes of globalisation had led to the rapid integration and interdependence of many of the world's states and in particular the most advanced and prosperous states, was reflected in one of the more important policy documents of the Clinton presidency: the *National Security Strategy of Engagement and Enlargement* (the so-called En-En document).⁵⁰² The document states that:

...the line between our domestic and foreign policies is disappearing – that we must revitalise our economy if we are able to sustain our military forces, foreign initiatives, and global influence, and that we must engage actively abroad if we are to open foreign markets and create jobs for our people.⁵⁰³

Between the release of the first En-En document in 1994 and a third in 1996 domestic renewal and democratic enlargement had become intertwined to form

⁴⁹⁹ Berman, W. C., 2001.

⁵⁰⁰ Roper, J., 2000, *The American Presidents: Heroic Leadership from Kennedy to Clinton*, Edinburgh: Edinburgh University Press.

⁵⁰¹ Ibid.

⁵⁰² The full document is available online at the following URL: <http://www.fas.org/spp/military/docops/national/1996stra.htm>

⁵⁰³ Ibid.

the linchpin of US foreign and trade policy. While Washington had for some years taken the lead in trying to achieve peace in the Middle East, in December 1993 Clinton was on the sidelines when representatives of the late Palestinian leader Yasser Arafat met with the late Israeli Prime Minister Yitzhak Rabin in Oslo to resolve political differences. The result of the Oslo process was a Declaration of Principles between Palestinians and Israelis which included a removal of Israeli soldiers from Arab towns in the occupied West Bank and self-rule for the Palestinian Authority (PA) by mid-1996.⁵⁰⁴ The declaration was signed in an elaborate ceremony held at the White House on September 13 1993, but Clinton was more of a spectator rather than an active participant. With a peace process under way that had little to do with US foreign policy Clinton adjusted his focus on the MENA region to economics. He organised a series of economic summits with Israeli and Arab leaders, held in Casablanca, Amman, and Cairo. These summits while not providing any substantial agreements between the various parties did signal a major development in the normalisation of relations between Israel and the Arab world. Furthermore, Clinton's push for democratic enlargement relied first on economic liberalisation and the adoption of free market economic policies that would help integrate the MENA region into the global economy.⁵⁰⁵

For the remainder of his time in office President Clinton led his administration in foreign and trade policies that would be determined in its pursuit of national interests. However, this policy direction was implemented not by strategic brinkmanship, open hostility or the stockpiling of increasingly destructive weapons systems but by encouraging the spread of the liberal principles of democracy, the rule of law and free marketeering – in short liberal international institutions. This approach to foreign policy construction and implementation would be to a certain extent inherited by Clinton's successor. As has constantly been the case in US foreign and trade policy, the junior Bush administrations' policy approach has differed to that of previous administrations. This is partly a result of changing international relations and partly a result of the individual

⁵⁰⁴ Usher, G., 1995, *Palestine in Crisis: the Struggle for Peace and Political Independence After Oslo*, London: Pluto Press.

⁵⁰⁵ Brinkley, D., Democratic Enlargement: The Clinton Doctrine, in *Foreign Policy*, Spring 1997.

peculiarities of those who are involved in the decision-making process. Nevertheless, the legacy of democratic enlargement and the use of international institutions has remained, albeit in an altered form and implemented through more overt means (such as the forced regime change in Iraq).

The Bush Doctrine

The terrorist attacks on the continental United States on September 11 2001 marked the first time since the war of 1812 that the US mainland had been attacked by a foreign power. The severity of the attacks and the psychological ramifications they brought with them cannot be underestimated. A President, who much like his predecessor had little interest in foreign policy when he took office, was thrust into a major international crisis that necessitated a major US response at the international level.⁵⁰⁶ When George W. Bush took office in 2000 he had given only one foreign policy address in his election campaign. This trend was followed for the first six months of his administration which overwhelmingly focused on domestic issues such as education reform, faith-based initiatives, energy sources and production, and tax relief.⁵⁰⁷ As a consequence Bush was criticised for not only his lack of interest in foreign affairs but also his seemingly dangerous lack of knowledge about the international realm. In comic humour, *The Economist* in 2000 showed a picture of a US astronaut on the moon with the caption: “Mr. Bush goes to Europe.”⁵⁰⁸ In no region of the world was the Bush Administration’s lack of will and ability to engage felt more than in the MENA region.

During the 2000 presidential campaign Condoleezza Rice published a foreign policy manifesto which argued for a strict national interest standard for US foreign policy.⁵⁰⁹ Rice criticised Clinton’s failure to distinguish between areas of vital US interest and areas of trivial importance. She claimed that rather than concentrating on powers that had the ability to affect the global order, such as

⁵⁰⁶ See Woodward, B., 2003, *Bush at War*, London: Pocket Books.

⁵⁰⁷ Ibid.

⁵⁰⁸ *The Economist*, June 9 2001.

⁵⁰⁹ Ward, A., US Policy to the Middle East: Utopianism and Realism, in *IISS Strategic Comments*, Vol. 1, Issue 1, January 2003, p: 2.

Russia and China, or on pivotal alliances such as in North East Asia, the Clinton Administration had dissipated US credibility and military prowess on issues and regions of a peripheral nature.⁵¹⁰ In this manifesto Rice only mentions the MENA region once. Furthermore, she argued against the pursuit of societal engineering on the vast scale envisioned in the doctrine of democratic enlargement. Rice's suggestions were evident in the foreign policy of the first nine months of the Bush Administration. The main foreign policies pursued focused on the US withdrawal from the 1972 Anti-Ballistic Missile Treaty, the deployment of ballistic missile defences and challenging emerging Chinese pretensions to regional hegemony.⁵¹¹

With regards to the most pressing issue in the politics of the MENA region, the Israeli-Palestinian conflict, it was clear that Bush had regarded the conflict as beyond effective US influence, in part because of the Al-Aqsa Intifada. The level of violence, distrust and political disagreement had seemingly unravelled previous advancements in the peace process and Washington had no desire to engage to the extent that Clinton had in 1999 - when the President made a spectacular last push for peace culminating in the Camp David summit between Israeli Prime Minister Ehud Barak and Yasser Arafat.⁵¹²

The events of September 11 2001 provided the 'hawks' in the administration, especially those that saw re-shaping the Arab world the best chance for securing US interests, with the opportunity to push their agenda.⁵¹³ Since 1945 the United States has had to interpret and react to threats and overtures of friendship emanating from the MENA region. Often these have not come from the Arab world as much as they have come from outside powers such as the Soviet Union. However, in the post-Cold War era the only threats perceived by the United States in the MENA region have come from the Arab world.⁵¹⁴ As a result of US

⁵¹⁰ Rice, C., Promoting the National Interest, in *Foreign Affairs*, January - February 2000, Vol. 79, No. 1, pp: 48-62.

⁵¹¹ Stein, K., The Bush Doctrine and Selective Engagement in the Middle East, in *Middle East Review of International Affairs*, June 2002, Vol. 6, No. 2.

⁵¹² Ibid, p: 4.

⁵¹³ Ward, A., January 2003, p: 2.

⁵¹⁴ Yaqub, S., US Assessments of Arab Threats Since 1945, in *Middle East Policy*, December 2002, Vol. 9, No. 4.

interpretation of Arab threats over the past decade or so Washington has formulated policy initiatives that revolve around either accommodation of Arab interests or imposition of US interests – the latter of which has been the more common of the two and an example of which is the forced regime change in Iraq.⁵¹⁵

US Trade Policy in the Twenty-First Century

According to John Rothgeb Jr., US trade with other states is a very significant element of both the global economy and the United States' international relations.⁵¹⁶ Furthermore, US trade policy has for the best part of the last century been a major constitutive element of overall US foreign policy.⁵¹⁷ Within the making of US foreign economic and trade policy there are two broad camps that can be identified. The first camp advocates free trade and the expansion of liberal international institutions to govern and protect free trade.⁵¹⁸ The second advocates protectionism and public-private partnership in order to achieve economic prosperity and maintain the United States' position in the world economy.⁵¹⁹ According to Carl Kress, the Regional Director for the MENA at the US Trade and Development Agency, within both of these camps exist two other schools of thought which cut across the divisions between free trade advocates and protectionists. These are those that view trade policy as a key component in broader US foreign policies and in essence synonymous with political policy, and those that place little emphasis on the importance of trade policy with respects to achieving policy goals.⁵²⁰ Fred Bergsten argues that the former school of thought is prevalent in contemporary decision making circles in Washington.⁵²¹

⁵¹⁵ Ibid, p: 97.

⁵¹⁶ Rothgeb, J. M. Jr., 2001, *US Trade Policy: Balancing Economic Dreams With Political Realities*, Washington: CQ Press, p: ix.

⁵¹⁷ Ibid, p: x.

⁵¹⁸ Destler, I., 2005, *American Trade Politics*, 4th Edition, Washington: Institute for International Economics, p: 178.

⁵¹⁹ Cohen, S., Paul, J., and Blecker, R., 1996, *Fundamentals of US Foreign trade Policy*, Boulder: Westview Press, p: 56.

⁵²⁰ Kress, C., Regional Director for the Middle East and North Africa, US Trade and Development Agency, interview held in Washington, DC on March 24 2008.

⁵²¹ Bergsten, F., 2005, *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, Washington: Institute for International Economics.

The utility of trade policy in achieving foreign policy goals is described as consisting of two elements. The first is punitive and is perhaps the more well established of the two. Here, economic sanctions and trade embargoes have historically been employed in order to punish actions which are undesirable to the United States or are illegal under international law. Furthermore, this type of policy is employed to discourage further undesired actions on the part of the target state and coerce alternative actions.⁵²² The second and more recent element dates back to the twentieth century in terms of US trade policy. Here the use of trade policy is more positive and seeks to either reward a course of action on behalf of another state, encourage and increase interdependence between the United States and the target state, or both. In the case of the latter the assumption that international institutions lead to trade liberalisation, which in turn leads to economic integration and inter-state cooperation is key.

Contemporary US trade policy is dominated by the advocates of trade liberalisation and international institutions.⁵²³ Furthermore, a paradigmatic shift has been witnessed in the past fifteen years which has greatly transformed the directions of US trade policy. Through the early 1990s US trade policy was centred on multilateralism and engagement with IOs and governing regimes. The Uruguay Round of trade negotiations under the GATT system, while long and tumultuous, signified a watershed in multilateral trade policy. The eventual conclusion of the round resulted in the creation of the WTO after the signing of the final agreement in Marrakech, Morocco in 1994 by one-hundred and eleven states. The WTO was designed to strengthen the GATT system of governance, to serve as a forum for the completion of future FTAs and strengthen the overall multilateral system of international institutions governing trade.⁵²⁴

The role of the United States in completing the Uruguay Round and the creation of the WTO was instrumental. However, the encouragement of European states was perhaps more significant. The drift towards bilateral negotiations and

⁵²² Malloy, M., 2001, *United States Economic Sanctions: Theory and Practice*, London: Kluwer Law International.

⁵²³ Schott, J., Senior Fellow at the Peterson Institute for International Economics, interview held in Washington, DC on March 23 2008.

⁵²⁴ Lovett, W., Brinkman, R., Eckes, A., and Eckes, A. Jr., 2005, p: 84.

initiatives that had begun to characterise US trade policy resulted in European states relaxing certain objections to greater multilateral trade liberalisation. These included various agricultural, textiles and clothing, and manufactured goods objections.⁵²⁵ The enticement was enough to ensure US engagement and support for the completion of the negotiating round. While January 1 1995 signified a strengthening of the multilateral trading regime it did not signify that the United States was enduringly committed to multilateralism in its pursuit of foreign economic policy goals.

By the late 1990s a clear break with the reliance on multilateralism had emerged as the United States increasingly focused on the creation of bilateral international institutions. This move gathered pace following the 1994 implementation of the North America Free Trade Area (NAFTA) agreement which while multilateral in the sense that it included three states, shared more characteristics with bilateral agreements. Furthermore, NAFTA in essence was counter to the broader multilateral processes of trade liberalisation through the GATT and then the WTO.⁵²⁶ The move to bilateralism was solidified after 2000 with the completion of the JUSFTA and its subsequent ratification and the rapid increase in bilateral FTAs signed by the United States since. According to Jeff Schott, the US government has been very eager to encourage trade liberalisation and the expansion of various institutions such as respect for IPRs but has been unhappy with the slow pace of multilateral negotiations.⁵²⁷ In short, the success and utility of trade liberalisation and international institutions governing trade for US policy interests depends on their implementation. If implementation is slow to materialise then so too will the achievement of US policy goals.

As discussed in chapter three, the JUSFTA was only the fourth bilateral FTA signed by the United States. Since 2000, however, the United States has signed and implemented a further six bilateral FTAs and is currently in negotiations with thirteen states for future FTAs: three of which are pending Congressional approval, two are pending implementation and three are still being negotiated.

⁵²⁵ Volcker, P., and Gyothen, T., 1992, *Changing Fortunes: The World's Money and the Threat to American Leadership*, New York: Times Books, p: 189.

⁵²⁶ Hufbauer, C., and Goodrich, B., *Lessons From NAFTA*, in Schott, J. (ed.), 2003.

⁵²⁷ Schott, J., March 23 2008.

With regards to the bilateral FTAs already agreed and ratified these are as follows: Singapore (2003), Chile (2004), The Dominican Republic (2004), Bahrain (2004), Australia (2005), and Morocco (2006). At the time of writing agreements with Colombia, Panama, and The Republic of Korea are awaiting congressional approval, and agreements with Peru and Oman are awaiting implementation. The United States is currently negotiating FTAs with Malaysia, Thailand and The United Arab Emirates.⁵²⁸

In addition to bilateral FTAs the United States has also pursued regional FTAs with a small number of states. While these agreements are multilateral by definition there is a clear connection with the bilateral policies pursued. The United States is currently negotiating a regional FTA with Botswana, Lesotho, Namibia, South Africa and Swaziland – the five members of the Southern African Customs Union (SACU). The negotiations were launched in 2003 but the process has been somewhat slow and has often stalled on issues such as IPRs.⁵²⁹ After only twelve months of negotiating the United States agreed to an FTA with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua in 2003. The agreement, labelled the US-Central America Free Trade Area agreement (CAFTA), was coupled with the US-Dominican Republic FTA to become the US-DR-CAFTA. The United States is also negotiating a regional FTA with Colombia, Ecuador and Peru (the US-Andean Community Agreement).⁵³⁰ The one thing all of these agreements have in common is that the United States is negotiating on one side and the other states either already constitute a regional grouping of some kind (such as the SACU) or are negotiating with the United States as a group. The result is that they reflect the same processes as bilateral FTA negotiations.

The increase in bilateral FTAs in the MENA region from two in 2001 to a likely six by the end of 2008 and a further three or four (with preliminary talk of

⁵²⁸ USTR, 2008, *Bilateral FTAs*, Washington: Office of the United States Trade Representative.

⁵²⁹ USTR a, 2006, *The US-SACU FTA*, Washington: Office of the United States Trade Representative.

⁵³⁰ USTR b, 2006, *The US-Andean Community Agreement*, Washington: Office of the United States Trade Representative.

negotiations with Kuwait, Qatar, Saudi Arabia and Egypt)⁵³¹ by 2012 is highly significant. This represents not merely isolated occurrences of bilateral FTAs but instead a development of US policy to the region as a whole in pursuit of its core interests.

US Trade Policy to the MENA Region

In comparison to other regions such as Europe, South America and South East Asia, US trade policy to the MENA region has been less than complex. Historically, the United States has pursued access to the region's markets and natural resources.⁵³² However, the latter of these two policy goals has received far more attention and rightly so. Discounting trade in natural resources, which means US imports of oil and gas from MENA producers, levels of trade between the United States and the MENA region have traditionally been very low.⁵³³ In the latter half of the twentieth century, as discussed above, emphasis was placed upon creating and maintaining cooperation on the behalf of MENA states. Little emphasis was placed on broader economic integration. On the other hand, the proliferation of US-MENA bilateral FTAs, which now account for almost one third of US bilateral FTAs either implemented or being negotiated, is very significant – which reflects the growing frustration of the US government with slow multilateral processes, the Doha Round and the WTO dispute mechanisms. This is a key indicator of a shift in policy focus to the region. One would assume that if trade liberalisation leads to greater trade and economic growth then the United States would be more vigorously pursuing FTAs with major trading partners. Or at least one would assume that the United States would pursue FTAs with states and regions which constitute important trading partners. The MENA region does not fall into this category.

The comparison between the levels of trade between the United States and the MENA region (when discounting oil and gas) with US trade with other regions is clear: trade between the United States and the MENA region is far below trade

⁵³¹ Schott, J., March 23 2008.

⁵³² Yergin, D., 1991.

⁵³³ Lawrence, R., 2006.

with other regions. Regardless of the traditional low levels of US-MENA trade, and US-Jordan trade in particular as discussed in the previous chapter, the United States has developed an initiative to create bilateral FTAs with regional states (starting with Israel in 1984 then Jordan) which will lead to an eventual US-MENA FTA (the MEFTA initiative).⁵³⁴ The policy direction is clear and needs little further analysis: contemporary United States trade policy to the MENA region (obviously including Jordan) is to liberalise trade through bilateral FTAs followed by a region-wide FTA. It must be noted here that a number of states in the region are excluded from these policies (Syria, Iran and Sudan). However, the demands and constraints which have led to these policies and the policy goals are less clear. As discussed above there are three core policy interests in the MENA region for the United States, yet most analyses (as discussed in chapter one) examine how these are pursued through conflict or hard power. A discussion here is necessary on interpreting how US trade policy may be aimed at achieving its main interests in the region.

Former Secretary of Defence Donald Rumsfeld defined the Bush administrations' approaches to the MENA region as being aimed at combating instability, terrorism and non-cooperation by states in the region.⁵³⁵ Military action such as that taken in Afghanistan in 2001 and the ongoing occupation there along with the invasion, occupation and counter-insurgency in Iraq are but one type of component in this approach. A second more subtle but perhaps more intense component of the United States' approach to achieving its goals in the region is to address the structural and systemic factors which hinder greater inter-state cooperation. Most answers to such an endeavour focus on political or cultural explanations. The unresolved Arab-Israeli conflict is often cited as the root of all the region's problems.⁵³⁶ Culturalists such as Bernard Lewis argue that cultural

⁵³⁴ USTR, 2007, *The US-Middle East Free Trade Area Initiative*, Washington: Office of the United States Trade Representative.

⁵³⁵ Gresser, E., *Draining the Swamp: A Middle East Trade Policy to Win the Peace*, Washington: *Progressive Policy Institute*, January 2002, p: 1.

⁵³⁶ Richards, A., *Long Term Sources of Instability in the Middle East*, in Russell, J., (ed.), 2006, *Critical Issues Facing the Middle East: Security, Politics and Economics*, Basingstoke: Palgrave Macmillan, pp: 13-37.

and historical resentments of colonialism and religious grievances are the root cause.⁵³⁷

If either of these is the root of the MENA region's disillusionment then there is little that can be done. The Arab-Israeli dispute is one of the world's longest running conflicts and has proven very difficult to resolve. Colonialism is a past phenomenon that cannot be changed. However, we can identify a third possible cause that is centred on economics. South America, East Asia and South Asia all have deep rooted ethnic and religious conflicts and colonial legacies, however, they are arguably less prone to instability as the MENA region when US interests are concerned.⁵³⁸ The most evident difference between these regions is that the economy of the MENA region remains relatively divided and isolated at the regional and global levels. Perhaps the very lack of trade between the United States and the region is a cause of instability and hinders US-MENA cooperation. The United States seems to have adopted this interpretation and developed a policy framework which is aimed at increasing economic integration through trade.⁵³⁹

Furthermore, policy makers in the Bush Administration have highlighted the fact that the lack of political modernity in the MENA region has become increasingly evident since the 'second wave' of democracy in the 1960s and 1970s.⁵⁴⁰ In the MENA region, democracy, full respect for human rights, freedom of speech and transparent and accountable governance are all relatively rare. According to Freedom House's Annual Global Survey of Political Rights and Civil Liberties, the region suffers from "a democracy gap".⁵⁴¹ Although three-quarters of non-Muslim countries around the world are democracies and have been rated as 'free' by Freedom House, no Arab state has been rated as 'free'.⁵⁴² Also highlighted is the fact that economic growth in the Arab world has been disappointing and has

⁵³⁷ Lewis, B., 2004, *From Babel to Dragomans: Interpreting the Middle East*, London: Orion Books Ltd.

⁵³⁸ Gresser, E., January 2002, p: 3.

⁵³⁹ Lindsey, B., The Trade Front: Combating Terrorism With Open Markets, in *Trade Policy Analysis*, August 5 2003, No. 24.

⁵⁴⁰ Griswold, D., T., Trading Tyranny for Freedom How Open Markets Till the Soil for Democracy, in *Trade Policy Analysis*, No. 26 January 6 2004.

⁵⁴¹ Lindsey, B., August 5 2003, p: 5.

⁵⁴² Ibid.

struggled to keep pace with demographic growth.⁵⁴³ Since the 1980s the MENA region (excluding the GCC states) has been one of the slowest growing regions.⁵⁴⁴ According to Dr Zogby, the founder and director of The Arab American Institute in Washington, DC,⁵⁴⁵ the US government seems to have pursued liberalising trade through international institutions in order to encourage economic integration and inter-state cooperation with the region.

In a speech given at the twentieth anniversary of the National Endowment for Democracy at the US Chamber of Commerce on November 6 2003, President Bush outlined his administration's underlying approach to the MENA region. In this speech Bush described the emergence of an approach that would foster and support economic growth and integration as well as democracy and economic freedom in order to assist the region in realising its economic and social potential.⁵⁴⁶ The President somewhat boldly highlighted that:

Sixty years of Western nations excusing and accommodating the lack of freedom in the Middle East did nothing to make us safe - because in the long run, stability cannot be purchased at the expense of liberty. As long as the Middle East remains a place where freedom does not flourish, it will remain a place of stagnation, resentment, and violence ready for export. And with the spread of weapons that can bring catastrophic harm to our country and to our friends, it would be reckless to accept the status quo.⁵⁴⁷

The Bush Administration has pushed forward an agenda that adopts strategic considerations as its core. It has also adopted the Doctrine of Democratic Enlargement through international institutions and economic integration as a

⁵⁴³ Gresser, E., January 2002, p: 3.

⁵⁴⁴ Yeats, A., and Ng, F., *Beyond the Year 2000: Implications of the Middle East's Recent Trade Performance*, in Hoekman, B., and Zrouk, J. (eds.), 2000.

⁵⁴⁵ Zogby, J., Director of the Arab American Institute, interview held in Washington, DC on March 19 2008.

⁵⁴⁶ Bush, G. W., *Freedom in Iraq and the Middle East*, remarks at the 20th Anniversary of the National Endowment for Democracy at the U.S. Chamber of Commerce, November 6 2003.

⁵⁴⁷ Ibid.

means of securing inter-state cooperation and thus US interests. The JUSFTA was, as has been discussed above, the first bilateral FTA with an Arab state and only the second in the MENA region after the 1984 US-Israel FTA. The US-Jordan agreement was perhaps the logical first step in proliferating bilateral US-MENA FTAs for a number of reasons. First, Jordan-US trade had already been to a certain extent liberalised following the establishment of the qualifying industrial zones (QIZs) initiative (see chapter three). Second, Jordan-US trade levels prior to 2001 were among the smallest between a MENA state and the United States thus the impact of the FTA would not be significant on the US economy allowing it to pass through Congress easily. Third, the relatively stable and high levels of cooperation between the United States and Jordan at the state level made the JUSFTA a good test (and even model to emulate) for further US-MENA FTAs. In short the JUSTA can be seen as the first step on the path to a broader US-MENA FTA and a test for the impacts of trade liberalisation between the United States and a MENA state (excluding Israel).

Conclusions

This chapter has discussed US interests in the MENA region as a whole and has outlined contemporary US trade policy to the region. It has also discussed the context for the more detailed discussion in the thesis, but has also explored some of the main forces and factors at work in US policy making towards the MENA region. The United States has traditionally held three core policy interests in the MENA region which have shaped and held primacy over all other interests. These core interests developed over the last century or so in stages with the first interest emerging in the late nineteenth century. This interest was the securing of access to the region's markets both as sources of imports – not oil or gas at that stage – and markets to export to. The second core interest emerged in the 1930s and was securing access to the region's oil and gas resources. It must be highlighted again that the United States has sought access to the region's resources for itself but also for the global economy as a whole. The third core interest has been the establishment and maintenance of stable relations with governments of the region in order to ensure inter-state cooperation on the part of MENA states. This

interest developed and intensified through the 1950s as European powers withdrew from the region and Soviet power grew.

Jordan, while a small state with no natural resources of significance, has become a key state in the region for the United States in its pursuit of its interests there. The traditionally cooperative relationship between the two states, the strategic location of Jordan (neighbouring Palestine, Israel, Syria, Iraq and Saudi Arabia) have been magnified by worsening relations between the United States and some of Jordan's neighbours. Increasing instability at times in some of these states and stability within Jordan have further enhanced the kingdom's importance to the United States.

The United States' pursuit of its policy goals over the past half a century or so have been characterised by two key trends. The first is the employment of hard power in the form of military power and coercion. This trend dominated the 1950s and 1960s as the United States endeavoured to contain the Soviet Union's influence in the region and support its allies in regional wars. The use of hard power remains a key policy direction as the 1990-1991 Gulf Crisis and War as well as the 2003 Third Gulf War have shown. However, a second policy trend can also be identified: this is the employment of soft power through international institutions and economic tools. This second policy direction gained in importance in the 1970s in the early Carter Administration as well as again in the 1990s under the Clinton administrations and the doctrine of Democratic Enlargement. Both policy trends, however, are aimed at achieving the three core interests.

Contemporary US trade policy as a whole and to the MENA region in particular is characterised by a shift from multilateralism to bilateralism. In the case of US trade policy as a whole, the mid-1990s saw a move away from focusing on multilateral trade liberalisation through IOs such as the WTO and the creation of global trade regimes such as the Trade-Related Aspects of IPRs (TRIPs) agreement. Rather US trade policy began to become more bilateral in nature and reliant on the engagement with international institutions on a smaller scale. The belief in the utility of international institutions and trade liberalisation in

achieving US policy interests is key here. The slow pace of multilateral liberalisation was addressed by pursuing bilateral and small-scale regional FTAs and expanding the scope of trade regimes on a case-by-case basis. Trade policy towards the MENA region has not been an exception to this policy direction.

Following the implementation of the JUSFTA, which as previously discussed was only the fourth bilateral FTA the United States had signed, the United States has embarked upon a relatively rapid process of creating bilateral FTAs. A number of FTAs have been implemented and a large number of others are in the process of being negotiated or ratified. Significantly approximately one third of these bilateral FTAs are with states in the MENA region. When considering that US-MENA trade has historically been among the lowest of US trade with any region this is a somewhat perplexing policy focus. Significantly the bilateral FTAs which have been pursued have not included the major oil and gas suppliers besides the UAE. The overall aim of US-MENA trade policy is the creation of a region-wide USMEFTA and this is being pursued by completing bilateral FTAs and encouraging the process of intra-region trade liberalisation.

The JUSTA was, therefore, the initial step (not including the 1984 Israel-US FTA) and can be seen as a model and test-case for the completion of further FTAs with the region. It is possible to argue that due to the close relationship between the United States and Jordan, the partially liberalised trade between them (that existed as a result of previous engagement in international institutions) as well as the Jordanian commitment to trade liberalisation in general that a Jordan-US FTA was the logical initial step. Thus US interests in the region, the pursuit of these interests and broader trends in US trade policy have combined to lead to trade facilitation with Jordan through international institutions.

Chapter Five

Bilateral Trade in Textiles and Clothing

Introduction

Thus far the thesis has considered contemporary issues relating to the advancement of the discipline of IPE and the study of US-Jordan trade relations in particular. An analysis has also been presented of state facilitation of trade between the United States and Jordan and the advancement of a liberal economic agenda through the agency of state actors. What follows in this third section of the thesis is an analysis of the agency of non-state actors and how state agency interacts with that of non-state actors to form contemporary trade relations between the United States and Jordan. The importance of Jordanian-US trade is highlighted in this and the following two chapters by showing the uniqueness of *how* trade has developed on the ground. The wider implications of Jordanian-US trade relations as a model of economic cooperation and growth are also considered.

The purpose of this chapter is to expand on the discussion of state level facilitation of trade by examining bilateral trade in T&C goods. In so doing it will also be possible to begin to determine how non-state actors in the two markets are interacting in the post-FTA regulatory environment. The Jordanian economy is a developing economy and one which has had limited success in industrialising over the past six decades. As such it is no surprise that the production and export of low value-added, often labour intensive goods forms a large part of the kingdom's exports. The production and export of T&C goods has become one of the leading sectors in Jordanian exports to the US market since 2001 as well as to the MENA and global markets. Exports of low value-added goods from the US market to the Jordanian market are not a major characteristic of contemporary bilateral trade. Therefore, while this chapter is on bilateral trade in T&C goods, the discussion is focused largely on Jordanian exports of T&C goods to the US market in order to exemplify the development of Jordanian-US trade.

In this chapter the plurality of actors in the relationship between Jordan and the United States and trade between them is a key principle. The link between

these actors and their interests at the domestic level is linked to the international level through a discussion of the broader global market in T&C goods and through international institutions which govern this sector. A key premise of this chapter is that bilateral trade in T&C goods between Jordan and the United States is largely a zero-sum game in that Jordanian gains are significant while the United States gains very little if anything at all from trade in these goods.

In order to develop the analysis in the preceding chapters and engage with the core research questions established in the introduction and developed in chapter two, it will be necessary to examine the main characteristics of the Jordanian T&C sector. Any consideration of Jordanian exports in T&C goods to the US market must begin with a (largely) empirical description of the emergence of this sector as a significant and relatively new component in the Jordanian economy. A description of bilateral T&C trade flows between Jordan and the EU precedes a discussion of Jordan-US trade. The following sections of the chapter then discuss the mechanisms which have made this growth possible and the limitations to it. Section four therefore considers the Jordanian QIZs and industrial estates introduced in chapter three in more detail. Section five considers public-private coordination in the sector and analyses the agency of non-state actors in the Jordanian T&C sector. This section highlights how activity in the T&C sector in Jordan is to some extent directed and supported by the government. The analysis here develops the concept of a public-private developmental partnership. This is followed by a section examining patterns of domestic investment and FDI in the T&C sector.

Section seven considers the multilateral labour force involved in the Jordanian T&C industry and how, through mechanisms in the JUSFTA regarding labour rights, labour issues have acted as a limitation to bilateral trade in T&C goods. Any understanding of the development of this sector in Jordanian-US trade cannot be fully understood without including an analysis of the market for which these goods are destined. The eighth section thus addresses developments and preferences in the US market for T&C goods since the mid-

1990s and in the post-Multi-Fibre Agreement (MFA) era. A concluding section follows summarising the main points and arguments of this chapter and further develops the answers to the core research questions.

The Growth of the T&C Sector in the Jordanian Economy

The T&C industry in Jordan is relatively young. Prior to 1997 the sector was largely inactive and what activity existed was geared towards the domestic market as opposed to export markets.⁵⁴⁸ The principle reason for the emergence of the sector in the Jordanian economy was a decision made by the Jordanian and US governments to further develop bilateral trade relations. The desire to deepen trade between the two economies came as result of the 1994 Treaty of Peace between Jordan and Israel and took the QIZs as the cornerstone.⁵⁴⁹ The initiative to develop QIZs - as briefly highlighted in chapter three - in Jordan had three main aims: firstly, the QIZs would require joint commercial activity between Jordan and Israel - thus helping to 'normalise' relations between the two neighbours and promote economic cooperation between them; secondly, to provide a catalyst for job creation and FDI within Jordan; and finally, to provide certain sectors of the Jordanian economy with unfettered access to the US market – in effect as a peace dividend.⁵⁵⁰ The QIZs and the joint US-Jordanian agencies which regulate trade in goods produced in them along with the regulatory legislation agreed upon by both states represent a key set of institutions.

The QIZs give Jordanian goods manufactured within them duty and quota free access to the US market. Out of this opportunity has emerged the Jordanian T&C industry which as stated above and as shown below was largely irrelevant in 1997, accounting for a mere 1 percent of GDP (US\$71 million).

⁵⁴⁸ Kardoosh, M., 2006, *The Institutional Dimension of the Success of Jordanian QIZs*, Amman: Jordan Centre for Public Policy Research and Dialogue.

⁵⁴⁹ Kanovsky, E., The Middle East Economies: The Impact of Domestic and International Politics, in *The Middle East Review of International Affairs*, July 7 1997, Volume 1, No. 2.

⁵⁵⁰ Schott, J.J., 2005, *Assessing US FTA Policy*, Washington: Institute for International Economics.

Following the initial establishment of QIZs in Jordan the government through the Ministry of Industry and Trade completed a number of studies on how best to benefit from the project.⁵⁵¹ Jordanian manufactures in the mid-1990s were largely uncompetitive internationally and domestically and were grossly inadequate to make full use of the QIZ project. The development of the T&C industry relied heavily on the comparative advantages inherent in the Jordanian economy. These were: access to cheap semi-skilled and skilled labour, relatively well developed infrastructure including above-regional-standard road and transport networks, and a supportive government. According to Yousef Al-Shamali, Deputy Director of the Department of Foreign Trade Policy at The Ministry of Industry and Trade, “[e]stablishing the T&C industry in the QIZs was the only really viable option. There would not have been any other industrial sector which would have been able to establish itself and compete successfully in the US market – even with (the) free access.”⁵⁵² The decision to use the QIZs to develop the T&C export industry within Jordan has thus far proved to be highly successful (see table 5.2 below).

In comparison to the early levels of growth and the limited relevance to the Jordanian economy as a whole, by 2006 the sector was contributing significantly to export revenues, job creation, overall employment and overall GDP. In 2006 the T&C sector accounted for 9.4 percent of overall GDP in Jordan and 20 percent of overall industrial value-added.⁵⁵³ To provide some measure of how important these figures are it is useful to compare the Jordanian T&C industry with similar industries in other states. Here it is most useful to examine Jordan’s main competitors in the T&C export industry. These are the three major Arab T&C exporting economies Tunisia, Morocco and Egypt (along with Jordan referred to here as the MENA 4). In Tunisia, Morocco and Egypt the percentage contribution to GDP of their respective T&C sectors in 2006 were 5.6 percent, 5.1 percent and 3 percent

⁵⁵¹ Al-Shamali, Y., 2004, Deputy Director of The Department of Foreign Trade Policy, Ministry of Industry and Trade, interview held in Amman, Jordan on December 26 2006.

⁵⁵² Ibid.

⁵⁵³ Pigato, M. et al, 2006, *Morocco, Tunisia, Egypt and Jordan After the End of the Multi-Fibre Agreement: Impact, Challenges and Prospects*, Washington: World Bank, p: 1.

respectively.⁵⁵⁴ The T&C industries in these states are well established and were among the first sectors to develop as their modern economies emerged after independence from their former European patrons.⁵⁵⁵ In Egypt, the T&C industry dates back many centuries, yet in comparison to the Jordanian T&C industry it is playing a far smaller role in the modern Egyptian economy. At the same time, contributions to industrial value-added of the T&C industries in two of these three states are much higher than in Jordan; 42 percent and 30 percent for Tunisia and Egypt respectively but slightly lower for Morocco at 17 percent (see table 5.1). This suggests that while there has been rapid growth of the T&C industry in Jordan the relative value-added in comparison to other industrial sectors such as the pharmaceutical sector, is low. While in Egypt and Tunisia the opposite is true.

Table 5.1 Contributions of T&C Sectors in the MENA 4 Economies⁵⁵⁶

	<i>Morocco</i>	<i>Tunisia</i>	<i>Egypt</i>	<i>Jordan</i>
Contribution to overall GDP (%)	5.1	5.6	3	9.4
Contribution to industrial value added (%)	17	42	30	20
Employment (number)	203,800	220,000	1,000,000	80,000
Share of clothing in T&C employment (%)	45	NA	30	20
Share of women in clothing employment (%)	65	80	25	70

As is shown in table 5.1, the contribution to employment of the T&C sector is also extremely important in the MENA 4 economies. Employing low-skilled and semi-skilled workers, the T&C sector accounts for as much as one third of the industrial labour force in Egypt (approximately one million employees) and over two-hundred thousand in both Morocco and Tunisia. In Jordan this figure is much lower (expected in the comparison to Egypt due to the immense difference in the sizes of the industrial labour forces in the two

⁵⁵⁴ Ibid.

⁵⁵⁵ Wilson, R., 1995, *Economic Development in The Middle East*, Oxon: Routledge, p: 42.

⁵⁵⁶ Pigato, M. et al, 2006.

states) at approximately eighty thousand employees.⁵⁵⁷ However, the industry is relatively young and has only been growing with consistency since 2001.

While the importance of the T&C sector in Jordan has grown in terms of contribution to overall GDP and employment it is in the sector's utility as a source of foreign exchange that its real significance is found. In the period between 1997 and 2006 exports of T&C manufactures grew from 1 percent to 32 percent of total exports in value terms.⁵⁵⁸ Again it is worth comparing this figure to the other MENA 4 economies as they provide a bench mark for sector utility in foreign exchange as their T&C industries are well established and have well established links to international markets. In 2006 Tunisian T&C exports accounted for a massive 58 percent of total non-oil exports, while in Egypt and Morocco the figures were slightly lower at 52 percent and 42 percent respectively.⁵⁵⁹ No other MENA T&C industry or in fact any other MENA industrial sector has experienced such a dramatic growth in the same period as the Jordanian T&C sector.

Importantly, the composition of Jordanian T&C exports is relatively more diverse than the other major Arab T&C exporters.⁵⁶⁰ In Tunisia for example, suits ensembles (for men, women, boys and girls) represent 47 percent of total T&C export revenues. At the same time, the T&C exports in Jordan with the highest share of export revenues are jerseys, pullovers and cardigans which make up only 28 percent of total T&C export earnings. Women's and girl's suits ensembles make up the next largest share at 20 percent of export earnings.⁵⁶¹ While Morocco exemplifies a similar pattern to Tunisia (with women's and girl's suits ensembles alone comprising 31 percent of overall T&C export revenue), Egypt has a relatively diversified T&C industry with no single group of products surpassing 17 percent of total export earnings (men's and boy's suits ensembles).⁵⁶² Figure 5.2 below offers a summary of the other

⁵⁵⁷ Ibid, p: 15.

⁵⁵⁸ Al-Shamali, Y., Amman, December 26 2006.

⁵⁵⁹ Pigato, M. et al, 2006, p: 1.

⁵⁶⁰ World Bank, 2006, *Jordan Quarterly Update: Third Quarter 2006*, Washington: World Bank, p: 10.

⁵⁶¹ United Nations Comtrade Data, 2006.

⁵⁶² Ibid.

major product groups which are significant exports in the Jordanian T&C industry.

Figure 5.1: Contribution of T&C to Total Non-Oil Exports 2006 (%)⁵⁶³

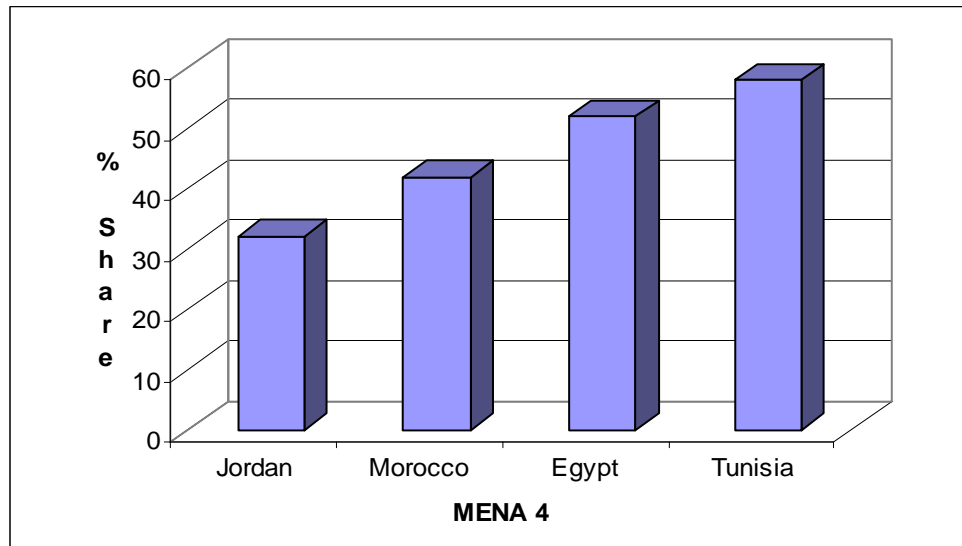
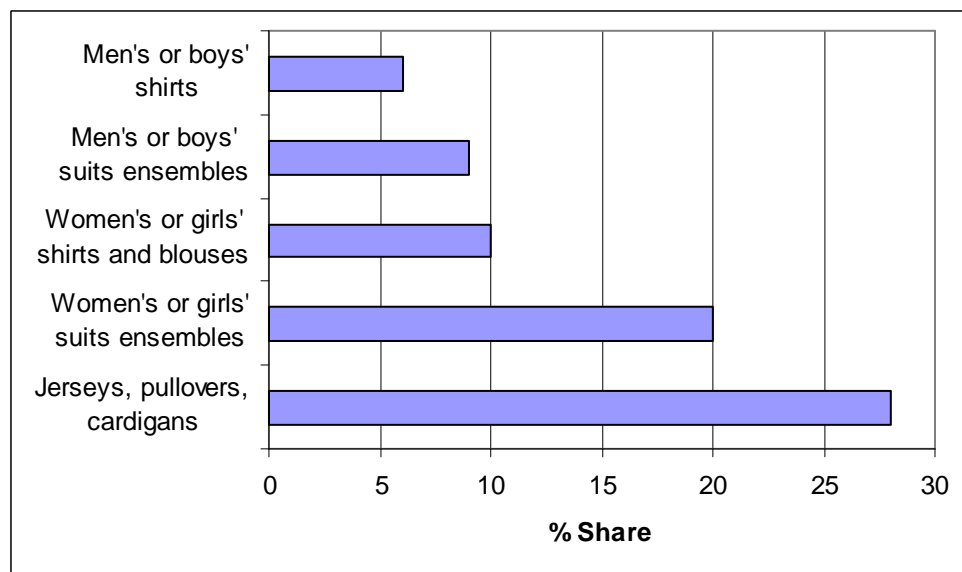


Figure 5.2 Top 5 Product Group as Share of T&C Exports 2006 (%)⁵⁶⁴



⁵⁶³ Ibid.

⁵⁶⁴ Ibid.

The Performance of Jordanian T&C Exports in the EU Market

As is the case for many developing economies and most industrial sectors, the global export market for Jordanian T&C products is largely confined to the EU and US markets. However, the reliance on these two markets is not evenly balanced. Jordanian T&C exports since 1997 have had very little success in the EU market and this difficulty has only been magnified by the end of the MFA in 2005 (discussed below). In 2006 Jordanian T&C exports to the EU market totalled only US\$15.3 million. This was an actual drop from the 1997 figure of US\$23 million and represented only 0.02 percent of the EU market share – compared to 0.05 percent in 1997.⁵⁶⁵ In 2006 Tunisia and Morocco, on the other hand, exported US\$3.7 billion and US\$3.4 billion worth of T&C goods to the EU accounting for 5.1 percent and 4.8 percent of the market share respectively.⁵⁶⁶ The largest 2006 market share went to China which exported a staggering US\$25.4 billion worth of T&C goods to the EU, representing 26.9 percent of the market share.⁵⁶⁷ This level was an increase on the 1997 figure of US\$13.5 billion (23.3 percent of market share).

Even on the back of the JEUA signed with the EU in 1997, Jordanian T&C exports have proven to be uncompetitive with both regional T&C exporters such as Morocco, Tunisia and Egypt – which all have AAs with the EU and longer trading relationships in T&C goods – as well as global competitors such as China and other South East Asian producers. The comparative advantages Jordan enjoys, such as having access to cheaper labour than regional competitors and closer geographical proximity to the EU market than South East Asian competitors⁵⁶⁸ have gone largely unexploited.

⁵⁶⁵ Eurostat Data, 2006.

⁵⁶⁶ Ibid.

⁵⁶⁷ Ibid.

⁵⁶⁸ Abu-Rahmeh, H. F., CEO of The Jordan Exporters Association, interview held in Amman, Jordan on December 27 2006.

The main contributing factor which has hindered Jordanian access to the EU market is the relative insignificance the JEUA has had on all Jordanian exports to the EU market. In theory the JEUA should have led to greater bilateral trade levels between Jordan and the EU.⁵⁶⁹ This unfortunately has largely not happened. Rather, imports from the EU have increased significantly but exports to the world's largest market have struggled and in some sectors, such as the T&C sector, have decreased. The primary causes of this dynamic have been the increase in import demands in Jordan due to rising levels of consumer prosperity and industrial growth and the signing of AAs and broader liberalisation of EU trade with other states.

The Performance of Jordanian T&C Exports in the US Market

The US market for T&C goods, especially manufactured clothing has been steadily growing over the past fifteen years resulting in expanding opportunities for T&C exporters. Although Jordan is a small producer of T&C goods, according to Halim Abu-Rahmeh, the CEO of The Jordan Exporters Association, it has not missed this opportunity.⁵⁷⁰ However, unlike the EU market with its diversified sources of T&C goods, the United States has traditionally imported the vast majority of its T&C goods from Mexico, China and the Central American Free Trade Area (CAFTA) member states. In total these three main sources accounted for 48 percent of total market share in 2006.⁵⁷¹ MENA exporters have fared much worse. Tunisia, Morocco and Egypt, for example, while being relatively important sources for the EU market, only accounted for 0.83 percent of US imports of T&C goods in 2006.⁵⁷² Jordan on the other hand ranks as one of the more important sources of US T&C imports accounting for a market share value of 1.5 percent in 2006.⁵⁷³ While at first impression this is a small figure, in the context of

⁵⁶⁹ The European Commission, 2006, *Jordan: National Indicative Programme 2005-2006*, Brussels: The European Commission.

⁵⁷⁰ Abu-Rahmeh, H. F., Amman, December 27 2006.

⁵⁷¹ The United States Census Bureau, Foreign Trade Statistics Division, 2007.

⁵⁷² Ibid.

⁵⁷³ Ibid.

global US T&C market import shares the young and relatively small Jordanian T&C export industry has achieved a relatively large share of the US market in a very short period of time (1997-2006).

Table 5.2 Market Share Among Major Suppliers to the United States T&C Market - 1997 and 2006⁵⁷⁴

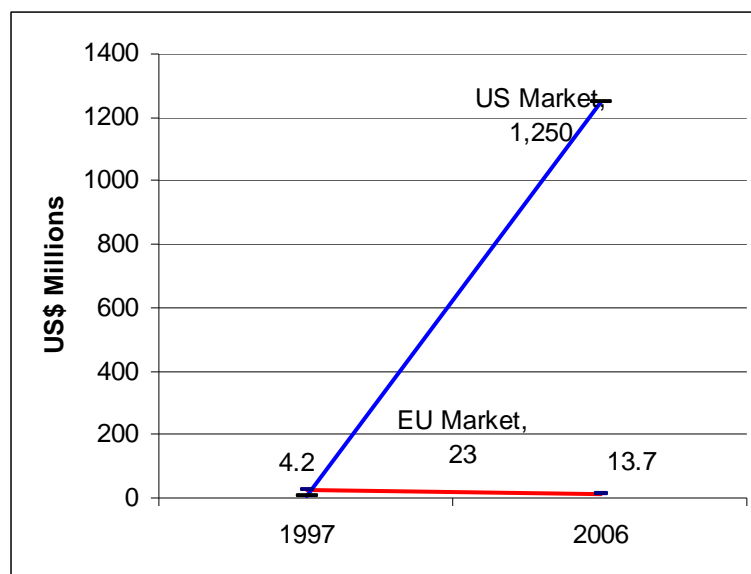
Exporting State or Region	1997		2006	
	Export (US\$ millions)	Market Share %	Export (US\$ millions)	Market Share %
Greater China	14,613	21.5	24,856	23
CAFTA-DR	7,247	16.4	9,984	14.7
Mexico	6,541	14.8	8,701	10
South Asia-4	6,813	10.5	11,124	10.5
Jordan	4.2	0.01	1,250	1.48
Egypt	410	0.72	601	0.65
Morocco	56	0.12	80	0.11
Tunisia	15	0.03	50	0.07

The experience of the Jordanian T&C export sector has largely been based on the combination of comparative advantages within the Jordanian economy and government facilitation of trade. Unlike the experience of exports to the EU market, advantages bestowed upon the Jordanian economy have allowed T&C exports to penetrate the US market in a sustainable manner. Among these advantages are: having access to large pools of unskilled, semi-skilled and skilled labour, as well as economic and political support from the government.⁵⁷⁵ Jordan does not possess the advantage of close geographic proximity to the US market as it does with the EU market and is therefore disadvantaged in this way. It would not, therefore, be surprising if Jordanian T&C exports enjoyed greater success in the EU market than in the US market. However, as has been mentioned above there are certain disadvantages the T&C sector has encountered in competing in the EU market. These disadvantages also exist in the relationship with the US market, however, the mechanisms by which they are overcome vary greatly.

⁵⁷⁴ Pigato, M. et al, 2006. *Note:* South Asia 4 are: Bangladesh, India, Pakistan, and Sri Lanka, CAFTA-DR: Costa Rica Salvador, Guatemala, Honduras, and Nicaragua, plus the Dominican Republic and Caribbean Basin Initiative (CBI) countries, Greater China: China, Hong Kong, and Macao.

⁵⁷⁵ Abu-Rahmeh, H. F., Amman, 27 December 2006.

Figure 5.3 Jordanian T&C Exports to the US and EU Markets 1997–2006⁵⁷⁶



The United States has completed a large number of international agreements aimed at providing access to its market for international exporters. The US market is indeed more open than that of the EU when T&C imports are concerned.⁵⁷⁷ There also exist other similarities between the two markets: the US market has integrated with those of Mexico and Canada through the mechanisms included in the North American Free Trade Area (NAFTA) agreement; the US market has witnessed rapidly increasing imports of T&C goods from China and South East Asia;⁵⁷⁸ and trade has been promoted with the United States' closest neighbours and T&C sources in South America.⁵⁷⁹ This latter point is shadowed by the increased integration of the EU with its neighbours in the southern Mediterranean. In the case of T&C exports to the EU, the Jordanian experience has been one of decline and stagnation. Faced with similar market access circumstances in the US market since 1997 the Jordanian T&C export sector has been one of dynamism and growth.⁵⁸⁰ This is due to one simple difference in the mechanisms of trade facilitation provided for by cooperation between the governments of Jordan and the

⁵⁷⁶ Ministry of Industry and Trade, Trade and Investment Information Database, 2007.

⁵⁷⁷ Volpe, A., and Weil, D., 2004, *The Apparel and Textile Industries After 2005: Prospects and Choices*, Cambridge, MA: Harvard Centre for Textile and Apparel Research.

⁵⁷⁸ Gibson, D., Playing Second Fiddle in China, in *WA Business News*, October 13 2005.

⁵⁷⁹ Lovett, W. A., Brinkman, R. L., Eckes, A. E., and Eckes, A. Jr., 2004.

⁵⁸⁰ Pigato, M. et al, 2006, p: 15.

United States that does not exist between the government of Jordan and the EU. This difference is grounded in the seemingly urgent and highly solidified government commitment to promoting US-Jordanian trade in general as discussed in the previous two chapters.

Chapter four analysed the nature of US trade policy towards the MENA region in general and to Jordan in particular. The conclusion was that US-Jordanian trade has increased in significance in the past decade (due to economic, political and strategic considerations) and now acts as a model of US trade policy with the MENA region as a whole. Much the same was found in the analysis presented in chapter three where Jordanian trade policy was assessed: here it was determined that the political and economic reforms embarked upon by the government of Jordan since 1999 is supported by the success of Jordanian-US trade. This dual urgency in promoting trade between the two states has led to the mechanisms of special economic zones and the FTA.

The Qualifying Industrial Zones and Industrial Estates

The QIZs in Jordan were initially established following the signing of the Treaty of Peace between Jordan and Israel in 1994. Within the treaty there are a number of articles demanding the implementation of joint projects between the two states.⁵⁸¹ The creation of a number of QIZs which would act as economic bridges between the two markets was one of these requirements. In brief, the QIZs were established as designated industrial estates where all goods therein produced would receive duty and quota free access to the US market. The conditions set upon the production of these goods concern the rules of origin and percentage value-added. In order to receive unrestricted access to the US market any goods produced in the QIZs would have to have a certified amount of material input of a minimum level from the Israeli economy (8 percent) and a minimum value-added from the Jordanian

⁵⁸¹ Article 7, *Treaty of Peace Between Israel and Jordan*, 1994.

economy (35 percent).⁵⁸² Certification of these requirements is issued by a joint commission consisting of Jordanian and Israeli representatives and government bodies.⁵⁸³

Initially the QIZs witnessed little growth, mostly due to the lack of government support by the Jordanian and Israeli regimes as well as a fundamental lack of manufacturing capacity. However, the utility of the QIZs as a means to increase exports was realised following further growth in exports to the US market. An increase in FDI which reached over US\$500 million by 2005, was also a key factor in the government's decision to promote the QIZs and expand export oriented industrial sectors.⁵⁸⁴ According to Mohamed Atmeh, the Deputy CEO of the Jordan Industrial Estates Corporation (JIEC) - one of several corporations with close links to the Jordanian government involved in establishing and running industrial estates and QIZs - the QIZs were not initially set up as part of the government's trade regime. Rather they were "*a unique project, which were running more as an anomaly (as) opposed to in conjunction with our economic strategies of the late 1990s.*"⁵⁸⁵

The QIZ projects were not the central tenet of economic policy and export activity in Jordan in their first three years. Nevertheless, with increasing exports from the zones, and previously unseen levels of FDI flowing in to them, the new impetus placed on economic reform and export led growth which King Abdullah II's rule introduced in 1999-2000, the QIZs became more important. According to Mohamed Atmeh by 2000 it was believed that there were two main benefits from the QIZs. The first was the potential for job creation within them and in the economy as a whole as a result of greater activity in sectors pivotal to the operation of the QIZs (such as transport and services). The second Atmeh described as "*...the very tempting access to the US market for foreign investors.*" He continued to clarify that:

⁵⁸² Kardoosh, A., 2006.

⁵⁸³ Ibid.

⁵⁸⁴ Al-Shamali, Y., Amman, December 26 2006.

⁵⁸⁵ Atmeh, M., Deputy CEO of The Jordan Industrial Estates Corporation, interview held in Amman, Jordan on December 28 2006.

The government realised that vast potential for short- to medium-term investment existed. It was believed that this investment would be focused on the setting up of short- to medium-term projects to gain quick access to the US market for a limited period of time. By this I mean in sectors like clothes and other textiles, where quick production could be established with limited capital requirements and limited capital gains and risk.⁵⁸⁶

As indicated above, the Jordanian government's initial assessment of how to utilise the QIZs resulted in the decision to foster the growth of a T&C export sector.⁵⁸⁷ By the turn of the century this was coupled with the private sector's interest and growing investment in the T&C sector within the QIZs (see figure 5.4). The result has been the overarching dominance of the QIZs by the T&C sector – which accounts for approximately 90 percent of QIZ exports to the United States – and the sector's expansion in the Jordanian economy as a whole through specially constructed industrial estates. It is important to note that industrial estates in Jordan are not QIZs. However, the 2001 implementation of the JUSFTA has largely negated this fact as all T&C goods now enjoy duty and quota free access to the US market.⁵⁸⁸

The first industrial estates were established in Jordan in the early 1960s, prominent among them was the special economic zone established in Aqaba in 1963.⁵⁸⁹ However, slow economic growth and industrialisation through the 1980s meant that the growth of industrial estates was negligible over this period. Furthermore, the government's concentration on structural policies aimed at import substitution rather than export led growth hindered investment in the industrial estates which had been established.⁵⁹⁰

⁵⁸⁶ Ibid.

⁵⁸⁷ Ibid.

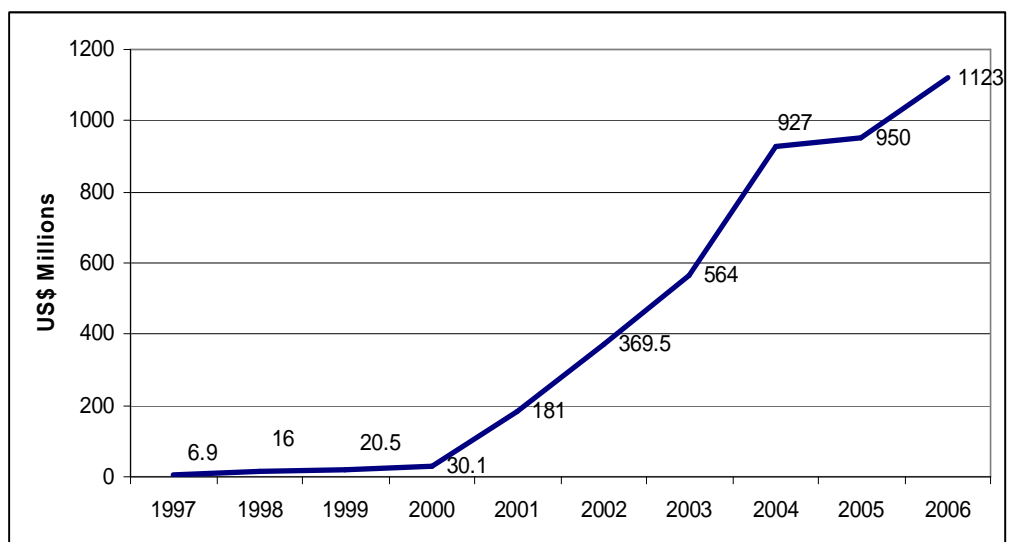
⁵⁸⁸ Cassing, J., and Salameh, A. M., 2006, *Jordan - United States Free Trade Agreement Economic Impact Study: Searching for Effects of the FTA on Exports, Imports and Trade Related Investments*, Amman: USAID - Jordan.

⁵⁸⁹ Atmeh, M., Amman, December 28 2006.

⁵⁹⁰ Ibid.

Fuelled by the success of the QIZs after 2001 when the FTA was implemented and the shift of government economic policy to export led growth and trade liberalisation, the past few years have seen a flurry of economic activity. Key among the developments of this period was the establishment of more industrial estates and the expansion of existing ones.⁵⁹¹ Other important developments have been the creation and growth of a number of corporations tasked with constructing and managing industrial estates;⁵⁹² corporations oriented towards the promotion of Jordan's industrial estates abroad in order to attract FDI;⁵⁹³ and the deepening of the public-private relationship – albeit discretely, as is discussed below.

Figure 5.4 Value of QIZ Exports to US in US\$ millions 1997–2006⁵⁹⁴



There are currently just over three hundred T&C manufacturers operating in Jordan. Of these ninety-two operate within the QIZs and the majority of the rest are located within industrial estates.⁵⁹⁵ While the dominance of the T&C manufacturers in terms of overall numbers lies with the industrial estates, dominance in terms of value is still firmly in the QIZs. In 2006 T&C exports

⁵⁹¹ Knowles, W., 2005.

⁵⁹² These include the Jordan Industrial Estates Corporation and The Jordan Free Zones Corporation.

⁵⁹³ Such as: the Jordan Investment Board and Jordan Enterprise Development Corporation.

⁵⁹⁴ Jordan Investment Board, Amman, 2006.

⁵⁹⁵ JIB, 2006, *Invest in Jordan: The Textiles and Garments Sector*, JIB Report, p: 3.

from the QIZs (only to the US market) totalled US\$1.06 billion whereas T&C exports from the industrial estates to the US market only totalled approximately US\$200 million.⁵⁹⁶ The difference in value of exports is attributable to two key factors. Firstly, the main T&C manufacturers have been operating in the QIZs for much longer than the T&C manufacturers in the industrial estates. The infrastructure and operations were established in the QIZs from 1997 whereas in the industrial estates this only happened several years later.⁵⁹⁷ Secondly, growth of the T&C sector has slowed down in the last three years meaning further growth in the industrial estates has been limited.⁵⁹⁸ The main advantage the industrial estates do have over the QIZs is the continued strengthening of the relationship between public and private actors. This relationship is likely to continue, promoting activity in the industrial estates in general including the T&C sector.

Public-Private Partnership

Governmental involvement in the Jordanian economy has a long history. As was outlined in chapter three, through much of the kingdom's history the government has played a central role in guiding economic activity and determining macro-economic structures.⁵⁹⁹ The result of this link between state and market was limited economic growth and industrial development followed by un-sustainability in the late 1980s culminating in the 1989 financial crisis. What has been seen in Jordan since 1989 is a period of economic reform through structural adjustment, privatisation and trade liberalisation (see discussion in chapter three).⁶⁰⁰ However, government involvement in the economy has not been fully withdrawn. Instead government involvement in the economy has been transformed, but nevertheless remains. This transformation has led to a shift in the balance between state and market actors in the economy and the emergence of a

⁵⁹⁶ Ali, M., Director of The Foreign Trade Policy Department of The Ministry of Industry and Trade, interview held in Amman, Jordan, December 24 2006.

⁵⁹⁷ Atmeh, M., Amman, December 28 2006.

⁵⁹⁸ Pigato, M. et al, 2006, p: 15.

⁵⁹⁹ Knowles, W., 2005.

⁶⁰⁰ Abu-Hammour, M., 2005.

public-private partnership. This partnership is characterised by the government having a regulationist role by forming policies and controlling macro-economic decisions and market actors implementing these policies and micro-managing economic activity. The sustainability of this relationship is perpetuated by the fact that both state and market actors achieve their goals through this partnership. On the one hand the economy is made ‘business friendly’ and conducive to the needs of private enterprise and on the other the government achieves economic growth and industrial development.

This partnership operates through a number of key organisations which act as a bridge between the public and private sectors. Of these organisations there are three identifiable types. The first type of organisation is the traditional public-private agency that is oriented towards economic affairs, such as the Amman Chamber of Commerce, the Amman Chamber of Industry and the American Chamber of Commerce in Jordan. The second type of organisation operating in Jordan is the ‘developmental corporation’, such as the Jordan Enterprise and Development Corporation (JEDCO), the Jordan Industrial Estates Corporation (JIEC) and the Jordan Investment Board (JIB), whose purpose is to provide services to private enterprise and who generally claim to have autonomy and independence from the government. These actors do in fact have close links to government. The third type of organisation or actor is the private enterprise. These are wholly private actors such as MNCs and domestic businesses which work in a symbiotic relationship with the government to further their own interests.⁶⁰¹

The Amman Chamber of Commerce

The Amman Chamber of Commerce is a good example of the first type of actor involved in promoting the public-private partnership in Jordan. According to Sabri Al-Khassib, the Director of Research at the chamber, “...*the main aim* [of the institution] *is to meet economic development goals*.” He continued “[W]e do this by helping the governmental decision-making

⁶⁰¹ Silva-Jauregui, C. (ed.), 2002, *Jordan Development Policy Review: A Reforming State in a Volatile Region*, Washington: World Bank.

bodies use the expertise and advice of private actors. This task [is] done by registering private corporations, setting up joint committees and conducting micro-economic research.”⁶⁰² The Amman Chamber of Commerce, much like the Amman Chamber of Industry and the American Chamber of Commerce in Jordan, is a joint public-private entity. The board consists of twelve board members who are all elected from the private sector. However, a large part of the chamber’s budget and in fact much of its infrastructure (such as the head office) are government owned or supplied.

There are currently over thirty-two thousand trade and commerce related bodies registered with the chamber which operate in Amman and in the surrounding areas. Al-Khassib stated that this number has been increasing in the past five years, from four thousand new registrations in 2001 to just less than nine thousand in 2006. The vast majority of these new registrations are “...involved in trade and commerce with the United States, Saudi Arabia and India.”⁶⁰³ Approximately 30 percent of these registrations in 2006 were for corporations involved in the T&C export industry. This signifies a drop of 7 percent on the 2005 figure and is indicative of the overall slow down in growth of the T&C sector.⁶⁰⁴

The Jordan Enterprise Development Corporation

The case of JEDCO is more exemplary of how the public-private relationship has developed in the post-JUSFTA era. According to Khawla Al-Badri, the Managing Director of JEDCO, the corporation’s “main aim is to help Jordanian companies involved in exports to establish themselves, then promote them and help their development.”⁶⁰⁵ Al-Badri explains the transformation in JEDCO’s role since the late 1990s as “...[because] *under agreements signed with international partners such as the EU and the US,*

⁶⁰² Al-Khassib, S., Director of Research at The Amman Chamber of Commerce, interview held in Amman, Jordan on December 24 2006.

⁶⁰³ Ibid.

⁶⁰⁴ Ibid.

⁶⁰⁵ Al-Badri, K., Managing Director of JEDCO, interview held in Amman, Jordan on December 19 2006.

and especially following WTO accession the government could not offer this support to businesses wishing to export to other markets, there was a niche in the market for people like us.” JEDCO was established in 1972 as a public-private corporation, one third owned by the Jordanian government, the Amman Chamber of Commerce and the private sector each. It had its own budget and own Board of Directors but was located within the Ministry of Industry and Trade. The head office is now located in an independent commercial office high rise, but is only a stones throw from the Ministry of Industry and Trade. The Board of Directors is still equally split between public and private members but the director is the Minister of Industry and Trade.

While JEDCO operates as a private actor in terms of micro-planning and implementation, it is increasingly controlled by the government. When questioned about the annual budget of JEDCO, Al-Badri admitted that “...*we used to have more of our own budget, half from the private sector and half from the government, now the government accounts for our entire budget.*”⁶⁰⁶ Even more important is the fact that by 2005 the government accounted for full ownership of JEDCO as opposed to its previous ownership of one third.

While JEDCO has seemingly become a wholly government body, supporting Jordanian export businesses, to some extent in contradiction to a number of international agreements signed with other states, a closer examination suggests otherwise. The process of government macro-decision making and private sector implementation is very much embodied in the structure of JEDCO. According to Al-Badri, JEDCO operates independently of the government. She claims that “the government made the decision that Jordanian exports should be promoted and supported so that economic growth can be led by exports. What we do here is provide this support through the private sector.”⁶⁰⁷ It is worth noting that while JEDCO’s budget is supplied by the government, its staff (except for half of the Board of Directors) is sourced

⁶⁰⁶ Ibid.

⁶⁰⁷ Al-Badri, K., Managing Director of JEDCO, interview held in Amman, Jordan held on December 24 2006.

entirely from the private sector. Furthermore, the management and allocation of the budgetary funds are under the control of JEDCO staff not the government. Al-Badri explained that the government entrusts JEDCO and other such corporations with promoting and developing Jordanian export-related corporations, supplying the means to complete this task but then relying on expertise from the private sector. *“People realised after 1989 that the government was not capable of directing the economy successfully. Governments, especially the one under Ali Abul Ragheb moved to use the private sector in a productive way.”* Al-Badri continued to describe the now dominant belief within government that the private sector can promote the Jordanian economy more efficiently than the government.⁶⁰⁸

While JEDCO’s budget has been increasing over the past three years it is still insufficient to promote and help develop all sectors within the economy. Rather JEDCO has taken the decision (and not the government) to focus on the most beneficial sectors – among these is the T&C export sector. Support is provided by JEDCO to T&C export oriented corporations operating within Jordan in a number of ways. In the Autumn of 2006 for example, JEDCO organised a trade mission to Italy in order to showcase Jordanian T&C goods. T&C corporations were invited to join the trade mission and prepare marketing and study material along with actual goods to promote abroad. JEDCO supplied the funds, arranged the venues and organised all bureaucratic matters relating to visas and so on.⁶⁰⁹ In short JEDCO acts as a middle man between Jordanian suppliers and potential destination markets. However, the operations of JEDCO do not benefit only Jordanian corporations. Rather JEDCO also promotes other actors within the T&C sector (among other sectors) through trade missions as mentioned above as well as providing technical support to corporations, conducting market, financial and consultancy studies and promoting the Jordanian T&C sector abroad.⁶¹⁰ Perhaps the most fitting way to understand the operations of JEDCO are as Al-Badri has described them: “Jordan in general has a centralized decision

⁶⁰⁸ Ibid.

⁶⁰⁹ Al-Badri, K., December 24 2006.

⁶¹⁰ Ibid.

making system, but there is an agenda and many actors involved with some autonomy and influence in the implementation of decisions.”⁶¹¹

The Jordan Industrial Estates Corporation

JIEC is one of a number of private sector entities which create, promote and maintain industrial estates and QIZs within Jordan. JIEC is perhaps one of the more useful examples when trying to understand how the public-private relationship impacts economic activity ‘on the ground’ especially with regards to the T&C sector. At the time of writing JIEC operates five industrial estates including three QIZs⁶¹² and is planning the construction of four more.⁶¹³ It is an independent, autonomous corporation that has its own budget, but has close links to the government. Key among these links is that the Head of the Board of Directors is the Minister of Industry and Trade (as is the case with JEDCO) and 67 percent of the capital comes from the government.⁶¹⁴ Again, similar to JEDCO, the remainder of the Board of Directors (the board has thirteen total members) come from the private sector and have no role in government. Another similarity with JEDCO is that JIEC was established by the government in 1984 but later developed into an autonomously operating corporation. In an interview conducted with Mohammed Atmeh, the Deputy CEO of JIEC, in December 2006 JIEC was described as “a profit oriented corporation, but (it is) also oriented towards the development of the nation.”⁶¹⁵

Atmeh outlined four main contributions to the national economy which JIEC focuses on. The first he described as inward capital flow or FDI. The very nature of the Jordanian trade regime is oriented toward making the Jordanian economy appealing to foreign capital for both medium and long term investment. In short the activity of actors such as JIEC is to not only make

⁶¹¹ Al-Badri, K., December 19 2006.

⁶¹² These are: Ma’an Industrial Estate, Al-Hussein Industrial Estate, Al-Hassan Industrial Estate, Abdullah II Industrial Estate and Amman Industrial Estate.

⁶¹³ These are to be located in Muagar, Zarqa, Tafilah and Madaba. It is expected that studies for their construction will be completed by mid-2008 and it will take a further two years to construct them.

⁶¹⁴ JIEC, 2006, *Annual Report 2006*, Amman: Jordan Industrial Estates Corporation.

⁶¹⁵ Atmeh, M., December 28 2006.

profits but to also make Jordan ‘business friendly’. By creating industrial estates and QIZs JIEC attracts foreign corporations and capital to expand their operations or relocate to Jordan. Here duty and quota free access to the US T&C market as well as increasingly free access to MENA T&C markets and the EU market are “very tempting and very profitable.”⁶¹⁶ Furthermore, the majority of industrial estates in Jordan, including JIEC industrial estates, offer a number of key incentives. The JIEC-owned Al-Hassan (Irbid) industrial estate for example, offers comprehensive custom-built infrastructure which investing entities can buy or rent. Other incentives include free amenities and services including free electricity, water and communication and all-inclusive customer services.

Working in correlation with the JIB (discussed below), JIEC also offers foreign investors twelve years of tax free operations - JIB offers ten years tax free operations as standard to all non-Jordanian investors while JIEC offers an additional two years.⁶¹⁷ This is extremely attractive to foreign investors and MNCs who operate in the T&C sector but who are likely to maintain only medium-term investment activities in Jordan. In the past five years these incentives among others have worked and according to Atmeh “inward capital flow to [our] industrial estates and QIZs has been increasing very rapidly, and so [our] intention to build five more estates in the near future.”⁶¹⁸

Other key objectives which Atmeh highlighted as being at the heart of JIEC’s operations include horizontal capital flow. Here, the industrial estates and QIZs are seen as central locations of economic activity which act as distribution points for capital at the local level. The wages of the employees of the factories located in the industrial estates, for example, add purchasing power to the local economy. Food, clothing, entertainment and transport all have to be provided in some measure to the employees and through this mechanism further economic activity is generated.⁶¹⁹ With this in mind, JIEC industrial estates and QIZs (much the same as virtually all industrial estates

⁶¹⁶ Ibid.

⁶¹⁷ Article 6 of the *Investment Promotion Law* 1995.

⁶¹⁸ Atmeh, M., December 28 2006.

⁶¹⁹ Ibid.

and QIZs in Jordan) are distributed around the kingdom, often according to where the government says they should be. Areas of low or lower economic development, such as Muagar (the location of one of JIEC's planned new industrial estates) have been the site of the development of industrial estates and QIZs. According to Atmeh:

[t]his is because, from the business point of view, there is a large source of cheap labour, plenty of open land for development and good transport links. From a societal point of view, we can provide jobs for local residents both directly and indirectly through economic spread. We can benefit the nation as well as ourselves (...) in this relationship it is a partnership.⁶²⁰

In terms of sector development, the majority of industrial estates and QIZs are dominated by T&C manufacturers. The operations of JIEC are no exception to this. Of the existing two industrial estates and three QIZs which JIEC owns, only one is not dominated by T&C. This is the Ma'an estate where activity is more evenly spread between T&C and glass manufactures. There are two reasons why T&C dominate JIEC's industrial estates and QIZs: the first is that studies conducted prior to their creation concluded that focusing on T&C would be most beneficial. According to Atmeh these benefits are, firstly that the US market for T&C manufactures is large and therefore offers greater profitability than other sectors. And secondly, because focusing on T&C manufactures is a fast way to make money. This point is relevant to both public and private interests. Finally, in compliance with existing company policies, and in coordination with the ministries of Industry and Trade, and Labour, JIEC would be able to offer greater employment opportunities by promoting labour intensive manufacturing.

The second reason why the industrial estates and QIZs are dominated by T&C is as a result of other market forces. A common mistake in much trade-

⁶²⁰ Ibid.

literature is that government policy in developing states dictates the form of activity, such as the nature of industrial estate production.⁶²¹ However, in the case of the JIEC run industrial estates and QIZs private sector actors seem to have been attracted by purely economic reasons. For example, duty and quota free access to the US market and the natural comparative advantages offered.⁶²²

The Jordan Investment Board

The growth of JIB is exemplary of the increasing importance of market forces and private sector actors in the development of the T&C sector. JIB was established in 1990 as a department within the Ministry of Industry and Trade. Its primary objective was to attract FDI into Jordan.⁶²³ Its original budget was low, as was its number of staff. However, following a number of key amendments to national laws governing trade and capital flows in the mid-1990s such as the 1995 Investment Promotion Law, JIB has been promoted as a key actor. The result was the detachment of the organisation from the government and its development as an independent and autonomous entity. The majority of its seventy-five employees are sourced directly from the private sector and not from government as is common with many similar bodies.⁶²⁴

JIB's importance continues to grow and its participation in the Jordanian economy is becoming increasingly diverse. In 2006 the organisation's overall budget was US\$1.3 million. This figure rose to over US\$6.3 million in 2007 on the back of greater FDI and government revenues.⁶²⁵ At the time of writing JIB has three main offices in Jordan – the head office in Amman, a regional head office in Aqaba and one in Queen Alia International Airport. Along with

⁶²¹ Page, S., 1994, *How Developing Countries Trade: The Institutional Constraints*, London: Routledge.

⁶²² Kardoosh, M. A., and Al-Khour, R., 2004, *Qualifying Industrial Zones and Sustainable Development in Jordan*, Amman: Jordan Centre for Public Policy and Research.

⁶²³ JIB, 2006, *Mission Statement*, Amman: Jordan Investment Board.

⁶²⁴ Farraj, E., Chief Advisor to Maan Nsour, CEO of Jordan Investment Board, interview held in Amman, Jordan, on December 24 2006.

⁶²⁵ Ibid.

the increase in its budget, JIB is also opening new offices abroad to further enhance its role in promoting investment opportunities in Jordan. Offices which are due to open in 2007 are located by region as follows: in the Persian Gulf; Qatar, Kuwait, Abu Dhabi and Riyadh; in the Far East – China; and in the EU; Spain, Greece and Italy.⁶²⁶

The focus of JIB's purpose and operations are on promoting Jordan as an investment market abroad. This is done in a number of ways and for multiple sectors. According to Elias Farraj, the Chief Advisor to the CEO of JIB, Jordan has seen a large increase in FDI since September 11 2001. This is discussed in greater detail below but it is useful to briefly assess the impact of JIB on investment in the T&C sector. "The majority of FDI coming into Jordan in the past five years has come from the Gulf states."⁶²⁷ Farraj described this as being the result of two sets of processes. First, the withdrawal of GCC investment-capital from the US market post-9/11 and the subsequent desire to re-invest in other markets – largely in the EU but also significant amounts in the MENA region. The second set of processes is political and economic instability in neighbouring regional states and the relative stability of Jordan as an investment market.⁶²⁸ The construction and housing sector has witnessed the greatest increase in investment since 2002 and this is where GCC investment is mostly used. However, JIB does not promote this sector.

One of the sectors that JIB does promote is T&C manufactures. This sector is promoted in the Jordanian investment market and abroad. One of the main activities of JIB in promoting T&C manufactures is the organising and implementation of targeted trade missions. Here JIB staff conducts market studies to ascertain which location or market is most suitable for exploitation of opportunities. According to Farraj this could be a region, city or even a corporation. Once the target has been identified a trade mission is arranged and includes JIB staff along with representatives of T&C manufacturers

⁶²⁶ Ibid.

⁶²⁷ Ibid.

⁶²⁸ Ibid.

operating in Jordan as well as representatives of other Jordanian corporations such as JIEC and JEDCO.⁶²⁹

The involvement of JIB does not, however, stop after the completion of any trade mission. Rather if investors or corporations wish to set up operations in Jordan or invest in existing ones JIB is the primary contact. The ‘One-Stop-Shop’ is the flag ship operation provided by JIB and was established in 2003. Its purpose is to help private sector actors to establish their operations in Jordan as quickly and easily as possible. The rationale being that: “the quicker [investors or corporations] get set up, the quicker we get economic activity in Jordan. Also, it is another incentive for foreign organisations wishing to invest and operate to make quick profits.”⁶³⁰ There are ten different government departments responsible for investment. These are as follows: the ministries of Industry and Trade, Labour, and Interior; the Department of Health; The Department of Tourism; The Greater Amman Municipality and other municipalities – depending on location; The Department of Land; the Department of the Environment; and the Customs Department. These all now have offices located in the JIB offices around the kingdom. Each of these ten departments has cut down red tape and continues to do so. The pre-2003 average period for registration of investment or a new corporation was ninety days. This has subsequently been reduced to thirty days and the target by late 2008 is fourteen days.⁶³¹

Once a private sector actor has registered with the One-Stop-Shop it can apply for registration with JIB. If the application is accepted – and according to Farraj every application as of 2007 had been accepted, although some with minor amendments – JIB provides support with all dealings with government and other private sector actors. The result of JIB’s development and support of the T&C manufacturing sector as well as others has been the registration of over three thousand five hundred projects worth over US\$6 billion since 1997. Approximately half of this figure has been in the T&C sector.

⁶²⁹ Ibid.

⁶³⁰ Ibid.

⁶³¹ Ibid.

Multilateral Investment in the T&C Sector

As mentioned above, investment in Jordan has been increasing since the mid-1990s and has witnessed unprecedented growth since 2003. Significant amounts of this investment have gone to the T&C sector. In 1996 total investment inflows to the Jordanian economy amounted to US\$301 million, in 2000 this figure had risen to US\$754 million and by 2006 total investment amounted to just over US\$2 billion (see table 5.3). Investment in 2006 was relatively evenly split between domestic investment and FDI – with FDI accounting for slightly over US\$1 billion. Significantly 2006 was the first year that FDI in Jordan exceeded domestic investment.

Table 5.3 Total Investment in Jordan in US\$ Millions 1996-2006⁶³²

Year	Investment	Domestic Investment	FDI
1996	301	181	120
1997	380	224	156
1998	452	285	167
1999	556	340	216
2000	1119	683	436
2001	1243	746	497
2002	424	238	186
2003	369	210	159
2004	589	329	260
2005	754	415	339
2006	2001	991	1010

The trend in total investments in Jordan has been slightly irregular in the ten year period between 1996 and 2006. According to JIB Chief Executive Officer Maen Nsour, the kingdom's economic and political reforms, including structural adjustment and trade liberalisation since the mid-1990s have created a more attractive investment climate.⁶³³ The improving climate resulted in steady increases in investment from 1996 to 2001. However, increasing tensions between Iraq and the international community and the intensifying Al-Aqsa Intifada led to a dip in investor confidence in Jordan from 2001 to 2004. A sharp drop of US\$498 million followed as overall investment

⁶³² Ministry of Industry and Trade, Trade and Investment Information Database, 2007.

⁶³³ Tate, P., Jordan Witnesses Investment Boom, in *The Jordan Times*, October 4 2006.

decreased to US\$502 million in 2002. As the war in Iraq materialised in 2003 and the insurgency began to emerge, investments decreased even further to US\$303 million in that year – a fraction above the 1996 level before the major investment-friendly policy changes took affect. However, 2004 and 2005 witnessed rebounding confidence in the Jordanian economy. This was helped by the influx of (mostly wealthy) Iraqis wishing to avoid strife in Iraq and the emergence of Jordan as an entry point and base of operations for many private and government actors operating in Iraq.⁶³⁴ By 2006 the investment climate had made a complete recovery and new levels of investment were being witnessed. This increase in investment has not followed the sectoral pattern in the 1997-2003 period. Instead, while some sectors such as construction have increased their share of total investment, others such as mining have actually seen their share decrease as investment figures have recovered.⁶³⁵ After construction the T&C sector has witnessed the strongest growth in investments. Overall levels of investment in the T&C sector increasing from US\$392 million in the 1997 to 2002 period to US\$1.06 billion in the 2003 to 2006 period.⁶³⁶

Traditionally the majority of investment in most sectors has come from domestic sources. However, as a result of greater economic liberalisation and the activity of organisations such as JIB and the Ministry of Industry and Trade, FDI has become increasingly important. As stated above FDI now comprises over half of all investment annually and accounts for the majority of the rapid increase in investment levels seen in 2006. In relation to the T&C sector FDI has counted for the majority of total investment since the sector first began to emerge in the mid-1990s. This is partly due to the fact that the sector was established and promoted as primarily export oriented taking advantage of free access to the US market.⁶³⁷ Farraj has highlighted the fact that the Jordanian market only offers limited profitability. With a population of approximately five and a half million in 2007 and GDP per capita of

⁶³⁴ World Bank, 2006, *Quarterly Report: Jordan - Third Quarter Report*, Washington: World Bank.

⁶³⁵ Ibid.

⁶³⁶ JIB, 2006, *Invest in Jordan: The Textiles and Garments Sector*, Amman: Jordan Investment Board, p: 3.

⁶³⁷ Dew, P., Wallace, J., and Shoult, A., 2004, p: 15.

US\$1960 (or US\$4900 Purchasing Power Parity method) the Jordanian consumer market is limited.⁶³⁸ Investors are attracted to Jordan because the Jordanian economy as a whole has “free access to a market size of over 1.3 billion people.”⁶³⁹ This is the combined population total of all the markets which Jordan has duty and quota free access to following the signing of the various agreements outlined in chapter three.

Labour Issues

As highlighted above, the T&C manufacturing sector in Jordan is a labour intensive sector. A characteristic of the sector is that the labour force employed is generally semi-skilled. Furthermore, T&C is a low value added sector - albeit profitable to a certain extent. These three characteristics when combined with the average income for semi-skilled labourers in Jordan (approximately US\$900 per annum) results in a low salary for employees of the T&C sector which was estimated to be US\$700 per annum.⁶⁴⁰ By international and domestic standards this is not necessarily an extremely low figure. However, when coupled with two other dynamics of labour in the T&C sector the issue of labour rights emerges. These other two dynamics are as follows: multinational characteristics of the work force, and employee representation.⁶⁴¹

First let us examine the multinational nature of the workforce. The Ministry of Labour in Jordan has estimated that there are over thirty-six thousand expatriate workers employed by T&C manufacturing corporations operating in Jordan.⁶⁴² The remainder of the approximately eighty thousand employees in the T&C sector come from the local population. Of the expatriate

⁶³⁸ Farraj, E., December 24 2006.

⁶³⁹ Ibid.

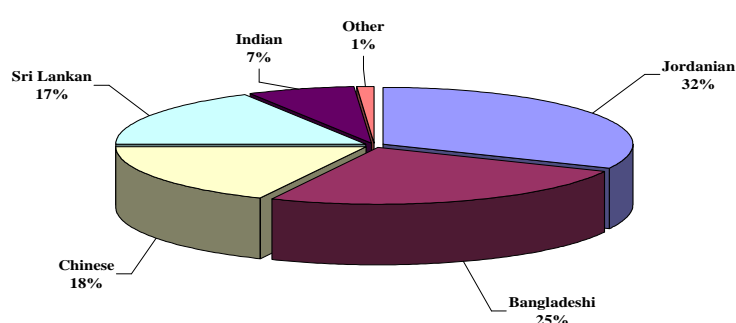
⁶⁴⁰ AFL-CIO, 2006, *Request by the American Federation of Labour and Congress of Industrial Organisations (AFL-CIO) and the National Textile Association (NTA) to the United States to Invoke Consultation Under the United States-Jordan Free Trade Agreement to Address Jordan's Violations of the Agreement's Labour Rights Provisions*, Washington: AFL-CIO, p: 16.

⁶⁴¹ Ministry of Labour, 2006, *Report on the Status of Migrant Workers in the Qualifying Industrial Zones and Industrial Estates*, Amman: Ministry of Labour, p: 5-16.

⁶⁴² Ministry of Labour, May 2007, *Labour Report*, p: 18.

employees there are four main nationalities, these are Chinese, Bangladeshi, Indian and Sri Lankan.⁶⁴³ Figure 5.6 shows the percentage breakdowns of the main nationalities in the T&C workforce. The vast majority of the expatriate workforce enters Jordan through international employment agencies. The average employment period for these expatriates working in Jordan is estimated by the Ministry of Labour at between two and a half and three years.⁶⁴⁴

Figure 5.6 T&C Workforce Nationalities as Percentage 2007⁶⁴⁵



In early 2006 international and domestic media attention began to focus on the conditions and rights of T&C sector employees. Concerns emerged about the number of hours employees were made to work, the salaries paid to them, human rights abuses and representation issues.⁶⁴⁶ As stories of worker abuse and mismanagement increased in frequency a number of US-based and international human rights organisations began to call for government intervention. On September 21 2006 The American Federation of Labour and Congress of Industrial Organisations (AFL-CIO) and the National Textile Association (NTA) – both US-based organisations – requested the US government invoke chapter seventeen (the dispute mechanism) of the JUSFTA citing violations of labour rights.⁶⁴⁷ The JUSFTA which as highlighted in chapter three now forms the backbone of US-Jordan trade

⁶⁴³ Ibid.

⁶⁴⁴ Ibid.

⁶⁴⁵ Ibid.

⁶⁴⁶ Harrison, P., Jordan Rocked by Abuse Claims, May 5 2006, Emerging Textiles.com: Textile and Clothing Trade Information.

⁶⁴⁷ AFL-CIO, 2006.

relations included an unprecedented chapter regarding labour rights (Article 6). This chapter requires both states to comply with internationally recognised labour rights and to enforce their respective labour laws.⁶⁴⁸

The problem of labour abuses in Jordan's T&C sector stems from two main factors which have allowed labour abuse to occur. The first is related to the nature of the global T&C industry and the T&C sector in Jordan. As outlined above the semi-skilled, multinational and low paid labour required by this sector means that labour is sourced from peripheral labour pools.⁶⁴⁹ The second factor is that Jordan's labour code and related laws have serious deficiencies that allow for the weakening of labour rights. In short there is a naturally vulnerable workforce operating with limited protection from private capital interests.

There are a large number of key deficiencies in the Jordanian labour code and laws. Firstly, and extremely importantly in relation to the rights of the T&C labour force, union membership is restricted to Jordanian nationals – no expatriate workers can be involved in any way in any trade or labour unions.⁶⁵⁰ Second, union membership for Jordanians is also restricted by age, occupation and criminal background. Any Jordanian seeking union membership must be twenty-five years old or more, have no criminal convictions and can only be involved in a union of his or her profession.⁶⁵¹ A third major deficiency is that the government controls union representation by industry, allowing only one union per industry (of which only seventeen have been defined as eligible). Furthermore, the government's labour code and laws demand that any union has to have at least fifty members when first established.⁶⁵² A fourth issue is that the government's labour code gives the Minister of Labour control over the governing documents and charters of any union. This means that the minister must be consulted and his consent given before any union can be formalised – in effect allowing the government to

⁶⁴⁸ Article 6, *Agreement Between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area*, 2000.

⁶⁴⁹ See *Draft Law on Political Associations*, 2005.

⁶⁵⁰ AFL-CIO, 2006, p: 6.

⁶⁵¹ Ibid.

⁶⁵² *Draft Law on Political Associations*, 2005.

determine what the union's purpose is. The final issue is that the government of Jordan requests a minimum of fourteen or twenty-eight days notice prior to a general strike for the non-public service and the public service sectors respectively.⁶⁵³ In practice this means that unions are required to obtain permission from the government to strike. When combined, these five deficiencies in labour code and laws means that labour rights in Jordan are limited thus weakening the position of the labour force in relation to both government and business.

Several days after the AFL-CIO and NTA request to the US government, the Jordanian government issued a statement declaring "[R]egrettably the AFL-CIO and the NTA decided to file their case just days after labour conditions in Jordan were vigorously scrutinised and further remedial steps were agreed upon."⁶⁵⁴ The 'remedial steps' referred to in this statement were declared a number of weeks prior to the AFL-CIO and NTA action. The then Minister of Industry and Trade, Salem Khazala, acknowledged in June 2006 that the government had failed to enforce its own laws regulating labour and had failed to protect expatriate workers.⁶⁵⁵ It was also announced that a number of factories in the kingdom's industrial estates and QIZs where violations had been reported would be closed until investigations could be completed. By January 2007 four factories had been closed, three remaining closed through 2007.

In an interview with Maha Ali, the Director of the Department of Foreign Trade Policy in the Ministry of Industry and Trade, conducted in December 2006, the issue of labour rights in Jordan were highlighted. According to Ali the development of trade relations with the United States has been good for labour rights in Jordan. It is worth quoting her at length here:

The JUSFTA was an historic agreement with relation to labour rights. No previous bilateral free trade agreement had

⁶⁵³ Ibid, Article 135 (1).

⁶⁵⁴ Anon, Jordan Regrets US Union Action, September 30 2006, Al-Jazeera News.

⁶⁵⁵ Sparshott J., Jordan Shutting Abusive Factories, June 17 2006, *The Washington Times*.

included a chapter on labour. Here we do take seriously the condition of employees in the industrial estates [and QIZs] and enforcement of Article 6 of JUSFTA has become a priority. Before the JUSFTA was signed, we would not have any action on labour abuses so in that way the agreement is progressive.⁶⁵⁶

The US Market and Jordanian T&C Exports

The US T&C market is the largest in the world. It accounts for approximately 24 percent of T&C global imports (approximately 37 percent for apparel).⁶⁵⁷ Over the past decade the US market has witnessed sustained growth in imports.⁶⁵⁸ Foreign imports of T&C goods now supply over two-thirds of the US market. This figure has also been consistently increasing over the past five years as US T&C firms continue to source goods directly from developing states. The US T&C manufacturing sector has seen production decline to US\$53 billion in annual exports – a decline of over 15 percent in the 1999-2006 period.⁶⁵⁹

At the same time that US T&C production has been decreasing the overall market size has been increasing. The difference in domestic supply and demand has been met by foreign imports which have increased rapidly due to freer trade. Since 2001 the United States has signed a number of FTAs and Trade Promotion Acts (TPAs)⁶⁶⁰ and the MFA came to an end in 2005. The result has been greater access to the US market for overseas T&C producers and greater potential for outsourcing by domestic producers. The introduction of the MFA in 1974 controlled the amount of T&C goods exported by developing producers and so somewhat protected the US T&C sector. The ending of the MFA on January 1 2005 saw the EU and US markets flooded

⁶⁵⁶ Ali, M., December 24 2006.

⁶⁵⁷ USITC, 2004, *US-Bahrain Free Trade Agreement: Potential Economy Wide and Sectoral Effects*, Washington: United States International Trade Commission, p: 33.

⁶⁵⁸ US Census Bureau, Foreign Trade Statistics, 2007.

⁶⁵⁹ Pigato, M. et al, 2006, p: 33.

⁶⁶⁰ Including with the following states: Australia, Bahrain, Chile, Colombia, Malaysia, Morocco, Oman, Panama, Peru, Singapore.

with developing states' exports of T&C goods. Most of the increase in imports came from China and India which increased their exports to the US market by approximately 55 percent and 26 percent respectively in the first five months of 2005. In response the US and EU re-imposed quota limits on Chinese imports. In the case of the United States a unilateral imposition of a 7.5 percent growth quota was implemented in June 2005.⁶⁶¹

The effect on Jordanian T&C exports to the US market was minimal in comparison to the effects on other states – such as Moroccan exports to the EU. T&C exports from Jordan increased by 13 percent in 2005, down from the 19 percent increase seen in 2004, but nonetheless still one of the more impressive postings after China, India, Cambodia, Bangladesh and Indonesia. While the US market became more competitive with the end of the MFA some states which had previously been supplying the US with large quantities of T&C goods maintained a competitive edge. Jordan was one of those states and the T&C export sector remained strong in the US market. This is in part a result of the near total orientation of the Jordanian T&C sector to the US market as well as lower labour costs than most competitors and quicker production times despite the greater distance to the US market in relation to some producers.⁶⁶²

One advantage that Jordan enjoys over the majority of other T&C competitors in the US market comes from the JUSFTA. While other states now have duty and quota free access to the US market, stringent rules of origin lower efficiency and profitability. Article 14 and annex 2.2 of the JUSFTA allow Jordan to source material from anywhere in the world and still have free access to the US market. This is an unprecedented measure and one that has not been replicated in any other agreement between the US and another state.⁶⁶³ According to Maha Ali this provision was granted to Jordan in part as a peace dividend for the peace agreement with Israel and partly because the

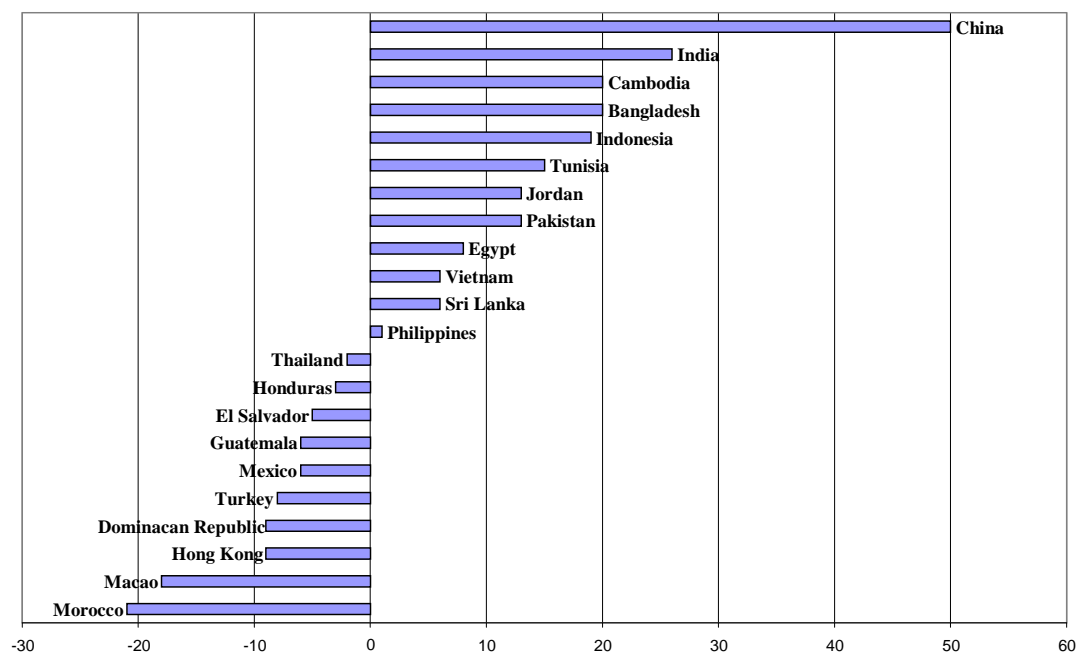
⁶⁶¹ Pigato, M. et al, 2006, p: 5.

⁶⁶² Atmeh, M., December 28 2006.

⁶⁶³ Lawrence, R., 2006.

United States wants the Jordanian economy to thrive.⁶⁶⁴ This latter point cannot be over-emphasised. “Jordan-US trade is an important model of bilateral cooperation for the United States in the Middle East [*and North Africa*], one that the Bush Administration wants to see work.”⁶⁶⁵

Figure 5.8 Percentage Change in US T&C Imports by Leading Sources Post-MFA (2004-2007)⁶⁶⁶



The quota restrictions re-imposed on China by the United States will come to an end in 2008. It is anticipated by many that Chinese T&C exports will again increase exponentially and thus so will competition in the US T&C market.⁶⁶⁷ The forecasted decline in the US T&C production sector will offset some of this increased competition as will continued growth of the market. Nevertheless, the Jordanian T&C sector will face increased competition in the future. However, it is likely that the three main advantages the Jordanian T&C sector enjoys – relaxed rules of origin, being oriented to the US market and

⁶⁶⁴ Ali, M., December 22 2006.

⁶⁶⁵ Ibid.

⁶⁶⁶ US Census Bureau, Foreign Trade Statistics, 2007.

⁶⁶⁷ Ali, M., December 22 2006.

favoured support from the US government – over other states will remain and allow exports to continue to post steady yearly increases.

Conclusions

The growth of the T&C sector within Jordan can be seen as being linked directly to the transformation of the government's macro-economic policy as well as to the establishment of the QIZs and their related bilateral institutions. In particular, changes in foreign trade policy and engagement with institutions pertaining to trade since the mid-1990s have had a significant impact. The pursuit of greater economic integration with international markets through trade liberalisation and bilateral agreements with the United States and others have produced both the opportunity for the T&C sector to expand. Gaining duty and quota free access to the US market was taken advantage of by promoting certain export-oriented manufacturing sectors within the Jordanian economy from 1997 onwards and the implementation of the JUSFTA in 2001 furthered these processes. In the subsequent years the Jordanian government has worked in conjunction with private sector actors and semi-governmental organisations to support and promote the T&C sector both at home and abroad.

Since 2001 exponential growth in inward investment to the T&C sector has been witnessed. The build up to and materialisation of the US-led invasion of Iraq temporarily disrupted investment flows but levels of FDI and domestic investment have since reached record levels. Continued growth in exports to the US market is expected to be seen over the coming years as Jordanian exports compete in an increasingly aggressive market in the post-MFA era. The overall partnership between the Jordanian government and private sector actors – largely from abroad – and the relatively strong position of Jordanian T&C manufactures in the US market should lead to a further entrenchment of US-Jordan trade relations. In turn this will likely serve to compel the Jordanian government to maintain the current 'business friendly' environment within the kingdom and potentially further liberalise the economy. In turn

T&C exports to the US market likely will continue to grow in the short to medium-term future.

The analysis presented in this chapter suggests that the engagement with multilateral and bilateral institutions in the forms of IOs such as the WTO, trade regimes such as the MFA and key agreements such as the JUSFTA have had a significant impact upon trade liberalisation. Furthermore, trade levels between Jordan and the United States have also been impacted. In the first instance trade liberalisation has occurred to a great extent between Jordan and the United States whereby at the time of writing all trade in goods is fully liberalised. In the second instance trade levels in T&C goods have grown rapidly, albeit in a bilateral manner as exports from Jordan to the US market account for practically all trade in T&C goods. The economic growth of this sector in Jordan is highly significant and has been relatively rapid, adding to the overall Jordanian economy and GDP through increased exports, investment and horizontal economic spread. This suggests that Jordanian governmental facilitation of trade with both the United States and other markets through engagement with international institutions and domestic reform is achieving the aim of economic growth. However, this analysis is only of one economic sector. Furthermore, it is a low value-added, labour intensive sector which is not necessarily representative of the Jordanian economy as a whole.

The issue of state-actor involvement in international institutions as a means to increasing economic integration is important to the analysis in this chapter. However, the role of non-state actors also is pivotal. Here, the roles of organisations such as JIEC, JEDCO and the JIB have been instrumental in the increasing levels of bilateral trade in T&C goods. The support that these actors have given to T&C manufacturers has been very important in allowing these corporations to operate in Jordan and export competitively to the US market. The T&C manufacturing corporations operating in Jordan have been buoyed by rising levels of international investment. This has allowed them to exploit the opportunities provided by the JUSFTA and export to the US market. In short if it were not for the agency of these actors the impact of

international institutions on their own would not have the significant impact on bilateral economic integration that has been witnessed.

With regards to the United States, as discussed in chapter four, economic growth has not been the key interest that has compelled the United States to pursue greater cooperation with Jordan through international institutions and subsequent bilateral trade liberalisation. Rather broader interests relating to inter-state cooperation at the international level and in the political and security spheres seem to have been more important. In this study there is evidence of greater market integration, or possibly the creation of market dependence, where the Jordanian T&C sector has become dependent upon access to the US market. There is also evidence of the utility of international institutions in facilitating trade and encouraging non-state actor cooperation across markets. However, there is little evidence, beyond speculation, provided in the analysis of bilateral trade in T&C goods that suggests that greater state level integration and cooperation between Jordan and the United States has followed.

The issue of labour rights in Jordan which is embodied in the JUSFTA and which forms a key element of the regulatory regime of trade between the two states offers some insights here. The linkage of a domestic non-state actor economic matter in Jordan to state actor cooperation and regulation at the international level through international institutions is certainly important. The AFL-CIO request to the US government regarding non-state actor management of labour issues in Jordan, as discussed above, and subsequent state level coordination is an example of state level cooperation and integration. However, how far this form of cooperation permeates other state relations is unanswerable at this stage. Simply assessing one economic sector and one form of trade is not sufficient in order to answer the main questions in this thesis and so two more economic sectors and forms of trade are analysed in the following chapters in order to shed more light on the topic.

Chapter Six

Bilateral Trade in Pharmaceutical Products

Introduction

The purpose of this chapter is to assess the nature and level of trade in pharmaceutical goods between the United States and Jordan, and to examine how the regulatory framework within which this trade takes place has begun to reshape the interaction of the two sectors. The assessment of the political economy of trade relations between Jordan and the United States is furthered by analysing what can be termed a ‘second form’ of trade activity – trade in high value-added, capital intensive goods. This type of trade is characterised by relatively equal levels of trade in terms of total value and quantity as well as by a more important role for the United States in creating the framework within which bilateral trade occurs.

Analysis of bilateral trade in pharmaceutical goods between Jordan and the United States poses a number of problems as well as useful insights when assessing the political economy of trade between the two states. Problems are posed due to the relatively insignificant levels of trade in pharmaceutical goods in overall monetary terms. Jordanian exports of such products to the US market, for example, constitute a mere 2-3 percent of total exports. US pharmaceutical exports to the Jordanian market are also small in relation to total exports and in relation to US exports to other markets in the MENA region. However, the pharmaceutical sector constituted a major element of the JUSFTA and a deeper analysis of both the Jordanian and the US pharmaceutical industries and how they are interacting presents some interesting conclusions. In relation to bilateral trade in T&C the interaction of the two pharmaceutical markets highlights a very different side to bilateral relations. While trade in T&C goods is heavily one-sided, in that Jordanian exports constitute the majority of trade flows, trade in pharmaceutical goods is more even, but with US exports constituting the larger part of trade levels. More important than the actual levels of trade in goods is the institutional framework within which pharmaceutical trade takes place. This structure has been reshaping the relationship between the two pharmaceutical markets since 2001.

Once again the following analysis will draw upon the key principles of the critical liberal institutionalist approach used in this thesis to study the ways in which the international institutions engaged with by Jordan and the United States have liberalised and facilitated trade between the two. Also, this chapter will study a plurality of actors and their relationships at the domestic and international levels to analyse what the effects of trade liberalisation have been. A key question in this and the preceding chapter is whether or not state actor interests are being achieved or not.

To develop the analysis presented here it is necessary to first outline the global environment in pharmaceutical trade and the key institutions which govern it, of which the United States and Jordan are a part and so which largely determines this form of bilateral trade. The first section of this chapter thus addresses the impacts of the WTO-negotiated TRIPs agreement and how both the United States and Jordan have complied with this agreement. Following on from this first section is an assessment of the provisions of the JUSFTA relating to international IPRs and thus how trade in pharmaceutical goods is managed under the agreement.

The third section provides an overview of the Jordanian pharmaceutical industry and how it has developed over the past decade and a half. Here the growth of the sector to become the second leading export earner in the Jordanian economy is described followed by an analysis of the main actors operating in the sector. The importance of investment and technology flows are highlighted as these two issues have formed the backbone of activity in the sector since the mid-1990s. The relationship between domestic and external private sector actors is also briefly analysed.

A detailed assessment of the US pharmaceutical sector in this thesis would be overly complex and time consuming and is not necessary for the purpose of this chapter. However, a brief assessment is offered followed by an assessment of pharmaceutical trade in relation to contemporary US trade policy and bilateral FTAs. A review of the main US actors either exporting to

or operating in the Jordanian sector is then presented. A final section summarises the main points and arguments presented in this chapter and offers a conclusion on the complex nature of trade in pharmaceutical goods between Jordan and the United States.

TRIPs and Pharmaceutical Production in Jordan and the United States

At the time of writing there is no single legal international regime which governs IPRs with absolute jurisdiction. Copyright, patent or trademark for any product or process for which these rights are eligible can only be provided by national governments in the territorial entity for which such rights are required.⁶⁶⁸ In many cases national legislation for the provision of these protective rights differ and in some cases do not exist in any recognisable form. However, attempts to manage the international issue of IPRs have been underway since the nineteenth century⁶⁶⁹ and a number of international agreements do exist. The most important of these agreements is the WTO agreement on TRIPs established at the end of the Uruguay Round of Negotiations of the GATT treaty in 1994. As both the United States (1995) and Jordan (2000) are members of the WTO and therefore signatories to the TRIPs agreement their pharmaceutical industries and trade in pharmaceutical products are shaped by the rules governing international IPRs through these institutions.

The World Intellectual Property Organisation (WIPO) defines intellectual property as “*creations of the mind: inventions, literary and artistic works, as well as symbols, names, images, and designs used in commerce.*”⁶⁷⁰ In relation to the pharmaceutical industry this includes both products, such as a new drug

⁶⁶⁸ Thomas, J. R., December 21 2005, *Intellectual Property and Free Trade Agreements: Innovation Policy Issues*, Washington: Congressional Research Service Report, p: 5.

⁶⁶⁹ See Abbott, F., and Cottier, T., 1999, *The International Intellectual Property System: Commentary and Materials*, London: Kluwer Law International.

⁶⁷⁰ WTO, September 2006, *TRIPs and Pharmaceuticals Factsheet*, Geneva: World Trade Organisation p: 2.

or medicine, and processes by which pharmaceutical products are created.⁶⁷¹ The TRIPs agreement covers a broad range of IPRs, including patents, trademarks, copyright and trade secrets. Within each of these areas the agreement establishes the minimum standard of protection which all WTO members and signatories to TRIPs must abide by. Also included in the agreement are enforcement provisions and a dispute mechanism whereby any dispute is reported to the WTO's Dispute Settlement Body (DSB). If one member state believes that a second is in violation of the TRIPs agreement then these states may conduct dialogues through the DSB following which if no settlement is made the DSB will convene a panel to rule on the dispute.⁶⁷²

The agreement includes the provisions of earlier treaties on copyrights, patents and trademarks. These are the Berne Convention in the case of the former and the Paris Convention in the case of the latter.⁶⁷³ With regards to copyrights the TRIPs agreement obligates the member states to each provide protection from the time of registration up to a minimum of fifty years of protection from the death of the author or creator.⁶⁷⁴ In relation to pharmaceutical goods this is not as relevant a provision as that pertaining to patents. Here member states agree to provide the patentees the exclusive rights to exclude other actors from producing, using, selling or importing the patented good.⁶⁷⁵ There are exceptions under certain circumstances such as in situations deemed emergencies,⁶⁷⁶ and the control of products or processes which is viewed as in violation of the order *public or morality*. Patents are given a minimum of twenty years protection from the filing date under the agreement, after which time they would be off-patent unless otherwise negotiated. It is worth noting at this point that each bilateral FTA signed by the United States since 2000, including the JUSFTA, has addressed in some

⁶⁷¹ Ibid. Note: it is often the case that with developing economies the product process is recognised as being protected by international property law but not the actual product itself.

⁶⁷² WTO, April 15 1994, *Understanding on Rules and Procedures Governing the Settlement of Disputes, WTO Agreement, Annex 2, Legal Instruments - Results of the Uruguay Round, Vol. 31, No. 33, I.L.M. 1226.*

⁶⁷³ Berne Convention for the Protection of Literary and Artistic Works, September 9 1886, 828 UNTS. 221. Paris Convention for the Protection of Industrial Property, March 20 1883, 13 UST. 1.

⁶⁷⁴ TRIPs Agreement Article 12.

⁶⁷⁵ Ibid, Article 28.

⁶⁷⁶ Ibid, Article 27 (2).

manner this provision. Under US law, patents are given a minimum of twenty years protection from the date of issuance of the patent. The US concern here is that intentional delaying of the registration process could significantly reduce the period of actual patent protection once patentability has been issued under WTO rules.⁶⁷⁷

For many developing states, as has been the case for Jordan, signing up to the TRIPs agreement has resulted in major structural adjustments in their pharmaceutical industries.⁶⁷⁸ Prior to becoming the one hundred and thirty-sixth member of the WTO and having to abide by the provisions in the TRIPs agreement, Jordanian pharmaceutical production consisted of about 10 percent unlicensed in-patent products.⁶⁷⁹ Under the agreement this would no longer be possible following the offered adjustment period (discussed below). In order for Jordanian pharmaceutical manufacturers to continue to produce in-patent products they had to either register these products with the government of Jordan by gaining a license from the patentee to do so or be issued a temporary licence by the government (usually in exceptional or emergency circumstances).⁶⁸⁰ Under the TRIPs agreement the issuance of compulsory licences is allowed although severely restricted. According to Article 31, compulsory licences can be issued if the proposed user has:

... made efforts to obtain authorisation from the patent owner on reasonable commercial terms and conditions and must demonstrate that such efforts have not been successful within a reasonable period of time. However, this requirement may be waived in the case of a national emergency or other circumstances of extreme urgency.⁶⁸¹

Furthermore, the issuance of such a license by a national government is revocable at any time, must result in remuneration of the patent holder and

⁶⁷⁷ Thomas, J. R., 2005.

⁶⁷⁸ Watal, J., 2001, *Intellectual Property Rights in the WTO and Developing Countries*, New Delhi: OUP.

⁶⁷⁹ Arafat, A., 2001, *Pharmaceuticals Sector Report*, Amman: Export & Finance Bank, p: 5.

⁶⁸⁰ Ibid.

⁶⁸¹ TRIPS Agreement Article 31.

will be subject to bi-annual independent WTO review.⁶⁸² Under these strict controls the Jordanian government has not issued a compulsory licence for a patented pharmaceutical product.

In the case of Jordanian pharmaceutical manufacturers, a set time limit was given for abiding by all TRIPs agreement rules. WTO member states are given a transition period from membership to the TRIPs agreement in which to adjust and implement all necessary measures to comply with the stipulated rules.⁶⁸³ This period is one year for developed states, five years for underdeveloped states and ten years for the least developed states until 2010, with the latter extended to 2013. Jordan became a member of the WTO in 1999 and had to accept TRIPs provisions immediately. However, rather than accepting the five year transition period on offer the Jordanian government immediately upon becoming a WTO member fully implemented the TRIPs agreement.⁶⁸⁴ Patent Law No. 32 was drafted in 1999 to supersede the Patent and Industrial Design Law No. 22/1953. The new legislation offered full compliance with TRIPs regulation, and includes the following features:

- 1) It allows the grant of patents in all fields of technology, whether it is a product or a process invention, provided that the conditions are met of novelty, inventive step and capability of industrial application. However, the only exceptions which pertain to the subject-matter is based on Article 27.3 of the TRIPs Agreement.
- 2) The patent owner's rights are covered in the Jordanian law in conformity with Article 28 of the TRIPs Agreement.
- 3) The law established a mechanism for issuing a compulsory licence and limited it to three situations only. Moreover, the

⁶⁸² Ibid.

⁶⁸³ Maskus, K., 2000, *Intellectual Property Rights in the Global Economy*, Washington: Institute for International Economics, p: 25.

⁶⁸⁴ Arafat, A., 2001, p: 5.

Jordanian law adopted provisions similar, not identical, to the provisions of Article 31(a) to (k) of the TRIPs Agreement.

- 4) The Jordanian Patent Law has introduced a unique provision in order to encourage inventors to register their patents in Jordan and this is through Article 4(f), which extended the novelty term from twelve months from the first application to eighteen months after filing an application anywhere outside Jordan.
- 5) The Jordanian Patent Law has introduced a provision where, in the case of an infringement of a process patent, the burden of proof must be reversed, so that a defendant must prove that an identical product has been produced without infringing the rights of the patent owner, consistent with Article 34 of the TRIPs Agreement.⁶⁸⁵

As a founding member of the WTO and leading advocate of the TRIPs agreement, the United States was in compliance with all provisions of the agreement at its inception on January 1 1995. The United States has been the leading advocate of respect for and implementation of protection for IPRs over the past three decades.⁶⁸⁶ Furthermore, the United States government has consistently linked bilateral trade policy to IPRs since the early 1980s.⁶⁸⁷ As mentioned above, US bilateral FTAs have addressed IPRs in detail and in most cases have strengthened further compliance with international IPRs.⁶⁸⁸

⁶⁸⁵ WTO, August 13 2001, *Review of Legislation: Jordan*, Washington: Council for Trade-Related Aspects of Intellectual Property Rights, p: 3.

⁶⁸⁶ Arup, C., 2000, *The New World Trade Organisation*, Cambridge: Cambridge University Press.

⁶⁸⁷ Braithwaite, J., and Drahos, P., 2000, *Global Business Regulation*, Cambridge: Cambridge University Press.

⁶⁸⁸ Thomas, J. R., 2005.

Protection of Intellectual Property Rights and the JUSFTA

The provisions of the JUSFTA pertaining to IPRs were largely designed by the United States and were included in the agreement at the insistence of the US government.⁶⁸⁹ There is no evidence that the Jordanian government actually resisted the inclusion of these provisions. However, likewise there is limited evidence that suggests that during the negotiating process the Jordanian government proactively pursued the inclusion of agreements on IPRs related issues. Rather the JUSFTA further strengthens the IPRs regime within which Jordanian pharmaceutical manufacturers must operate. Article 4 of the JUSFTA deals with IPRs by specifying provisions on ratifying previous international agreements, including the Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks⁶⁹⁰ and the Patent Cooperation Treaty.⁶⁹¹ It is important to note that these provisions were with regards to Jordan and not the United States. This is because Jordan was not a signatory to the previous agreements included while the United States was.

The FTA also addresses trademarks (Article 4, 6-9), copyright and related rights (Article 4, 10-16), patents (Article 4, 17-21), measures related to certain regulated products (Article 4, 22-23), enforcement of IPRs (Article 4, 24-28) and transition periods (Article 4, 29). With regards to the provisions on patents the JUSFTA has slightly stricter rules than the TRIPs agreement. The process of registering a patent is more demanding and the issuance of a patent right is made for a minimum of twenty years after the patent registration process has been completed.⁶⁹² Furthermore, the JUSFTA commits both states to ensure that their statutory punishments for infringements on IPRs are high

⁶⁸⁹ Hazimeh, F., Lead Counsellor for the Jordanian Mission at the WTO, interview held at the WTO in Geneva, Switzerland on April 25 2007. Mr Hazimeh has been the lead counsellor since 1999 and has been directly involved in the Jordanian accession negotiations to the WTO, the JUSFTA and a number of other bilateral agreements.

⁶⁹⁰ Adopted by the Assembly of the Paris Union for the Protection of Industrial Property and the World Intellectual Property Organisation in 1999.

⁶⁹¹ *Agreement Between The United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area*, Article 4 points 1 through 5.

⁶⁹² *Ibid*, pp: 6-7.

enough to deter any such infringements. United States legislation already ensures a very high level of protection for IPRs. In Jordan prior to 2001 and the implementation of the FTA, legislation was not as stringent. Thus, again these provisions were largely aimed at strengthening such rights in Jordan.⁶⁹³ Transition periods for meeting the provisions in Article 4 varied from immediate implementation to three years for the different requirements. Jordanian ratification of the World Copyright Treaty and WPPT, for example, was two years from the entry into force of the FTA, while abiding by rules on pharmaceutical patents would take effect immediately.⁶⁹⁴ This is in comparison to the five year adjustment period offered by the WTO in relation to the TRIPs agreement. As Hamed El-Said and Mohammed El-Said have noted, there exists a significant difference between TRIPs regulations and what has been termed TRIPs-Plus agreements as embodied in bilateral and multilateral FTAs.⁶⁹⁵ Here, the provisions of FTAs relating to the protection of IPRs can be seen to be much more stringent than the WTO-negotiated TRIPs agreement.

The Jordanian Pharmaceutical Sector

Pharmaceutical manufacturing as a component of the Jordanian economy is one of the more dynamic sectors and over the past decade has been rapidly emerging as a leading contributor to GDP. The sector began to emerge in the early 1990s. While pharmaceutical manufacturers have been operating in Jordan since the 1960s their activity was limited and growth was not dynamic.⁶⁹⁶ However, by 1990 increasing exports to regional markets in the Middle East began to propel the sector forward. The domestic market is relatively small with a current population of approximately 5.8 million (January 2008) and was even smaller in 1990 with a total population

⁶⁹³ See El-Said, H., and El-Said, M., TRIPs-Plus Implications for Access to Medicines in Developing Countries: Lessons from the Jordan-United States Free Trade Agreement, in *The Journal of World Intellectual Property*, November 2007, Vol. 10, No. 6, pp: 438-475.

⁶⁹⁴ Ibid, p: 8.

⁶⁹⁵ El-Said, H. and El-Said, M., TRIPs in Bilateral Agreements: The Jordan-US FTA, in *Manchester Journal of International Economic Law*, 2005, Vol. 2, No. 1, pp: 59-80.

⁶⁹⁶ Atmeh, M., Deputy CEO of the Jordan Industrial Estates Corporation, interview held in Amman, Jordan on December 28 2006.

estimated at only 3.5 million. Furthermore, European pharmaceutical manufacturers have traditionally captured a large share of the Jordanian market leaving a smaller share for domestic producers. According to the Export and Finance Bank in Jordan, European corporations traditionally have supplied about two thirds of the Jordanian market and Jordanian producers have accounted for the remaining one third.⁶⁹⁷

Under these conditions domestic producers embarked upon exporting drives through the 1990s to neighbouring markets. As a result, over the past decade Jordanian pharmaceutical producers have become the leading MENA region exporters to the Lebanese, Iraqi, Saudi Arabian and UAE markets. The Jordanian pharmaceutical sector is widely seen as the leading such sector in the MENA region outside of Israel. Production facilities, staff, market access and quality have all received a better rating than pharmaceutical sectors in other MENA states.⁶⁹⁸ In 1990 total pharmaceutical exports reached US\$49 million, most of which went to the Iraqi market (US\$25 million).⁶⁹⁹ This accounted for 5.8 percent of total Jordanian exports and approximately 60 percent of pharmaceutical sector revenue. By 1995 total pharmaceutical exports had tripled and totalled just over US\$142 million - most of which was still to regional markets. Total pharmaceutical exports continued to rise from 1995 and by 2006 export revenue totalled just under US\$304 million.⁷⁰⁰ As a share of sectoral revenue exports now stand at 70 percent - total revenue in the pharmaceutical sector currently totals US\$400 million - and pharmaceutical exports are now the second largest exports in value terms after T&C goods representing 4 percent of GDP and 12 percent of total exports.⁷⁰¹

In comparison to exports, imports of pharmaceutical goods over the past decade have seen a much slower pace of growth (see table 6.2). This is due to

⁶⁹⁷ Manneh, J., 2004, *Pharmaceuticals Sector Report*, Amman: Export and Finance Bank.

⁶⁹⁸ Ryan, M., and Shanebrook, J., 2004, *Establishing Globally Competitive Pharmaceutical and Biomedical Technology Industries in Jordan: Assessment of Business Strategies and The Enabling Environment*, Washington: International Intellectual Property Institute Publications.

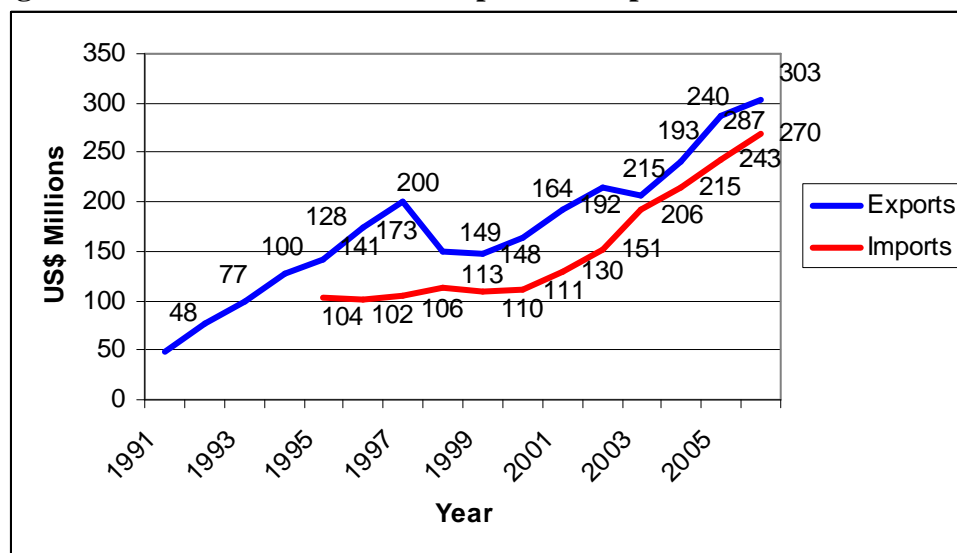
⁶⁹⁹ Ministry of Industry and Trade: Trade and Investment Information Database, 2007.

⁷⁰⁰ Ibid.

⁷⁰¹ Ibid.

two factors: firstly the Jordanian market for pharmaceuticals remains relatively small and growth in this market is limited by an only average population growth (2.6 percent) and the over-saturation of the market with producers. Furthermore, unequal income distribution and relatively modest per capita income growth (equivalent to approximately \$300 per year over the past decade) have limited growth in the domestic market. Third, imports had been growing at a slower rate relative to exports (until 2005, when imports began to rise at a higher rate than in previous years) as Jordanian corporations expanded their activities and in particular their exports to traditional markets (which in 2006 still accounted for almost 90 percent of pharmaceutical exports) and expansion into new ones such as Europe and the United States.⁷⁰²

Figure 6.1 Total Pharmaceutical Exports & Imports 1991 - 2006⁷⁰³



In an economy which has traditionally had difficulties providing enough employment opportunities to reduce unemployment figures to a level of perhaps 15 percent - as opposed to the current (unofficial) 30 percent - sectors which have seen consistent employment growth are key to the overall health of the economy.⁷⁰⁴ Employment in the pharmaceutical sector has witnessed solid growth in the past decade and predictions suggest that this growth is

⁷⁰² Atmeh, M., December 28 2006.

⁷⁰³ Ibid.

⁷⁰⁴ Knowles, W., 2005, *Jordan: A Study in Political Economy*, London: IB Taurus & Co Ltd, p: 98.

likely to continue.⁷⁰⁵ In 2007 the sector employed just under eight-thousand workers with four-thousand seven-hundred employed directly in pharmaceutical manufacturing. This is in comparison with total employment of only one-thousand eight-hundred in 1991 – a 257 percent increase in a fifteen year period.⁷⁰⁶ While the growth in employment in the sector is important, the location of employment opportunities and the type of employment are equally important. As discussed above, QIZs and other industrial estates are placed strategically around the kingdom - in part to benefit the local economies and communities. The majority of pharmaceutical manufacturers now operate in these zones and estates. However, unlike T&C manufacturers, pharmaceutical corporations are mostly located in or around the Amman area. This is partly because of the specific services and facilities needed and access to the relevant labour pools.

Jordanian Pharmaceutical Manufacturers

According to the Jordanian Association of Manufacturers of Pharmaceuticals and Medical Appliances (JAPM), the main representative body for the pharmaceutical sector, there are currently seventeen Jordanian corporations involved in pharmaceutical manufacturing.⁷⁰⁷ In 1995 there were only eleven such corporations with the oldest being Arab Pharmaceutical Manufacturers (APM) which was established in 1962. The growth in the number of pharmaceutical manufacturers was slow throughout the 1960s, 1970s and 1980s. However, by 1995 a large expansion in the number of manufacturers took place peaking at eighteen domestic producers by 2001. Some observers have claimed that this growth in manufacturers shows a dynamic and growing

⁷⁰⁵ Manneh, J., 2004.

⁷⁰⁶ JIB, 2005, *The Pharmaceutical Sector*, Amman: Jordan Investment Board, pp: 2-3.

⁷⁰⁷ Jordan Association of Pharmaceutical Manufacturers: These are as follows: Amman Pharmaceutical Industries Co. (API); Arab Centre for Pharmaceuticals and Chemicals ACPC); The Arab Pharmaceutical Manufacturing Co. Ltd. (APM); Dar Al Dawa Development & Investment Co. (DAD); Hayat Pharmaceutical Industries Co. Ltd.; Hikma Pharmaceuticals; The Jordanian Pharmaceutical Manufacturing Medical Equipment Co. Ltd. (JPM); Jordan River Pharmaceutical Industries L.LC. (Jorivier); Jordan Sweden Medical and Sterilization Co. (JOSWE); Al-Kindi Pharmaceutical Industries; Middle East Pharmaceutical and Chemical Industries and Medical Appliances Co. (Mid Pharma); Pharma International Co. (PIC); Philadelphia Pharmaceuticals; Ram Industries Co. Ltd.; The United Pharmaceutical Manufacturing Co. Ltd. (UPM); IPRC; Triumpharma.

sector.⁷⁰⁸ The increase in domestic producers has partly led to an increase in overall sector capital investments, which currently total US\$400 million with production value for 2006 at US\$249 million. In comparison the 1990 figures stood at US\$192 million and US\$112 million respectively.⁷⁰⁹ However, the increase in private sector actors in the domestic market has also limited domestic market penetration for some of the corporations. The increase in competition for domestic market shares has largely been confined to domestic producers while European producers maintain their overall position in the market.⁷¹⁰ Furthermore, only three of the Jordanian pharmaceutical manufacturers have been able to compete in international markets in any sustained manner. The three largest corporations account for 80 percent of domestic production, 90 percent of exports and over 75 percent of market capital.⁷¹¹ These are Hikma Pharmaceuticals, APM and Dar Al-Dawa and it is to these three corporations that we shall now turn.

Hikma Pharmaceuticals

Hikma Pharmaceuticals is currently the largest Jordanian manufacturer operating in the pharmaceutical sector. Founded in 1978 in Amman, Hikma has pursued a policy of internationalising its activities and expanding into external markets in order to increase profits.⁷¹² In its first decade of operation Hikma pursued expansion into regional markets, namely Saudi Arabia (where it is the fourth largest operating pharmaceutical corporation) and Algeria (the second largest operating pharmaceutical corporation). Following successful operation in these two markets as well as the domestic market Hikma began to implement a set of policies in 1990 aimed at gaining access to the European and US markets. This policy has been successful to a large extent and is attributable to two factors. The first method used to gain greater access to these key markets was to acquire manufacturing capabilities in them

⁷⁰⁸ JIB, 2005.

⁷⁰⁹ Ministry of Industry and Trade, Trade and Investment Information Database, 2007.

⁷¹⁰ Ryan, M., and Shanebrook, J., 2004.

⁷¹¹ Jordan Association of Pharmaceutical Manufacturers, 2007.

⁷¹² Ali, M., Director of Foreign Trade Policy, Ministry of Industry and Trade, interview held in Amman, Jordan on December 22 2006.

(discussed below). The second method pursued was to target niche markets for certain pharmaceutical products by focusing on research and development (R&D) and gaining approval for products by the relevant regulatory bodies such as the Food and Drug Agency (FDA) in the United States.⁷¹³ As a result Hikma has transformed itself from first a domestic-focused producer to a regional actor into an MNC with international operations and sales. In 2006 Hikma had sales in twenty-eight states.⁷¹⁴ Significantly, sales have doubled since 1996 and the US market now represents 50 percent of all Hikma sales while Europe accounts for 7.8 percent and the MENA region including the domestic market accounts for 42.2 percent of sales revenue.

In order to expand into the US market (the world's largest pharmaceutical) Hikma purchased West-Ward, a New Jersey, US-based corporation in 1991. By 2006 the Hikma subsidiary had been transformed from a loss-making manufacturer into a profitable operation bringing in US\$120 million of sales revenues.⁷¹⁵ Through West-Ward, Hikma has gained stable and sustainable access to the US market and the expansion of R&D activities as well as an increasing number of USFDA approved products have spurred US sales. In the European market production facilities in Portugal and Italy have allowed Hikma to penetrate the world's second largest pharmaceuticals market. An injectable manufacturing facility was built in Portugal in 2002 consisting of four production lines. One line produces cephalosporins, while the other three lines produce liquid injectables for sale in all Hikma markets. A new seven-thousand five-hundred square metre cephalosporin manufacturing facility has been developed in Portugal and is operational as of summer 2007. Also developed and operational in 2007 is a production facility for injectables in Italy. This plant focuses on producing lyophilized products and works in conjunction with a new warehouse and packaging facility.⁷¹⁶

⁷¹³ Hikma Pharmaceuticals, 2006, *Annual Report*, Amman: Hikma Pharmaceuticals, p: 5.

⁷¹⁴ Ibid: these are: United States; United Kingdom; Portugal; Spain; Italy; Germany; The Czech Republic; Slovakia; Ukraine; Finland; Kazakhstan; Uzbekistan; Morocco; Algeria; Tunisia; Libya; Egypt; Sudan; Chad; South Africa; Syria; Iraq; Saudi Arabia; Yemen; Oman; Lebanon; UAE; Jordan.

⁷¹⁵ Ibid, p: 5.

⁷¹⁶ Ibid.

In the MENA region too, greater access to markets has been pursued by acquisitions and the development of manufacturing facilities. In Saudi Arabia Hikma has a number of manufacturing facilities owned by Jazeera Pharmaceutical Industries (JPI), which is now fully owned by Hikma (final acquisition of the remaining shares of JPI took place in Autumn 2006).⁷¹⁷ These facilities produce solid, semi-solid and liquid products but not injectables. In Algeria construction of a production facility for solid, semi-solid and liquid branded generics began in 2006 and once completed the facility will supply the Algerian market.

Of more importance to increased product sales and market access is the attainment of regulatory body approval for Hikma products. Prior to 1999 as mentioned above, Jordanian manufacturers of pharmaceutical goods operated in a relatively lenient IPRs regime. However, following membership of the WTO and compliance with the TRIPs agreement, and implementation of the JUSFTA this regime was significantly altered. In order for Hikma, as well as all other domestic manufacturers to comply with new legislation and maintain domestic and export sales licences would have to be obtained for in-patent products. Furthermore, in order to gain access to the main international markets not only would licences for in-patent products be needed but also the registration and approval of new products developed by Jordanian manufacturers would be required. As is discussed in more detail below the pharmaceutical industry is largely driven (at least in the medium- to long-term future) by development of new products. To sell products in the US market approval of both the products and manufacturing facilities by the USFDA is first needed.⁷¹⁸ Likewise, in Europe approval of both products and facilities is required from the Medical and Healthcare Products Regulatory Agency (MHRA).⁷¹⁹

With regards to generic pharmaceutical goods manufactured by Hikma, the main production facilities for these products are located in Jordan and Eaton

⁷¹⁷ Ibid.

⁷¹⁸ United States Food and Drug Agency, 2007.

⁷¹⁹ Medical and Healthcare Products Regulatory Agency, 2007.

Town, New Jersey in the United States. Both of these facilities have been given USFDA and MHRA approval allowing goods produced in them access to the US and European markets. Also given approval by the US and EU bodies are the production facilities in Saudi Arabia, Portugal and Italy. The facility currently under construction in Algeria is also being developed to USFDA and MHRA approved standard and so should gain approval once fully operational.⁷²⁰ Between 1995 and 2006 Hikma has received USFDA approval on thirty-three products, the vast majority of these being approved in the post-2001 regime. A further twenty-one products are awaiting approval, most of which are CNS, cardiovascular, anti-infective and musculoskeletal products. The cephalosporins, lyophilized and injectable goods produced in the Portuguese and Italian facilities have received MHRA approval and as a result sales in the European market have expanded from 1 percent of total sales in 1995 to 7.8 percent in 2007.

The growth of Hikma Pharmaceuticals over the past fifteen years or so and in particular following Jordanian membership of the WTO in 1999 has been dynamic. By focusing on gaining access to international markets by locating production facilities through acquisitions and licensed development, products have been given a degree of comparative advantage over other producers. By gaining regulatory body approval for many of its pharmaceutical products and by investing in R&D in order to gain approval on products in development Hikma has managed to capitalise on competitive advantages and has increased sales in external markets including the US market which is now its most important sales market.

Arab Pharmaceutical Manufacturers

APM was the first Jordanian pharmaceuticals manufacturer to begin operations. It was established in Salt 1962 and its first production facility began operating in 1966. Its core product lines include intravenous solutions, chemical and nutritional products, a small range of cosmetics and a wide

⁷²⁰ Hikma Pharmaceuticals, 2006.

range of medications.⁷²¹ Growth of APM has been witnessed at a steadily increasing rate in the past decade from US\$16 million in revenue in 1991 to over US\$89 million in 2006. As a result of the change in management regime of the industry in Jordan, overall sales dropped 12.2 percent in 1999 and a further 6.4 percent in 2000.⁷²² However, in both years net income increased slightly as a result of the move towards the production of higher-value goods and decreased production costs. Since 2001 sales have recovered and posted strong growth. Sustained growth was also supported by the issuance of production rights by external MNCs operating in the pharmaceutical industry (discussed below). With the small size and relatively high level of competition in the domestic market, exports have dominated APM revenue since the 1970s. In 2006 export sales constituted 71 percent of total revenues while domestic sales (17 percent) and public tenders (12 percent) made up the remaining sales revenues.⁷²³

As mentioned above, the pharmaceutical industry is extremely competitive both within Jordan and in international markets. The only method of sustaining growth and competitiveness in the medium to long term is to invest in R&D activities to produce new and quality assured goods. In a sector which has become highly saturated with relatively small corporations, market share and overall capital resources can be reduced. According to Fakhry Hazimeh this has been the case in Jordan since the early 1990s.⁷²⁴ APM realised relatively early on in the first period of transformation in the Jordanian pharmaceutical sector (the second being the post-1999 change in governing regime) that the combining of resources would be necessary to maintain competitiveness. In light of this APM negotiated a total merger with Advanced Pharmaceuticals, a small corporation established in 1994.⁷²⁵ According to Issam Hamdi Saket, the Managing Director of APM, the merger

⁷²¹ APM, 2007, *Annual Report*, Amman: Arab Pharmaceutical Manufacturers.

⁷²² Manneh, J., 2004.

⁷²³ Anon, 2007, Arab Pharmaceutical Manufacturers - export markets include: Saudi Arabia, Kuwait, Qatar, Bahrain, United Arab Emirates, Oman, Yemen, Iraq, Syria, Lebanon, Sudan, Libya, Tunisia, Algeria, Morocco, Nigeria, Ethiopia, Malaysia, Romania, Bulgaria, and Trinidad and Tobago.

⁷²⁴ Hazimeh, F., April 25 2007.

⁷²⁵ APM, 2007.

was seen to be beneficial as Advanced Pharmaceuticals brought with it a number of new products as well as an MHRA certified production facility. In return APM offered relatively large capital resources, a large labour pool and highly established regional marketing systems.

The APM strategy since the mid-1990s has been to adapt to the emerging TRIPs dominated regime governing the international pharmaceutical industry. After 1999 this strategy has intensified. According to Saket production has diversified away from the generic pharmaceutical goods which had dominated production since APM's establishment towards high-value added USFDA and MHRA approved products.⁷²⁶ Other efforts to facilitate the flow of technology and know-how to APM include the arranging of conferences, seminars and trade missions between Jordanian physicians and pharmacists (most working for APM) and experts from other states and corporations.⁷²⁷ While APM has not made extensive efforts to gain USFDA and MHRA approval for its production facilities and products it has constantly pursued licensing agreements from patent holders.⁷²⁸ The largest such licensing agreement is held with Takeda Chemical Industries Ltd., a Japanese pharmaceutical MNC for the production of goods such as Takepron and Danzen which are prescribed for ulcer treatment and antibiotic treatment respectively.

The overall growth and development of APM has to a large extent not been as successful as that of Hikma Pharmaceuticals. However, the general pattern of performance has been similar. The change in governing regime has presented both opportunities and challenges to Jordanian pharmaceutical manufacturers. Both Hikma and APM have developed strategies to combat the challenges and exploit the benefits of complying with the TRIPs dominated international environment. The growth pattern is similar for Dar Al-Dawa (DAD), the third leading Jordanian pharmaceuticals corporation as well as the other smaller actors.

⁷²⁶ Saket, H., 2006.

⁷²⁷ Ibid.

⁷²⁸ Ibid

Dar Al-Dawa

DAD was established in 1975 in Amman as a public shareholding corporation. While smaller in size compared to Hikma and APM, DAD still boasts capital resources of US\$28 million in 2006.⁷²⁹ While maintaining a significant presence in the domestic market, DAD is largely an export oriented corporation obtaining over 70 percent of its revenues from the export of goods to international markets. Overall growth since 1991 has steadily increased, however, it is in the post-1999 period that rapid growth has been seen. The majority of this growth has been spurred by further penetration in regional markets, most notably in Saudi Arabia and the UAE. Other major markets include Iraq, Libya, Russia and Romania.⁷³⁰

In 2002 DAD was issued with current Good Manufacturing Practice (cGMP) from the MHRA for its manufacturing facility located in Na'ur, Jordan.⁷³¹ All goods produced in this facility therefore qualified for sale in the EU market. Other facilities operated by DAD include one in Algiers, Algeria and one in Tripoli, Libya. Both facilities are geared to serve their respective markets but exports from them to external markets are limited.⁷³² Approval of facilities and products has not been attained from the USFDA although extensive efforts have been made since 2002 to gain USFDA approved status. DAD manufacturing processes and products have come into line with USFDA regulations and applications for USFDA approval have been made for the Na'ur facility. Even without approval by the USFDA, DAD operations have to take place in a relatively strict quality assurance environment in Jordan.

While manufacturing standards are important in all manufacturing industries, quality assurance is usually a matter for corporate policy. However, in Jordan extensive governmental regulations, which have been further strengthened

⁷²⁹ Dar Al Dawa, 2006, *Annual Report*, Amman: Dar Al Dawa, p: 7.

⁷³⁰ Export markets are as follows: Bahrain, Qatar, Oman, Albania, Iraq, Saudi Arabia, Somalia, UAE, Libya, Yemen, Nigeria, Tunisia, Malta, Algeria, Malaysia, Lebanon, Romania, Sudan, Lesotho, Ethiopia, Russia, Kuwait and Hong Kong.

⁷³¹ Ryan, M., and Shanebrook, J., 2004, p: 15.

⁷³² Manneh, J., 2005, p: 13.

since 1999 have resulted in a relatively strict domestic quality assurance regime.⁷³³ Gaining USFDA approval would allow DAD to expand its international operations and gain access to the US market, joining Hikma as the only Jordanian pharmaceuticals corporation to enjoy such access. As will be discussed below, Jordanian membership in the WTO and the JUSFTA present Jordanian corporations with more opportunities to gain access to the US market and so USFDA approval has been sought by several other corporations, although not yet achieved.

In order to remain competitive in both the domestic market and more importantly in international markets, DAD has also pursued a policy of under-license production of internationally approved products. There are currently six joint ventures between DAD and its subsidiaries with international partners across the MENA region and in Eastern Europe. These include, Dar Al Dawa – Algeria, an Algiers based marketing and distribution specialist for pharmaceutical goods (DAD now owns 90 percent of this corporation); Dar Al Dawa Pharma – Romania, a DAD owned manufacturing subsidiary.⁷³⁴ DAD produces under-license goods for New York-based Pfizer and Switzerland-based Novartis.⁷³⁵ Joint ventures in the domestic market have also been pursued. DAD owns a 43 percent share in NutriDar, a Jordanian corporation established in 1994 which produces baby food for the domestic and external markets. Its export markets are based solely in the MENA region with sales totalling just over US\$8 million in 2006.⁷³⁶ A second joint venture is with DADVet (32 percent share), a corporation specialising in veterinary medicines and equipment and in particular the conducting of field trials of products developed by regional and global actors.⁷³⁷

⁷³³ Ryan, M., and Shanebrook, J., 2004, p: 15.

⁷³⁴ Dar Al Dawa, 2006.

⁷³⁵ Afram, G., Lloyd, J., and Sayegh, L., 2004, *Investment Promotion Sectoral Strategy 2005-2007: Pharmaceuticals*, Amman: United States Agency for International Aid - Jordan.

⁷³⁶ NutirDar, 2006, *Annual Report*, Amman: NutirDar, p: 4.

⁷³⁷ DADVet, 2006, *Annual Report*, Amman: DADVet, p: 9.

TRIPS, JUSFTA and the Jordanian Pharmaceutical Industry

Joining the WTO in 1999 and thereafter having to comply with TRIPs agreement regulations transformed the Jordanian pharmaceutical sector. Prior to 1999, government legislation and regulation of the industry had begun to strengthen quality assurance and compliance with some international agreements on IPRs. However, the vast majority of Jordanian corporations producing both generic, off-patent and under-license products did so without fully complying with both contemporary good manufacturing practices (cGMP) and, in many circumstances, patent-holder permission.⁷³⁸ After 1999 this would no longer be possible in the case of the latter point and in the case of the former would not allow for sustained growth of the sector. All pharmaceutical goods produced in Jordan which were not under-license or off-patent prior to 1999 immediately became illegal as a result of the Jordanian government's decision to forego the allowed five year transition period to full TRIPs compliance. It was claimed by many observers both within the industry and external to it that sustained competitiveness in the domestic and external markets as well as future growth would be seriously undermined by the change in governing regime.⁷³⁹ In addition, the JUSFTA would strengthen this regime with regards to bilateral trade with the United States. However, according to Fakhry Hazimeh, decision makers in government and those involved in negotiating WTO membership and the JUSFTA saw opportunities for further expansion in the sector. Furthermore, the possibility to strengthen comparative advantages already enjoyed by Jordanian corporations vis-à-vis regional and international competitors was anticipated.⁷⁴⁰

The change in regime was seen as a bad thing because TRIPs laws and FTA provisions would have to be enforced, thus hindering domestic production and raising costs of both manufacturing and products for domestic consumers. It

⁷³⁸ Anon, *Special 301 Report*, 2000, p: 20.

⁷³⁹ Arafat, A., 2001, p: 3.

⁷⁴⁰ Hazimeh, F., April 25 2007.

was feared that there would be a loss of revenues resulting from the inability to produce certain goods or the loss of profits due to remuneration of relevant patent-holders. The resulting decline of Jordanian corporations would then lead to a loss of international and domestic market share as they would not be able to compete with European MNCs which enjoy larger capital resources.⁷⁴¹

However, these fears have not been entirely realised. Even the smaller corporations have been able to maintain sales and activity in the domestic market. Instead adjustment to the new governing regime and exploitation of the new opportunities created by this shift has been seen. Conformity with international standards has led to USFDA and MHRA approval of certain products of Hikma Pharmaceuticals, and some facilities for APM, DAD and a range of smaller corporations allowing for greater market access.⁷⁴² In the case of Hikma, as mentioned above, US sales now constitute a large part of revenues, while European sales have increased rapidly since 2001 for APM and regional exports have risen for DAD. Access to the US and European markets would not have been possible prior to conformity with international standards and laws. In order to combat the challenges presented by TRIPs and FTA provisions as well as gaining USFDA and MHRA approval, the leading Jordanian corporations have pursued a number of strategies. The most effective has been to fully comply with the necessary regulations and improve both manufacturing processes and products.

Encouragement of joint ventures with domestic pharmaceutical manufacturers has also been pursued. The results have been technology and knowledge transfer, greater capital investment, greater external market access and increased funds for R&D activity.⁷⁴³ Prior to WTO accession Jordanian manufacturers did comply with some process and product patents and so further compliance has had measured impact. As other regional states join the WTO and conform with TRIPs regulations, Jordanian manufacturers will not

⁷⁴¹ Arafat, A., 2001, p: 3.

⁷⁴² Ryan, M., and Shanebrook, J., 2004.

⁷⁴³ Manneh, J., 2005.

be disadvantaged but instead will be in a better position to enjoy advantages stemming from already adjusting to the dominant international regime.

In short, the Jordanian pharmaceutical sector has become an export driven sector which has been moving towards the following goals: a greater share of the domestic market; a greater share of international markets propelled by both increased shares in current export markets and access to non-traditional markets (mainly the US and EU); conformity with international standards to improve quality and thus attractiveness to FDI; some knowledge and technology transfer through joint ventures with external MNCs; and increased R&D activity while increasing production levels of generic and licensed pharmaceutical products.⁷⁴⁴

The Jordanian pharmaceutical sector has become much more attractive to external actors since 1999. Growth has been strong and successful export expansion is likely to continue. The overall investment climate in Jordan was negatively affected by the build up to and the actual US-led invasion of Iraq in 2002-2003. Furthermore, continuing problems in Palestine and Lebanon have kept some FDI away from the region as a whole. However, the Jordanian market has proven resilient for a number of decades and the investment climate has recovered strongly. As further USFDA approval is sought Jordanian exports to and investments in the US market may increase. This would be a dramatic shift in bilateral trade relations between the two states. Potential for greater US pharmaceutical exports exists and following the implementation of the JUSFTA, US pharmaceutical corporations have actually increased their share of the Jordanian market (although European and Jordanian actors still dominate).⁷⁴⁵ However, what is perhaps of more interest in relation to the assessment of contemporary and future trade between Jordan and the United States in pharmaceutical goods is the potential for cooperation between US and Jordanian corporations.

⁷⁴⁴ Ibid, p: 27.

⁷⁴⁵ Ministry of Industry and Trade, Trade and Investment Information Database, 2007.

The US Pharmaceutical Industry and Government Policy

United States policy with regards to international IPRs deviates slightly from the overall structure of contemporary US trade policy outlined in chapter four. To briefly recap, this thesis claims that US trade policy has become increasingly bilateral in nature as opposed to focusing on the multilateralism of the post-World War Two and post-Cold War eras. In particular the negotiation of bilateral FTAs or Preferential Trade Agreements (PTAs) as some observers have called them,⁷⁴⁶ under the Bush Administrations has become a policy tool used in order to achieve broader political and economic goals. In short, bilateral FTAs between the United States and other states are not necessarily solely about economic benefit but they are also about US foreign policy goals (see discussion in chapter four). However, in the case of US policy on international IPRs, foreign policy plays a minor role compared with domestic and international economic policy.⁷⁴⁷ Indeed, the inclusion of stringent provisions relating to IPRs in the Moroccan and Australian FTAs, for example, had presented major negotiating problems.⁷⁴⁸ In the case of the JUSFTA the provisions relating to IPRs are not as severe as the FTAs the United States has since implemented with other states.

While the bilateral FTAs the United States has negotiated since 2000 have included articles on IPRs, they do not act as the only policy approach that the United States has pursued in order to bolster international respect and enforcement of property rights laws. Rather the issue was at the forefront of US foreign economic and trade policy from the late 1980s and became an increasingly important issue through the 1990s and the period of multilateralism pursued under the Clinton Administrations.⁷⁴⁹ During the Uruguay Round of trade negotiations, the United States had two primary

⁷⁴⁶ Schott, J. J., 2004, p: 3.

⁷⁴⁷ Bergsten, C. F. et al., 2005, *The United States and the World Economy: Foreign Policy for the Next Decade*, Washington: Institute for International Economics, pp: 417-419.

⁷⁴⁸ Thomas J. R., 2005, p: 7.

⁷⁴⁹ Bergsten, C. F., 2005, pp: 19-24.

policy goals: the first was the creation of a more concrete governance body for the international trading regime to replace the GATT system; the second key policy goal was the internationalisation of IPRs and a system of laws and regulations which would create a strict and enforceable regime.⁷⁵⁰ As mentioned above many observers have noted that the TRIPs agreement and its enforcement through the WTO do not necessarily meet all of the expectations of the US government or those of many actors in the private sector. Bilateral FTAs can therefore be seen as a mechanism through which the United States can strengthen the regime governing international IPRs with FTA partners.⁷⁵¹

With regards to the provisions of the JUSFTA relating to the T&C sector there is little evidence that the agreement with Jordan was, firstly ever expected to have, and secondly has had a significant impact on the US T&C sector. The Jordanian market is too small to allow for increased US T&C exports and using Jordan as an access point to a larger market in the MENA region and beyond would not be of much benefit as US T&C manufacturing exports to the MENA region are relatively small and static anyway. There has been no large scale lowering of the price of T&C goods in the US market as a result of cheaper Jordanian T&C goods being imported on an increased scale since 2001. Likewise there has been no significant increase in US exports in T&C goods or related material to Jordan.⁷⁵² Much of the Jordan-US trade has taken this form, with no significant impact on the US economy and a significant impact on the Jordanian economy. However, emphasis on IPRs has been more for economic rather than political or strategic reasons.⁷⁵³

There are a number of core economic reasons why the United States has focused on IPRs when negotiating and implementing bilateral FTAs. A 2005 research study conducted by the US Congressional Research Service concluded that intellectual property is a cornerstone of both the health and

⁷⁵⁰ Lovett, W. A., Brinkman, R. L., Eckes, A. E. and Eckes, A. E. Jr., 2005.

⁷⁵¹ Ibid.

⁷⁵² See The United States Census Bureau, Foreign Trade Statistics Division, data on T&C exports.

⁷⁵³ Lovett, W. A., Brinkman, R. L., Eckes, A. E. and Eckes, A. E. Jr., 2005.

competitiveness of the US economy in the twenty-first century.⁷⁵⁴ US manufacturing industries have been in relative decline vis-à-vis other states since the 1980s. This is partly a result of the industrialisation of other states around the world in the past two decades and partly because the nature of the US economy has changed. The US economy is now very much a knowledge-based economy with high value-added products and services accounting for increasingly large amounts of the state's GDP.⁷⁵⁵ The US pharmaceutical industry is just one example of this, as is the finance sector which is looked at in the following chapter. The US pharmaceutical industry and consumer market are the largest in the world. There are over seven hundred and fifty corporations involved in pharmaceutical manufacturing in the United States and total revenue for the pharmaceutical sector in 2006 surpassed US\$289 billion.⁷⁵⁶ Total employment in the same year amounted to over one hundred and seventy-three thousand employees (compared to twenty-three thousand employees for the United Kingdom and only eighteen thousand employees in Germany – the second and third largest pharmaceutical sectors in terms of employment).⁷⁵⁷ These figures depict an industry and market far surpassing any other. This sector as well as other knowledge based and high value-added sectors are therefore extremely important to the US economy. Protecting IPRs such as patents, trademarks and copyrights is seen as key to maintaining the strength and revenues of these sectors.⁷⁵⁸

The JUSFTA, while ensuring that Jordanian manufacturers abide by a strict regulatory regime for IPRs, does little in terms of preserving the competitiveness and revenues of US manufacturers on its own. Likewise, no single bilateral FTA is entirely significant on its own in these terms. However, the spread of the international regime for IPRs through the WTO and the TRIPs agreement coupled with a rising number of bilateral FTAs does.

⁷⁵⁴ Thomas J. R., 2005, p: 7.

⁷⁵⁵ Kress, C., Regional Director Middle East and North Africa, US Trade and Development Agency, interview held in Washington DC, United States, on March 24 2008.

⁷⁵⁶ PhRMA, 2006, *Industry Profile: Pharmaceuticals*, Washington: Pharmaceutical Research and Manufacturers of America.

⁷⁵⁷ Van Beuzekom, B., and Arundel, A., 2006, *OECD Biotechnology Statistics*, Paris: OECD, p: 21.

⁷⁵⁸ Maskus, K., 2000.

Furthermore, the bilateral FTAs the Bush Administrations have signed since 2000 all have the potential of expanding into larger multilateral FTAs. The proposed US-MENA FTA being an example of this, with the JUSFTA being followed by the Bahrain-US FTA, the Morocco-US FTA, the Oman-US FTA and proposed FTAs with other regional states such as Egypt.

US Corporations Operating in the Jordanian Pharmaceutical Market

Unlike the Jordanian pharmaceutical sector, the US sector is not dominated by a small number of corporations and actors. Instead there are a large number of pharmaceutical manufacturers, many of which have extremely large capital resources and wide ranging activities in many markets. However, even these large corporations only occupy a small percentage of the US market.⁷⁵⁹ It is possible for US-based corporations to have such high levels of revenue with only a limited share of the US market for three core reasons. Firstly, the sheer size of the domestic market means that large profits can be made even with a small percentage share of the market. Second, US pharmaceutical corporations are among the most competitive in the world and dominate many international markets leading to large revenues from exports. And finally, the large amounts of capital and human resources employed by US corporations in R&D activity (the highest in global terms) allows them to remain competitive and own the rights to new products and processes.⁷⁶⁰ It is these latter two issues which are of most relevance to pharmaceutical trade with Jordan.

US pharmaceutical exports to the Jordanian market have expanded relatively rapidly in the past decade and especially in the post-1999 period. In 1995 total US exports stood at just under US\$5.08 million, this figure grew to US\$7.6 million in 1999 and totalled just under US\$19 million in 2006.⁷⁶¹ This

⁷⁵⁹ Grabowski, H. G., An Analysis of US Competitiveness in Pharmaceuticals, in *Managerial and Decision Economics*, Spring 1989, pp: 27-33.

⁷⁶⁰ Ibid.

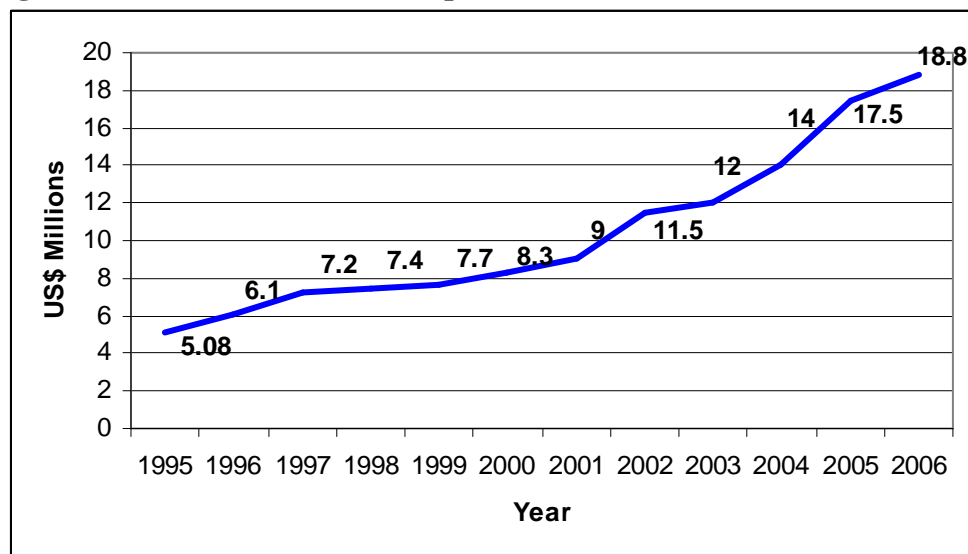
⁷⁶¹ Ministry of Industry and Trade: Trade and Investment Information Database, 2007.

quadrupling of exports value in the twelve year period is quite dramatic and translates into US corporations having an increased share of the Jordanian market relative to European firms – Jordanian manufacturers have also slightly increased domestic market share as highlighted above. US corporations have also begun to increase their activities in the Jordanian market through investment and joint projects with Jordanian counterparts. This has only been possible as a direct result of the Jordanian government's implementation of TRIPs agreement provisions and the JUSFTA provisions relating to IPRs. As the Jordanian pharmaceutical sector's operating practices and regulatory regime comes further into line with that of the US sector, US corporations have been able to capitalise on some of the advantages presented by involvement in the Jordanian market.

In short these advantages are greater access to the MENA market through Jordan, lower operating costs in the development of new products and processes through joint R&D activity, and investment opportunities in the expanding Jordanian pharmaceutical industry. However, thus far only a small number of US corporations have been involved in the Jordanian sector in these ways. In fact, according to Fakhry Hazimeh the expectation in Jordan was that there would be far greater investment and joint projects between Jordanian corporations and US entities following 1999.⁷⁶² An examination of the activities of US corporations in Jordan reveals this tendency to engage with the Jordanian market only at a limited level.

⁷⁶² Hazimeh, F., April 25 2007.

Figure 6.2 US Pharmaceutical Exports to Jordan 1995 – 2006⁷⁶³



Pfizer

Pfizer is one of the largest pharmaceutical MNCs in the world, ranking third in global sales (US\$32.4 billion per annum).⁷⁶⁴ However, although Pfizer accounts for approximately 10 percent of global sales, sales and activity in the MENA region have remained relatively limited. This is largely due to the fact that this region only accounts for 10 percent of the global market and is relatively saturated with domestic, European and other US pharmaceutical manufacturers.⁷⁶⁵ A second factor hindering or otherwise discouraging greater activity in the MENA market as a whole has been the growth of other markets such as India which has diverted investments and sales from the MENA region.⁷⁶⁶ Nevertheless, the global pharmaceutical industry has maintained steady growth over the past decade and a half and Pfizer as one of the leading corporations has continued to expand its global presence.⁷⁶⁷

As mentioned above, the changes in the governing regime for the pharmaceutical (and other intellectual property related fields) in Jordan since

⁷⁶³ Ministry of Industry and Trade: Trade and Investment Information Database, 2007.

⁷⁶⁴ Afram, G., Lloyd, J. and Sayegh, L., 2004, p: 16.

⁷⁶⁵ Ibid.

⁷⁶⁶ See Pfizer, 2006, *Annual Report 2005-2006*, New York: Pfizer.

⁷⁶⁷ Krebs, R., and Greener, M., *A Healthy Business - A Guide to the Global Pharmaceutical Industry*, London: Urch Publishing Ltd.

1999 have created an environment which is more in line with the US industry. This theoretically should facilitate the operation of US pharmaceutical corporations in Jordan, whether that is investment, sales or joint projects such as R&D activity. Pfizer has explored these opportunities – although only to a limited extent.⁷⁶⁸ Pfizer is typical of large pharmaceutical MNCs in terms of its profit making activities. While it is a major producer of pharmaceutical goods, it is largely a research-driven global entity, constantly developing new products and processes. Due to this reliance on R&D for profits Pfizer has been increasingly outsourcing its R&D activities to markets with lower R&D costs but appropriately high standards of operating procedures and IPRs protection.

Since 2000 Pfizer has been expanding its operations in the Jordanian market. This is a trend which has not been seen before in the small Jordanian market due to its previously weak IPRs regime. The number of employees working in the pharmaceutical sector in Jordan on behalf of Pfizer increased between 2000 and 2006.⁷⁶⁹ As mentioned above DAD produces goods which are licensed by Pfizer – this licence was granted in 2001 following the implementation of the TRIPs agreement and Pfizer's decision to start to expand in the Jordanian market. In 2004 Pfizer took the decision to conduct clinical trials in Jordan as part of its R&D process for cardio-vascular drugs. In total four clinical trials have been conducted over a two year period in conjunction with the King Hussein Medical Centre and Hospital in Amman. The trials are believed to have involved up to two-hundred patients. According to Fakhry Hazimeh the lower operating costs for the trials in Jordan along with the highly skilled professionals available to conduct them and the quality facilities in Amman, attracted Pfizer. These incentives were coupled with the now strong IPRs governing regime in Jordan.⁷⁷⁰

⁷⁶⁸ Afram, G., Lloyd, J., and Sayegh, L., 2004, p: 51.

⁷⁶⁹ Ibid.

⁷⁷⁰ Hazimeh, F., April 25 2007.

Merck and Co.

The majority of large and successful pharmaceutical MNCs are relatively old – due to the length of time it takes to develop new products and processes, pharmaceutical corporations tend to need many years to develop and grow and Merck & Co. is no exception to this rule. Originally established in Germany in the late seventeenth century a US-based branch of Merck KGaA was set up in New York in 1891. This corporation was later confiscated in 1917 during the First World War and became an independent US corporation that same year. In 2006 Merck & Co. had grown to become the largest global pharmaceutical MNC with total sales of US\$51.8 billion per annum.⁷⁷¹

In a similar manner to Pfizer's expansion in Jordan, Merck & Co. has increased its number of staff working in Jordan five-fold since 2000. The vast majority of these employees are employed in clinical trial projects currently being conducted in collaboration with Jordanian corporations. In the period 2003-2006 Merck and Co. carried out three clinical trials at the King Hussein Medical Centre and Hospital. However, these trials were more limited than those carried out by Pfizer.⁷⁷² Perhaps the activities of Merck and Co. in Jordan which are most important are a series of educational meetings and academic programmes held in Amman. These peaked in 2004 when seventy-five were held.⁷⁷³ There were two main aims of these events, which included meetings, seminars and lectures. Firstly, events have been focused on IPRs and strengthening the IPRs regime in Jordan through the dissemination of information pertaining to the TRIPs and JUSFTA agreements. Second, events were used to share and develop both products and processes as well as R&D activities being conducted in Jordan by Merck and Co.⁷⁷⁴ While the Jordanian pharmaceutical industry has not received as great a benefit as could have been expected as a result of implementing TRIPs and JUSFTA IPRs provisions,

⁷⁷¹ Afram, G., Lloyd, J., and Sayegh, L., 2004, p: 16.

⁷⁷² Farraj, E., Chief Advisor to Maan Nsour, CEO of the Jordan Investment Board, interview held in Amman, Jordan on December 24 2006.

⁷⁷³ Afram, G., Lloyd, J. and Sayegh, L., 2004, p: 44.

⁷⁷⁴ Abu Rahmeh, H., Director of the Jordan Exporters Association, interview held in Amman, Jordan on December 27 2006.

observers such as Keith Maskus note that this form of technology transfer and intellectual engagement is in itself a significant investment.⁷⁷⁵

Other US Corporations Operating in Jordan: Aventis, Organon, Bristol Myers Squibb and Eli Lilly

There are in total six US based pharmaceutical MNCs operating in the Jordanian market through sales and investments. Pfizer and Merck & Co. have the largest investments in Jordan but the remaining four corporations do have a significant presence in the market also in the form of sales, investment, and clinical trials. Aventis has tripled its workforce in Jordan since 2000. Six local and relatively small clinical trials as well as a relatively large clinical R&D trial were conducted through 2004 and 2005 in conjunction with the King Hussein Medical Centre and Hospital.⁷⁷⁶

Organon was the first US-based pharmaceutical MNC to conduct clinical R&D trials in Jordan. In 2000 Organon initiated a number of trials for its new fertility therapy. However, in the past three years Organon has had limited activity in Jordan.⁷⁷⁷ Likewise Bristol Myers Squibb has conducted R&D trials in Amman, including a three year five-thousand patient trial initiated in 2001 to study risk factors affecting cardiovascular health in Jordan.⁷⁷⁸ The corporation is also a member of the Jordanian Ministry of Health's participation in the HIV/AIDS Accelerated Access Initiative – which is a joint initiative between a number of MNCs and international organisations which includes UNAID, the World Health Organisation (WHO), the WB and UNICEF among others.⁷⁷⁹ Continuing this same pattern of activity, Eli Lilly has also conducted a number of clinical trials and further R&D projects are planned for the 2007-2009 period.⁷⁸⁰ However, Eli Lilly has not restricted its activity to this form of investment alone, rather it is currently the only US

⁷⁷⁵ Maskus, K., 2000.

⁷⁷⁶ Ryan, M., and Shanebrook, J., 2004, p: 10.

⁷⁷⁷ See Organon, 2000, *Annual Report*, New York: Organon.

⁷⁷⁸ Ryan, M., and Shanebrook, J., 2004 p: 10.

⁷⁷⁹ Hazimeh, F., April 25 2007.

⁷⁸⁰ Farraj, E., December 24 2006.

MNC which has a marketing partnership with a Jordanian counterpart (Hikma Pharmaceuticals) where co-promotion activity takes place in both the US and Jordanian markets for both corporations. These initiatives have been driven by the private sector following the liberalisation of the investment and privatisation laws since 2000 and the firming up of the IPRs protection regime in Jordan.

TRIPs, JUSFTA and the US Pharmaceutical Industry

The US pharmaceutical industry is driven by the development of new products through R&D activity – as well as on financial flows and capital investments. In order for US pharmaceutical corporations to maintain their profit margins and market presence they continue to develop new products. However, R&D activity is very costly in terms of capital resources, time and manpower. In the pursuit of reducing R&D costs and increasing profits corporations such as Pfizer and Merck and Co. have pursued the outsourcing of some R&D activities to other states and markets where R&D costs are lower but where high standards and operating procedures are met along with IPRs protection being guaranteed.⁷⁸¹ In markets where IPRs are not enforced or respected there is little incentive for pharmaceutical manufacturers to conduct R&D for fear of the likely theft of technology, information, products and processes. However, through the US government vigorously pursuing the implementation of the TRIPs agreement and more stringent bilateral provisions relating to IPRs, more markets are becoming ‘business friendly’ for pharmaceutical manufacturers.⁷⁸² As a result outsourcing of R&D activity is taking place at an increasing pace and is likely to continue. This includes outsourcing to the Jordanian pharmaceutical sector. The lack of enforcement of IPRs in neighbouring states such as Syria, Iraq and Egypt has further helped promote the Jordanian market as a regional market for R&D outsourcing.

⁷⁸¹ Maskus, K., 2000, pp: 53-57.

⁷⁸² Schott, J. J. (ed.), 2004, p: 252.

The very nature of the pharmaceutical industry means that the outsourcing of production is not often witnessed. In the T&C industry moving manufacturing plants to less developed states usually has the benefit of lowering production costs and thus increasing profits. However, the production of pharmaceutical goods is characterised by relatively low production costs (as opposed to very high R&D costs) and low transport costs no matter where they are produced due to the fact that the goods are small, light and mass produced. Of course, the production facilities are relatively expensive to construct, operate and maintain. This is necessary in order to gain approval by regulatory bodies such as the USFDA in order to sell the goods in the largest markets and so is unavoidable. Also, it is the development of the products not the actual manufacturing of them which is expensive – again this has little to do with where they are actually manufactured.⁷⁸³ According to Professor Michael Ryan, the fact that the manufacturing of pharmaceutical goods is rarely outsourced is precisely why US corporations have not invested in Jordan in that way.⁷⁸⁴ Rather, Ryan suggests that investment in the pharmaceutical sector comes in the form of R&D, product licensing, and clinical trials (in the case of the latter usually because payment and compensation costs are extremely low in developing states such as Jordan).⁷⁸⁵ It is in these areas that US corporations have begun to invest in the Jordanian pharmaceutical sector.

As mentioned above, US corporations in the past five years have increased their range of activities in Jordan. Sales have grown relatively rapidly but investment has been slightly slower to emerge. However, a number of key R&D and clinical trial projects have been conducted or are currently underway. With the continued strengthening of the Jordanian IPRs regime and further marketing by Jordanian corporations the experiences of Pfizer, Merck and Co. and Aventis will possibly lead to more investment and clinical trials. Furthermore, this is likely to take place not just between Jordanian actors and the US corporations discussed above but also other US-based actors.

⁷⁸³ Ryan, M., and Shanebrook, J., 2004, p: 18

⁷⁸⁴ Ibid.

⁷⁸⁵ Ibid.

Conclusions

This chapter has discussed a second form of trade activity between Jordan and the United States: trade in high value-added, capital intensive and high-technology manufactured pharmaceutical goods. Studying this form of trade develops the overall analysis in this thesis as it offers an analysis of a different form of trade in a number of ways. Not only is the type of economic activity very different to the activity in the T&C sector discussed in the previous chapter but it also entails different institutional frameworks, different types of actors and different processes. In chapter five Jordanian state and non-state actors as well as foreign actors operating in Jordan dominated bilateral trade in T&C goods. This is quite fitting due to the nature of the Jordanian economy as a less developed one which has had only measured success industrialising and so specialises in labour-intensive, often low value-added manufactures. However, the United States represents the most advanced economy in global terms and has by far the greatest resources dedicated to R&D in high-technology industries.

As discussed above the pharmaceutical industry is driven by R&D and large capital pools. Thus the US economy would naturally be expected to be more dominant in trade in pharmaceutical goods. However, the analysis presented in this chapter demonstrates that trade between Jordan and the United States in pharmaceutical products is much more even than would be expected. Trade levels are much more even in value terms than say trade in T&C goods. However, this is not simply because actors based in either market are as competitive as each other. It would be more appropriate to claim that trade between the two markets is in fact *limited* to the same extent. Jordan-based actors are largely uncompetitive in the more advanced international markets such as the US and EU. Furthermore, they have relatively low capital assets and limited access to some of the latest technologies and either have not attempted to or have failed to receive approval from the relevant regulatory bodies in foreign markets. Only Hikma Pharmaceuticals has managed to penetrate the US market to any great extent. Nevertheless even this

corporation's levels of trade with the US market are quite insignificant in overall market terms. For actors based in the United States the Jordanian market simply is not attractive. Over-saturation of the market supply due to a large number of small Jordanian corporations and larger European MNCs along with the limited population size, limited income and resulting small size of the market have largely discouraged US-based actors.

Regardless of the small levels of overall trade between the two states in pharmaceutical goods significant elements of the political economy of trade between them can be discussed. Here there are two main features which are important in understanding both the nature of Jordan-US economic interaction and the role of the international institutions the states have engaged with. In the first instance, trade liberalisation seems to have had little impact on overall levels of trade in pharmaceutical products. The expansion of Hikma Pharmaceuticals into the US market dates back to the early 1990s and so predates the period of liberalisation and increased state level cooperation. Exports of goods from the US market to the Jordanian market are very limited in value even though they have seen significant increases since bilateral trade liberalisation was embarked upon. However, some US corporations have begun to operate in the Jordanian market since 2001 in the form of joint R&D ventures with Jordanian actors and clinical trials – albeit in a limited capacity. This has only been made possible due to Jordanian involvement in IOs such as the WTO and adherence to various regimes such as the TRIPS agreement and JUSFTA. This form of activity (while not overly significant in terms of scope) has thus emerged as a result of the state level facilitation of trade through international institutions.

The question regarding which state interests have been pursued and if these are being achieved must also be addressed again here. Referring back to the discussions in chapters three and four it was determined that the Jordanian government has pursued policies of political and economic reform and engaged with international institutions in order to pursue sustained economic growth. With regards to the United States the proposition was put forward that the US government maintains traditional interests in Jordan and the MENA

region based largely on security and support for its foreign and economic policies there. The state level cooperation with Jordan and the resultant facilitation of bilateral trade through trade liberalisation and international institutions is one element in the United States' efforts to deepen state level cooperation and market integration with Jordan. The analysis of trade in pharmaceutical products does offer some insights in to how successful the pursuit of these interests has been. The reorientation of the Jordanian domestic regulatory regime and engagement with global regulatory regimes for pharmaceutical goods, especially protection for IPRs has begun to lead to an adjustment in the domestic sector and competitiveness of actors involved in it. However, trade liberalisation with the United States as mentioned above has had limited impact thus suggesting that economic growth in the sector and thus the broader economy may be slow to materialise. The United States' facilitation of trade in this sector has not significantly deepened the integration of the two markets. There are signs that greater state level cooperation through joint engagement in the WTO-led regime governing IPRs, for example, could lead to greater cooperation through unifying some state interests.

The issue of the balance between multiple relations between different actors at the domestic and international levels and the gains sought and achieved at these different levels is also illuminated by the analysis presented here. Unlike the rather unipolar gains achieved by the Jordanian state and market due to trade in T&C goods, there seems to be more even gains with regards to trade in pharmaceutical products although the United States could be seen as gaining more. Trade levels are not very high and Jordanian exports to the US market account for a slightly greater share of the overall trade. Nevertheless, the Jordanian adherence to various international agreements and the JUSFTA and thus international regulatory regimes for pharmaceutical goods means that US actors gain to some extent in economic terms while the US government gains by expanding the network of (largely US inspired) international institutions governing these products. The impact on broader state level cooperation and integration in both the economic and political spheres, however, does not seem to be greatly impacted upon by the liberalisation of trade in pharmaceutical products. Some measure of economic integration and

political cooperation is evident within this sector but there is little evidence that suggests this cooperation can go beyond sector specific interests. In order to develop the analysis of the political economy of trade between Jordan and the United States and to answer the core questions it is necessary to examine one final form of trade relations in the following chapter.

Chapter Seven

Bilateral Trade in Banking and Insurance Services

Introduction

This third case study chapter examines the framework for and nature of trade in banking and insurance services between Jordan and the United States. The assessment and analysis presented develops the overall examination of the political economy of trade between the two states by looking at a ‘third form of trade activity’, broadly defined as services. This chapter examines and analyses Jordan-US trade in banking and insurance services as case studies of financial services trade. While the previous two chapters have presented analyses of trade in low value-added and high valued-added goods respectively, the analysis here presents yet another unique picture. Despite the increasing integration of, and rising trade levels between the two economies, the low levels of trade in banking and insurance services prevalent in the pre-2000 period persist today. The significance of this lack of trade activity lies not in contemporary economic opportunities being missed but in the overall potential for Jordan-US trade relations. Furthermore, this analysis offers an insight into the ways in which the political economy of Jordan-US trade may hinder rather than promote trade in banking and insurance services.

This chapter also represents a discussion of how cooperation between the United States and Jordan over the past decade has led the latter to engage with a number of regulatory regimes through the General Agreement on Trade in Services (GATS) and the JUSFTA. This discussion examines the nature of inter-state cooperation with regards to these institutions and coupled with the developments in actual market interaction assesses the impacts upon state level interaction and cooperation. As with the previous four chapters a multitude of both state and non-state actors are examined and the multiple links between these actors and relevant issues are considered. Furthermore, the impact of trade liberalisation and interaction in the banking and insurance sectors upon the state policy interests outlined in chapters three and four is assessed.

Any study of trade in financial services is at the same time both complex and limited. The very nature of financial services presents a number of problems for the quantification and regulation of such activity even at the domestic level. At the international level this is even more difficult. The result is that studying trade in financial services can be restricted. However, some forms of financial services are easier to study than others and indeed there is a great variation in these service sectors which need to be clearly defined. The first section of this chapter thus defines what is meant by financial services, what the various forms are and how they differ, and which forms are most important with regards to trade in banking and insurance services between Jordan and the United States. The banking and insurance service sectors are introduced as the sectors analysed here and by doing so the intention is also to clarify the rationale for the study of these services in this chapter and the exclusion of others.

Due to the nature of financial services and their importance to economic activity at all levels, the international framework governing these services directly shapes the domestic framework. The second section of this chapter thus examines the international and domestic regulatory frameworks within which Jordan-US financial services trade takes place. Much the same as with trade in T&C and pharmaceutical goods, trade in financial services is governed by a comprehensive international framework. Through the WTO-negotiated GATS, trade in all forms of services has been liberalised (an ongoing process) and governed since the mid- to late-1990s. As members of the WTO, both Jordan and the United States are thus members of GATS and the international framework for services trade. Furthermore, the JUSFTA includes provisions on trade in services which strengthen and advance the provisions of the GATS agreement.

Due to the limited nature of trade in banking and insurance services between Jordan and the United States it is useful to examine the condition of their domestic financial service sectors. Section four offers a discussion of the Jordanian banking and insurance sectors followed by a discussion of the counterpart sectors in the United States in section five. An in-depth

assessment of all financial services trade and the relevant sectors in the domestic markets is not possible in this project. In order to offer as accurate and representative an analysis as possible of trade in financial services between Jordan and the United States two of the most prominent sectors are analysed here. The overall characteristics of the sectors and the activities of the most prominent non-state actors are discussed. The involvement of Jordanian-based financial services actors in the US financial services market is insignificant and so only a brief discussion is included in this section. An analysis of US-based corporations' involvement in the Jordanian banking and insurance market is also presented. As mentioned above, quantifying and monitoring trade in financial services is not completely possible and so the scale of trade in empirical terms is not comprehensively included here. Rather this section offers a discussion based on the actors involved and the type of activities and services provided as well as the scope of activity as can best be presented.

A final section summarises the main points and arguments presented in this chapter. Conclusions are offered on the complexities and limitations of trade in financial services between Jordan and the United States arguing that the political economy of Jordan-US trade coupled with market specificities limit trade in financial services and banking and insurance services in particular.

Trade in Financial Services

Financial services are in many ways the most integral element to both economic activity (of all forms, both official and non-official) and economies in general.⁷⁸⁶ In fact, all areas of modern economic activity are dependent on access to financial services of one kind or another. Furthermore, the modern global economy could not have developed without the presence of the diversified intermediation and risk management services supplied by the global financial system.⁷⁸⁷

⁷⁸⁶ Kono, M., Low, P., Luanga, M., Mattoo, A., Oshikawa, M., and Schuknecht, L., *Opening Markets in Financial Services and the Role of GATS*, in *WTO Special Studies*, 2007, p: 1.

⁷⁸⁷ Ibid.

It is perhaps most appropriate to refer to the definition of financial services agreed upon during the Uruguay Round of trade negotiations when the liberalisation of trade in financial services was ushered to the fore of international trade discussion. The participants at this round of negotiations listed a great many services broadly split into two separate categories. The first category is insurance and related services, while the second is banking and other financial services.⁷⁸⁸ The former includes the following services: life and non-life insurance, insurance intermediation (broking and agency services) and trade insurance as well as others.⁷⁸⁹ The latter includes: “acceptance of deposits; [...] consumer credit, mortgage credit, factoring and financing of commercial transactions; financial leasing; money broking and settlement; [and] clearing services for financial assets.”⁷⁹⁰

Trade in financial services includes a great many activities, some of which are officially recognised and some not. A range of different types of actors may be involved in financial services - as suppliers or consumers - including corporations, governments, individuals or groups (highlighted by Susan Strange in a number of her works⁷⁹¹ as groups such as the Mafia and other criminal syndicates), NGOs and so on. In relation to international trade in financial services, the common definition is the occurrence of one actor residing in one state supplying a consumer in a second with a service(s) without the establishment of a branch or subsidiary in the said second state. The actor providing the financial services could be located in the state where it is headquartered or in a third state, and supplies a consumer of the service(s) in a second state.⁷⁹² However, for the purposes of this study it is relevant to also include the activities of financial services suppliers based in one state (either the United States or Jordan in this case) *in the second state* as opposed

⁷⁸⁸ WTO, 1997, Financial Services, in *World Trade Organisation Press Brief*.

⁷⁸⁹ These are re-insurance and retrocession, services auxiliary to insurance.

⁷⁹⁰ WTO, 1997.

⁷⁹¹ Including: Strange, S., 1986, *Casino Capitalism*, Manchester: Manchester University Press; Strange, S., 1988; Strange, S., 1998, *Mad Money*, Manchester: Manchester University Press.

⁷⁹² OECD, 1999, Cross Border Trade in Financial Services: Economics and Regulation, in *Insurance and Private Pensions Compendium for Emerging Economies*, Paris: OECD Secretariat, p: 3.

to just *for actors based in the second state*. For example, this entails the study of operations of actors such as the American Life Insurance Corporation (ALICO), a US-based MNC, which has offices located in Jordan to supply services to the Jordanian market.

A more comprehensive outline of the modes of supply of international financial services as described by Allan Webster and Philip Hardwick includes four elements. These are as follows: cross-border movements of financial services (as in the OECD definition above); movements of consumers to the importing country (including tourism, work placements and so on); establishment of a commercial presence in a foreign country (as with ALICO's operations in Jordan); and finally temporary movement of persons to a foreign country to provide the service.⁷⁹³ In this study the approach to trade in financial services incorporates these four modes.

Measuring trade in financial services is, unfortunately, not an easy task and there still exists a serious short-fall in available and reliable data on trade flows in financial services.⁷⁹⁴ According to Webster and Hardwick, while data is stronger for trade flows between the larger economic centres in the Triad of North America, Europe and South East Asia,⁷⁹⁵ data for intra-regional trade in financial services for less developed states including the MENA economies is relatively weak.⁷⁹⁶ Furthermore, data pertaining to trade in financial services between MENA economies and international markets is also weak and can be unreliable. However, the data for Jordanian-US trade that has been collected for this study is from reliable sources⁷⁹⁷ as well as being reinforced with data gathered during field research work in Amman, Washington and Geneva. It must also be noted here that in order to study trade in financial services,

⁷⁹³ Webster, A., and Hardwick, P., International Trade in Financial Services, in *The Service Industries Journal*, September 2005, Vol. 25, No. 6, p: 724.

⁷⁹⁴ Ibid, p: 721.

⁷⁹⁵ For example, The OECD International Trade in Services Statistics Database offers a relatively good range of data for OECD members.

⁷⁹⁶ See Arndt, H. W., 1986, *Measuring Trade in Financial Services*, Canberra: Australian National University Research School of Pacific and Asian Studies.

⁷⁹⁷ Data is available from the Jordanian Ministry of Industry and Trade's Trade and Investment Information Database and the United States Census Bureau's Foreign Trade Statistics Database as well as The United Nations data source UNCOM.

banking and insurance operations which equate to financial goods or products are excluded from this chapter. For example, trade in corporate and government bonds are not examined as these are deemed here to be financial products and not services.

The International Framework for Financial Services

Trade: GATS and JUSFTA

Established in 1995, the GATS agreement is the only comprehensive set of multilateral rules and commitments pertaining to state regulation of trade in services.⁷⁹⁸ There are two elements to the agreement which governments must abide by: the first is the framework agreement which outlines the rules and disciplines governing trade in services; and the second element is the national schedules.⁷⁹⁹ This latter is the mechanism by which national governments list the service sectors which they wish to liberalise and allow foreign access to. Furthermore, these schedules outline the extent to which the chosen sectors will be liberalised.⁸⁰⁰ Sally Stewart has suggested that GATS has been less scrutinised than other multilateral trade agreements due to the relatively flexible nature of the schedule element.⁸⁰¹ This is because national governments themselves create their individual schedules according to national positions and are not (at least formally) obliged under GATS to include all service sectors.⁸⁰²

The agreement covers service sectors including financial services in this same manner, through the two elements mentioned above. There are, however, two broad service sectors which are excluded which are: services provided in support of government authority, and air transport. Furthermore, GATS includes all of the four modes of the supply of services outlined above, thus

⁷⁹⁸ Das, D. K., Trade in Financial Services and the Role of GATS, in *Journal of World Trade*, December 1998, Vol. 32, Issue 6, p: 79.

⁷⁹⁹ WTO, 2001, *GATS: Fact and Fiction*, Geneva: World Trade Organisation, p: 6.

⁸⁰⁰ Ibid.

⁸⁰¹ Stewart, S., 1993, *The Impact of GATS in the Financial Services*, Manchester: Prentice Hall Ltd.

⁸⁰² El Hachimi, S., Head of External Relations Division of the WTO, interview held in Geneva, Switzerland on April 24 2007.

aiming to comprehensively liberalise trade in services for WTO member states. Under the agreement the Jordanian and US governments included financial services in their respective schedules. It is worth briefly assessing these provisions which, while superseded by the JUSFTA in relation to US-Jordan trade, form the basis of the FTA provisions and continue to shape their respective trade in financial services with other states.

The GATS schedule of the United States is relatively more complex than that of Jordan. This is a result of the difference in size and complexity of the financial service sectors and overall economy of the United States in relation to those of Jordan and the position of the United States in the global economy and the subsequent intricacy of trade related financial service activities.⁸⁰³ With regards to the insurance and insurance-related sub-sectors the complexity of provisions for market access and national treatment in the four modes of supply (as outlined above) originate with the fact that there are varying provisions for different states. Constant across the majority of states is that government-owned or government-controlled corporations, whether US or foreign, are not allowed to participate in the US insurance sector.⁸⁰⁴ National treatment of foreign entities is for the most part equal across all states and equivalent to treatment given to domestic entities. There is one major exception to this rule pertaining to maritime insurance “[w]hen more than 50 percent of the value of a maritime vessel whose hull was built under federally guaranteed mortgage funds is insured by a non-US insurer, the insured must demonstrate that the risk was substantially first offered in the US market.”⁸⁰⁵

In relation to all non-insurance related financial services, including trading of securities, trading in derivative products and participation in the issues of government debt securities, market access and national treatment are

⁸⁰³ Bergsten, C. F., A New Foreign Economic Policy for the United States, in Bergsten, C. F. (ed.), 2005, *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, Washington: Institute for International Economics, pp: 3-7.

⁸⁰⁴ Communication from the United States of America, United States Schedule of Specific Commitments Under the General Agreement on Trade in Services, World Trade Organisation, 27/02/2003, S/DCS/W/USA, pp: 51-61.

⁸⁰⁵ Ibid, p: 51.

liberalised under the four modes of supply. Mechanisms and provisions vary across US states resulting in an occasionally contradictory governing regime for trade in financial services in the US market. For example, some states, such as Tennessee, Mississippi and Missouri, do not have the mechanisms to register a new branch or subsidiary of a foreign firm if it is not already registered in another US state which does have the mechanisms in place.⁸⁰⁶ There are also restrictions on the status of natural persons operating in the US market. US citizenship is required for higher level employees of insurance firms in many states, while residency status is required for lower level employees wishing to operate in a high number of states. Furthermore, licenses for some insurance and non-insurance related activities such as consultancy and risk assessment are not issued to non-residents of the United States in some states such as Alabama, Hawaii and Georgia.⁸⁰⁷

Overall, the schedule of the United States under GATS allows for the liberalisation of the domestic financial services sector and international trade in financial services. However, there are variations in the liberalisation allowed under the provisions of the schedule between different states.

The Jordanian schedule also allows for much liberalisation of the sector and related trade, however, it is much less complex and places less limits than the US schedule. The provisions result in a largely unbound governing regime in the modes of supply for insurance-related and non-insurance activities except for several forms of insurance activity where suppliers either have to be based in Jordan or have branches located in Jordan.⁸⁰⁸ Furthermore, 100 percent foreign ownership of firms located in Jordan is allowed. Much like the schedule of the United States, the Jordanian schedule places relatively strict limits on the presence of natural persons. For most financial services the presence of natural persons from abroad, either employed by a foreign or Jordanian entity, is restricted to high level employees or professionals with

⁸⁰⁶ United States GATS Schedule, 27/02/2003, p: 52.

⁸⁰⁷ Ibid, p: 64.

⁸⁰⁸ Communication from the Hashemite Kingdom of Jordan, Schedule of Specific Commitments Under the General Agreement on Trade in Services, World Trade Organisation, 15/12/2000, GATS/SC/128, pp: 23-29.

skills lacking in the Jordanian workforce either in number or quality.⁸⁰⁹ Market access under the four modes of supply for non-insurance related activity is limited to registered banks and financial services companies – as is the case in the United States. Only registered entities are permitted to operate in the market in areas such as the taking of deposits or other repayable transactions.⁸¹⁰

According to Lawrence Summers “[b]uilding a more effective international financial architecture that can ensure that capital flows are sustainable as well as strong is of profound importance around the world.”⁸¹¹ It is precisely this perception of the global financial services market that fashioned the elements of the JUSFTA which deal with trade in financial services. The FTA text incorporates all of the provisions of the GATS schedules for Jordan and the United States as well as the framework agreement of rules and regulations. The result is to further strengthen the governing regime between the United States and Jordan for trade in financial services.

The Jordanian Banking and Insurance Sectors

The Jordanian economy has traditionally been service-oriented. The wide-ranging processes of economic and political reform discussed in chapter three have included liberalisation of the banking and insurance sectors in much the same way as in non-service sectors such as the T&C and pharmaceutical sectors. However, according to Dihel and Kardoosh the success of reform in financial service sectors has been relatively mixed and is seen as being limited.⁸¹² Nevertheless, the banking and insurance sectors are significant components of the Jordanian economy and since 2000 have seen solid growth. However, Jordanian banks and insurers remain small in relation to their counterparts in other markets, are generally not competitive in international

⁸⁰⁹ Ibid.

⁸¹⁰ Ibid.

⁸¹¹ Summers, L. H., Building an International Financial Architecture for the 21st Century, in *Cato Journal*, Winter 1999, Vol. 18, No. 3, p: 322.

⁸¹² Dihel, N., and Kardoosh, M. A., 2006, *What Constrains Services Trade in Jordan: Weak Infrastructure, Regulatory Barriers or Both*, Amman: Jordan Centre for Public Policy Research and Dialogue, p: 7.

markets and as a result have failed to exploit the opportunities in the US market for financial services provided by the GATS agreement and JUSFTA provisions.

Growth in the Banking and Insurance Sectors

At the same time as reform and liberalisation of the insurance and banking sectors has not been overly robust, growth in activity in these sectors has been quite strong since 2000. The first ‘modern’ domestic banks were established in the kingdom in the early 1950s shortly after independence. As it is a relatively short period of time since the initial emergence of the banking sector in Jordan, and it is thus a relatively young sector, it is worth looking back at the historical data from as early as the 1960s. Through the 1960s the number of banks remained limited and total capital assets were perpetually small, even in comparison to similar markets in states such as Lebanon and Israel. For example, total deposits with licensed banks in 1964 were a mere US\$68 million while by 1970 this had only risen to US\$81.4 million.⁸¹³ Dew, Wallace and Shoult argue this lack of growth was due to the small size of the market and its low level of maturity.⁸¹⁴ However, with increasing economic activity, rising income levels and increased integration with regional capital markets through aid and worker remittances coming from the oil producing states,⁸¹⁵ the 1970s saw significant growth in the banking sector - with deposits totalling US\$1.14 billion by 1980.⁸¹⁶

The economic recession and crises discussed in chapter three which characterised the 1980s led to stagnation in the banking sector. Following the implementation of the economic reform policies devised in the early 1990s the banking sector once again began to grow in-line with the overall economy. The boom-bust cycles in the banking sector now seem to have been broken, or at least limited to minor adjustments. Since the growth of the early 1990s the

⁸¹³ Ministry of Industry and Trade: Trade and Investment Information Database, 2007.

⁸¹⁴ Dew, P., Wallace, J., and Shoult, A., 2004, pp: 299-309.

⁸¹⁵ Bouillon, M., *Walking the Tightrope: Jordanian Foreign Policy from the Gulf Crisis to the Peace Process and Beyond*, in Joffe, G. (ed.), 2002, p: 8.

⁸¹⁶ Ministry of Industry and Trade: Trade and Investment Information Database, 2007.

banking sector has remained relatively strong with growth since 2000 being healthy.⁸¹⁷

A number of factors have been involved in the growth witnessed since 2000. In the first instance, transformations in the regulation of the sector began to attract foreign investment and foreign exchange. Coupled with rising levels of international trade and overall rising levels of income, the banking sector was able to capitalise on greater capital flows.⁸¹⁸ Third, the increase in and sustained high levels of oil and natural gas prices since 2001, while resulting in higher import costs for the economy as a whole, have led to a rapid increase in investments, savings and remittances from oil and gas producing markets.⁸¹⁹ The fourth factor sustaining the current boom in Jordanian banking is the repatriation of petro-dollars from western markets (mainly US but also European) in the post-9/11 environment, and their investment in MENA markets. The Jordanian market is seen as stable and so has benefited from further investment.

The development of the banking sector is apparent when conducting a brief quantitative study of the capital assets of licensed banks (both domestic and foreign) and the foreign reserves of the Central Bank of Jordan (CBJ) - which is the banking sectors main regulatory body. With regards to the latter, through the first quarter of 2007 the CBJ held foreign currency reserves of US\$6.318 billion - equivalent to six months worth of the kingdom's imports of goods and services. This was an increase of US\$216.4 or 3.5 percent on the end level for 2006. The CBJ's foreign reserves stood at only US\$3.56 billion at the end of 2002 and at US\$2.268 billion in 1997.⁸²⁰ Furthermore, total deposits at licensed banks totalled over US\$21.3 billion, an increase of over US\$646 million, or 3.1 percent on the end level for 2006.⁸²¹ The equivalent figures for 2002 and 1997 were US\$13.2 billion and US\$9.1 billion

⁸¹⁷ El Hachimi, S., April 24 2007.

⁸¹⁸ Dihel, N., and Kardoosh, M. A., 2006, p: 12.

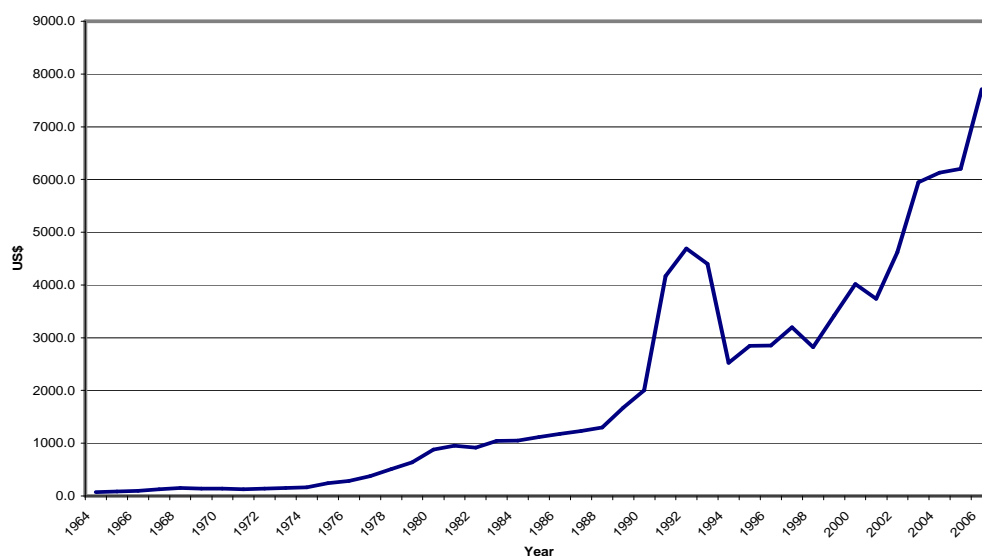
⁸¹⁹ Ibid.

⁸²⁰ CBJ, May 2007, *Research Department Monthly Report*, Amman: Central Bank of Jordan, p: 5.

⁸²¹ Ibid.

respectively. See figure 7.2 below for a comprehensive overview of the size and growth of the Jordanian banking sector.

Figure 7.1 Central Bank of Jordan's Foreign Reserves, 1964-2006⁸²²



Expanding credit facilities are also another key quantitative indicator of the size and robustness of any banking sector. Credit creation and distribution has traditionally been the weakest element of the Jordanian banking sector and was a main characteristic of the sector's lack of maturity until the 1990s. However, this too has seen growth since 2000. By the end of the first quarter 2007, outstanding credit facilities extended by licensed banks totalled US\$14.598 billion, a 3.1 percent increase on the end level for 2006, or US\$645.9 million.⁸²³ The equivalent figures for 2002 and 1997 were US\$7.238 billion and US\$5.61 billion respectively.⁸²⁴ According to Sabri Al-Khassib the banking sector has seen significant growth over the past decade and especially since 2000, this has been driven by Jordanian and international actors operating in the domestic market.⁸²⁵ However, Jordanian actors have not witnessed much growth in international markets (discussed in more detail below).

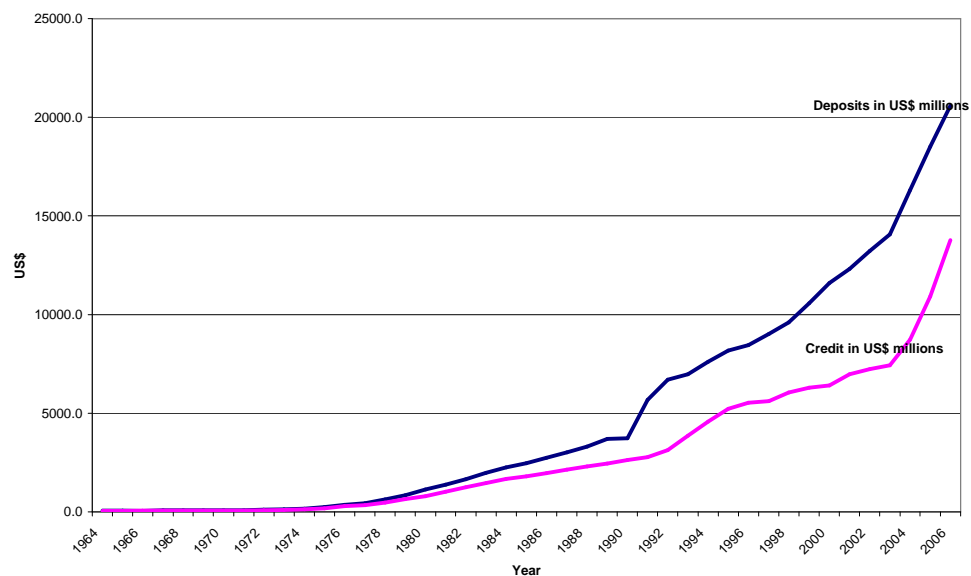
⁸²² Source: Central Bank of Jordan.

⁸²³ CBJ, May 2007, p: 5.

⁸²⁴ CBJ, 2006, *Yearly Statistical Series: Money and Banking*, Amman: Central Bank of Jordan.

⁸²⁵ Al-Khassib, S., Head of Research, Amman Chamber of Commerce, interview held in Amman, Jordan on December 24 2006.

Figure 7.2 Total Deposits and Credit Facilities with Licensed Banks in Jordan 1964 – 2006⁸²⁶



The insurance sector has witnessed a similar process of establishment and expansion. According to the Jordan Insurance Federation (JIF), the main regulatory body for the insurance sector in Jordan, it was during the late 1940s and early 1950s that the insurance sector began to emerge. The initial impetus came as a result of the expansion of marine transport through the port of Aqaba and the small but growing number of cars owned.⁸²⁷ Growth in the 1960s and 1970s was extremely slow as there was a limited market for insurance services due to the small population and low levels of income. However, by the 1980s the number of insurance companies had risen dramatically from just three at the end of the previous decade to thirty-three - ten of which were foreign insurance firms. This rise came as a result of the improved economic environment associated with the oil boom of the 1970s.

Nevertheless, while strong growth had been witnessed in the early 1980s, by the end of the decade the economic recession and subsequent crises which so drastically affected the banking sector also resulted in the rapid decline of the insurance sector. By 1987 the total number of insurance firms had decreased

⁸²⁶ Source: Central Bank of Jordan.

⁸²⁷ JIF, 2006, *Historical Background of the Jordanian Insurance Sector*, Amman: Jordan Insurance Federation.

to just eighteen and only one of the international firms remained.⁸²⁸ As a result of new legislation introduced in 1995 (Insurance Law No. 9) repealing previous legislation enacted in 1984 (the Insurance Practice Monitoring Act) - which prevented the entrance of new insurance firms into the market - the number of insurance firms once again began to grow. Included in the 1995 legislation, however, were provisions which to a certain extent acted as restraints on market investment. These provisions included requiring domestic firms to have capital assets of a minimum of US\$3.5 million and US\$35 million for direct insurance and re-insurance operation respectively. International firms wishing to enter the market were obliged to have US\$7 million in capital assets.⁸²⁹

The insurance sector has thus developed with some similarities to the banking sector. Firstly, there has been a history of uneven growth accompanied by periods of decline. Secondly, Jordanian insurance firms have had limited success in competing in international markets. Indicative of this latter point is that in 2005 Jordanian insurance firms witnessed a 40.1 percent decline in insurance premiums written outside of the kingdom on the previous year.⁸³⁰

Again a brief quantitative assessment of the growth of the insurance sector is quite revealing. However, unlike an assessment of the banking sector, it is only fruitful to conduct this analysis from 1997 onwards, due to the extremely limited size of the insurance sector prior to this year. Total assets of insurance firms operating in the Jordanian market totalled approximately US\$772 million at the end of 2006 - equivalent to a 4.2 percent growth on 2005. At the end of 2002 this figure stood at only US\$368.5 million and in 1997 a much smaller US\$173 million.⁸³¹ Furthermore, the insurance sector has seen strong growth in inward investment which by the end of 2006 amounted to US\$575.8 million, up from US\$237 million in 2002 and US\$81 in 1997.⁸³² However, the growth in the sector is slightly misleading. While the sector has witnessed

⁸²⁸ Dihel, N., and Kardoosh, M. A., 2006, p: 14.

⁸²⁹ *Jordan Insurance Law No. 9.*

⁸³⁰ Dihel, N., and Kardoosh, M. A., 2006, p: 14.

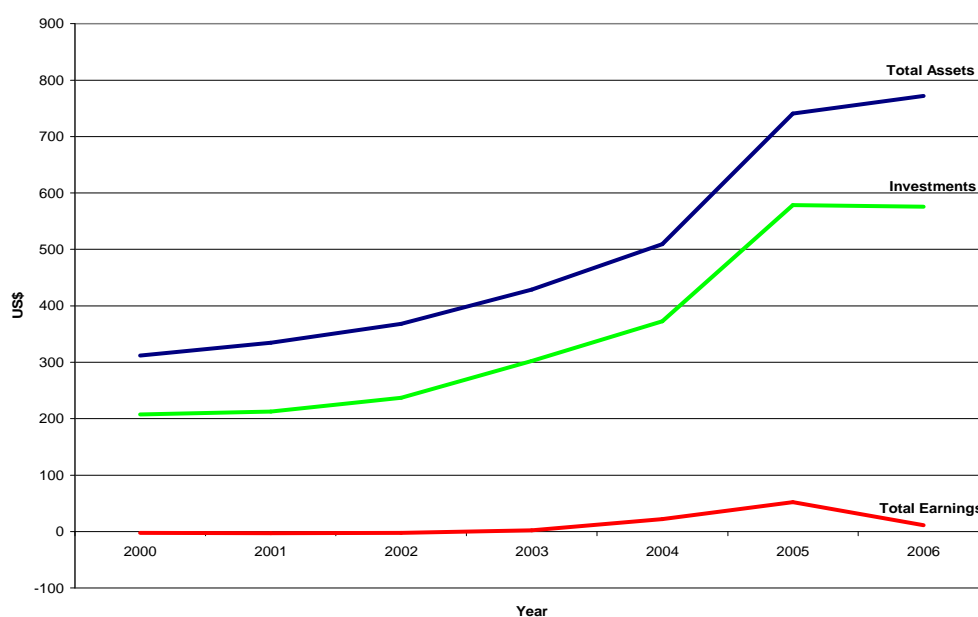
⁸³¹ JIF, 2006, *Annual Report 2006*, Amman: Jordan Insurance Federation, pp: 3-5.

⁸³² *Ibid.*

a large increase in activity, investment and total assets over the last decade and especially since 2000, this is in fact only a reflection of the maturation of the insurance sector within the Jordanian economy and not necessarily its profitability. Total retained earnings in the sector are quite low and in 2006 only amounted to US\$21.1 million - a drop of 78 percent on the previous year and only a US\$2.7 million increase on the 2002 figure of US\$18.4 million.⁸³³

Of the seven main types of insurance offered in the Jordanian market,⁸³⁴ motor insurance and medical insurance have traditionally been the strongest. For example, in 2006, motor insurance operations accounted for US\$170.7 million total premiums and medical insurance US\$60.5 million. The total premiums for 2006 equalled US\$365.1 million.⁸³⁵

Figure 7.3 Total Assets and Investment with Licensed Insurance Firms in Jordan 2000 – 2006⁸³⁶



In this environment of increasing activity and growth but low levels of retained earnings, saturation of the market with a large number of small firms represents a key structural weakness. The Jordanian banking sector is much larger than the insurance sector and has witnessed even stronger sustained

⁸³³ Ibid.

⁸³⁴ These are: Marine Insurance, Fire Insurance, Motor Insurance, Credit Insurance, General Accident Insurance, Life Assurance and Medical Insurance.

⁸³⁵ JIF, 2006, p: 4.

⁸³⁶ Source: Jordan Insurance Federation.

growth since 2000. However, it too faces the structural problem of being relatively saturated with smaller entities. A discussion of these weaknesses follows a brief interlude to introduce domestic regulation of these sectors.

Regulation of the Banking and Insurance Sectors in Jordan

There are two regulatory bodies in the Jordanian banking sector: the CBJ and the Association of Banks in Jordan (ABJ). The former acts as the public management body while the latter acts as the private sector counterpart. The CBJ was established in 1964 following the 1959 Law of the Central Bank of Jordan with the purpose of acting as the exclusive regulatory body of the banking sector.⁸³⁷ The Law of the CBJ states that the bank's purpose is to maintain monetary stability, ensure the convertibility of the JD and to promote sustained growth in the overall economy.⁸³⁸ In order to achieve these goals the CBJ's functions have evolved over the past four decades to include the following: the issuing and regulating of bank notes and coins – the CBJ is the sole issuer of the JD; the maintaining and management of the kingdom's reserves of gold and foreign exchange; acting as a banker and fiscal agent to the government of Jordan and to public institutions; acting as a banker to private banks and financial institutions; to maintain the safety of the banking system - to ensure the protection of depositors and shareholders; to act as advisor to the government on fiscal and economic policies; to manage monetary problems and participate in the management of domestic economic problems; and finally to regulate credit.⁸³⁹ The CBJ's decision-making body is independent of the government, however, the bank's capital is entirely owned by the government and the overall operations of the bank are coupled with those of the Ministry of Finance.

The ABJ on the other hand acts as a professional association for private banks and was established by the private sector in 1978. The General Assembly of the association is constituted of the director generals of the twenty-three banks

⁸³⁷ CBJ, 2007, *History of the Central Bank of Jordan*, Amman: Central Bank of Jordan.

⁸³⁸ *The Law of the Central Bank of Jordan*, 1959.

⁸³⁹ CBJ, 2007.

operating in the Jordanian market while the association's capital is entirely supplied by the member banks.⁸⁴⁰ Through the 1970s, as mentioned above, the banking sector began to grow relatively rapidly. As a result there was seen to be a need to develop a mechanism for the coordination of policies between the banks as well as to improve the overall efficiency of the sector through shared information. Thus the ABJ was established with the following roles: to facilitate coordination and cooperation between member banks; to deal with mutual problems faced by private banks and generate solutions; to facilitate the exchange of information and experiences between member banks; to promote the development of banking methods; to standardize banking forms and expressions; to facilitate coordination with the CBJ; to seek to establish cooperative relations between Jordanian banks and international banking associations; and to act as a dispute settlement mechanism for member banks.⁸⁴¹

Like the banking sector, the insurance sector has two main regulatory bodies, one public and one private: the Insurance Commission (IC) and the JIF. The latter was established in 1956 as The Jordan Association for Insurance Companies but following a royal decree in 1989 was renamed. It has been presided over by members of the private sector and operates as an independent body of the private sector. Its purpose has traditionally been to promote the insurance sector and develop the coordination of insurance practices between insurance firms operating in the market.⁸⁴² It also seeks to provide market research in order to both improve efficiency of insurance firms through the sharing of information, as well as to enhance customer awareness.

The IC acts as the primary regulatory body having ultimate regulatory control over the insurance sector - including all forms of insurance operations. It was established in 1999 following the approval of the Insurance Supervision Act No. 33 and acts as an independent regulatory body. The IC is a private sector actor with an independent management structure constituted by a General

⁸⁴⁰ ABJ, 2007, *Annual Mission Statement*, Amman: Association of Banks in Jordan.

⁸⁴¹ Ibid.

⁸⁴² JIF, 2006, *Historical Background of the Jordanian Insurance Sector*, Amman: Jordan Insurance Federation.

Council, Director General and Executive Staff.⁸⁴³ Furthermore, the IC's financial budget is entirely sourced from the private sector with minimal links to the Jordanian government. In a similar manner to the JIF, the IC seeks to regulate the insurance sector to ensure the rights of insured parties as well as insurance firms are protected; to facilitate the efficient operation of private actors and act as a link between the government of Jordan and insurance firms.⁸⁴⁴

Unlike the banking sector the insurance sector also has a third regulatory body which acts in one specific sub-sector - motor insurance. The Compulsory Unified Insurance Office (CUIO), established in 1987, carries out all work related to vehicular insurance in cooperation with the various government licensing departments at the governorate level.⁸⁴⁵ The CUIO also acts as a governing authority over insurance firms operating in the motor insurance sector, allocating market share and compulsory pricing ranges. In this sense the CUIO acts in a slightly more authoritative manner than the JIF and IC.

These three regulatory bodies all act in much the same way as the organisations discussed in chapter five, such as JEDCO, JIEC and JIB. They have all been created or have evolved in a regulatory framework created by the government of Jordan in line with its macro-economic policies. Furthermore, they do not only act as authorities managing and serving the insurance sector to ensure it operates efficiently for both private insured parties and insurance firms, but also as a link between the insurance sector and the government. Through the JIF, the IC and the CUIO the government of Jordan is able to strengthen the sector by promoting growth and stability. Meanwhile, through these three regulatory bodies private actors operating in the insurance sector are able to exploit the opportunities presented by the government for support (both political and economic). The result is a mutually beneficial and relatively close relationship between the public and private spheres in the domestic insurance market.

⁸⁴³ IC, 2006, *Annual Report*, Amman: The Insurance Commission.

⁸⁴⁴ Ibid.

⁸⁴⁵ CUIO, 2000, *Mission Statement*, Amman: The Compulsory Unified Insurance Office.

Jordanian Banks and Insurers

According to the Association of Banks in Jordan, the banking sector is currently comprised of twenty-three banks (excluding the Central Bank of Jordan), including eight which are branches of foreign banks and two which are Islamic banks.⁸⁴⁶ The largest of these banks in terms of assets assigned to the Jordanian market are the Arab Bank and the Housing Bank for Trade and Finance, with asset bases of US\$23.7 billion and US\$4.5 billion respectively.⁸⁴⁷ For a small state with only a limited market due to its relatively small population and low overall GDP, the large number of banks means that the banking sector is quite saturated.⁸⁴⁸ While strong growth has been sustained in this sector over the past decade and is likely to continue, the relatively limited size in terms of deposit and credit facilities along with the high number of banks already operating in Jordan limits the attractiveness of expanding into the sector for foreign banks. Thus Jordanian banks have remained dominant in the Jordanian market. However, many of these banks have not witnessed any sustained success in international markets. None have penetrated the US market beyond offering Jordan-based customers access to funds through international financial service providers such as Visa and MasterCard.

Likewise the insurance sector has also traditionally been over-supplied by insurance firms. According to the IC there are currently twenty-six firms operating in the insurance sector.⁸⁴⁹ Significantly twenty of these firms are

⁸⁴⁶ The domestic non-Islamic banks are as follows: Bank of Jordan, Jordan Investment & Finance Bank, Arab Jordan Investment Bank, The Housing Bank, Jordan National Bank, Jordan Commercial Bank, Capital Bank of Jordan, Arab Bank, Jordan Kuwait Bank, Arab Jordan Investment Bank, Arab Banking Corp. (Jordan), Societe General Bank. Jordan, Cairo Amman Bank, and Union Bank for Savings & Investment; the foreign banks are as follows: Rafidain Bank, HSBC, Standard Chartered, Citibank, Egyptian Arab Land Bank, Audi Bank S.A.I, National Bank of Kuwait, Bloom Bank; and the two domestic Islamic banks are as follows: Jordan Islamic Bank, International Islamic Arab Bank.

⁸⁴⁷ ABJ, 2006, *Annual Report*, Amman: Association of Banks in Jordan.

⁸⁴⁸ Dew, P., Wallace, J., and Shoult, A., 2004, pp: 299-309.

⁸⁴⁹ IC, 2006, p: 6. These are as follows: Jordan Insurance; Middle East Insurance; National Ahlia Insurance; United Insurance; Arabian Seas Insurance; General Arabia Insurance; Jerusalem Insurance; Al-Nisr Al-Arabi Insurance; Jordan French Insurance; Arab Union International Insurance; Delta Insurance; Oasis Insurance; Al Yarmouk Insurance; Holy

Jordanian (both public and private), four are joint Jordanian-foreign private firms (not American), one is a Yemeni firm and only one is a US-based firm - ALICO. The largest of these firms in terms of total assets assigned to the Jordanian market are Jordan Insurance with US\$108 million (or 14 percent of the market), ALICO with US\$100 million (or 13 percent of the market), and Middle East Insurance with US\$93 million (or 12 percent of the market).⁸⁵⁰ As highlighted in figure 7.3 above, profits in the Jordanian insurance sector are extremely limited, standing at only approximately US\$21 million in 2006. When this low profit margin is coupled with the saturated nature of the market, it is clearly evident that for foreign insurance firms, including highly competitive firms such as ALICO, expansion into the Jordanian insurance market is not attractive. This point goes some way in explaining the lack of international actor involvement in this sector. The effect of this structure has been that Jordanian insurance firms have maintained their dominance in the Jordanian market, but at the expense of further development and expansion into international markets. The lack of competition from highly developed and capitalised international firms has helped lead to the relative weakness of Jordanian firms. Thus, again like Jordanian banks, Jordanian insurance firms have not penetrated the US market.

Nevertheless, it is worth briefly examining the performance and activities of the leading Jordanian banks and insurers operating in the Jordanian market. This short analysis illustrates the lack of capability of these leading Jordanian actors to penetrate the US market and offer financial services there, thus explaining why trade in financial services between the Jordanian and the US markets is non-existent when the services would emanate from Jordan.

Land Insurance; Arab Lief and Accidents Insurance; Philadelphia Insurance; American Life Insurance (ALICO); Jordan International Insurance; Arab German Insurance; Euro Arab Insurance Group; Islamic Insurance; Arab Assurers; Al Barakah Takaful Company Ltd; Arab Jordanian Insurance Group; Arab Orient Insurance; Gerasa Insurance.

⁸⁵⁰ Ibid, p: 35.

The Housing Bank for Trade and Finance

The Housing Bank for Trade and Finance was established in 1973 as a public shareholding limited company with the sole purpose of providing finance for housing. By the late 1990s the bank had grown rapidly and evolved into a comprehensive bank supplying full commercial and investment banking services to the Jordanian market. This sustained growth has established the bank as the second leading Jordanian bank with total capital of over US\$355 million.⁸⁵¹ Furthermore, the bank's total asset base stood at US\$5.78 billion by the end of 2006, a 28 percent increase on the 2005 figure. (For further financial indicators see table 7.1 below). Importantly, the yearly profit earnings of the bank have rapidly increased over the past five years, increasing from US\$41.2 million in 2002 to US\$183.6 million in 2006 with estimates of a further increase for 2007. However, despite the banks' strong performance in the Jordanian market, expansion into international markets has been very limited. The Housing Bank for Trade and Finance has ninety-six branches across Jordan (the largest number of branches of any bank operating in Jordan), four in Palestine and one in Bahrain. A further five subsidiary bank branches are located in Algeria (Algiers), Syria (Damascus), Iraq (Baghdad), United Arab Emirates (Abu Dhabi) and Libya (Tripoli).⁸⁵² However, there have as of yet been no attempts by the bank to penetrate into more advanced banking markets in Europe, North America or South East Asia.

⁸⁵¹ HBTf, 2006, *Annual Report*, Amman: The Housing Bank for Trade and Finance.

⁸⁵² Ibid.

Table 7.1 Major Financial Indicators of The Housing Bank for Trade and Finance 2002- 2006 in US\$ Millions⁸⁵³

Item / Year	2002	2003	2004	2005	2006
Total Assets	2501.9	2864	3527.3	4510.4	5780.2
Customer's Deposits	1806.8	2154	2708	3345	3996.3
Credit Facilities – Net	846.6	887.3	1241.8	17817	2243
Shareholder's Equity	379.3	413.6	447	557.4	1178
Gross Income	111.5	126.3	146	245	287.5
Profit Before Income Tax	41.2	43.5	66.5	148.5	183.6
Profit After Income Tax	30.9	31.75	42.8	104.6	133.6
Return on Average Assets %	1.26	1.18	1.34	2.6	2.6
Return on Average Equity %	8.34	8.01	9.71	20.42	15.4
Dividends	0.2	0.2	0.28	0.35	0.35
Share Price in ASE	3.41	6.11	11.29	28.2	9.24

Arab Bank

The Arab Bank represents a slightly different story. Established in 1930 in Jerusalem, Palestine it has grown to be the largest Middle East based bank in terms of total assets, annual revenues and extent of international operations. While the Arab Bank was established in Palestine and not Jordan by Abdul Hameed Shoman, following the 1967 Six Day War and the occupation of the West Bank the company relocated its headquarters to Amman and became a public shareholding company. Since this time it has remained a Jordan-based financial institution.⁸⁵⁴ The company now has four-hundred branches in operation in twenty-nine states (most in the MENA region) across five continents and has managed to penetrate the advanced financial markets in Europe and North America with branches in London, Paris, Frankfurt, Zurich and New York. The Jordanian market represents the Arab Bank's most

⁸⁵³ Ibid.

⁸⁵⁴ Arab Bank, 2007, *Historical Overview*, Amman: Arab Bank, pp: 4-5.

important market in terms of branch operations with seventy-nine branches spread across the kingdom. The Arab Bank has total assets of over US\$35.5 billion and a capital base of US\$5.5 billion.⁸⁵⁵

Within Jordan, the Arab Bank has total assets of US\$7.76 billion and accounts for 24 percent of the Jordanian market occupying the largest single portion.⁸⁵⁶ With regards to the Arab Bank's operations in the United States and its role in international trade in banking services between Jordan and the United States, the corporation has much less significance than in the MENA region or even in European markets. Total assets for its operations in the US market amount to only a little over US\$500,000 accounting for only an insignificant percentage of the overall market in value terms - it must be highlighted again that the Arab Bank only has operations in New York.⁸⁵⁷ The Arab Bank is the largest and arguably the most stable financial institution of its kind in the MENA region and will continue to post solid and sustainable growth in the foreseeable future. It will likely continue to dominate the Jordanian market for banking services and further expand its operations in the region and in European and South East Asian markets. However, the growth of its operations in the US market is less clear and it is most likely that the corporation will not expand its services in the US market by a significant extent in the near- to medium-term future. Furthermore, the Arab Bank's role in international trade in banking services between Jordan and the United States will remain relatively limited, confined mostly to the supply of services to Jordanian citizens visiting the United States for short periods of time.

Jordan Insurance Company

The Jordan Insurance Co. was established in 1951 by a number of private businessmen as the first major insurance firm in the country. Within seven years of its founding Jordan Insurance expanded regionally and opened up branches in Kuwait, Saudi Arabia and the United Arab Emirates. By the end

⁸⁵⁵ Arab Bank, 2007, *Semi-Annual Report*, Amman: Arab Bank, p: 3.

⁸⁵⁶ Arab Bank, 2006, *Annual Report*, Amman: Arab Bank, pp: 33-34.

⁸⁵⁷ Ibid.

of 2006 the corporation. operated seven regional branches. Throughout its five decade existence the company has dominated the insurance sector offering a comprehensive range of insurance services. Unlike many of the insurance firms in the market, including ALICO, Jordan Insurance Co. supplies all the types of insurance services listed above. However, while the firm's total assets are the largest of any Jordanian-based insurance firm as well as the assets dedicated to the Jordanian market of the non-Jordanian firms, totalling US\$17.5 million at the end of 2006, its annual profits remain small.⁸⁵⁸ In 2006 net profits after tax and fees amounted only to slightly over US\$2 million. This does however, equate to almost 10 percent of total profits after tax and fees for the whole insurance sector - with twenty-five other firms competing for the remaining 90 percent. With this narrow profit margin it is highly unlikely that Jordan Insurance Co. will be able to expand internationally and offer insurance services in other markets, especially those outside of the Middle East. In fact, according to Khaldun Abuhassan, the Chairman of Jordan Insurance Co., there are no plans for expansion into new markets for the foreseeable future - and certainly not for operation in the US market.⁸⁵⁹

The activities and financial particulars of The Housing Bank for Trade and Finance, Arab Bank and the Jordan Insurance Company briefly introduced above are indicative of the problems facing Jordan-based banks and insurance firms. The actors discussed here are the largest, most competitive and technologically advanced corporations in their respective sectors, yet they do not operate in the US market or offer financial services to actors based or operating in the US market through the first three modes of delivery for the former or all four modes of delivery for the latter. The observer would therefore not be derided for concluding that there will likely not be any expansion into the US market by Jordan-based banks or insurance firms in the medium-term future and thus trade in financial services emanating from the Jordanian market to that of the US shall remain extremely limited. The story, however, may be slightly different for trade flows in financial services going in the opposite direction. It is now appropriate to turn to an assessment of the

⁸⁵⁸ JIC, 2006, *Annual Report*, Amman: Jordan Insurance Company Ltd., p: 12.

⁸⁵⁹ Abuhassan, K., 2007, *Mission Statement*, Amman: Jordan Insurance Co.

US banking and insurance sectors and the flow of trade in such financial services from US-based actors to the Jordanian market.

The US Banking and Insurance Sectors

As with the previous two chapters covering the T&C and pharmaceutical industries, a full overview of the US banking and insurance sectors would not prove necessary for the purposes of this chapter. This is because any comprehensive study of the US economy or simply one sector within the US economy would require a great deal of time, research and words. Furthermore, while it is useful and possible to present an assessment - albeit a relatively brief one - of the Jordanian banking and insurance sectors, it is also necessary to do so in order to present the argument and main analysis of this chapter. One must recall that trade in financial services between the United States and Jordan is very small in quantitative terms and largely restricted qualitatively in terms of the four modes of supply. The importance of this study is to determine why this is in fact so. It has already been illustrated that trade in banking and insurance services emanating from the Jordanian market and being supplied in the US market is largely not possible due to the lack of capabilities of Jordan-based actors to provide these services.

A large number of US-based actors, it is certain and will be illustrated below, do possess the capabilities to provide financial services to the Jordanian market. However, it is the Jordanian market itself that prevents this supply from being realised by having structural weaknesses - namely in size and saturated market supply. Therefore, an in-depth assessment of the US banking and insurance sectors would yield little in terms of furthering the analysis presented here. Instead attention is best placed on the US-based actors which are operating in the Jordanian market in order to determine how the supply of financial services by these actors to the Jordanian market has developed in light of the structural weaknesses of this market and what prospects for future trade in financial services exist.

Growth and Regulation in the US Sectors

A brief introduction to the US banking and insurance sectors will, however, provide some useful insight as to what structural limitations and opportunities there are for non-US based actors to offer financial services to the US market. National banking in the United States began with the establishment of the Bank of North America in Philadelphia in 1781 which acted as the sole central bank of the United States, having a monopoly on currency. A decade later this bank was succeeded by the First Bank of the United States. However, this bank too expired when in 1811 the US Congress failed to renew its charter. A Second Bank of the United States was created in 1816 with a similar charter to its two predecessors but was also to expire in 1836.⁸⁶⁰ The result of this lack of a central banking authority led to state banks emerging independent of any central regulation.

By 1863 this system had become known as the dual banking system as a result of resurgence in congressional regulation of the banking sector with the passing of the National Bank Act which provided for the chartering of banks on a national scale. This system has endured to the present era, where banks may operate on the state or national level, adhering to state or national regulations respectively.⁸⁶¹ In terms of national regulation, following the 1913 Federal Reserve Act the Federal Reserve System was established bringing all banks operating in the United States under the authority of the federal government. Twelve Federal Reserve Banks exist across the country and are supervised by the Federal Reserve Board.⁸⁶² The purpose of this system is to control the overall money supply in the United States, to implement monetary policy and to financially support the banking system.

Under this system the US banking sector has maintained rapid growth to become the world's largest such sector. Total assets of commercial banks

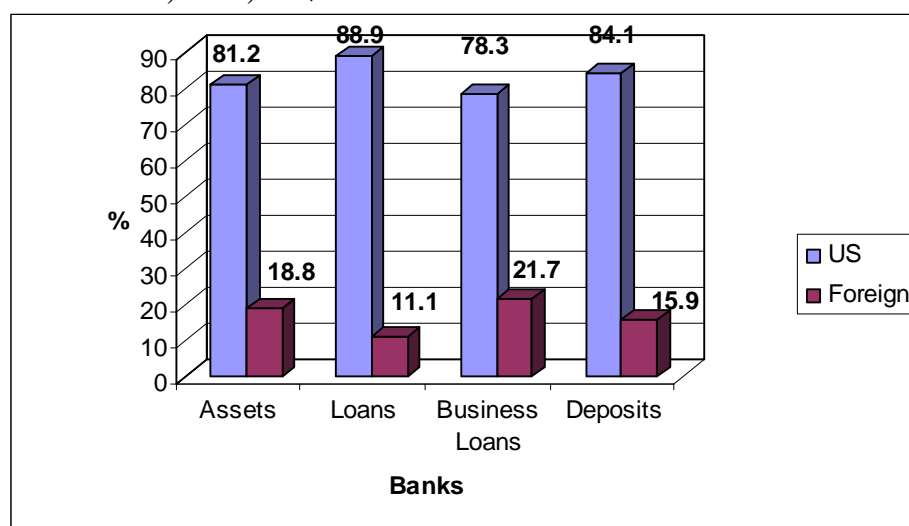
⁸⁶⁰ Rothbard, M. N., 1983, *History of Money and Banking in the United States: The Colonial Era to World War Two*, Auburn, Ludwig von Mises Institute, pp: 62-73

⁸⁶¹ Ibid.

⁸⁶² Ibid.

operating in the United States totalled over US\$10 trillion at the end of June 2007 while total deposits stood at just under US\$6.3 trillion at the end of the same period.⁸⁶³ The respective figures for the end of the corresponding period in 2006 were US\$9.2 trillion and US\$5.8 trillion. Significantly non-US based banks occupy approximately 10 percent of the market. Foreign related corporations accounted for slightly over US\$1 trillion of the US banking sector's total assets at the end of June 2006 and US\$1 trillion at the end of June 2007. Meanwhile total deposits in these banks stood at US\$652 billion and US\$871 billion for the same periods.⁸⁶⁴ When compared with the figure for 2000 the growth in the US banking sector is quite extraordinary. At the end of June 2000, for example, total assets of all banks operating in the United States equalled US\$5.8 trillion while total deposits amounted to US\$3.6 trillion.⁸⁶⁵ The growth of market share for foreign-related banks has remained constant at approximately 10 percent as total assets and deposits in non-US banks amounted to US\$690.8 billion and US\$387.4 billion at the end of June 2000. Nevertheless, while market share has not increased - and in some instances has actually decreased for non-US banks, overall assets and deposits - as well as other indicators - have grown rapidly (see Figure 7.4).

Figure 7.4: Total Assets, Deposits, Loans and Market Share of Banks in the US Market, 2007, US\$ Millions⁸⁶⁶



⁸⁶³ Federal Reserve Statistical Release, July 20 2007, *Assets and Liabilities of Commercial Banks in the United States*.

⁸⁶⁴ Ibid.

⁸⁶⁵ Ibid, July 21 2001.

⁸⁶⁶ Source: Federal Reserve Statistical Release, 20 July 2007.

There are currently two-hundred and eleven foreign banks from sixty different countries operating in the United States.⁸⁶⁷ Under the complex system of dual banking mentioned above, foreign banks wishing to operate in the US market enjoy the same national treatment as US-based banks. The International Banking Act of 1978 underpins this ‘national treatment’ for foreign banks, meaning that subsequent trade agreements such as bilateral FTAs which have provisions for trade in banking services do not offer preferential treatment to actors based in the FTA partner(s). While foreign banks are given the same market access treatment as US banks they are also subject to the same regulatory measures. A range of Congressional Acts since 1990 have been passed, further harmonising regulation of domestic and foreign banks.⁸⁶⁸ Access to the US banking sector for non-US banks is therefore quite liberalised. This ease of access is, however, offset by the high level of competition found in this sector and the dominance of medium and large banks with large total assets and capitalisation. As described above, Jordanian banks simply cannot compete and offer financial services in this market.

The insurance sector in the United States shares similar characteristics with the banking sector. In short, the sector is very large in capital terms, is highly liberalised, is saturated with a large number of insurance service providers, and is dominated by medium and large sized firms with high levels of capital, total assets and profits. By the end of 2006 the US insurance sector had a total market value of US\$1.2 trillion making it by far the largest single insurance sector in the world.⁸⁶⁹ The corresponding figure for 2001 was US\$909.6 billion. Average growth in the sector over the five year period spanning 2002-2006 amounted to 5.9 percent and forecasts suggest that by 2010 the sector will have grown by over 23 percent since 2005 to total over US\$1.4 trillion.⁸⁷⁰

⁸⁶⁷ Anon a, 2006, *Regulatory Guide for Foreign Banks in the United States*, Washington: PriceWaterhouseCoopers.

⁸⁶⁸ These include: The Foreign Bank Supervision Enhancement Act of 1991; The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994; The Economic Growth and Paperwork Reduction Act of 1996; The Gramm-Leach-Bliley Act of 1999; The USA Patriot Act of 2001; and The Sarbanes-Oxley Act of 2002.

⁸⁶⁹ Anon b, 2006, *Insurance in the United States: Industry Profile*, Washington: Datamonitor, p: 3.

⁸⁷⁰ Ibid, p: 7.

The US insurance sector accounts for 36.3 percent of all premiums written within the global insurance market, with the EU being the closest single market with annual premiums representing 35.8 percent of the global market in 2006.⁸⁷¹ Significantly, over the past decade non-life insurance has increased in importance and market share in the United States and by the end of 2006 accounted for 54.8 percent of the insurance market in terms of premiums written.⁸⁷²

Regulation of the insurance sector in the United States is unique in comparison to other financial services in that it is the responsibility of state authorities not federal authorities.⁸⁷³ However, according to Susan Randall, the content of insurance sector regulation between states does not differ greatly. This is due largely to the efforts of the National Association of Insurance Commissioners (NAIC), a national private sector organisation comprised of insurance firms.⁸⁷⁴ This organisation was established in 1871⁸⁷⁵ to act as a forum for private sector actors along with state insurance commissioners to pursue the organisation of insurance regulation – identified as fair pricing, protecting insurance firm solvency, preventing unfair practices and ensuring insurance availability.⁸⁷⁶ Over the past fifty years the role of the NAIC has increased significantly as the tension between state-level regulation of the insurance sector and the need for broader uniformity as insurance firms first expanded across state lines and then internationally. Furthermore, as insurance firms based outside of the United States have increasingly penetrated the US market more unified regulatory processes have been required.

⁸⁷¹ The Asia-Pacific region accounts for 24.2 percent of the global market and the rest of the world has a 3.7 percent share.

⁸⁷² Anon b, 2006, p: 3.

⁸⁷³ Randall, S., Insurance Regulation in the United States: Regulatory Federalism and the National Association of Insurance Commissioners, in *Florida State University Law Review*, 1999, Vol. 26, p: 629.

⁸⁷⁴ Ibid.

⁸⁷⁵ The NAIC was established after the 1868 Supreme Court decision establishing state supremacy over insurance following the Paul v. Virginia court case.

⁸⁷⁶ Randall, S., 1999, p: 629.

As mentioned above, national treatment of non-US-based insurance firms operating in the United States is provided and there are few limitations to market access. Under the US-GATS schedule and the JUSFTA, Jordanian insurance firms wishing to enter the US market can do so with no limitations as long as they are not owned by or affiliated to the Jordanian government. It must be noted, however, that some states do not have the mechanisms to register foreign insurance firms.⁸⁷⁷ As with the banking sector (apart from the New York operations of The Arab Bank), there are no Jordanian insurance firms operating in the United States - although insurance is provided for Jordanian nationals entering the United States as in mode two of the supply modes described above. This is not due to a lack of regulatory facilitation or limitations on market access for Jordanian actors and firms. Rather it is due to a lack of ability on the part of the Jordanian insurance firms to penetrate the US market. The relatively small total assets of these firms, low annual profits and lack of competitiveness result in the opportunities for access to the US market being unexploited. On the other hand, the reciprocal regulatory treatment that US-insurance firms and banks receive in the Jordanian market combined with greater total assets, annual profits and overall competitiveness has led to US-based actors operating in the Jordanian market.

US Banks and Insurers Operating in the Jordanian Market

United States banks and insurance firms are amongst the largest in the world in their respective fields and amongst the largest MNCs of any sort. The largest banks such as Citibank - part of the financial services giant Citigroup - operate in dozens of states on all continents. The largest insurers such as ALICO - a member of American International Group - also operate on all continents in dozens of states. However, by 2008 the only US-based bank operating in the Jordanian market was Citibank and the only US insurance firm operating in Jordan was ALICO. As highlighted above, there are a number of reasons for the lack of interest by international firms and banks to enter the Jordanian market and certain factors which act as deterrents to

⁸⁷⁷ US-GATS Schedule of Commitments: These states are as follows: Maryland, Minnesota, Mississippi, and Tennessee.

inward investment. These include, specifically for the banking and insurance sectors, small market size in overall capital terms and population size, over-saturation and over-supply of actors already involved in the market and low levels of profit returns. Nevertheless, ALICO and Citibank have been operating in the Jordanian market for a number of years and it is worth analysing the activities of both corporations in Jordan and if there have been any changes in this activity since 2001, as well as the prospects for future activity.

Citibank

Citibank is the largest bank of its kind in the United States and one of the largest five globally. It was founded in 1812 as the City Bank of New York and is now the consumer and corporate banking division of Citigroup - the second largest corporation of its kind in the world. By 1865 the bank joined the newly formed national banking system in the United States and was renamed the National City Bank of New York and rapidly became one of the largest US banks. The rapid expansion continued and by 1897 it became the first US bank to establish operations overseas.⁸⁷⁸ In 1974 Citibank Jordan - the Jordanian branch of Citibank - was established as a fully licensed corporate and commercial bank. Since 1974, Citibank has been the only US-based bank to operate in the Jordanian market and is the only non-Jordanian bank operating in Jordan to have senior local management for the Mashreq region - serving as the regional headquarters for Citibank, responsible for operations in Syria and Palestine as well as Jordan.

Despite being one of the largest global banks, Citibank has refrained to a certain extent from investing in Jordan and expanding operations in the kingdom. At the end of 2006 Citibank Jordan ranked seventeenth in the Jordanian market in terms of total assets which amounted to US\$325 million - as compared to a total of US\$1.1 trillion in global assets for Citibank as a whole. In comparison, by the end of 2006 the Arab Bank held approximate

⁸⁷⁸ Citibank, 2005, *Historical Background*, New York: Citibank.

total assets in the Jordanian market of US\$4.6 billion and accounted for almost 30 percent of the banking market.⁸⁷⁹ Furthermore, despite over three decades of operating in the Jordanian market Citibank only has two branches in the kingdom, both of which are located in the affluent western areas of Amman. Little intention to further expand operations has been expressed since 2001. When taking into account the total assets of Citibank in the MENA region, the low intensity of Citibank's operations in Jordan are highlighted further. For example, in Bahrain Citibank has total assets of over US\$30 billion.⁸⁸⁰

The further liberalisation of trade in financial services between Jordan and the United States and greater access to the Jordanian financial services market for US-based corporations has had little impact on the activities of Citibank. In terms of market share, the US bank has consistently accounted for only 1.5 percent of the overall market in terms of total assets, total deposits and credit facilities. However, since 2001 there have been a number of new financial services launched in the Jordanian market. These include the following: the introduction of the first fully automated system for custody safekeeping and settlements, electronic banking for banks for currency management - both domestic and foreign - exchange forward contract systems for foreign exchange, electronic banking for cash and trade for banks in Palestine and the creation of debt swap mechanisms for the Jordanian government.⁸⁸¹ It must be noted, however, that the development of services offered by Citibank Jordan are consistent with the competitive processes at work in any banking market and are not due to any substantial increase in investment or trade potential within the Jordanian market or between the US and Jordanian markets. According to Ghada Bahous, the Head of Operations for Citibank Jordan, there are currently no indications that Citibank will seek to further exploit opportunities in the Jordanian market.⁸⁸²

⁸⁷⁹ ABJ, 2007, *Statistical Report: Banks Rating Upon Their Assets*, Amman: Association of Banks in Jordan.

⁸⁸⁰ Citibank Bahrain, 2006, *Annual Report*, Manama: Citibank Bahrain.

⁸⁸¹ Citibank Jordan, 2006, *Annual Report*, Amman: Citibank Jordan.

⁸⁸² Bahous, G., Head of Operations for Citibank Jordan, interview in Amman, Jordan, August 14 2007.

ALICO

ALICO was established in 1921 in Shanghai, China by C. V. Starr and was originally named the Asian Life Insurance Company. Within ten years of its founding ALICO was providing a range of commercial and personal insurance services across South East Asia. However, following the start of World War Two, insurance operations in the region largely ceased. In need of new markets to operate in, ALICO established operations in Europe, Central and South America, Africa, the Caribbean and the MENA regions. By 1951 ALICO's name was changed to American Life Insurance Company and by 2007 was supplying over fifty markets across five continents with life, accident and health insurance services. It is worth highlighting that ALICO, while a US-based corporation headquartered in Wilmington in the United States and is subject to US regulation, provides insurance services exclusively outside of the US market.⁸⁸³ International diversification has therefore been the key to the sustained growth of the corporation.

Jordan was one of the first states in the MENA region to receive insurance services from ALICO which established operations in the kingdom in 1958 and was one of the first insurance firms in Jordan. Over the first three decades of operations in Jordan, ALICO maintained an approximate market share of 20 percent in life, health and accident insurance services - the firm has never supplied marine, transport, fire, theft or property damage insurance. However, in the last two decades this market share has dwindled to slightly over 6.6 percent in 2007, down from 11.7 percent in 2000.⁸⁸⁴ This means ALICO has slipped from having the single largest market share for any insurance provider in Jordan to being the fifth largest. The decrease in overall share and paid up capital is indicative of decreasing market operations. In terms of paid up capital ALICO had only US\$2.8 million invested in the Jordanian market (ALICO has over US\$40 billion in global assets), as compared with the three leading insurance firms, The Jordan Insurance Company, Arab Orient and The Arab German Insurance Company, all of which had paid up capitals of over

⁸⁸³ ALICO, 2004, *Historical Background*, Wilmington: ALICO.

⁸⁸⁴ EFB, 2007, *Report on the Insurance Sector*, Amman: Export and Finance Bank, p: 11.

US\$7 million in 2006.⁸⁸⁵ These figures may be slightly misleading in some ways. For example, while ALICO does not possess the largest capital assets among insurance firms in Jordan, it does have the largest total of gross premiums in value terms - US\$13 million in 2006 - and one of the smallest percentage shares of market claims - at 4.1 percent. Coupled with the market share as mentioned above, this means ALICO is the most profitable insurance firm in Jordan with profits reaching just under US\$1 million in 2006.⁸⁸⁶

Regardless of the level of profitability of ALICO in comparison to the other firms operating in Jordan, activity does not appear to have significantly increased or altered since 2001. The only measured development since the signing of the FTA is that ALICO has lost market share and has not in any significant way seen an increase in the supply of insurance services to the Jordanian market. Significantly ALICO has not diversified the services which it does offer to the Jordanian market since 2001. It seems that the market access already enjoyed by ALICO prior to the JUSFTA and Jordanian accession to the WTO and GATS was such that the further liberalisation in trade in financial services between Jordan and international markets means that any opportunities in Jordan were already being exploited. It can thus be predicted that ALICO will maintain a similar level of market share in the Jordanian insurance sector over the medium-term and will not witness significantly increased levels of gross premiums.

Conclusions

There is a relatively complex international system of institutions which regulate and manage trade in financial services centred on the GATS agreement and the WTO. The creation of the JUSFTA further strengthened both the management of and liberalisation of trade in banking and insurance services between Jordan and the United States. These are two markets with very different characteristics, with the US market being the largest single market in the world and the Jordanian market a very small one. The nature of

⁸⁸⁵ IC, 2005, *Annual Report*, Amman: The Insurance Commission, p: 21.

⁸⁸⁶ Ibid.

financial services and their intertwined relationship with markets overall mean that the nature of these services and the nature of the overall market which they service are interdependent. Thus the nature of banking and insurance services and these service markets in the United States are very different to those found in the Jordanian market. This large disparity in market characteristics manifests itself in a number of ways as highlighted in this chapter.

In the case of Jordan the banking and insurance sectors are relatively small in comparison to other markets in the region and farther afield. The market while seeing strong relative growth in the past decade and especially in the years since the Jordanian government engaged further with international institutions in the pursuit of trade liberalisation still remains small in overall capital terms. Furthermore, much the same as with the pharmaceutical sector, the banking sector is quite saturated with domestic banks – although not with international banks. The capital intensive nature of this sector as opposed to say the T&C sector means that a market with limited size cannot carry a large number of suppliers. The insurance sector suffers from the same market restrictions. A small overall population in Jordan, limited income and a relatively immature insurance sector mean that insurance services in Jordan are relatively unprofitable. These market characteristics serve as a limitation or restriction on greater external supply of banking and insurance services. In short the banking and insurance service markets in Jordan are not attractive to foreign actors. At the same time, Jordanian actors are generally small and limitations on the development of economies of scale restrict their ability to be competitive internationally. Thus Jordanian corporations have failed to penetrate or supply more advanced markets in much the same manner as Jordanian pharmaceutical corporations in their respective sector.

The Arab Bank Corporation has managed to evolve into a large international banking corporation and does operate and supply services to European markets but has very limited involvement in the US market – almost insignificant in terms of the size of that market. No other Jordanian banking actor operates in the US market. At the same time, no Jordanian insurance

corporation is involved in Jordan-US trade or supply to the US market. The implications of trade liberalisation and engagement with international institutions such as the GATS dominated international regime for services has done little since 1999 to increase Jordanian supply of banking and insurance services to the US market.

The US market is quite different, representing the largest banking and insurance sectors in the world. Many of the largest banking and insurance service corporations are also based or operate in the US market. These actors are by far more competitive than their Jordanian counterparts. However, US corporations have very little activity in the Jordanian market and trade between the two markets – while extremely difficult to measure in empirical terms as discussed above – can be seen as being very limited. Thus, while in low value-added goods such as T&C trade liberalisation has had a significant impact on market interaction and integration, and in high value-added goods sectors such as pharmaceutical products, trade liberalisation has had some impact on market interaction and integration, with financial services this has not been the case. It is the conclusion of this chapter that market characteristics as opposed to state level facilitation are the determining factors of trade between Jordan and the United States in financial services.

It is difficult to develop the discussion about relative and absolute gains at varying levels with regards to financial services. There seem to be very limited gains in economic terms to both state and non-state actors as a result of state-level cooperation and subsequent trade liberalisation. In a sense the United States, as discussed in chapter four, has sought to expand the network of international institutions governing financial services. By helping to include Jordan in these institutions this network is expanded, but only on a very limited level. This point is discussed further in the concluding chapter to this thesis. For the Jordanian government there seems to be no significant negative impact on the banking and insurance service sectors as a result of trade liberalisation with the United States or broader international system as a result of engagement in international institutions. The sectors in fact seem to have grown more rapidly in the post-cooperation era and Jordanian actors

have not been faced with significant competition from external actors. At the same time, however, gains have also been limited. Market interaction with the United States has been negligible and market integration non-existent beyond the inherent levels – remember that there is in fact a global financial system within which national markets exist.

Jordan-US state-level cooperation and integration do not seem to have been altered significantly when trade in banking and insurance services is considered. The main significance here is the initial cooperation between the two governments in the late 1990s and early twenty-first century in pursuing the creation of the JUSFTA and the US-assisted engagement of Jordan in international institutions which govern trade in financial services. It is stated in the introduction to this thesis and has been evident throughout that assumptions are made based upon liberal economic thought and liberal institutionalist theory. These assumptions hold that trade liberalisation through international institutions leads to greater economic interaction which in turn leads to economic integration. This market integration will result in greater state cooperation and integration. However, the limited increase in market interaction in the banking and insurance sectors do not provide any evidence that greater state-level cooperation or integration is occurring between the United States and Jordan. This discussion along with those in the previous chapters will be taken further in the following concluding chapter.

Conclusions

There are broadly speaking three types of conclusions of this thesis. The first type is what could be called 'hard' conclusions, the second type are 'soft' conclusions which are less strongly argued but are nonetheless significant, and the third type are reflections on the work in this thesis and the processes of research and writing. This concluding chapter will discuss these in order starting with the 'hard' conclusions, followed by the 'soft' and reflective conclusions.

This thesis uses a critical liberal institutionalist approach to assess and analyse the political economy of trade relations between the United States and Jordan in the framework of a heterodox IPE and a re-conceptualisation of MENA and US foreign policy studies. The hypothesis tested is grounded in liberal political and economic theory and holds that trade liberalisation between the two states has led and will continue to lead to greater economic growth and integration between the markets and subsequently an increase in inter-state cooperation. Throughout this research project four key research questions have been discussed. The first question asked if bilateral trade liberalisation through the creation of and engagement with international institutions has in fact led to greater levels of bilateral trade between Jordan and the United States. The second core question asked if greater levels of bilateral trade have led to greater levels of market integration. A third question has asked whether or not greater state-level political cooperation between the two states has followed. The final research question considered in this thesis has sought to ask what the interests of Jordan and the United States as state actors have been, why they engaged with international institutions in order to facilitate trade and if their goals have been met through this.

In order to answer the four core research questions and test the hypothesis the theoretical approach used has been defined in chapter two as a critical version of liberal institutionalism. The key concepts of the theory employed in this study include the belief that the international system is to a great extent anarchic and there is no overall form of global governance which regulates actor behaviour in this system. Secondly, international institutions include both tangible IOs and non-tangible regimes and together these institutions are

formed in order to manage relations in the anarchic system. A third assumption is that there are many types of actors in international political economy including: states, MNCs, NGOs, IGOs and individuals and no single type of actor can be seen as primary at all times and in all regions. Furthermore, these actors all have interests which they pursue, but these interests and the actions taken to pursue them may not be the result of rational calculation under conditions of perfect information. Issue linkage and interdependence at multiple levels of analysis is also a key assumption of the theoretical approach used here. A further key assumption is that cooperation in international relations through international institutions is overall a positive-sum game where all actors involved can achieve absolute gains. However, within these positive-sum games there exist zero-sum and positive-sum games and indeterminate outcomes at different levels and between different actors. Finally, the conception of liberal institutionalist theory employed throughout this thesis claims that engagement in international institutions can lead to trade liberalisation which results in greater economic growth and market integration will in turn lead to economic and political cooperation at the state level through interdependence.

In the introduction a statement was made about the role of informal institutions in bilateral trade between Jordan and the United States and the extent to which this type of institution would be included in this thesis. It is worth re-visiting this point to highlight the fact that this research project has been aimed primarily at the roles and impact of formal institutions in bilateral trade. Due to requirements and limitations such as the orientation of the hypothesis and research questions along with access to information, this thesis set out to study formal institutions more than informal ones. Furthermore, a key element of this study is the discussion and analysis of how the United States and Jordan as state actors as well as non-state actors such as MNCs have engaged with formal institutions and how these in turn impact upon behaviour.

Throughout this study the roles played by the US and Jordanian governments in facilitating bilateral trade have been discussed. These analyses are based on

literature studies as well as field research in Jordan, the United States and Geneva, Switzerland, which included a number of individual interviews with members of government, IGOs and the private sector. The conclusion of these analyses is that both governments have constructed a bilateral framework within which trade can take place in a wholly liberalised manner through the JUSFTA. Both state actors have engaged in multilateral and bilateral IOs and trade regimes in order to pursue respective national interests which are defined by changing domestic and international environments. Nevertheless, the discussions in chapters three and four identify different interests and relatively overlapping policy decisions taken in pursuit of these interests. In bilateral relations the differing national interests and foreign and economic policies taken in the past decade or so have converged to a great extent. The result has been the mutual engagement with international institutions and creation of a trade facilitating bilateral regime.

In the case of Jordan, domestic and international demands and constraints which emerged in the late 1980s resulted in macroeconomic structural adjustment throughout the 1990s and broader political and economic reform at the domestic level. By 1999 and the ascension to the throne of King Abdullah II political reform in the kingdom had halted but economic reform continued apace. The subsequent post-1999 governments in Jordan have maintained and accelerated processes of economic reform in pursuit of the newly primary interests of economic growth and stability. Traditional national interests which revolved around security and regime survival have been replaced over the last decade by economic concerns and domestic governance. It seems that the identification by the Jordanian government of economic interests as the primary interests of the state in the early twenty-first century have resulted in a number of policies. Many of the major domestic and foreign policies taken by Jordan since the mid-1990s and discussed in chapter three have revolved around reform at home, integration at the international level and involve cooperation through international institutions.

Accession to the WTO in 1999, the JEUA, various MENA initiatives such as the GAFTA and MAFTA, and bilateral FTAs such as the JUSFTA all

represent significant elements of Jordanian involvement in international institutions related to trade. Taken together these policy directions signify an overall move towards facilitating international trade as a means to increase economic growth and stability and by extension attend to various security concerns – largely pertaining to regime survival. The JUSFTA in particular is a key element of Jordanian facilitation of trade due to the importance and size of the United States as both state and market. However, the relationship with the United States with regards to trade and economic interaction that has developed since 1997 should not be seen as independent from the policies taken in the broader facilitation of trade with the international economy. In short, Jordanian trade policy towards the United States and engagement with the United States in international institutions is aimed primarily at increasing economic growth through trade liberalisation and not necessarily at increasing state-level cooperation and interdependence with the United States.

In the case of the United States, the analysis in chapter four introduced a reinterpretation of US interests with regards to the MENA region and Jordan in particular. Some of these interests were of an economic nature much the same as the main Jordanian interests and some were political or security oriented. For the United States, a stable and friendly MENA region is not only a key policy goal in itself but is also pivotal in order for the United States to pursue its other traditional policy goals in the region. These include secure and sustainable access to the region's natural resources which are indispensable to the US and global economies and to maintaining the United States' position in international relations. The second main traditional interest has been access to the region's markets for goods and services both in terms of markets to export to and import from. A final traditional policy interest in the region is the encouragement of cooperation with states in the region in a relationship characterised by US leadership or hegemony. The reinterpretation of traditional interests in the MENA region presented in this thesis has led to one main conclusion. This conclusion is that the United States is pursuing economic cooperation and market integration with states in the region and the encouragement of economic growth there as the primary method through which the United States wishes to achieve its main interests. Thus US

engagement with Jordan in international institutions in order to liberalise bilateral trade has been pursued in order to promote bilateral market integration in order to increase state-level cooperation.

The analyses of state interests and resultant facilitation of trade demonstrate little by way of answering the first three core research questions. However, chapters three and four define what state-led trade liberalisation is thus enabling the study to progress towards analysing the actual trade that takes place and which actors are involved in this trade.

For the purpose of completing a broad enough study in the context of a PhD thesis three chapters have been dedicated to analysing the nature and characteristics of as well as the change in bilateral trade in three economic sectors. The sectors chosen allow for the study of trade in three very different sectors allowing as representative a study as is possible. The first sector studied was thus trade in textiles and clothing, a low value-added, labour intensive manufacturing sector. The analysis of this sector in chapter five concludes that bilateral trade in T&C goods is dominated by Jordanian exports to the US market, has grown rapidly since the implementation of the JUSFTA and displays signs of limited asymmetric market integration. Furthermore, the growth of this sector in the Jordanian economy has had significant effects on overall economic growth. The sector developed largely after 1997 and the creation of the QIZs as a new element in the bilateral trade regime between the United States and Jordan and has since grown largely due to exports to the US market following the implementation of the JUSFTA in 2001. A complex relationship between public and private sector actors has served to promote the sector both within the Jordanian economy and in terms of market access abroad.

A comparison between Jordanian exports of T&C goods to the EU market and exports to the US market reveals a stark contrast. Even with the JEUA in place and adherence to the post-MFA governance of trade in T&C goods, Jordanian exports to the EU are very limited. At the same time exponential growth to average levels of over US\$1 billion is seen in exports to the US

market. Furthermore, comparison between the success of Jordanian exports to the US market with more well established and larger T&C export sectors in the MENA region also is dramatic. Compared to Tunisia, Morocco and Egypt, Jordan exports far more to the US even though its T&C sector is much smaller and younger than its regional counterparts. The indications are that the increase in trade in T&C along with the overall growth of the sector in Jordan have led to, and will likely maintain, a greater level of importance of the sector in Jordan and bilateral market integration for the medium-term future.

The second economic sector studied in this thesis was pharmaceutical manufacturing, a high value-added, capital intensive manufacturing sector which differs from the T&C sector. This analysis concluded that bilateral trade in this sector is far more limited than in the previous sector studied and is characterised by more equal trade levels. Here US-based private actors operate in the Jordanian market on a small scale as does one Jordanian-based actor in the US market. However, of importance here is that this market interaction and integration has largely developed in the few years since the implementation of the JUSFTA. This sector has many different characteristics to the T&C industry and both the institutional framework governing trade in pharmaceutical products and the actors involved in the sector vary greatly from those of the T&C sector. While there may only be small levels of trade in actual products there has been some measure of market integration through the activity of US-based actors in the Jordanian market. This activity is centred on collaborative projects related to research and development of new products. Without Jordanian cooperation in the international institutions governing pharmaceutical production and trade this activity would not be possible.

Nevertheless, the overall conclusion of the analysis of this sector is that trade liberalisation has had only a small impact on economic growth in Jordan and no real impact on economic growth in the United States. Furthermore, the indications are that there are significant market characteristics which will prevent market integration and actor cooperation in the pharmaceutical sectors in Jordan and the United States in the future. Concrete gains from trade

liberalisation in pharmaceutical products are limited for both states. For the United States the inclusion of Jordan in regulatory institutions further expands this network – which is a key US interest with regards to issues such as IPRs and so on. Jordan also has achieved some gains through this process. These include the restructuring of Jordanian pharmaceutical producers and their adherence to cGMPs which will make them more competitive in both the domestic and international markets in the long run. Overall though, the gains are limited and bilateral trade in pharmaceutical products has not and likely will not add to greater bilateral economic and political integration in the short- to medium-term future.

In order to complete the study of trade relations as thoroughly as possible the third sector studied was financial services in the form of banking and insurance services, which are capital intensive service sectors. These sectors again differ greatly in characteristics to the sectors studied in chapters five and six. The analysis in chapter seven produced an interesting set of conclusions, the first being that historically there has been very little bilateral trade in financial services between the two markets and this has not significantly changed in the liberalised trade era. Furthermore, the lack of market integration is a result of two factors. Firstly, the small size and saturated nature of the Jordanian financial services market does not present profitable opportunities for US-based private sector actors thus not attracting activity, even in the context of liberalised trade. Secondly, Jordanian-based actors are ill-equipped to compete in the US financial services market. Again even with the added benefit of unfettered access granted as a result of the JUSFTA.

The final conclusion drawn here is that there will not likely be a significant change in bilateral trade in banking and insurance services and in fact possibly other high value-added services in the near- to medium-term future. Therefore, once again, trade liberalisation between the United States and Jordan has not led to greater economic growth, increased market integration or political and economic cooperation at the state level. Furthermore, neither state actor has significantly gained from trade liberalisation in these forms of

service trade nor achieved their main interests of economic growth and inter-state cooperation.

The overall conclusions drawn from this study provide answers to the four core research questions and test the hypothesis presented in the introduction. With regards to the supposition that bilateral trade liberalisation leads to greater bilateral trade, this thesis shows that this is not necessarily the case for every economic sector. State-facilitation of bilateral trade through trade liberalisation and engagement with international institutions simply establishes a framework within which trade can take place. However, Jordan and the United States as state actors are not involved to any great extent in the trade which actually takes place. Rather it is non-state actors, sometimes public sector or government-affiliated actors, but mostly private sector actors, which are actually involved in trade between the markets. Thus it is these non-state actors and the market characteristics which determine levels of bilateral trade. The framework within which bilateral trade takes place is merely complementary. The difference in the levels and nature of trade in the three sectors studied here demonstrate this to great effect.

Because the answer to the first research question is rather complicated and at any rate is not a simple 'yes', the answer to the second question is also complicated. The second research question asked whether or not increased trade levels have led to increased economic growth and market integration. The evidence in this thesis does not suggest that a definite answer can be given either way. The study of trade in T&C goods suggests that increased integration has been witnessed albeit in a slightly asymmetric manner with the Jordanian market being more dependent on the US market for exports. However, the small levels of trade in pharmaceutical goods and banking and insurance services as assessed in chapters six and seven do not suggest that these sectors are becoming more integrated across the markets. The overall answer to this question must therefore be that increased trade can lead to increased market integration under some circumstances but only in some sectors. As stated in the introduction, however, there is much scope for the further study of bilateral trade between Jordan and the United States in

different economic sectors and as the framework for trade established through international institutions further solidifies.

In conclusion to the third research question regarding the impacts of market integration on state-level cooperation the discussions in chapters five through seven must again be drawn upon. Overall, the limited levels of increase in trade levels and subsequent limited levels of market interaction and integration do not suggest that there is greater state-level integration or cooperation. Certainly increased trade in T&C goods has led to increased bilateral economic interests on the part of Jordanian actors. However, the asymmetric nature of this integration reflects a form of relationship closer to dependence than interdependence. Furthermore, the low levels of market integration in pharmaceutical products, banking and insurance services suggest that there has been little increase in shared interests with regards to these sectors and little by way of growth in interdependence. In short the markets have remained relatively independent of each other and so state-level interests have not converged to a great extent thus limiting the need for cooperation. On the other hand, Jordanian involvement in IOs such as the WTO and WIPO along with the United States as well as adherence to various regimes governing IPRs and services such as TRIPs and GATS does constitute a significant form of cooperation with the United States at the state level. Furthermore, the cooperation between Jordan and the United States with regards to formulating the TRIPs-Plus provisions within the JUSFTA is also significant. Again, here the significant difference between TRIPs and TRIPs-Plus provisions must be noted. However, this cooperation is sector specific and confined to unique issues and so does not represent a major paradigmatic shift towards greater inter-state cooperation on non-related issues.

The fourth question addressed by this thesis considered what the main national interests for the United States and Jordan have been over the past decade or so in relation to their bilateral relations and if these are being met as a result of the policies taken to liberalise trade between them. As discussed above, both states have engaged with bilateral trade liberalisation through international institutions in pursuit of various national interests. In the case of

Jordan these interests revolve around economic growth and stability. For the United States these interests revolve around greater cooperation and integration with the MENA region as a whole using Jordan as an initial step in a much broader project. For both states no simple conclusion can be drawn about whether or not these interests have been met.

Jordanian exports to the US market have increased since bilateral trade liberalisation began and overall economic growth in Jordan has been impacted. Furthermore, the successful reorientation of the bilateral trade relationship with the United States has further solidified Jordanian efforts to liberalise trade and economically integrate at the international level. The United States certainly has become a more important economic market for the Jordanian market and thus state and as such has been able to increase its integration with Jordan. It is possible to venture the conclusion, although it cannot be argued from a position of absolute authority, that the increasing importance of the United States to Jordan should result in greater cooperation. However, asymmetric market integration and issue-specific cooperation in IOs and trade regimes do not necessarily equate to greater inter-state cooperation on other issues. Perhaps this fourth research question was too bold and ambitious and cannot be answered through this thesis on its own, but instead requires further study of market interactions and bilateral state relations.

The hypothesis tested in this thesis is thus proven to be incorrect in the form outlined in the introduction. The conclusions of this thesis demonstrate that trade liberalisation between Jordan and the United States through engagement with international institutions has not led to significantly greater levels of trade, economic growth and market integration. Instead some increases in bilateral trade, economic growth and market integration has occurred in some sectors but not others. Market characteristics and the activity of non-state actors are the keys to determining levels of trade, economic growth and market integration and unfortunately as demonstrated in this thesis these at present seem to restrict greater market interaction and integration between Jordan and the United States in some sectors. Furthermore, even if these

conditions are met there is only limited proof that suggests that inter-state cooperation and stable relations between Jordan and the United States will necessarily follow, even if trade liberalisation does encourage greater economic growth and market integration.

A further set of conclusions must be made regarding the theoretical framework employed in this thesis. By examining the development of the liberal institutionalist approach, and how it has been adapted and defended by various scholars in response to criticisms it was possible to define a clear conception of theory. The approach in this thesis has used a number of key principles found within institutionalist theory used to study international political economy. A number of refinements of some key principles were also adopted. The resulting version of liberal institutionalism employed in this research project has thus been characterised as a critical version. As stated in the introduction this thesis acts as a study of the political economy of trade between the United States and Jordan, answering a number of key questions, and as an initial test for a critical liberal institutionalist theory.

The preceding analysis demonstrates a number of things with regards to the utility and explanatory power of this theory. With regards to the principles of an anarchic international system and the use of international institutions to govern relations in this system positive and negative conclusions have emerged. The assumption of anarchy has not been undermined in the analysis of this thesis and so is sound. The *belief* in the utility of institutions to facilitate trade, economic growth and cooperation on the behalf of actors has also been demonstrated in chapters three and four as being accurate and so is also sound. The principle of multi-level, positive-sum games and the absolute gains achieved through trade liberalisation as well as the sub-level zero-sum games and indeterminate gains of actors have been demonstrated in this thesis. Here, it has been shown that Jordan-US engagement in institutions has led to absolute gains for both state and non-state actors, however, these gains fall short of the desired gains of the state actors.

The analyses of chapters five through seven have included both state and non-state actors and have shown the importance of non-state actor agency in determining economic activity. It has also been shown that not placing primacy on any single form of actor, for example, the state or MNC, has not hindered the preceding analysis and in fact has strengthened it. The linkage of issues at different levels of analysis has also proven to be a solid principle. Especially in chapters three and four but also in the latter chapters, the interdependence of issues at the domestic and international levels of analysis has been seen to be significant.

As briefly discussed in the introduction and in greater length in chapter two, the analysis of the role of non-state actors does form a key element of this project. However, at times during this research project state actors have been concentrated on in slightly more detail than non-state actors. It is worth emphasising again that this is not due to any inherent state-centricity in the approach to this thesis, instead this fact merely represents the limitations in scope of non-state actor agency in Jordan-US trade.

The final conclusion with regards to the explanatory use of this theory, however, rests on whether or not international institutions create greater economic integration through trade and result in greater cooperation through interdependence. Here, only a preliminary conclusion can be made. This is that engagement with international institutions in the pursuit of integration and cooperation is not enough to ensure these goals. Rather, non-state actor agency needs to be taken into account. If integration and cooperation are to be achieved then non-state actors will need to *act* in a manner which utilises the opportunities presented by international institutions. So, this theory has helped to make sense of the structures, processes and policies involved in US-Jordan trade relations. However, some weakness lies in the role of non-state actor agency in determining actual patterns of trade. In short, perhaps more emphasis needs to be placed on the agency of non-state actors and their relationship to institutions in a manner which allows for the analysis of the role of these actors in integration and cooperation and acknowledges the

limitations of the ability of institutions to meet these goals. This concept could be further developed in future studies.

There are obvious limitations to this study which could be addressed in future work. Any analysis of the political economy of Jordan-US trade will be limited by scope to a certain extent. Here, analyses of state interests and subsequent policies have been presented to establish the framework within which bilateral trade takes place and broader state-actor involvement. However, only three economic sectors have been included in the study of trade relations. Here the nature of market interaction and non-state actor agency has been studied in these sectors and various conclusions drawn. While the sectors covered differ greatly from each other and represent three different types of trade, there are many other types of trade and actual sectors which could be studied. Perhaps future work could be carried out which analyses Jordan-US trade in other sectors. Furthermore, as the preceding analysis has shown the current regulatory framework governing bilateral trade is relatively young. It would be beneficial to engage in future studies which could analyse how the relationship develops over a longer period of time.

Critical reflections on the processes involved in completing this thesis, including the research interviews and writing must also be included here. Throughout this thesis the subjective nature of social science research and the inability to carry out entirely objective research has been acknowledged. Both what has been studied here and how the research was conducted are of prime importance. Furthermore, the interpretation of the information gathered during the research phases of this project must also be discussed. By acknowledging that the topic studied here and how it has been approached have been impacted upon by inherent values and 'common-sense' it is hoped that this thesis will not be viewed as claiming to be a tautological analysis of the political economy of US-Jordan trade relations. Furthermore, the conclusions presented here should not be viewed as claiming to be ultimate truth. On the contrary, this study from the outset was presented as just one analysis – albeit, an attempt at the best analysis possible at this time – where other competing analyses may also be possible. This thesis has to a large extent been based on

the interpretation as well as the description and presentation of information. While subjective opinion has been minimised where it is not appropriate the possibility that some opinions are expressed or have shaped the analysis here must be conceded – although it is believed these will not have impacted the overall analysis of this thesis to a great extent.

The information gathered during the research phases of this project presents some questions. In the first instance much of the information which has been analysed here was collected on field research trips of which interviews were a key component. Approximately thirty individual interviews were carried out, some with fixed questions and some rolling discussions. Both methods of interviewing present the possibility that some relevant information will not be collected. However, preparation for the interviews through prior research led to the designing of a range of questions upon which to draw. The result was that as best as can be guaranteed accurate and relevant information was collected with a minimum amount missed. The rolling discussions were very useful in exploring the experiences and thoughts of individuals directly involved in what was being studied. The use of snow-balling to gather candidates for interview was also effective but did lead to the possibility that some sources were ignored in favour of others. It must be acknowledged here that while the best efforts were made to conduct interviews and literature-based research, there are practical limitations which cannot be avoided. These include financial, time and access limitations. Thus the possibility that there may have been some information not gathered must be accepted.

A final set of conclusions must be made here to re-emphasise where the claims to originality in this thesis lie. In one sense this project contributes to the body of IPE literature which considers the MENA region. This literature as a whole is rather limited in terms of what actors and issues are studied as well as being western-centric in nature. Furthermore, Jordan has largely been excluded from this literature and so this study attempts to bring Jordan in to IPE discussion. At the same time this is a study which remains free from the constraints of the Trans-Atlantic divide in IPE and instead examines the topic at hand without the distraction of trying to reinforce one of the main schools.

This research project is also original in the sense that it examines issues of high and low politics and how they relate to each other in the US-Jordan relationship. Most studies which have examined US-Jordan relations have focused either on high or low politics with little attempt to combine their study. While this thesis does not claim to entirely re-interpret US and Jordanian national interests, there is the claim to originality in the analysis of how these interests are being pursued through international institutions, trade liberalisation and market integration. Thus critical conclusions have been made about the utility of this form of contemporary policy direction on future Jordan-US relations. Furthermore, the preceding study has adapted an existing theoretical approach. There has been no claim to total originality in the use of theory as many of the principles of the liberal institutionalist approach used here have been applied elsewhere. However, the selection and adaptation of some of these principles in a critical form as applied to this analysis is unique.

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