‘Greater Chinese’ Global Production Networks in the Middle East: Chinese Garment Manufacturers in Jordan’

Shamel Azmeh and Khalid Nadvi*

School of Environment and Development
University of Manchester

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

Keywords:
Global Production Networks, Garments, China, Taiwan, Jordan, Trade Agreements

* The authors are PhD Candidate and Reader respectively at the Institute for Development Policy and Management, School of Environment and Development, University of Manchester, Arthur Lewis Building, Oxford Road, Manchester M13 9PL, UK. Email contact: khalid.nadvi@manchester.ac.uk
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INTRODUCTION

The entry of ‘Greater Chinese’ investors (from mainland China, Hong Kong and Taiwan) into other parts of the developing world has been well documented (Henderson and Nadvi 2011; Yeung 2004; Kaplinsky and Messner 2008; Williamson and Zeng 2009). The drivers behind this include China’s need for primary commodities; the search for new markets for Chinese manufactured goods and services; and the development of new manufacturing locations for Chinese producers. This latter motivation is often spurred by market access trade preferences provided by the United States (US) and the European Union (EU) to low income developing countries to promote the growth of their manufacturing industries. Consequently, there is increasing evidence of trade-led ‘Greater Chinese’ manufacturing investments into sub-Saharan Africa and Latin America (Gibbon 2003; Kaplinsky and Morris 2008; Jenkins et. al., 2008). There is also much debate on the developmental efficacies of such forms of investments on local economies and local producers, and on working conditions and labour practices in overseas Chinese firms (Lee 2009; Haglund 2009).

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

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

This dramatic rise of Jordan as a supplier of clothing to the US is a direct result of the Qualified Industrial Zone (QIZ) agreement which was signed between the United States, Israel, and Jordan in 1997. The agreement grants goods produced in the ‘qualified zones’ of Jordan duty-free and quota-free access to the US market as long as these products contain a certain percentage of Israeli input. The QIZ is a unique trade agreement from a political economy perspective, reflecting wider regional, global and geo-political trends in the 1990s. It emerged directly from the US’ attempts at the time to forge a peace process in the Middle East between Israel and its Arab neighbours. The underlying belief was that such an agreement could help cement the peace process resulting in economic dividends from trade between Israel and its Arab neighbours.

The QIZ is essentially an ‘add-on’ to the US-Israel free trade agreement (FTA). It applies only to the two Arab countries that have signed a peace treaty with Israel: Jordan and Egypt. Jordan became a signatory to the QIZ in 1997, Egypt followed in 2004. Prior to the QIZ, Jordan had no textile and apparel industry. The preferential market access offered by the QIZ could only be exploited through the creation of new manufacturing facilities in the designated QIZ zones and the building of linkages with US buyers. This took place through the entry of foreign garment manufacturers into Jordan. Most of these firms came from Asia particularly Hong Kong, Taiwan, and India. These firms integrated Jordan into their expanding and highly-dynamic regional and global production networks that served their US buyers. This
paper looks into the flow of companies from ‘Greater China’ into the qualified zones of Jordan. We investigate the factors that led to their investment in Jordan and how this move can be understood within the context of the global production networks (GPNs) that these firms are integrated in. Our core question is how did the introduction of the QIZ in Jordan affect the globalisation strategies of Greater Chinese capital and with what consequences? We use the analytical framework of global production networks analysis (Henderson et al 2002; Coe et al. 2008) to assess the ways in which Greater Chinese garment manufacturers located in Jordan are linked in to wider global markets and their local and external sourcing relations. In conducting this analysis, the paper draws on secondary trade data and primary interviews conducted with government officials, international donors, local civil society organisations and a number of leading Greater Chinese owned garment manufacturers located in Jordan. The paper is divided as follows. Section two outlines our theoretical framework. Section three provides a brief overview of the externalization of Chinese capital. Section four considers the political economy of the QIZ. Section five reviews the QIZ agreement and the emergence of Jordan as a supplier of readymade garments to the US market. Section six discusses the flow of Chinese firms into the qualified zones of Jordan, and their locational practices. Section seven considers the implications for labour as a consequence of the QIZ. Section 8 concludes.

2 GLOBAL PRODUCTION NETWORKS AND THE INTERNATIONALISATION OF BUSINESS

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

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

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

In our view the global production networks (GPN) framework (see Henderson et al. 2002; Coe et al. 2004; Coe et al. 2008) offers a more useful basis to unpack the global expansion of ‘Greater Chinese’ firms and understand how different, multi-scalar, dynamics drive this process. There are a number of reasons for this.

First, the basic definition of the globalized firm in GPN theory allows us to capture key elements which are critical in today’s economic environment. Most literature on internationalisation of firms considers, either explicitly or implicitly, that an internationalised firm is one with operations in more than one country. The GPN framework, however, emphasise coordination and control and the functional integration of these operations across countries. Dicken (2003:30, emphasis in original) defines a ‘global firm’ as one:

that has the power to co-ordinate and control operations in a large number of countries (even if it does not own them), but whose geographically-dispersed operations are functionally-integrated, and not merely a diverse portfolio of activities

This allows us to focus on the issue of control rather than of ownership which, despite recent theoretical developments (See, for instance, Narula and Dunning 2009), remains deeply-rooted in most empirical studies on global expansion of firms.

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

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

The GPN framework (and the cognate global value chains framework)\(^1\) is directly concerned with the way production and trade are organized at a global scale and thus with the spatial strategy of business firms. This, essentially, represents the internationalisation strategy of these firms. Little effort, however, has been expended to study the globalisation of firms through the lenses of these networks and to understand how such dynamics at the level of the network and in different nodes within the network, shape the globalisation strategies of different firms. In fact, one of the muted points in the GVC/GPN literature is how those

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\(^1\) For a comparative overview of the distinct features, commonalities and differences between the GPN and global value chains (GVC) frameworks, see Bair 2008 and Parrilli et. al. 2013.
networks are established, what factors drive this process and drive later changes in the geography of the network. This is evident, for instance, in the case of suppliers from emerging economies, often termed the ‘Rising Powers’, who are still largely perceived as passive partners in the production networks of ‘global lead firms’. This is despite the fact that many of these Rising Power firms have built extended, and functionally-integrated, production networks crossing different countries becoming global firms in their own right. In many cases, this arises as a response to the dynamics taking place within the global production networks that these firms are integrated in.

3 THE EXTERNALISATION OF ‘GREATER CHINESE’ CAPITAL

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

Starting in the late 1980s/early 1990s, the global expansion of Taiwan-based firms attracted growing attention. Dunning et. al. (1996) highlighted the role of structural shifts in the domestic economy in pushing Taiwanese companies to shift their labour-intensive activities to countries with cheap and abundant labour. Most of the focus within this research agenda was on the movement of Taiwanese firms across the strait into mainland China and how this move could be understood within the framework of regional and global economic dynamics (See for instance Leng 1998; Zhang 2005; Chiu and Chung 1993; Ash and Kueh 1993). A number of studies looked at the determinants of location of Taiwanese investments into mainland China exploring the impact of productivity, investment incentives, network linkages, and other factors in the locational choice of the firm (Lin 2010; Aw and Lee 2008; Lo et. al. 2010). One of the few studies which highlighted the importance of ‘buyer-driven
internationalisation’ was Chen’s (2003) study on the internationalisation of Taiwanese electronics firms. Based on a number of case studies, Chen argued that the foreign direct investments of these companies “serve primarily to maintain the buyer relationship” and that buyers “may dictate the timing and locations of their contractors’ FDI” (Chen 2003: 1118).

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

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

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

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

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

While such aspirations could be seen as regionally problematic within the Arab world, especially given Israel’s continuing occupation of Palestinian territories, there were, nevertheless, economic benefits and potential business linkages to be exploited, especially by some of Israel’s Arab neighbours. Consequently, a number of regional trade initiatives were proposed in different regional political and economic forum. During the Amman Economic Summit in 1995, a Regional Business Council (RBC) was established to facilitate joint business ventures between Israeli and Arab businessmen (for further details, see Bouillon 2004). The United States, to incentivise this exchange, offered to extend the advantages of
the US-Israel FTA to designated ‘border areas’ between Israel and its peace partners (Kardoosh and Al Khouri 2004). In 1996, the US congress amended the US-Israel Free Trade Agreement to include products from the West Bank and Gaza and from other “qualifying industrial zones” from neighbouring countries.

For Jordan, in particular, the QIZ was an attractive proposition for the preferential access it offered to the US. It generated an opportunity to develop an export manufacturing sector thus reducing Jordan’s economic dependence on remittances and tourism. The fact that the agreement was offered when the number of US preferential trade agreements were limited and when Multi-Fibre Arrangement (MFA) quotas still governed trade in garments were added incentives. Domestic political opposition to the QIZ agreement was muted, unlike Egypt where the QIZ was challenged on both political and economic grounds, allowing the Jordanian government to rapidly implement the QIZ (Nugent and Abdel-Latif 2010).

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

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

The QIZ agreement granted duty and quota free access into the US to products from the Jordanian QIZ areas as long as these products met the stipulated rules of origin requirements. While different combinations of rules of origin were accepted, the most commonly used method was that 35 per cent of the final value of the product had to be generated in the QIZ of which 8 per cent must be Israeli content (for more detailed explanation see Kharis et. al. 2010).

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

The impact of the QIZ on readymade garment exports from Jordan to the US was dramatic, rising from US$ 42 million in 2000 to US$ 1.25 billion in 2006. During this period Jordan became the 18th biggest garment supplier to the US market, overtaking Taiwan, Korea, and Turkey. In 2006, Jordan accounted for 48.5 per cent of the total garments exports from the MENA region to the US (up from less than 1 per cent a decade earlier). Throughout the second half of the 2000s, apparel exports from Jordan, a relatively high cost, almost landlocked country with a population of around 6 millions and no history in textile and apparel, were comparable to, and at times higher than, total apparel exports from all AGOA countries to the US.

*Figure 1 here*

This spectacular increase in Jordanian garments exports to the US was largely due to the arrival of many Asian firms into Jordan following the signing of the QIZ agreement. Companies from ‘Greater China’ and India were dominant in this wave of FDI. By 2008, according to data from the Jordanian Ministry of Labour, the number of garment firms with more than 100 workers registered in the Jordanian qualified industrial zones stood at seventy one, of which forty-two were wholly or partially Asian-owned, mainly from greater China (twenty three firms)\(^2\) and India (thirteen firms).\(^3\)

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\(^2\) The distinction between Chinese and Taiwanese in Jordanian data is sometimes arbitrary. Some of the firms based in Taiwan are registered as “Taiwanese” while other firms also based in Taiwan are registered as “Chinese”. As such, these companies have been grouped together under the name “Greater China”.

\(^3\)
Firms from ‘Greater China’ became a dominant feature of the Jordanian qualified zones. In January 2007, garment companies with more than 100 workers registered as wholly or partially Chinese or Taiwanese owned employed around 19,000 workers, or 35 per cent of total employment in the Jordanian qualified zones. The increase in the share of Chinese firms in the qualified zones was also accompanied by an increase in the number of foreign workers in these zones. In the first few years of the QIZ program, Jordanian workers were predominant in the qualified zones. By the second half of the decade, the picture changed dramatically with a rapid growth in migrant workers from Sri Lanka, Bangladesh, China, and India. In 2008, 36,289 migrant workers were employed in the qualified zones accounting for 74 per cent of total employment in the zones. Of the migrant workers 52.1 per cent were women.

This wave of Asian firms and migrant workers into Jordan has received very little attention. A few NGOs, particularly the US-based Institute for Global Labour and Human Rights (formerly known as the National Labour Committee) investigated working conditions in these companies. A few academic studies documented general developments in the QIZs and their linkages with the Jordanian economy (see Kardoosh and Al Khouri 2005; Saif 2006). Very little information, however, is available about the companies that moved into these zones, their backgrounds, the drivers for their move, and how this move can be explained in the context of the growth of these firms on the one hand, and their integration in the production networks of their key US buyers on the other hand. This is particularly interesting for two reasons. First, for most of the Greater Chinese firms, the move into Jordan was a large ‘geographical step’ in their global expansion in comparison to previous expansions by these companies which were centred in East, South East, and South Asia. This is not only true from a geographical perspective but also from a cultural perspective as the role of ‘ethnic Chinese networks’, highlighted in previous research on the globalisation of Chinese firms, was absent in Jordan. Second, the short life span of some of these investments makes their move into, and in some cases out of, Jordan highly interesting. Most companies arrived in

Comment [m1]: I'm not sure we should keep this paragraph. First, the thing about the big geographical and cultural jump is not that important after we are saying that many of these firms operate in AGOA or central America. The point about leaving doesn’t seem very convincing anymore as the industry is growing again although some companies have closed down. I would replace all this with couple of sentences on the role of these firms in channeling different flows through the GPN, organising a single networks at a global scale, and their role in geographically and organisationally restructuring the GPN. Let me know what you think and I will add this.
The cultural dimension does help to challenge the earlier literature. But I agree the point about exit is of less relevance, so yes go ahead and delete the sentence that is highlighted and replace it with a broader statement along the line you state above.

We turn now to a more detail analysis of Greater Chinese firms in the Jordanian qualified zones. The findings are based on fieldwork conducted in Jordan in 2011. This included in-depth interviews with five of the main Greater Chinese exporters based in Jordan and email communication with the general manager of a Taiwan-based group which owns a factory in Jordan. A number of interviews with key informants including the Chairman of Jordan Garments, Accessories & Textile Exporters Association (J-Gate) and the President of the General Trade Union of Workers in Textile, Garments, and Clothing Industries were also undertaken. In addition to the six companies that participated in the study, one company declined to be interviewed. Public information about this company has however been used in the study. Since the readymade garments industry in Jordan is relatively concentrated, the seven Chinese companies covered accounted for around 25 per cent of total employment in the Jordanian qualified zones and for about 30 per cent of total Jordanian readymade garments exports in 2011. In addition to the seven companies that are still operating in Jordan, publicly available information (annual company reports, company websites, and other public sources) on three other companies that had closed their operations in Jordan were collected. Data on employment is based on the records of the Jordanian Ministry of Labour.

All ten companies covered came to Jordan in the first half of the last decade. Six of them are based in Taiwan and four in Hong Kong. During their first few years of operations in Jordan these ten companies witnessed very rapid growth, with increases in employment and of migrant workers. By January 2007, total employment in the ten companies was around 13,500 workers, with foreign workers accounting for around 75 per cent of all workers in these companies.

Table 1: Major ‘Greater Chinese’ Garment Manufacturing Firms operating in Jordan’s QIZ

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Type of Business</th>
<th>Location</th>
<th>Employment in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Garments</td>
<td>Textile</td>
<td>Taiwan</td>
<td>1,000</td>
</tr>
<tr>
<td>Hong Kong Textiles</td>
<td>Garments</td>
<td>Hong Kong</td>
<td>2,500</td>
</tr>
</tbody>
</table>

Notes: Names of these companies have been changed to maintain confidentiality. Other Chinese companies have closed their operations in Jordan over the last few years. While some information about these companies were collected, the available data is not sufficient to include them in the study.
<table>
<thead>
<tr>
<th>Company</th>
<th>Parent Company</th>
<th>HQ</th>
<th>investing in Jordan</th>
<th>Status</th>
<th>No. of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elephant Garments</td>
<td>Anthony Textiles</td>
<td>Hong Kong</td>
<td>2001</td>
<td>Operating</td>
<td>1,000</td>
</tr>
<tr>
<td>Sou Enterprises</td>
<td>Saif Group</td>
<td>Taiwan</td>
<td>2001</td>
<td>Operating</td>
<td>800</td>
</tr>
<tr>
<td>Alpen Textiles</td>
<td>Bees International</td>
<td>Taiwan</td>
<td>2005</td>
<td>Operating</td>
<td>400</td>
</tr>
<tr>
<td>Lewis Garments</td>
<td>Fibre Textiles</td>
<td>Taiwan</td>
<td>2001</td>
<td>Operating</td>
<td>1,600</td>
</tr>
<tr>
<td>Guerriero Textiles</td>
<td>Toro Global</td>
<td>Hong Kong</td>
<td>n.a</td>
<td>Operating</td>
<td>2,500</td>
</tr>
<tr>
<td>Nadim Garments</td>
<td>Holmes Worldwide</td>
<td>Taiwan</td>
<td>2000</td>
<td>Operating</td>
<td>3,600</td>
</tr>
<tr>
<td>Eleni Unlimited</td>
<td>Rokia Textiles</td>
<td>Hong Kong</td>
<td>2001</td>
<td>Operating</td>
<td>800</td>
</tr>
<tr>
<td>Purohit International</td>
<td>Midas Enterprises</td>
<td>Taiwan</td>
<td>2004</td>
<td>Closed 2008</td>
<td>1,100</td>
</tr>
<tr>
<td>Jessica Textile</td>
<td>Bilal Apparel</td>
<td>Hong Kong</td>
<td>2000</td>
<td>Closed 2010</td>
<td>900</td>
</tr>
<tr>
<td>Thompson Global</td>
<td>Kora Textiles</td>
<td>Taiwan</td>
<td>2002</td>
<td>Closed 2008</td>
<td>800</td>
</tr>
</tbody>
</table>

*Source: Interviews, the Jordanian Ministry of Labour, and company websites*

The main market for these companies, the only market in most cases, is the US. All these companies rely for most of their business on a relatively small number of US buyers (2-3 buyers each) who source around 70-80 per cent of their production. Some of the most important buyers include well known US retail brands like Wal-Mart, JC Penney, Kohl, Macy's, Jones, and Hanes. Relations with those buyers, however, are not conducted from Jordan. All ten companies operate through a triangular manufacturing model in which buyers place orders with the headquarters of the company who then allocate orders to their different factories, both within China and in offshore locations. This is done according to a number of factors such as productive capacity, production costs, logistics (lead time and shipping), and product type (Appelbaum 2008). The final products are then shipped directly from the respective factory to the US buyer. In addition to this original equipment manufacture (OEM) business model, some of the companies operating in Jordan had moved into design and branding activities. A number of companies had set-up design centres in collaboration with their key buyers while a few firms had launched their own branding and retailing business focusing particularly on the Asian market. Such activities, however, were handled by the headquarters of the company or in centres established in hub cities such as Hong Kong.

All of the Greater Chinese companies in Jordan are part of relatively large and globally-dispersed business groups with multiple production locations in different countries. These are

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1 The data used for this column is from January 2007.
mainly in Asia, particularly mainland China, Vietnam, Cambodia, and the Philippines. While a few still keep some production capacities at their headquarters, all large scale production takes place in factories abroad. In addition to managing relationships with buyers, other strategic activities such as strategic management and materials sourcing are handled by the headquarters. These globally-dispersed production networks are extremely geographically mobile, moving in and out of different locations in response to the buyer requirements, production costs, and market access opportunities. All the companies interviewed stated that the QIZ is the only factor for being in Jordan and that if the agreement is terminated or changed, they would immediately leave Jordan. A few companies highlighted the importance of the issue of labour and the Jordanian government’s willingness to allow them to bring in migrant workers as an additional advantage. This allowed them to improve productivity and flexibility and, at the same time, improve their ‘global flexibility’ by limiting their embeddedness in a certain location and using a ‘global pool of labour’ that could be moved around easily.

Buyers also played a role in encouraging these firms into Jordan. In a few cases, US buyers suggested Jordan specifically to their suppliers as a possible location of production. In other cases, the companies themselves made this decision without consulting their key buyers as the move of other suppliers into Jordan was translated by such companies as an indicator of the emergence of Jordan as a production location in the industry.

The importance of Jordan in the production networks of these companies differs. In a few cases, Jordan was considered to be a central cog in their global production networks. A few firms highlighted that to increase the “value offer” to their buyers, each of their different locations of production offered a certain advantage within one “integrated network”. One location might offer lower prices while another offered shorter time-to-market. In their networks, Jordan was the “duty-free location” from where items with high rates of tariff duties were likely to be sourced.

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

This, often overlooked, issue of rules of origin is considered to be important by some companies for a number of reasons. First, many readymade garment firms have operations in different stages in the textile and garments production network and prefer to integrate those activities in different locations. Second, even those firms with investments in only one stage of production could be integrated through long-term value chain arrangements with suppliers of earlier segments of production. Third, information and relationships play an important role particularly in the case of triangular manufacturing. Many of the firms that invest abroad will keep materials sourcing decisions at their global headquarters. The ability of the headquarters to manage their global sourcing activity and the flexibility of sourcing is increased when the rules of origin do not act as an obstacle in specific production locations. Finding new suppliers who satisfy the rules of origin requires investment in information and in building new relationships. The role of buyers is important to this process. Many buyers are involved in the materials sourcing process even when production is taking place on a ‘full package’ basis. Buyers often provide suppliers with list of input suppliers who meet their requirements on quality, price and working conditions. Such lists tend to be more concentrated in countries that are already established exporters of textile and garments. For a Chinese company investing in Jordan, the ability to source material from China opens up a relatively large number of suppliers to source from.

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

\textsuperscript{8} See Ahmad 2007 for a discussion on rules of origin in different trade agreements and their impact on trade flows.
A gauge of the importance of Jordan in the production network of each firm can be seen in Table 2 below.

Table 2: Employment patterns of ‘Greater Chinese’ garment manufacturing firms operating in Jordan’s QIZ

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

Source: Interviews, the Jordanian Ministry of Labour, and company websites

While these companies have globalised, with geographically dispersed but functionally-integrated production networks, the issue of control is more difficult to unpack. The expansion of ‘Greater Chinese’ firms into Jordan was reliant on a combination of factors, namely the trade preferences enshrined in the QIZ, the pressures and demands from the small number of US buyers whom these firms supplied, and the flexibility that Jordan provided in

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* The list of factories includes companies that were opened and closed over the last decade.
terms of the ability to bring in migrant Asian workers. This meant that the operations of these companies in Jordan are dependent on the sourcing strategies and performance of their US buyers. This was illustrated in the second half of the decade. In response to the declining demand in the US market during the global economic crisis, a number of key US buyers altered their sourcing strategy and consolidated their supply chains, often in collaboration with key suppliers (Gereffi and Frederick 2010; Staritz 2010). As Staritz (2010:32) argues: “suppliers that are integrated into triangular manufacturing networks in a marginal position have been particularly hard hit by the crisis as buyers and intermediaries have transferred orders from marginal to core suppliers”.

The crisis and the changes in the sourcing strategy of buyers had an important impact on the operations of Chinese firms in Jordan. Three of the ten companies studied closed down their operations during this period. Others scaled down their operations in the country while two companies that were interviewed indicated that they were considering closing down their Jordanian operations. Total employment in the ten companies studied declined by 35 per cent from around 14,000 in 2007 to 9,000 by 2010.

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

7 THE QIZ AND ITS CONSEQUENCES: LABOUR REGULATIONS AND MIGRANT WORKERS

The importance of labour, and labour control regimes, for the shifting geographies of global production is being increasingly acknowledged (see, for example, Azmeh, forthcoming; Barrientos 2008; Lund-Thomsen et. al., 2012; Neilson and Pritchard 2009; Rainnie et. al., 2011; Carswell and De Neve 2013). Lund-Thomsen et. al., (2012), for example, illustrate how the organisation of global value chains in football manufacturing is directly related to the ways in which labour is inserted into distinct forms of production organisation in China,
Pakistan and India. These arrangements shape the evolving dynamics of global production in the industry. Labour flows are also central to the Jordanian ‘success’ as an emergent global garment exporter. While the QIZ resulted in rapid and significant capital flows of ‘Greater Chinese’ apparel firms into to Jordan, this was directly linked to the Jordanian government’s permission to QIZ factories to employ migrant workers. As a consequence, there has been an influx of Asian migrant workers from Bangladesh, India, Sri Lanka and mainland China into the QIZ zones.

Workers are brought into Jordan mainly through parent companies and recruitment agencies in Asian countries. A number of reports have highlighted how misinformation about destination of work and debt bondages are common practices in this process (Agunias 2011; Better Work 2011). Following their arrival in Jordan, migrant workers are moved directly into company controlled-dormitories. Curfews are imposed and passports of workers often held for ‘safe-keeping’ by the company. Shop floor work practices in QIZ garment factories often involve long working hours, excessive overtime, and verbal and even physical abuse by supervisors to meet hourly and daily production targets. The threat of deportation is also reported to be used by firms as a disciplinary tool against migrant workers (Better Work 2011).\(^\text{10}\)

The role of the Jordanian state is critical to this. In addition to the permission to bring migrant workers into QIZ factories, ‘QIZ workers’ were excluded from the increase in the minimum wage in Jordan in 2009 and again in 2011. While the minimum wage in Jordan is now Jordanian Dinar (JD) 190 ($268) the minimum wage in QIZ factories is JD 110 ($155).\(^\text{11}\) Until 2010, migrant workers in the QIZ did not have the same formal rights to unionise and collectively bargain as other Jordanian workers. The attitude of the state is also important in controlling the mobility of workers particularly through the threat of deportation (TAMKEEN 2011).

\(^{10}\) Different reports by Better Work Jordan, the Jordanian Trade Union for Workers in the Textile and Garments industry, and a number of Jordanian and US NGOs (TAMKEEN, the Institute for Global Labour and Human Rights) provide an overview of this issue. The scale of these practices are debated in Jordan between firms, the trade union, policy-makers, and NGOs with many sides arguing that such practices were more common in the early years of the QIZ (up to 2006-2007) but that an important improvement has taken place afterwards. Other parties involved in the industry question the degree of this improvement.

\(^{11}\) The Jordanian Trade Union for the Workers in Textile and Garments campaigned to raise the minimum wage in QIZ factories to the legal minimum wage. It has reached agreement with firms to implement this on Jordanian workers. This, however, as the trade union acknowledges, applies to a small percentage of workers in these factories and does not cover migrant workers. The union has reached agreements with a few individual firms to apply the minimum wage on migrant workers.
The issue of labour rights and working conditions in the QIZ cannot be understood without considering the production networks that ‘Greater Chinese’ garment manufacturers are integrated into. Neu et al. (2012:2) provide an interesting analysis of how “the time, quality and price pressures inherent in the market for low-price apparel are passed along from the retail buyer to the buyer intermediary and then to the factory owner, and finally, to individual workers on the shop floor”. Late delivery, as the study explains, is often punished by price discounts, obliging suppliers to ship by air at their own cost, or even the cancellation of orders which could force some suppliers out of business. Garment producers are particularly sensitive to this pressure as they are often squeezed between the stringent delivery requirements of their buyers and their dependence on earlier stages of production for fabrics and other inputs.

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

8 CONCLUSIONS
The recent shifts in the global economy, particularly the emergence of global production networks as the main organisational arrangement for globalised production and trade, have entailed significant changes in the way firms operate and the dynamics they are subjected to. The issue of internationalisation of business firms has been studied mostly through the largely firm-centred international business perspective.

The case of ‘Greater Chinese’ firms in Jordan illustrates the shortcomings of this perspective. It shows how the dynamics taking place at the level of the global production network a firm is integrated into cannot be analysed merely as extra-firm factors. It needs to be analysed as an integral driver of the locational strategy of the firm. As a result of an incessant demand for lower prices by US buyers, suppliers are continuously forced to look for cheaper and cheaper production locations in order to maintain their business with their US buyers. Initially, this strategy focused on locations close to the home countries of these firms, particularly in mainland China and other low-income locations in Asia.

The QIZ agreement between Jordan and the United States in the mid 1990s created a new production platform which offered duty-free and quota-free access to the US market. Despite the geographical isolation of Jordan from both the production networks in Asia and the US market, and the large cultural difference between Jordan and ‘Greater China’, a number of ‘Greater Chinese’ firms moved into the QIZs thereby integrating Jordan into their triangular manufacturing networks serving the US market (an integration facilitated by the rules of origin of the QIZ). The competitive pressures of the global production networks, the requirements of global buyers, and the nature of trade preferences have not only created the need for ‘ Greater Chinese’ garment manufacturers to ‘go global’, but also shaped the geography of their globalisation strategy.

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

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

The case, nonetheless, raises four important issues that require further exploration. First, the issue of labour flows and its relation to the geography and the organisation of GPNs need to be studied in greater detail to develop a better understanding of the dynamics that shape labour relations in GPNs. The dominance of foreign workers (including from China) in Jordanian qualified zones make these zones an important place to study issues around migration, embeddedness, and labour control regimes within the context of GPNs.

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

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

Finally, the QIZ agreement is unique in that it has sought to forge trade linkages within an acutely political conflict within the Middle East. This requires much greater study to assess not only how this leads to particular engagements between public and private actors in Jordan, Israel and the US that helped forge this agenda and negotiate the political ramifications – both regionally and globally – that have emerged from this process. Comparative analysis of the political economy of the QIZ in the ‘other’ QIZ signatory country, Egypt, could help throw further light on the wider political dynamics of the process. Furthermore, at a global level, while many of the recent bilateral trade agreements that the US has negotiated have included explicit acknowledgement of minimum core labour standards, this has been excised from discussions on the QIZ. This then throws open the wider question of how politics, and political expediency, shape trade preferences and with what consequences.
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